

FINANCIAL STATEMENTS



**FOR THE YEAR ENDED JUNE 30, 2018
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2017**

INTERNATIONAL CRISIS GROUP

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
International Crisis Group
Brussels, Belgium

We have audited the accompanying financial statements of the International Crisis Group (Crisis Group), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and change in net assets and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Crisis Group as of June 30, 2018, and the change in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Report on Summarized Comparative Information

We have previously audited Crisis Group's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 7, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Contributions and Grants Received and Schedule of Temporarily Restricted Net Assets Released from Restrictions on pages 19 - 21 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in cursive script that reads "Gelman Rosenberg & Friedman".

October 22, 2018

INTERNATIONAL CRISIS GROUP
STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2018
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2017

| | 2018 | 2017 |
|--|----------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 6,168,767 | \$ 4,104,737 |
| Investments | 20,690,460 | 24,262,393 |
| Accounts receivable and other assets | 859,355 | 945,521 |
| Contributions, grants and program service revenue receivable | 6,282,936 | 5,357,658 |
| Total current assets | 34,001,518 | 34,670,309 |
| FIXED ASSETS | | |
| Equipment | 952,646 | 878,513 |
| Furniture | 264,449 | 264,449 |
| Vehicles | 142,341 | 142,341 |
| Less: Accumulated depreciation and amortization | (1,216,262) | (1,146,889) |
| Net fixed assets | 143,174 | 138,414 |
| OTHER ASSETS | | |
| Cash guarantees - deposits | 143,905 | 160,910 |
| Contributions, grants and program service revenue receivable - two to five years | 3,907,167 | 3,650,253 |
| Total other assets | 4,051,072 | 3,811,163 |
| TOTAL ASSETS | \$ 38,195,764 | \$ 38,619,886 |

LIABILITIES AND NET ASSETS

| | <u>2018</u> | <u>2017</u> |
|---|-----------------------------|-----------------------------|
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 108,488 | \$ 297,288 |
| Accrued liabilities | 1,051,622 | 915,934 |
| Deferred revenue | <u>225,000</u> | <u>-</u> |
| Total current liabilities | <u>1,385,110</u> | <u>1,213,222</u> |
| NET ASSETS | | |
| Unrestricted: | | |
| Undesignated - Operating reserve | <u>4,467,404</u> | <u>4,521,431</u> |
| Securing the Future Capital Fund: | | |
| Contributions and reinvested interest, dividends and realized gains | 21,296,805 | 21,070,400 |
| Unrealized (loss) gain on the Securing the Future Capital Fund | <u>(615,462)</u> | <u>589,492</u> |
| Total Securing the Future Capital Fund | <u>20,681,343</u> | <u>21,659,892</u> |
| Total unrestricted net assets | <u>25,148,747</u> | <u>26,181,323</u> |
| Temporarily restricted | 11,561,907 | 11,125,341 |
| Permanently restricted | <u>100,000</u> | <u>100,000</u> |
| Total net assets | <u>36,810,654</u> | <u>37,406,664</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 38,195,764</u> | <u>\$ 38,619,886</u> |

INTERNATIONAL CRISIS GROUP

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2018
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2017**

| | 2018 | | | 2017 | |
|--|-------------------|---------------------------|---------------------------|-------------------|-------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Total |
| SUPPORT AND REVENUE | | | | | |
| Contributions, grants and programs service revenue | \$ 5,027,891 | \$ 12,626,087 | \$ - | \$ 17,653,978 | \$ 16,948,271 |
| Interest and investment income | 390,947 | - | - | 390,947 | 415,631 |
| Miscellaneous income | 15,966 | - | - | 15,966 | 4,409 |
| Net assets released from donor restrictions | <u>12,189,521</u> | <u>(12,189,521)</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total revenue | <u>17,624,325</u> | <u>436,566</u> | <u>-</u> | <u>18,060,891</u> | <u>17,368,311</u> |
| EXPENSES | | | | | |
| Africa Program: | | | | | |
| Central Africa | 973,062 | - | - | 973,062 | 1,010,927 |
| Southern Africa | 144,851 | - | - | 144,851 | 137,696 |
| West Africa | 1,161,752 | - | - | 1,161,752 | 1,116,778 |
| Horn of Africa | <u>1,151,025</u> | <u>-</u> | <u>-</u> | <u>1,151,025</u> | <u>903,170</u> |
| Total Africa Program expenses | <u>3,430,690</u> | <u>-</u> | <u>-</u> | <u>3,430,690</u> | <u>3,168,571</u> |
| Asia Program: | | | | | |
| Pakistan/Afghanistan | 749,525 | - | - | 749,525 | 1,147,774 |
| South East Asia | 346,028 | - | - | 346,028 | 301,617 |
| North East Asia | 380,202 | - | - | 380,202 | 185,782 |
| Sri Lanka | <u>182,882</u> | <u>-</u> | <u>-</u> | <u>182,882</u> | <u>217,122</u> |
| Total Asia Program expenses | <u>1,658,637</u> | <u>-</u> | <u>-</u> | <u>1,658,637</u> | <u>1,852,295</u> |
| Europe and Central Asia Program: | | | | | |
| Russia | 208,291 | - | - | 208,291 | 306,404 |
| Central Asia | 604,007 | - | - | 604,007 | 462,536 |
| Ukraine and Eastern Neighborhood | 477,421 | - | - | 477,421 | 282,482 |
| Turkey/Cyprus | <u>371,817</u> | <u>-</u> | <u>-</u> | <u>371,817</u> | <u>363,540</u> |
| Total Europe Program expenses | <u>1,661,536</u> | <u>-</u> | <u>-</u> | <u>1,661,536</u> | <u>1,414,962</u> |
| Middle East and North Africa Program: | | | | | |
| Iran | 504,980 | - | - | 504,980 | 265,275 |
| Gulf and the Arabian Peninsula | 365,174 | - | - | 365,174 | 253,884 |
| Iraq, Syria and Lebanon | 655,476 | - | - | 655,476 | 677,297 |
| North Africa | 694,304 | - | - | 694,304 | 729,849 |
| Arab-Israeli Conflict | <u>466,236</u> | <u>-</u> | <u>-</u> | <u>466,236</u> | <u>474,638</u> |
| Total Middle East Program expenses | <u>2,686,170</u> | <u>-</u> | <u>-</u> | <u>2,686,170</u> | <u>2,400,943</u> |

INTERNATIONAL CRISIS GROUP

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2018
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2017

| | 2018 | | | 2017 | |
|---|----------------------|------------------------|------------------------|----------------------|----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Total |
| EXPENSES (Continued) | | | | | |
| Latin America Program: | | | | | |
| Andes | \$ 501,146 | \$ - | \$ - | \$ 501,146 | \$ 501,808 |
| Mexico and Central America | 525,450 | - | - | 525,450 | 427,484 |
| Total Latin America Program expenses | 1,026,596 | - | - | 1,026,596 | 929,292 |
| United States Program | 202,350 | - | - | 202,350 | - |
| Total program expenses | 10,665,979 | - | - | 10,665,979 | 9,766,063 |
| Advocacy | 2,608,002 | - | - | 2,608,002 | 3,167,952 |
| Administration: | | | | | |
| Fundraising | 1,598,557 | - | - | 1,598,557 | 1,874,601 |
| Administration | 4,221,164 | - | - | 4,221,164 | 2,845,746 |
| Total Administration expenses | 5,819,721 | - | - | 5,819,721 | 4,720,347 |
| Total expenses | 19,093,702 | - | - | 19,093,702 | 17,654,362 |
| Change in net assets before other items | (1,469,377) | 436,566 | - | (1,032,811) | (286,051) |
| OTHER ITEMS | | | | | |
| Net realized/unrealized gain on investments | 436,290 | - | - | 436,290 | 701,262 |
| Net realized/unrealized gain on currency exchange | 511 | - | - | 511 | 126,444 |
| Change in net assets | (1,032,576) | 436,566 | - | (596,010) | 541,655 |
| Net assets at beginning of year | 26,181,323 | 11,125,341 | 100,000 | 37,406,664 | 36,865,009 |
| NET ASSETS AT END OF YEAR | \$ 25,148,747 | \$ 11,561,907 | \$ 100,000 | \$ 36,810,654 | \$ 37,406,664 |

INTERNATIONAL CRISIS GROUP
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2017

| | <u>2018</u> | <u>2017</u> |
|---|----------------------------|----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ (596,010) | \$ 541,655 |
| Adjustments to reconcile change in net assets to net cash used by operating activities: | | |
| Depreciation | 75,548 | 63,741 |
| Gain on sale or disposal of fixed assets | - | (6,215) |
| Increase in discount on long-term receivables | 120,840 | 185,253 |
| Unrealized loss (gain) on investments | 693,717 | (517,014) |
| Realized gain on investments | (1,130,007) | (184,248) |
| Decrease (increase) decrease in: | | |
| Accounts receivable and other assets | 86,166 | (76,994) |
| Contributions, grants and program service revenue receivable | (1,303,032) | (1,346,412) |
| Cash guarantees - deposits | 17,005 | 4,346 |
| (Decrease) increase in: | | |
| Accounts payable | (188,800) | (97,138) |
| Accrued liabilities | 135,688 | (156,934) |
| Deferred revenue | <u>225,000</u> | <u>-</u> |
| Net cash used by operating activities | <u>(1,863,885)</u> | <u>(1,589,960)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of fixed assets | (80,308) | (87,200) |
| Proceeds from sale of fixed assets | - | 6,215 |
| Purchase of investments | (22,085,374) | (951,244) |
| Proceeds from sale of investments | <u>26,093,597</u> | <u>2,435,925</u> |
| Net cash provided by investing activities | <u>3,927,915</u> | <u>1,403,696</u> |
| Net increase (decrease) in cash and cash equivalents | 2,064,030 | (186,264) |
| Cash and cash equivalents at beginning of year | <u>4,104,737</u> | <u>4,291,001</u> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | <u>\$ 6,168,767</u> | <u>\$ 4,104,737</u> |

INTERNATIONAL CRISIS GROUP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

The International Crisis Group (Crisis Group) is a not-for-profit corporation committed to reinforcing the capacity of the international community to understand, anticipate and prevent, or at least contain deadly conflict, and if and when prevention fails, try to resolve it. It was incorporated in the District of Columbia on the 28th of February 1995 and commenced operations on July 1st of that year.

The International Crisis Group AISBL (Association Internationale Sans But Lucratif) is a Belgian entity established on 26 March 1998. The entity is currently dormant. The only costs are incurred by Crisis Group and are for tax filings.

Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958, *Not-for-Profit Entities*.

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with Crisis Group's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

Cash and cash equivalents -

Crisis Group considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

Bank deposit accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000. At times during the year, Crisis Group maintains cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal. Crisis Group maintains cash balances at financial institutions in the United States and Europe in excess of insured limits.

Crisis Group also maintains bank accounts in other foreign countries that are uninsured. Management believes the risk in these situations to be minimal. Cash held in foreign countries totaled \$1,997,848 at June 30, 2018.

Investments -

Investments are recorded at their readily determinable fair value. Unrealized and realized gains and losses are recorded as other items in the Statement of Activities and Change in Net Assets.

Investment risks and uncertainties -

Crisis Group invests in various investment securities. Investment securities are exposed to various risks such as interest rates, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying financial statements.

INTERNATIONAL CRISIS GROUP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)

Fixed assets -

Fixed asset purchases of \$2,500 or more are capitalized and are stated at cost. Fixed assets are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally three to five years. The cost of maintenance and repairs is recorded as expenses are incurred.

Contributed services -

Contributed services are reflected in the financial statements at their market value on the date services were provided. Contributed services comprise various professional services and are included in unrestricted contributions and general and administrative expenses in the accompanying financial statements. The values of these contributions for the year ended June 30, 2018 totaled \$352,787.

Net asset classification -

The net assets are reported in three self-balancing groups as follows:

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of Crisis Group and include both internally designated and undesignated resources.
- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of Crisis Group and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities and Change in Net Assets as net assets released from restrictions.
- **Permanently restricted net assets** represent funds restricted by the donor to be maintained in-perpetuity by Crisis Group. There are no restrictions placed on the use of investment earnings from these endowment funds.

Contributions, grants and programs service revenue -

Contributions, grants and programs service revenue are recorded as revenue in the year notification is received from the donor. Temporarily restricted contributions, grants and programs service revenue are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions. Such funds in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying financial statements.

Crisis Group receives funding under grants from foreign governments, international organizations and other grantors for direct and indirect program costs. This funding is subject to contractual restrictions, which must be met through incurring qualifying expenses for particular programs.

Temporarily restricted grants and contracts revenue are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions. Such funds in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying financial statements.

INTERNATIONAL CRISIS GROUP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)

Use of estimates -

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Foreign currency translation -

The dollar ("Dollars") is the functional currency for Crisis Group's worldwide operations. Transactions in currencies other than U.S. Dollars are translated into dollars at the rate of exchange in effect during the month of the transaction. Assets and liabilities denominated in currencies other than U.S. Dollars are translated into dollars at the exchange rate in effect at the date of the Statement of Financial Position.

Currency risk -

Crisis Group is exposed to currency risk through transactions in foreign currencies against the U.S. Dollar. There is also a Statement of Financial Position risk that the net monetary liabilities in foreign currencies will take a higher value when translated into U.S. Dollar as a result of currency movements.

Functional allocation of expenses -

Certain indirect program costs at Crisis Group's Brussels, Washington, New York and London offices have been allocated, on a functional basis, in the Statement of Activities and Change in Net Assets. Such costs include program management and support. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Reclassification -

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation. These reclassifications had no effect on the previously reported changes in net assets.

Receivables -

Receivables that are expected to be collected in future years are recorded at fair value, measured as the present value of their future cash flows. The discounts on these amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contributions, grants and program service revenue.

Receivable are recorded at their net realizable value, which approximates fair value. All receivables are considered by management to be fully collectible. Accordingly, an allowance for doubtful accounts has not been established.

Contributions, grants and program service receivable are expected to be collected in the next several years.

INTERNATIONAL CRISIS GROUP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)

Income taxes -

Crisis Group is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements. Crisis Group is not a private foundation.

Uncertain tax positions -

For the year ended June 30, 2018, Crisis Group has documented its consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

Fair value measurement -

Crisis Group adopted the provisions of FASB ASC 820, *Fair Value Measurement*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk) used to measure fair value, and enhances disclosure requirements for fair value measurements. Crisis Group accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement.

New accounting pronouncements (not yet adopted) -

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958), intended to improve financial reporting for not-for-profit entities. The ASU will reduce the current three classes of net assets into two: with and without donor restrictions. The change in each of the classes of net assets must be reported on the Statement of Activities and Change in Net Assets. The ASU also requires various enhanced disclosures around topics such as board designations, liquidity, functional classification of expenses, investment expenses, donor restrictions, and underwater endowments. The ASU is effective for years beginning after December 15, 2017. Early adoption is permitted. The ASU should be applied on a retrospective basis in the year the ASU is first applied. While the ASU will change the presentation of Crisis Group's financial statements, it is not expected to alter Crisis Group's reported financial position.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). The ASU establishes a comprehensive revenue recognition standard for virtually all industries under generally accepted accounting principles in the United States (U.S. GAAP) including those that previously followed industry-specific guidance. The guidance states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB issued ASU 2015-14 in August 2015 that deferred the effective date of ASU 2014-09 by a year; thus, the effective date is years beginning after December 15, 2018. Early adoption is permitted. Crisis Group has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on its financial statements.

INTERNATIONAL CRISIS GROUP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)

New accounting pronouncements (not yet adopted) (continued) -

In 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The ASU changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the Statement of Financial Position and disclosing key information about leasing arrangements. The ASU is effective for private entities for years beginning after December 15, 2019. Early adoption is permitted. The ASU should be applied at the beginning of the earliest period presented using a modified retrospective approach.

In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, which is intended to clarify and improve current guidance about whether a transfer of assets is an exchange transaction or a contribution. The amendments in this ASU provide a more robust framework to determine when a transaction should be accounted for as a contribution under Subtopic 958-605 or as an exchange transaction accounted for under other guidance (for example, Topic 606). The amendments also provide additional guidance about how to determine whether a contribution is conditional or unconditional. The amendments in this ASU could result in more grants and contracts being accounted for as contributions than under previous GAAP. The ASU recommends application on a modified prospective basis; however, retrospective application is permitted. Crisis Group has not yet decided on a transition method. The ASU is effective for years beginning after December 15, 2018.

Crisis Group plans to adopt the new ASUs at the respective required implementation dates.

2. INVESTMENTS

Investments consisted of the following at June 30, 2018:

| | Fair Value |
|-----------------------------|----------------------|
| Mutual funds - Fixed income | \$ 14,645,537 |
| Mutual funds - equities | 6,044,923 |
| TOTAL INVESTMENTS | \$ 20,690,460 |

Interest and investment income and net unrealized/realized gain on investments are the following:

| | |
|--|-------------------|
| INTEREST AND INVESTMENT INCOME | \$ 390,947 |
| Unrealized loss on investments | \$ (693,717) |
| Realized gain on investments | 1,130,007 |
| NET UNREALIZED/REALIZED GAIN ON INVESTMENTS | \$ 436,290 |

INTERNATIONAL CRISIS GROUP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

3. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at June 30, 2018:

| | |
|--|-----------------------------|
| Africa Program | \$ 1,645,925 |
| Asia Program | 909,896 |
| Europe and Central Asia Program | 516,422 |
| Middle East and North Africa Program | 1,167,037 |
| Latin America Program | 59,028 |
| Louise Arbour Fund for Emerging Conflicts | 233,329 |
| Time Restricted | <u>7,030,270</u> |
| TOTAL TEMPORARILY RESTRICTED NET ASSETS | <u>\$ 11,561,907</u> |

4. NET ASSETS RELEASED FROM RESTRICTIONS

The following temporarily restricted net assets were released from donor restrictions by incurring expenses or by the passage of time, which satisfied the restricted purposes specified by the donors:

| | |
|--|-----------------------------|
| Program Accomplishments: | |
| Africa Program | \$ 1,515,777 |
| Asia Program | 589,849 |
| Europe and Central Asia Program | 726,844 |
| Middle East and North Africa Program | 1,239,779 |
| Latin America Program | 85,441 |
| Passage of Time | <u>8,031,831</u> |
| TOTAL NET ASSETS RELEASED FROM RESTRICTIONS | <u>\$ 12,189,521</u> |

5. PERMANENTLY RESTRICTED NET ASSETS

On November 3, 2011, Crisis Group received a \$100,000 contribution from the William O. Taylor Trust to establish the William O. Taylor Endowment Fund. In accordance with the donor's intent, the contributed funds are to be invested in-perpetuity and the investment income generated from the invested funds will be used to support the general operations of Crisis Group. As of June 30, 2018, the value of the fund was \$100,000.

6. SECURING THE FUTURE CAPITAL FUND

On April 30, 2008, Crisis Group launched a capital fundraising campaign. The purpose of the fund, "Securing the Future Capital Fund", is to ensure Crisis Group's long-term stability, independence, flexibility and continuity. Significant contributions to the fund have been made by several institutional foundations, Board members, as well as by attribution of a portion of Crisis Group's operating reserves existing at that date. As of June 30, 2018, the current fair value of the fund was \$20,681,343.

INTERNATIONAL CRISIS GROUP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

7. LEASE COMMITMENTS

Crisis Group has entered into several lease agreements for its offices, apartments and various office equipment and vehicles. As of June 30, 2018, the minimum future rental payments related to these operating leases are as follows:

Year Ending June 30,

| | |
|------------|----------------------------|
| 2019 | \$ 935,787 |
| 2020 | 840,463 |
| 2021 | 729,773 |
| 2022 | 690,417 |
| 2023 | 700,713 |
| Thereafter | <u>262,168</u> |
| | <u>\$ 4,159,321</u> |

Total rent expense related to the office and apartment leases was \$929,948 for the year ended June 30, 2018.

In accordance with the terms of the lease agreement for office space in New York City, Crisis Group has placed a certificate of deposit of \$112,075, as a security guarantee in lieu of a security deposit. Such certificate of deposit is included in cash and cash equivalents on the accompanying Statement of Financial Position.

Crisis Group subleases office space in Washington, D.C. The sublease for their Washington, D.C. office commenced on November 18, 2015, and was for a twelve-month period. On October 26, 2017, Crisis Group negotiated a twelve month extension that will terminate on November 30, 2018.

Rental income, which is netted against rent expense totaled \$40,020.

8. FIXED ASSETS

Following is a summary of Crisis Group's fixed assets at June 30, 2018:

| | <u>Cost</u> | <u>Accumulated Depreciation</u> | <u>Net Book Value</u> |
|--------------------------|----------------------------|-------------------------------------|---------------------------|
| Equipment | \$ 952,646 | \$ (817,952) | \$ 134,694 |
| Furniture | 264,449 | (264,449) | - |
| Vehicles | <u>142,341</u> | <u>(133,861)</u> | <u>8,480</u> |
| FIXED ASSETS, NET | <u>\$ 1,359,436</u> | <u>\$ (1,216,262)</u> | <u>\$ 143,174</u> |

Depreciation and amortization expense for the year ended June 30, 2018 totaled \$75,548.

9. CONTRIBUTIONS, GRANTS AND PROGRAMS SERVICE REVENUE RECEIVABLE

Contributions, grants and programs service revenue receivable due in more than one-year have been recorded at the present value of the estimated cash flows, using the discount rates of 4.25% and 5%.

INTERNATIONAL CRISIS GROUP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

9. CONTRIBUTIONS, GRANTS AND PROGRAMS SERVICE REVENUE RECEIVABLE
(Continued)

Contributions, grants and programs service revenue receivable are due as follows at June 30, 2018:

| | |
|--|-----------------------------|
| Within one year | \$ 6,282,936 |
| Two to five years, net of discount for present value of \$340,978 | <u>3,907,167</u> |
| TOTAL CONTRIBUTIONS, GRANTS AND PROGRAMS SERVICE REVENUE RECEIVABLE | \$ <u>10,190,103</u> |

10. FOREIGN CURRENCY

The U.S. Dollar is the functional currency of Crisis Group. Transactions in currencies other than Dollars are translated into dollars at rates of exchange in effect during the month of the transaction.

Assets and liabilities denominated in non-U.S. currency are translated into dollars at the exchange rate in effect at the Statement of Financial Position date, June 30, 2018.

Realized and unrealized exchange effects are as follows for the year ended June 30, 2018:

| | |
|--|----------------------|
| Realized loss on exchange | \$ (55,373) |
| Unrealized gain on exchange | <u>55,884</u> |
| NET REALIZED/UNREALIZED GAIN ON CURRENCY EXCHANGE | \$ <u>511</u> |

11. LITIGATION

Brussels Litigation with Plaintiff Philip Zepter -

In January 2004, a Serbian businessman and two of his companies ("plaintiffs") filed a lawsuit in Belgium against Crisis Group and one of its employees claiming that they were defamed in two of Crisis Group's reports concerning Serbia and in an e-mail.

The matter, which is pending in a Brussels court, was dormant from 2007 until 2015 when plaintiffs resumed the litigation. After Crisis Group filed a legal brief in that court and then won in parallel U.S. litigation (more on that below), plaintiffs have taken no further action, leaving the Brussels suit dormant again since 2016.

Even should plaintiffs reactivate and then prevail in the case, at this level or on appeal, the potential quantum of damages and attorneys' fees awarded are modest.

U.S. Litigation with Plaintiff Philip Zepter -

In addition to the Brussels litigation, in July 2004, the same plaintiffs filed a similar lawsuit in Washington, D.C., seeking substantial damages for defamation and related claims. After years of motions practice and appeals, the trial court dismissed Mr. Zepter's case in its entirety in 2014.

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

11. LITIGATION (Continued)

U.S. Litigation with Plaintiff Philip Zepter (continued) -

Mr. Zepter appealed, and in 2016, the appellate court affirmed the dismissal of the suit. In April 2017, the U.S. Supreme Court denied Zepter's certiorari petition, leaving in place the lower court decisions in Crisis Group's favor and bringing finality to the U.S. litigation after 13 years.

12. PENSION PLAN

Retirement benefits are provided to staff under four separate defined contribution plans:

- A Tax-Deferred Annuity Plan operating under Section 403(b) of the Internal Revenue Code was set up by Crisis Group on July 1, 2006, for all employees who are on Crisis Group's United States payroll. Participants have a fully vested interest in the employee contributions made to their policies. Employer contributions are calculated as a percentage (5%) of the employee's salary and are subject to a three-year, sliding scale vesting schedule. Crisis Group has no liability under the Plan, other than its annual contribution. Employer contributions during the fiscal year ended June 30, 2018 totaled \$158,934.
- On January 1, 2005, Crisis Group established an offshore retirement pension plan available to non-United States expatriate staff and local field staff. Participants have a fully vested interest in the employee contributions made to their policies. Employer contributions are calculated as a percentage (5%) of the employee's salary and are subject to a three-year, sliding scale vesting schedule. Crisis Group has no liability under the Plan, other than its contribution. Employer contributions during the fiscal year ended June 30, 2018 totaled \$100,184.
- A group insurance plan operates for staff based in the Belgian headquarters. There are no employee contributions. Employer contributions are calculated by reference to salaries in accordance with the scheme rules and vest immediately. Contributions during the fiscal year ended June 30, 2018 totaled \$137,153 (EUR 163,595).
- In January 2013, Crisis Group established a flexible retirement plan for its UK-based staff. Employer contributions are defined at 5% of the employee's salary. Participants have the option of contributing a percentage of their salary and can invest in a range of funds of their choosing. Contributions during the fiscal year ended June 30, 2018 totaled \$16,167 (GBP 11,989).

13. FAIR VALUE MEASUREMENT

In accordance with FASB ASC 820, *Fair Value Measurement*, Crisis Group has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

INTERNATIONAL CRISIS GROUP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

13. FAIR VALUE MEASUREMENT (Continued)

Investments recorded in the Statement of Financial Position are categorized based on the inputs to valuation techniques as follows:

Level 1. These are investments where values are based on unadjusted quoted prices for identical assets in an active market Crisis Group has the ability to access.

Level 2. These are investments where values are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques that utilize inputs that are observable either directly or indirectly for substantially the full-term of the investments.

Level 3. These are investments where inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodology used for investments measured at fair value.

Mutual funds - Valued at the daily closing price as reported by the fund. Mutual funds held by Crisis Group are open-end mutual funds that are registered with the SEC. These funds are required to publish their daily value and to transact at that price. Mutual funds held by Crisis Group are deemed to be actively traded.

The table below summarizes, by level within the fair value hierarchy, Crisis Group's investments as of June 30, 2018:

| Asset Class: | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|-----------------------------|-----------------------------|--------------------|--------------------|-----------------------------|
| Mutual funds - Fixed income | \$ 14,645,537 | \$ - | \$ - | \$ 14,645,537 |
| Mutual funds - Equities | <u>6,044,923</u> | <u>-</u> | <u>-</u> | <u>6,044,923</u> |
| TOTAL | <u>\$ 20,690,460</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 20,690,460</u> |

There were no transfers between levels in the fair value hierarchy during the year ended June 30, 2018. Transfers between levels are recorded at the end of the reporting period, if applicable.

14. SUBSEQUENT EVENTS

In preparing these financial statements, Crisis Group has evaluated events and transactions for potential recognition or disclosure through October 22, 2018, the date the financial statements were issued.

SUPPLEMENTAL INFORMATION

INTERNATIONAL CRISIS GROUP
SCHEDULE OF CONTRIBUTIONS AND GRANTS RECEIVED
FOR THE YEAR ENDED JUNE 30, 2018

| Donor | Grant Purpose | Grant Period | Original Currency | Total (USD) |
|---|---|---------------|----------------------|-------------------|
| Governments | | | | |
| Australian Department of Foreign Affairs and Trade | New Militancy in South East Asia | 09/17 - 01/19 | AUD 225,000 | \$ 178,484 |
| Australian Department of Foreign Affairs and Trade | Core Funding | 05/18 - 04/19 | AUD 500,000 | 377,214 |
| Canadian Department of Foreign Affairs and Trade | Emerging Conflicts in Africa | 06/18 - 05/19 | CAD 1,400,000 | 1,079,718 |
| European Commission Directorate General for Neighborhood and Enlargement Negotiations | EU's Response to Unresolved Conflicts in its Eastern Neighborhood | 11/17 - 08/18 | EUR 40,000 | 46,598 |
| French Development Agency | Core Funding | 01/17 - 12/17 | EUR 50,000 | 59,475 |
| French Development Agency | Core Funding | 01/18 - 12/18 | EUR 50,000 | 58,374 |
| French Ministry of Foreign Affairs and International Development | Core Funding | 01/18 - 12/18 | EUR 50,000 | 61,623 |
| Japan International Cooperation Agency | Core Funding | 02/18 - 02/19 | USD 50,000 | 50,000 |
| Ministry of Foreign Affairs of Finland | Core Funding | 01/17 - 12/18 | EUR 600,000 | 708,529 |
| Ministry of Foreign Affairs of Iceland | Gender, Conflict and Power | 07/18 - 06/19 | USD 60,000 | 60,000 |
| Ministry of Foreign Affairs of the State of Qatar | Core Funding | 01/18 - 12/21 | USD 4,000,000 | 4,000,000 |
| New Zealand Ministry of Foreign Affairs and Trade | Core Funding | 02/18- 01/19 | NZD 50,000 | 35,216 |
| Norwegian Ministry of Foreign Affairs | Core Funding | 01/17 - 12/18 | NOK 14,000,000 | 1,801,102 |
| Norwegian Ministry of Foreign Affairs | Track II Initiative (Iran and the EU3+3 countries) | 01/18 - 12/18 | NOK 2,013,049 | 246,008 |
| Principality of Liechtenstein | Core Funding | 01/18- 12/18 | CHF 10,000 | 10,092 |
| Swedish Ministry for Foreign Affairs | Core Funding | 01/18 - 12/18 | SEK 7,000,000 | 888,900 |
| Swiss Federal Department of Foreign Affairs | Jihad and Modern Conflict | 11/17 - 10/18 | USD 155,000 | 155,000 |
| Swiss Federal Department of Foreign Affairs | Supporting stability and security in North Africa | 02/18 - 01/19 | CHF 200,000 | 214,568 |
| United Arab Emirates | Afghanistan | 04/18 - 03/20 | USD 500,000 | 500,000 |
| | | | | 10,530,901 |
| Adjustment for Present Value Discount on Long-Term Government Contributions and Grants | | | | <u>(120,839)</u> |
| Total Governments' Contributions and Grants | | | | <u>10,410,062</u> |
| Corporate Foundations | | | | |
| Foundation to Promote Open Society | Preventing U.S. Iran Confrontation: The Iran Trigger List | 09/17 - 08/18 | USD 25,000 | 25,000 |
| Foundation to Promote Open Society | Humanitarian workstream | 07/17 - 06/18 | USD 500,000 | 500,000 |
| Henry Luce Foundation | Religion and Conflict in Africa, Asia, the Middle East and North Africa | 04/18 - 03/20 | USD 400,000 | 400,000 |
| Konrad Adenauer Stiftung | All Quiet on Syria's Southern Front? | 01/18 - 10/18 | USD 45,000 | 45,000 |

INTERNATIONAL CRISIS GROUP

**SCHEDULE OF CONTRIBUTIONS AND GRANTS RECEIVED
FOR THE YEAR ENDED JUNE 30, 2018**

| Donor | Grant Purpose | Grant Period | Original Currency | Total (USD) |
|--|--|---------------|----------------------|-----------------------------|
| Corporate Foundations (Continued) | | | | |
| Korber Stiftung | Korber Policy Game on "Crisis Management in Turkey's Neighborhood" | 07/18 | EUR 4,000 | \$ 4,831 |
| Korea Foundation | De-escalating Tensions on the Korean Peninsula | 01/18 - 12/18 | USD 60,000 | 60,000 |
| John D. and Catherine T. MacArthur Foundation | Nuclear Policy Issues Related to Iran | 12/17 - 11/20 | USD 450,000 | 450,000 |
| John D. and Catherine T. MacArthur Foundation | Workshop "Europe's Plan B in Saving the Iran Nuclear Deal" | 04/18 | USD 30,000 | 30,000 |
| Omidyar Network Fund, Inc. | Report on the Myanmar Ultra-Nationalist Movement | 07/17 - 10/17 | USD 10,000 | 10,000 |
| Omidyar Network Fund, Inc. | Research on the Current Humanitarian Crisis in Northern Rakhine State Involving Rohingya Ethnic Minority | 12/17 - 04/18 | USD 10,000 | 10,000 |
| Rift Valley Institute | Cross-Border Radicalisation in East Africa | 12/17 - 06/18 | USD 60,346 | 60,346 |
| Robert Bosch Stiftung | Core Funding | 04/18 - 04/19 | EUR 200,000 | 241,525 |
| Rockefeller Brothers Fund | Preventing U.S. Iran Confrontation: The Iran Trigger List | 09/17 - 08/18 | USD 150,000 | 150,000 |
| Total Corporate Foundations' Contributions and Grants | | | | <u>1,986,702</u> |
| Program Service revenue | | | | |
| Plusec-Pluralism Human Security and Sustainability Centre | Turkey grant adjustment | 01/17 - 06/17 | USD (1,090) | (1,090) |
| Plusec-Pluralism Human Security and Sustainability Centre | Turkey | 07/17 - 12/17 | USD 78,595 | 78,595 |
| Plusec-Pluralism Human Security and Sustainability Centre | Turkey | 01/18 - 12/18 | USD 151,819 | 151,819 |
| Total Program Service Revenue | | | | <u>229,324</u> |
| Individuals, family foundations and corporations | | | | 4,675,103 |
| In-kind contributions | | | | <u>352,787</u> |
| TOTAL CONTRIBUTIONS AND GRANTS REVENUE PER AUDIT REPORT¹ | | | | <u><u>\$ 17,653,978</u></u> |

1. All foreign currencies are converted into US dollars using the exchange rate in the month in which the confirmation of the contribution was received.
2. This supplementary report shows contributions and grant revenue committed and audited, as reported in the financial statements for the year ended June 30, 2018.

INTERNATIONAL CRISIS GROUP

**SCHEDULE OF TEMPORARILY RESTRICTED NET ASSETS RELEASED FROM RESTRICTIONS
FOR THE YEAR ENDED JUNE 30, 2018**

Notes:

The following temporarily restricted assets were released from donor restrictions by incurring expenses which satisfied the restricted purpose specified by the donors:

| | |
|---|------------------------------------|
| Africa Program | \$ 1,515,777 |
| Asia Program | 589,849 |
| Europe Program | 726,844 |
| Middle East and North Africa Program | 1,239,779 |
| Latin America Program | 85,441 |
| Passage of Time | <u>8,031,831</u> |
| TOTAL RESTRICTED NET ASSETS RELEASED FROM RESTRICTIONS | <u><u>\$ 12,189,521</u></u> |

The following governments' contributions and grants were released from restrictions during the year ended June 30, 2018:

Australian Department of Foreign Affairs and Trade, Austrian Development Agency, Canadian Department of Foreign Affairs Trade and Development, Danish Ministry of Foreign Affairs, Dutch Ministry of Foreign Affairs, European Commission, Federal Republic of Germany Ministry of Foreign Affairs, Finnish Ministry of Foreign Affairs, French Development Agency, French Ministry of Foreign Affairs and International Development, Irish Aid, Japan International Cooperation Agency, Luxembourg Ministry of Foreign Affairs, Principality of Liechtenstein, New Zealand Ministry of Foreign Affairs and Trade, Norwegian Ministry of Foreign Affairs, Ministry of Foreign Affairs of the State of Qatar, Swedish Ministry for Foreign Affairs, Swiss Federal Department of Foreign Affairs, United Arab Emirates.