

FINANCIAL STATEMENTS

INTERNATIONAL CRISIS GROUP

**FOR THE YEAR ENDED JUNE 30, 2010
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2009**

INTERNATIONAL CRISIS GROUP

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GELMAN, ROSENBERG & FREEDMAN
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
International Crisis Group
Washington, D.C.

We have audited the accompanying statement of financial position of the International Crisis Group (Crisis Group) as of June 30, 2010, and the related statements of activities and change in net assets and cash flows for the year then ended. These financial statements are the responsibility of Crisis Group's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from Crisis Group's 2009 financial statements and, in our report dated December 1, 2009, we expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Crisis Group's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Crisis Group as of June 30, 2010, and its change in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2010 on our consideration of Crisis Group's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of Crisis Group's internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Gelman Rosenberg & Freedman

October 22, 2010

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INTERNATIONAL CRISIS GROUP
STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2010
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2009

ASSETS

	<u>2010</u>	<u>2009</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 6,642,029	\$ 6,248,246
Investments (Notes 2 and 14)	30,567,469	25,108,292
Accounts receivable and other assets	535,398	438,747
Contributions and grants receivable - less than one-year (Note 7)	<u>6,556,131</u>	<u>3,563,671</u>
Total current assets	<u>44,301,027</u>	<u>35,358,956</u>
FIXED ASSETS		
Fixed assets, at cost, net of accumulated depreciation (Note 6)	<u>72,599</u>	<u>143,833</u>
OTHER ASSETS		
Cash guarantees - deposits	104,111	109,308
Contributions and grants receivable - one to five years (Note 7)	<u>3,536,024</u>	<u>1,281,896</u>
Total other assets	<u>3,640,135</u>	<u>1,391,204</u>
TOTAL ASSETS	<u>\$ 48,013,761</u>	<u>\$ 36,893,993</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 168,733	\$ 146,571
Accrued liabilities	<u>1,064,554</u>	<u>574,413</u>
Total current liabilities	<u>1,233,287</u>	<u>720,984</u>

NET ASSETS

Unrestricted:		
Undesignated - Operating reserve	6,226,225	5,153,494
Securing the Future Capital Fund (Notes 11 and 12)	<u>26,948,071</u>	<u>23,966,424</u>
Total unrestricted net assets	33,174,296	29,119,918
Temporarily restricted:		
Programs (Note 3)	<u>13,606,178</u>	<u>7,053,091</u>
Total net assets	<u>46,780,474</u>	<u>36,173,009</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 48,013,761</u>	<u>\$ 36,893,993</u>

See accompanying notes to financial statements.

INTERNATIONAL CRISIS GROUP

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2009**

	2010			2009
	Unrestricted	Temporarily Restricted	Total	Total
REVENUE				
Contributions and grants	\$ 5,461,044	\$ 20,612,833	\$ 26,073,877	\$ 21,205,147
Interest income	74,325	-	74,325	254,821
Miscellaneous income	3,587	-	3,587	4,845
Net assets released from donor restrictions (Note 4)	<u>14,059,746</u>	<u>(14,059,746)</u>	<u>-</u>	<u>-</u>
Total revenue	<u>19,598,702</u>	<u>6,553,087</u>	<u>26,151,789</u>	<u>21,464,813</u>
EXPENSES				
Africa Program:				
Central Africa	760,957	-	760,957	741,000
Southern Africa	204,875	-	204,875	176,935
West Africa	659,872	-	659,872	618,942
Horn of Africa	<u>704,788</u>	<u>-</u>	<u>704,788</u>	<u>527,914</u>
Total Africa Program expenses	<u>2,330,492</u>	<u>-</u>	<u>2,330,492</u>	<u>2,064,791</u>
Asia Program:				
Pakistan/Afghanistan	875,096	-	875,096	829,084
South East Asia	666,398	-	666,398	657,605
Central Asia	455,883	-	455,883	488,639
North East Asia	545,776	-	545,776	541,170
Sri Lanka	1,210,114	-	1,210,114	280,955
Nepal	<u>351,102</u>	<u>-</u>	<u>351,102</u>	<u>290,789</u>
Total Asia Program expenses	<u>4,104,369</u>	<u>-</u>	<u>4,104,369</u>	<u>3,088,242</u>
Europe Program:				
Caucasus	307,112	-	307,112	336,468
Balkans	418,338	-	418,338	511,340
Turkey/Cyprus	<u>203,604</u>	<u>-</u>	<u>203,604</u>	<u>229,687</u>
Total Europe Program expenses	<u>929,054</u>	<u>-</u>	<u>929,054</u>	<u>1,077,495</u>
Middle East Program:				
Iran and the Gulf	203,452	-	203,452	158,386
North Africa	23,819	-	23,819	140,192
Iraq, Syria and Lebanon	650,754	-	650,754	747,788
Israel/Palestine	<u>687,444</u>	<u>-</u>	<u>687,444</u>	<u>723,120</u>
Total Middle East Program expenses	<u>1,565,469</u>	<u>-</u>	<u>1,565,469</u>	<u>1,769,486</u>

See accompanying notes to financial statements.

INTERNATIONAL CRISIS GROUP

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2009

	2010			2009
	Unrestricted	Temporarily Restricted	Total	Total
EXPENSES (Continued)				
Latin America Program:				
Andes	\$ 366,257	\$ -	\$ 366,257	\$ 342,555
Guatemala	54,189	-	54,189	-
Haiti	<u>221,008</u>	-	<u>221,008</u>	<u>213,098</u>
Total Latin America Program expenses	<u>641,454</u>	<u>-</u>	<u>641,454</u>	<u>555,653</u>
Total program expenses	<u>9,570,838</u>	<u>-</u>	<u>9,570,838</u>	<u>8,555,667</u>
Advocacy	<u>4,986,004</u>	<u>-</u>	<u>4,986,004</u>	<u>4,304,059</u>
Administration:				
Fundraising	1,134,897	-	1,134,897	768,374
Administration	<u>2,776,647</u>	<u>-</u>	<u>2,776,647</u>	<u>2,083,681</u>
Total Administration expenses	<u>3,911,544</u>	<u>-</u>	<u>3,911,544</u>	<u>2,852,055</u>
Total expenses	<u>18,468,386</u>	<u>-</u>	<u>18,468,386</u>	<u>15,711,781</u>
Change in net assets before other items	1,130,316	6,553,087	7,683,403	5,753,032
OTHER ITEMS				
Net unrealized/realized gains on investments (Note 2)	2,885,231	-	2,885,231	5,363,644
Net unrealized/realized gain/(loss) on exchange (Note 8)	<u>38,831</u>	<u>-</u>	<u>38,831</u>	<u>(1,129,999)</u>
Change in net assets	4,054,378	6,553,087	10,607,465	9,986,677
Net assets at beginning of the year, as restated (Note 12)	<u>29,119,918</u>	<u>7,053,091</u>	<u>36,173,009</u>	<u>26,186,332</u>
NET ASSETS AT END OF YEAR	<u>\$ 33,174,296</u>	<u>\$ 13,606,178</u>	<u>\$ 46,780,474</u>	<u>\$ 36,173,009</u>

INTERNATIONAL CRISIS GROUP
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 10,607,465	\$ 9,986,677
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	91,829	110,826
(Gain)/loss on disposal of fixed assets	(7,626)	3,929
Unrealized gain on investments	(2,884,941)	(5,375,086)
Realized (gain)/loss on investments	(290)	11,442
(Increase)/decrease in:		
Accounts receivable and other assets	(96,651)	236,492
Contributions and grants receivable	(5,246,588)	416,963
Cash guarantees - deposits	5,197	593
Increase/(decrease) in:		
Accounts payable	22,163	(56,678)
Accrued liabilities	<u>490,141</u>	<u>(7,541)</u>
Net cash provided by operating activities	<u>2,980,699</u>	<u>5,327,617</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(20,688)	(57,357)
Proceeds from sale of fixed assets	8,148	3,500
Purchase of investments	(3,244,430)	(18,373,015)
Proceeds from sale of investments	<u>670,054</u>	<u>3,239,636</u>
Net cash used by investing activities	<u>(2,586,916)</u>	<u>(15,187,236)</u>
Net increase/(decrease) in cash and cash equivalents	393,783	(9,859,619)
Cash and cash equivalents at beginning of year	<u>6,248,246</u>	<u>16,107,865</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 6,642,029</u>	<u>\$ 6,248,246</u>

See accompanying notes to financial statements.

INTERNATIONAL CRISIS GROUP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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.

Crisis Group's approach has three elements:

- To identify the underlying political, social and economic factors creating the conditions for conflict, as well as the more immediate causes of tension by carrying out field research and analysis.
- To identify responses (diplomatic, legal, financial, economic, and ultimately military) that are within the capacity of the international community to apply to help prevent or resolve deadly conflict.
- To publish, based on the foregoing, succinct, timely, readable reports and briefing papers and to carry out effective high-level advocacy in order to mobilize policymakers directly, or through those that influence them to take the necessary action.

Crisis Group's headquarters are located in Brussels, with major advocacy offices in Washington, D.C. (where it is based as a legal entity) and New York, a smaller office in London and liaison presences in Moscow and Beijing. Crisis Group currently has regional offices or local field representation in Baku, Bangkok, Beirut, Bishkek, Bogotá, Bujumbura, Dakar, Damascus, Dili, Islamabad, Istanbul, Jakarta, Jerusalem, Kabul, Kathmandu, Kinshasa, Nairobi, Port-au-Prince, Pretoria, Pristina, Sarajevo, Seoul, and Tbilisi with analysts working on over 60 crisis-affected countries and territories across four continents.

Recently issued accounting standards -

In June 2009, the Financial Accounting Standards Board (FASB) issued FASB ASC 105, *Generally Accepted Accounting Principles*, which establishes the FASB Accounting Standards Codification as the sole source of authoritative generally accepted accounting principles. Pursuant to the provisions of FASB ASC 105, Crisis Group has updated references to GAAP in its financial statements issued for the year ended June 30, 2010. The adoption of FASB ASC 105 did not impact Crisis Group's financial position or results of operations.

Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with FASB ASC 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, 2009, from which the summarized information was derived.

INTERNATIONAL CRISIS GROUP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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

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.

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 risk in these situations to be minimal.

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.

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.

Fixed assets -

Fixed assets 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 and fixed asset purchases of \$2,500 or less are recorded as expenses as 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, 2010 totaled \$1,264,280.

Net asset classification -

The net assets are reported in two 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.

INTERNATIONAL CRISIS GROUP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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

Contributions and grants -

Contributions and grants are recorded as revenue in the year notification is received from the donor.

Contributions and grants 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. Contributions and grants received in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying financial statements.

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.

Functional allocation of expenses -

Certain indirect program costs at Crisis Group's Brussels, Washington, New York, London and Moscow 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.

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.

Accounts and contributions receivable -

Accounts and contributions receivable approximate fair value. Management considers all amounts to be fully collectible. Accordingly, an allowance for doubtful accounts has not been established.

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 -

In June 2006, the Financial Accounting Standards Board (FASB) released FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes. For the year ended June 30, 2010, Crisis Group has documented its consideration of FASB ASC 740-10 and determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

INTERNATIONAL CRISIS GROUP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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

Fair value measurements -

Crisis Group adopted the provisions of FASB ASC 820, *Fair Value Measurements and Disclosures*. 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.

2. INVESTMENTS

Investments consisted of the following at June 30, 2010:

	<u>Market Value</u>
Private investment fund	\$ 29,347,349
Corporate securities	724,128
Certificates of deposit	<u>495,992</u>
TOTAL INVESTMENTS	<u>\$ 30,567,469</u>

Included in net unrealized and realized gain on investments are the following:

Unrealized gain	\$ 2,884,941
Realized gain	<u>290</u>
NET UNREALIZED AND REALIZED GAIN ON INVESTMENTS	<u>\$ 2,885,231</u>

Crisis Group has been provided with the opportunity to invest the proceeds of its Securing the Future Capital Fund in a private investment fund associated with Mr. George Soros. In an extraordinary gesture, Mr. Soros, a Crisis Group Trustee, has agreed to personally guarantee against any loss of principal up to an aggregate investment of \$50 million for a period of five years.

The value of indemnification is determined at December 31 of each year. The value of the indemnification was \$12,684,393 as determined at December 31, 2009.

3. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at June 30, 2010:

Africa Program	\$ 523,956
Asia Program	483,745
Europe Program	37,500
Middle East Program	238,500
Latin America Program	444,461
Passage of Time	<u>11,878,016</u>
	<u>\$ 13,606,178</u>

INTERNATIONAL CRISIS GROUP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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	\$ 1,994,055
Asia Program	1,669,173
Europe Program	158,834
Middle East Program	644,798
Latin America Program	457,272
Passage of Time	<u>9,135,614</u>
	<u>\$ 14,059,746</u>

5. LEASE COMMITMENTS

Crisis Group has entered into several lease agreements for its offices, apartments and various office equipment and vehicles. As of June 30, 2010, the minimum future rental payments related to these operating leases are as follows:

<u>Year Ended June 30,</u>	
2011	\$ 449,108
2012	402,831
2013	364,798
2014	177,065
2015	<u>187,514</u>
	<u>\$ 1,581,316</u>

6. FIXED ASSETS

Depreciation expense for the year ended June 30, 2010 was \$91,829. Fixed assets at June 30, 2010 are as follows:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Office furniture	\$ 260,846	\$ (236,048)	\$ 24,798
Office equipment	634,662	(615,917)	18,745
Cars	<u>156,335</u>	<u>(127,279)</u>	<u>29,056</u>
	<u>\$ 1,051,843</u>	<u>\$ (979,244)</u>	<u>\$ 72,599</u>

7. CONTRIBUTIONS AND GRANTS RECEIVABLE

Contributions and grants receivable due in more than one-year have been recorded at the present value of the estimated cash flows, using the prevailing discount rate of 3% in the donor country.

INTERNATIONAL CRISIS GROUP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

7. CONTRIBUTIONS AND GRANTS RECEIVABLE (Continued)

Contributions and grants receivable are due as follows at June 30, 2010:

Less than one-year		\$ 6,556,131
One to five years	3,583,575	
Less: Allowance to discount balance to present value	<u>(47,551)</u>	
Net contributions and grants receivable - one to five years		<u>3,536,024</u>
TOTAL CONTRIBUTIONS AND GRANTS RECEIVABLE		<u>\$10,092,155</u>

As of June 30, 2010, contributions and grants received from three major donors accounted for 35% of Crisis Group's revenue. In 2009, contributions and grants from two major donors accounted for 35% of Crisis Group's revenue.

8. 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 date of the balance sheet.

Net realized and unrealized exchange effects are as follows for the year ended June 30, 2010:

Realized loss on exchange	\$ (364,881)
Realized gain on exchange	718,034
Unrealized gain on exchange	716,557
Unrealized loss on exchange	<u>(1,030,879)</u>
NET REALIZED AND UNREALIZED GAIN ON EXCHANGE	<u>\$ 38,831</u>

9. LITIGATION

In January 2004, a Serbian businessman and two of his companies 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 and an e-mail concerning Serbia. The matter is before the Court of First Instance in Brussels and the plaintiffs seek nominal damages. No action has been taken by the plaintiffs in the case since July 2007.

In July 2004 the same plaintiffs filed a similar lawsuit in the United States District Court for the District of Columbia, additionally claiming interference with business expectancy and false light invasion of privacy, seeking substantial actual damages as well as punitive damages. In August 2005 the court granted Crisis Group and its employee's motion to dismiss based on a jurisdictional deficiency. On September 15, 2005 the plaintiffs filed an amended complaint solely against Crisis Group.

INTERNATIONAL CRISIS GROUP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

9. LITIGATION (Continued)

On May 1, 2006 the United States District Court for the District of Columbia dismissed the case against Crisis Group finding the statute of limitations had run as to some of the defamatory statements, and that the claims related to the remaining statements failed as a matter of law. In May 2006, the plaintiffs filed a notice of appeal with the United States Court of Appeals for the District of Columbia, appealing the August 2005 and May 2006 court orders dismissing the case. On July 24, 2007, the United States Court of Appeals affirmed the District Court's dismissal of the original and amended complaints with the exception of the claims relating to one passage in one of the reports at issue solely as that passage applies to the individual plaintiff personally. On May 13, 2008, Crisis Group filed with the District Court a renewed motion to dismiss the remaining claims. On March 27, 2009, the District Court again dismissed the case on the ground that the remaining passage was protected speech under the First Amendment. On April 24, 2009, the plaintiff again appealed the dismissal of the case. On January 29, 2010, the Court of Appeals affirmed the District Court's dismissal of the plaintiff's claim of tortious interference with business expectancy, but allowed the plaintiff's defamation and false light claims to proceed. On March 1, 2010, Crisis Group filed a petition for rehearing and suggestion for rehearing en banc with the Court of Appeals. This petition was denied on March 31, 2010.

The case has been remanded to the District Court for the determination of the claims remaining. Trial is scheduled for Summer 2012. Crisis Group denies the allegations and will continue to defend itself vigorously against the claims asserted. The likely outcome for these cases cannot be determined, nor the range of the potential losses be estimated at this time.

10. PENSION PLAN

Retirement benefits are provided to expatriate staff under three 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 percent) 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 June 30, 2010 totaled \$142,044.
- On January 1, 2005, Crisis Group established an offshore retirement pension scheme available to non-United States expatriate staff. Participants have a fully vested interest in the employee contributions made to their policies. Employer contributions are calculated as a percentage (5 percent) 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 June 30, 2010 totaled \$71,402.
- A group insurance scheme 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 June 30, 2010 totaled \$166,786.

INTERNATIONAL CRISIS GROUP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

11. 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. The campaign had an initial financial objective of raising \$50 million. This target will be reviewed on an annual basis, bearing in mind the external economic environment.

As of June 30, 2010, there have been no expenditures against the fund and the value of the fund at that date was \$26,948,071.

12. CLARIFICATION OF NET ASSETS

During the fiscal year ended June 30, 2010, management of Crisis Group clarified that there was no restrictions placed upon contributions to the "Securing the Future Capital Fund" campaign received since its inception. Accordingly, the Board designated net assets and the temporarily restricted net assets at June 30, 2009 have been retroactively restated by \$18,610,181 to account for this clarification.

	As Restated	As Previously Stated
Unrestricted Net Assets:		
Securing the Future Capital Fund	<u>\$ 23,966,424</u>	<u>\$ 5,356,243</u>
Temporarily Restricted Net Assets:		
Securing the Future Capital Fund	<u>\$ -</u>	<u>\$ 18,610,181</u>

13. CONTINGENCIES

Crisis Group receives a grant from the United States Government. Such grant is subject to audit under the provisions of OMB Circular A-133. The ultimate determination of the amount received under the United States Government grant is based upon the allowance of costs reported to and accepted by the United States Government as a result of the audits.

Audits in accordance with the provisions of OMB Circular A-133 have been completed for all required fiscal years through 2010. Until such audits have been accepted by the United States Government, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

14. FAIR VALUE MEASUREMENTS

In accordance with FASB ASC 820, *Fair Value Measurements and Disclosures*, 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.

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14. FAIR VALUE MEASUREMENTS (Continued)

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. 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 that Crisis Group has the ability to access.

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

Level 3. These are investments where values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect assumptions of management about assumptions market participants would use in pricing the investments. These investments include non-readily marketable securities that do not have an active market.

Financial assets recorded in the Statement of Financial Position are categorized based on the inputs to the valuation technique as follows for the year ended June 30, 2010:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Asset Category: Investments	\$ <u>724,128</u>	\$ <u>29,843,341</u>	\$ <u>-</u>	\$ <u>30,567,469</u>

15. SUBSEQUENT EVENTS

In preparing these financial statements, Crisis Group has evaluated events and transactions for potential recognition or disclosure through October 22, 2010, the date the financial statements were issued.