MERCY CORPS AND AFFILIATES

Consolidated Financial Statements
and Supplemental Schedules

June 30, 2019

(With Independent Auditors' Report Thereon)

MERCY CORPS AND AFFILIATES

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KPMG LLP
Suite 3800
1300 South West Fifth Avenue
Portland, OR 97201

Independent Auditors' Report

The Board of Directors
Mercy Corps and affiliates:

We have audited the accompanying consolidated financial statements of Mercy Corps and affiliates, which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities, cash flows, and functional expenses 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 auditors consider internal control relevant to the entity'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 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 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 Mercy Corps and affiliates as of June 30, 2019, and the changes in their net assets and cash flows for the year then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 2(t) to the financial statements, in 2019, Mercy Corps adopted new accounting guidance in accordance with Accounting Standards Update (ASU) No. 2016-14, Presentation of Financial Statements of Not-for-Profit Entities (Topic 958). Our opinion is not modified with respect to this matter.

KPMG

Report on Summarized Comparative Information

We have previously audited Mercy Corps and affiliates 2018 consolidated financial statements, and we expressed an unmodified audit opinion on those consolidated financial statements in our report dated November 12, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived before the adjustments to adopt ASU No. 2016-14, Presentation of Financial Statements of Not-for-Profit Entities (Topic 958). As part of our audit of the 2019 consolidated financial statements, we also audited the adjustments described in Note 9 that were applied to adopt ASU No. 2016-14 retrospectively in the 2018 consolidated financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental information included in schedules I and II is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

KPMG LLP

Portland, Oregon
November 14, 2019

MERCY CORPS AND AFFILIATES

Consolidated Statement of Financial Position

June 30, 2019
(With comparative financial information as of June 30, 2018)

(In thousands)

Assets		2019	2018
Cash and cash equivalents	$	126,831	135,791
Investments		19,286	23,870
Financial instruments and derivatives, net		549	681
Grants and accounts receivable		58,249	51,238
Microfinance loans receivable, net		99,915	82,597
Inventories and material aid		1,810	887
Prepaid expenses, deposits, and other assets		14,066	10,672
Program-related investments		3,417	3,441
Property and equipment, net		37,027	38,207
Total assets	$	361,150	347,384
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued liabilities	$	63,510	63,955
Deferred revenue		92,603	94,844
Customer deposits for microfinance activities		42,417	16,915
Subsidiary and subordinated debt for microfinancing activities		47,927	55,963
Long-term debt		8,096	8,368
Total liabilities		254,553	240,045
Net assets:			
Without donor restrictions:			
Controlling interests		87,061	88,300
Noncontrolling interests		10,919	8,766
Total without donor restrictions		97,980	97,066
With donor restrictions		8,617	10,273
Total net assets		106,597	107,339
Total liabilities and net assets	$	361,150	347,384

See accompanying notes to consolidated financial statements.

MERCY CORPS AND AFFILIATES

Consolidated Statement of Activities

Year ended June 30, 2019
(With summarized financial information for the year ended June 30, 2018)

(In thousands)

	Without donor restrictions	With donor restrictions	Total	2018 Total
Operating support and revenue:				
Public support and revenue:				
Government grants	$ 294,295	—	294,295	282,968
Material aid	1,419	—	1,419	735
Total public support and revenue	295,714	—	295,714	283,703
Other support and multilateral revenue:				
Other grants	120,452	—	120,452	115,865
Contributions	30,715	8,142	38,857	42,078
Gifts in kind	1,612	—	1,612	1,528
Bequests	1,142	—	1,142	2,090
Total other support and multilateral revenue	153,921	8,142	162,063	161,561
Other revenue:				
Interest income	30,093	—	30,093	25,316
Other revenue	1,341	74	1,415	1,192
Total other revenue	31,434	74	31,508	26,508
Net assets released from donor restrictions	9,872	(9,872)	—	—
Total operating support and revenue	490,941	(1,656)	489,285	471,772
Operating expenses:				
Program services:				
Humanitarian assistance – relief	120,882	—	120,882	102,448
Humanitarian assistance – recovery	34,615	—	34,615	55,090
Livelihood/economic development	140,989	—	140,989	139,655
Civil society and education	81,100	—	81,100	68,960
Health	37,402	—	37,402	35,356
Total program services	414,988	—	414,988	401,509
Supporting services:				
General and administrative	55,617	—	55,617	50,393
Resource development	18,146	—	18,146	18,929
Total supporting services	73,763	—	73,763	69,322
Total operating expenses	488,751	—	488,751	470,831
Change in net assets from operations	2,190	(1,656)	534	941
Nonoperating revenue and losses net:				
Foreign currency exchange (loss) gain, net	(1,042)	—	(1,042)	1,406
Realized and unrealized gain on investments, net	446	—	446	309
Loss on disposal of entity	—	—	—	(1,119)
Unrealized loss on derivatives	(680)	—	(680)	(625)
Total nonoperating revenue and losses, net	(1,276)	—	(1,276)	(29)
Change in net assets before other interests	914	(1,656)	(742)	912
Other nonoperating gain	—	—	—	572
Change in net assets	914	(1,656)	(742)	1,484
Net assets at beginning of year	97,066	10,273	107,339	105,855
Net assets at end of year	$ 97,980	8,617	106,597	107,339

See accompanying notes to consolidated financial statements.

MERCY CORPS AND AFFILIATES

Consolidated Statement of Cash Flows

Year ended June 30, 2019
(With comparative financial information for the year ended June 30, 2018)

(In thousands)

		2019	2018
Cash flows from operating activities:			
Change in net assets	$	(742)	1,484
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		3,830	4,405
Provision for loan losses		(780)	(729)
Net realized and unrealized loss (gain) on investments		(345)	(309)
Forgiveness of debt		(135)	(117)
Unrealized loss on foreign exchange arrangements and financial instruments		1,722	402
Net change in entities added or dissolved		—	1,119
Gain on disposition of fixed assets		(461)	20
Changes in assets and liabilities:			
Grants and accounts receivable		(7,011)	(6,597)
Inventories		(923)	(87)
Prepaid expenses, deposits, and other assets		(3,394)	(3,464)
Customer deposits for microfinance activities		25,502	1,428
Accounts payable and accrued liabilities		(1,206)	11,429
Deferred revenue		(2,241)	10,481
Net cash provided by operating activities		13,816	19,465
Cash flows from investing activities:			
Purchase of investments		(11,119)	(13,700)
Proceeds from sale of investments		15,225	7,693
Issuances of microfinance loans		(119,392)	(99,739)
Repayments on microfinance loans		102,989	85,691
Acquisition of property and equipment		(2,987)	(3,679)
Disposition of property and equipment		816	1,178
Net cash used in investing activities		(14,468)	(22,556)
Cash flows from financing activities:			
Proceeds from borrowings by microfinance entities		16,314	36,616
Repayments on borrowings of microfinance entities		(24,350)	(28,546)
Repayments on long-term debt		(272)	(1,414)
Net cash (used in) provided by financing activities		(8,308)	6,656
Net (decrease) increase in cash and cash equivalents		(8,960)	3,565
Cash and cash equivalents at beginning of year		135,791	132,226
Cash and cash equivalents at end of year	$	126,831	135,791
Supplemental disclosures:			
Interest paid during the year	$	8,549	6,637
Noncash contributions		3,031	2,044

See accompanying notes to consolidated financial statements.

MERCY CORPS AND AFFILIATES

Consolidated Statement of Functional Expenses

Year ended June 30, 2019
(With summarized financial information for the year ended June 30, 2018)

(In thousands)

	Program services						Supporting services			
	Humanitarian assistance – relief	Humanitarian assistance – recovery	Livelihood/ economic development	Civil society and education	Health	Total program services	General and administrative	Resource development	Total expenses	2018 Total
Personnel	$ 28,212	11,876	52,976	27,069	13,761	133,894	39,181	7,490	180,565	166,718
Professional services	6,836	2,125	9,804	3,952	2,294	25,011	4,513	2,487	32,011	31,411
Travel and vehicle expense	5,464	1,868	5,898	3,513	3,175	19,918	5,160	308	25,386	24,391
Office and occupancy expense	3,745	1,984	8,064	3,206	2,253	19,252	4,439	4,789	28,480	26,572
Other operating expenses	1,287	353	942	582	367	3,531	973	2,862	7,366	7,925
Material aid	—	(7)	1,101	—	325	1,419	104	—	1,523	477
Materials and supplies	9,267	3,641	7,399	4,269	2,420	26,996	20	—	27,016	35,573
Construction, nonowned assets	3,364	561	2,259	4,552	5,362	16,098	—	—	16,098	16,942
Training, monitoring, and evaluation	1,855	993	6,075	5,257	1,280	15,460	2	1	15,463	13,343
Subgrants	60,554	11,139	34,905	28,296	5,897	140,791	—	—	140,791	134,674
Microfinancing activity	—	—	10,222	—	—	10,222	—	—	10,222	8,400
Depreciation	298	82	1,344	404	268	2,396	1,225	209	3,830	4,405
	$ 120,882	34,615	140,989	81,100	37,402	414,988	55,617	18,146	488,751	470,831

See accompanying notes to consolidated financial statements.

(1) Organization and Purpose

(a) Business and Organization

Mercy Corps, headquartered in Portland, Oregon, is incorporated under the laws of the State of Washington as a nonprofit corporation. Mercy Corps' mission is to alleviate suffering, poverty, and oppression by helping people build secure, productive, and just communities around the globe.

Mercy Corps is a global organization, 5,500 strong, powered by the belief that a better world is possible. Mercy Corps helps people survive and get back on their feet when natural disaster strikes, economies collapse, or conflict erupts. Where there are chronic threats to peace and progress, Mercy Corps partners with communities to overcome obstacles and thrive.

Mercy Corps employees live and work in more than 40 countries facing the world's toughest challenges. For nearly four decades, Mercy Corps has worked alongside more than 170 million extraordinary people to strengthen their communities from within. In everything we do, Mercy Corps looks for moments of transition to connect people to resources and expertise that can catalyze transformative change.

The consolidated financial statements include the accounts of Mercy Corps Global and its controlled affiliates or under common control affiliates. Mercy Corps Global, a Washington nonprofit corporation (MCG) and affiliates, are collectively referred to herein as the Organization. All material intercompany transactions and balances have been eliminated. Consolidated affiliates include:

- Asian Credit Public Fund (ACF, PF)
- Kompanion Development Institution
- Kompanion Bank Closed Joint Stock Company (Kompanion)
- Kompanion Invest
- MC Nigeria LTD/GTE (Nigeria)
- Mercy Corps Development Holdings, LLC (MCDH)
- Mercy Corps Europe (MCE)
- Mercy Corps India
- Mercy Corps Condominium Unit Owners Association (inactive)
- Mercy Corps Netherlands (MCNL)
- CIT Services, LLC

Entities deconsolidated, dissolved, or in dissolution as of June 30, 2019 include:

- Mercy Corps China Holdings, LLC (in dissolution June 2019)
- MC Egypt, LLC (dissolution started June 2016)
- Mercy Corps Foundation (dissolved June 2019)
- Mercy Corps International Jordan, LLC (in dissolution June 2019)

(2) Summary of Significant Accounting Principles

(a) Basis of Accounting

The accompanying consolidated financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (U.S. GAAP).

Net assets are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the Organization's net assets and changes therein are classified and reported as follows:

- Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions. This balance includes any funds restricted by the board but not subject to donor restrictions.
- Net assets with donor restrictions – Net assets that are subject to donor-imposed restrictions that permit the Organization to use or expend the assets as specified. Some donor-imposed restrictions are temporary in nature, such as those that are restricted by the donor for a particular purpose or that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are to maintain resources in perpetuity. The Organization does not have any assets which are required to be maintained in perpetuity as of June 30, 2019 or 2018.

(b) Use of Estimates

The preparation of consolidated financial statements, in conformity with U.S. GAAP, requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates in the Organization's consolidated financial statements include loan loss reserves. Actual results may differ from those estimates.

(c) Revenue Recognition

Contributions, including unconditional promises to give, are recognized initially at fair value as revenue in the period received at net realizable value. Contribution revenue is reported as an increase in net assets without donor restrictions unless their use is limited by donor-imposed restrictions, in which they will be reported as net assets with donor restrictions.

Funds provided under grant or contract, which are not considered contributions, are deemed to be earned and reported as revenue when the Organization has either incurred expenditures or completed the deliverables in compliance with the specific terms and conditions of the grant or contract. Grant or contract funds received for which no corresponding expenditure or performance has yet been made are accounted for as deferred revenue. Expenditures and performance made in advance of funds received are recorded as grants and accounts receivable.

Donated services that meet the criteria for recognition in accordance with U.S. GAAP are reported as gifts in kind revenue and expenses in amounts equal to their estimated fair value on the date of receipt. Approximately $811 and $726 of gifts in kind legal services were provided to the Organization in 2019 and 2018, respectively. Gifts in kind of software and travel credits are reported at fair value on the date of receipt and included in gifts in kind.

Commodities received are reported at fair value and recognized as revenue as the commodities are distributed for program purposes.

Gifts in kind and contributions of fixed assets and materials for program purposes are reported as contributions at their estimated fair values on the date of receipt and reported as expenses when utilized.

(d) Functional Allocation of Expenses

The Organization allocates expenses on a functional basis among its various programs and supporting services. Expenses that can be identified with a specific program or supporting service are charged directly. Other expenses that are common to several functions are allocated using various statistical bases such as headcount, hours worked, or as a percentage of total expenses.

(e) Change in Net Assets from Operations

Change in net assets from operations excludes activities that the Organization considers to be outside the scope of its primary business, as defined by its mission statement.

(f) Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are translated into U.S. dollars at the exchange rate in effect on reporting dates, and revenue and expenses are translated at rates that approximate the average rate for the period in which the transactions occurred. Net transaction and translation gains and losses are included in the accompanying statement of activities in the nonoperating revenue and losses section as foreign currency exchange gain or loss.

(g) Income Taxes

The Organization has been granted tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and corresponding sections of the state of Washington provisions as a publicly supported organization, which is not a private foundation.

U.S. GAAP requires the Organizations' management to evaluate tax positions taken by the Organizations and recognize a tax liability (or asset) if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service (IRS). Management has analyzed tax positions taken by the Organizations and has concluded that as of June 30, 2019, there are no uncertain positions taken or expected to be taken that would require recognition of liability (or asset) or disclosure in the consolidated financial statements. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no IRS audits for any tax periods in progress.

(h) Cash and Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments with original maturities of three months or less at the date of acquisition, other than those held as part of the investment portfolio.

Per donor terms and internal processes, project related cash is held in accounts separate from the primary operating accounts. These types of segregated accounts totaled $91,761 and $98,889 at June 30, 2019 and 2018, respectively.

(i) Investments

The Organization holds various types of investments, including money market accounts, treasury securities, certificates of deposit, and mutual funds. Investments are recorded at fair value. Interest earned on funds is included in interest income. Dividends are included in other revenue. There are no significant concentrations as the investment portfolio is diversified among issuers.

(j) Charitable Gift Annuities

The Organization has certificates of authority from the state of Oregon, the state of Washington, and a few other states to receive transfers of money or property upon agreement to pay an annuity. The annuity liability included in accounts payable and accrued liabilities as of June 30, 2019 and 2018 was $855 and $930, respectively. The Organization maintains segregated accounts for all gift annuities included in investments. The amounts in the accounts were $1,216 and $1,240 as of June 30, 2019 and 2018, respectively.

(k) Derivative Financial Instruments

Derivative financial instruments held by the Organizations' subsidiaries include back-to-back loans, which have the contractual effect of a currency swap or interest rate swap. The swap counter-parties to these transactions have no recourse to the Organization. Derivatives are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value are recognized currently as an unrealized gain or loss on derivatives in nonoperating revenue and losses, net.

(l) Fair Value Measurements

The Organization applies the Accounting Standard Codification (ASC) Topic 820, *Fair Value Measurement*, which established a framework for measuring fair value. This standard defines the fair value as the amount that would be exchanged for an asset or to transfer a liability in an orderly transaction between market participants at the measurement date.

The standard establishes a three-level fair value hierarchy that prioritizes the valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 – Unadjusted quoted or published prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted market prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the whole term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liability. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available.

The Organization used the following methods and significant assumptions to estimate fair value for its assets measured and carried at fair value in the consolidated financial statements:

Mutual Funds, Treasury Securities, and Certificates of Deposit – Fair values for these investments are based on quoted market or published prices (Level 1).

Foreign Government Securities – Fair value for these investments may use a variety of inputs, including inputs based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques (e.g., the Black-Scholes model) for which all significant inputs are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Where applicable, these models project future cash flows and discount the future amounts to a present value using market-based observable inputs, including interest rate curves, credit spreads, foreign exchange rates, and forward and spot prices for currencies (Level 2).

Derivative financial instruments – The fair value of a microfinance institution's derivatives are based on estimates using standard pricing models that take into account the present value of future cash flows as of the date of the statement of financial position. The fair values of the derivative arrangements are based on models that rely on observable market-based data (Level 2).

(m) Grants and Accounts Receivable

The majority of the Organization's grants and accounts receivable are due from U.S. and European governments, with balances due from multilateral agencies and private foundations. Grants and accounts receivable are expected to be collected within one year and are recorded at net realizable value.

Pledges receivable and notes receivable that are expected to be collected in future years are recorded at fair value at the date of the contribution, as determined using the net present value of estimated future cash flows. In subsequent periods the allowance for uncollectible contributions is reassessed and adjusted if necessary. Amortization of the discounts is recorded as additional contribution revenue.

(n) Microfinance Loans Receivable

Financial services are an essential element of the Organization's integrated approach to helping people. In this sector, the Organization has established microfinance institutions (MFIs), structured loan guarantee programs, built capacity in existing MFIs, and created service organizations to contribute to the development of the overall microfinance industry. Activities from these services are reported as livelihood/economic development program expense in the consolidated statements of activities, and it is the Organization's intent to reinvest all proceeds generated back into mission-related programs.

The Organization owns or controls 50% or more of the following MFI organizations and it is thus consolidated in the accompanying consolidated financial statements.

Kompanion Bank Closed Joint Stock Company, formerly Kompanion Financial Group Micro Credit Closed Joint Stock Company, was established in the Kyrgyz Republic in 2004. On January 11, 2016, the National Bank of the Kyrgyz Republic issued licenses to the bank for the right to conduct banking operations in national currency and in foreign currency. The bank takes deposits from the public, originates loans and transfers money in the territory of the Kyrgyz Republic and abroad, conducts currency exchange transactions, and provides other banking services to legal entities and private individuals. The Organization is the founder and majority shareholder of Kompanion with a 65% ownership interest.

Microfinance loans receivable are recorded in the consolidated statement of financial position at their unpaid principal balances, net of allowance for loan losses. Interest income is accrued based on the outstanding principal amount and contractual terms of each individual loan. The affiliated organizations review their loans to assess impairment on a regular basis. A loan is considered impaired when, based on current information, it is probable that the MFIs will not receive all amounts due in accordance with the contractual terms of the underlying loan agreement. When an impairment loss has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan receivable and the present value of the estimated future cash flows, including amounts recoverable from guarantees and collateral discounted at the loan receivable's original effective interest rate. All loan receivable losses are recognized in the consolidated statement of activities. When a loan is uncollectible, it is written off against the related reserve for loan impairment. Loan balances are written off when management determines that the loans are uncollectible and when all necessary steps to collect the loan are exhausted.

(o) Inventories and Material Aid

The Organization receives agricultural commodities from governments for distribution via Organization programs and for monetization in which proceeds of the commodity sale are to be used to fund Organization programs. Commodities received for distribution are recorded at estimated fair value as inventory and deferred revenue. Revenue is recognized as inventory is distributed and is recorded in the consolidated statement of activities as material aid. Funds received from monetization of commodities are deferred until utilized in program activities and are then recorded in the consolidated statement of activities as material aid.

Material aid commodities received from the U.S. government that are held for sale are valued at the lesser of the fair value on the contribution date or the expected sales price in the foreign location, if impaired. Material Aid commodities held for distribution and not for sale are valued at estimated fair value.

(p) Program-Related Investments

Program-related investments represent the Organization's investments in domestic and overseas organizations that do not meet the standard of control for consolidation under U.S. GAAP. The investments are typically in the form of equity investments funded with grants or the Organization's net assets without donor restrictions. The primary purpose of these investments is the furtherance of the Organization's mission rather than the generation of income. Investments are recorded on either the cost or equity method, depending on the Organization's level of ownership and influence over the entities.

(q) Property and Equipment, Net

Land, buildings, and equipment are stated at acquisition cost or fair value on the date of contribution. Depreciation is computed on a straight-line basis over the shorter of the estimated useful lives of the respective assets or the related lease term. The estimated useful lives by asset class are as follows:

	Years
Buildings	30–39
Leasehold improvements	3–30
Furniture, fixtures, equipment, and software	3–10
Vehicles	3–5

Restrictions associated with gifts for capital projects are released when the associated long-lived asset is placed into service.

(Continued)

(r) Comparative Financial Information

The accompanying consolidated financial statements include certain prior year summarized information. With respect to the consolidated statement of functional expenses, information from the prior year is presented in the aggregate, is not presented by function; the consolidated statement of activities does not include balances for net assets without donor restrictions and net assets with donor restrictions. Accordingly, such information should be read in conjunction with the Organization's prior year consolidated financial statements from which the summarized information was derived.

(s) New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued and Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, to clarify the principles for recognizing revenue and to improve financial reporting by creating common revenue recognition guidance for U.S. generally accepted accounting principles and International Financial Reporting Standards. The amendments in the ASU can be applied either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the update recognized at the date of the initial application along with additional disclosures. The new standard is effective for Mercy Corps on July 1, 2019. The Organization is currently evaluating the extent of the anticipated impact of the adoption of ASU No. 2014-09.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which clarifies and improves the guidance for contributions received and contributions made. The amendments in this update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of ASC Topic 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to ASC Topic 606 and (2) determining whether a contribution is conditional. The amendments in this update are to be applied on a modified prospective basis and are effective for the Organization's fiscal year beginning July 1, 2019. The Organization is currently evaluating the potential impact of the adoption of ASU No. 2018-08 and does not expect it to have a material impact on the Organization's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires lessees to recognize a lease liability and a right of use asset for all lease obligations with exception for short-term leases. The lease liability will represent the lessee's obligation to make lease payments arising from the lease measured on a discounted basis and the right of use asset will represent the lessee's right to use or control the use of a specified asset for a lease term. The new standard is effective for Mercy Corps on July 1, 2020 although an exposure draft is outstanding with the FASB to delay implementation by one year. The Organization is currently evaluating the extent of the anticipated impact of the adoption of ASU No. 2016-02.

(Continued)

(Dollars in thousands)

(t) Implementation of New Accounting Standard

The Organization has adopted Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. As a result of this ASU, the Organization now presents two classes of net assets in its financial statements: net assets without donor restrictions previously reported as unrestricted net assets and net assets with donor restrictions previously reported as temporarily restricted net assets and permanently restricted net assets. The guidance also expands the qualitative and quantitative disclosures regarding liquidity and availability of resources and requires expenses to be reported by both their natural and functional classification in one location. The Organization applied changes retrospectively (note 9). The Organization has adjusted the presentation to all periods presented, however such reclassifications had no effect on changes in net assets.

(3) Fair Value of Financial Instruments and Investments

Fair value measurements for the assets measured at fair value on a recurring basis at June 30, 2019 consisted of the following:

		Level 1	Level 2	Total
Assets:				
Investments:				
Cash and cash equivalents	$	1,977	—	1,977
Certificates of deposit		4,649	—	4,649
Fixed income		498		498
Mutual funds – equity		4,143	—	4,143
Mutual funds – fixed income		4,073	—	4,073
Mutual funds – real estate investment trust		176	—	176
Foreign government securities		—	3,770	3,770
Total investments		15,516	3,770	19,286
Derivative financial instruments:				
Foreign currency swap arrangements		—	549	549
Total	$	15,516	4,319	19,835

(Dollars in thousands)

Fair value measurements for the assets measured at fair value on a recurring basis at June 30, 2018 consisted of the following:

	Level 1	Level 2	Total
Assets:			
Investments:			
Cash and cash equivalents	$ 3,740	—	3,740
Treasury securities	981	—	981
Certificates of deposit	2,201	—	2,201
Mutual funds – equity	4,464	—	4,464
Mutual funds – fixed income	8,285	—	8,285
Mutual funds – real estate investment trust	210	—	210
Foreign government securities	—	3,989	3,989
Total investments	19,881	3,989	23,870
Derivative financial instruments:			
Derivative arrangements	—	681	681
Total	$ 19,881	4,670	24,551

The Organization had no Level 3 assets or liabilities measured at fair value at June 30, 2019 or 2018.

(4) Microfinance Loans Receivable

Microfinance loans comprise variable and fixed-rate loans with individuals and groups. Group loans are unsecured loans granted to a group of borrowers who sign a loan agreement with joint and several liability to repay a loan. The loans bear interest at rates generally at or below the local market industry average available. Microfinance loans are issued with original maturities ranging from 3 to 60 months.

Microfinance loans receivable were concentrated in the following countries as of June 30, 2019 and 2018:

	2019	2018
Kyrgyzstan	$ 102,492	86,140
United States	503	402
Gross loans	102,995	86,542
Less loan loss reserves	(3,080)	(3,945)
Microfinance loans receivable, net	$ 99,915	82,597

(Dollars in thousands)

The Organization applies ASC Topic 310, *Receivables*, for financing receivables and the corresponding allowance for losses.

Allowances for estimated losses are established based on prior collection experience and observed trends in the rate of default, as well as a consideration of current economic trends and indicators. Loan balances are written off when they are deemed to be ultimately uncollectible.

Changes in allowance for estimated losses on financing receivables as of June 30, 2019 and 2018 are presented as follows:

		2019	2018
Loan loss reserve, beginning	$	(3,945)	(4,788)
Adjustments to reserve		782	729
Write-off		84	117
Recovery		(1)	(3)
Loan loss reserve, ending	$	(3,080)	(3,945)

The reserves noted above can be attributed to loans that are current or past due as follows at June 30, 2019:

		Current	Past due	Total
Microfinance loans receivable	$	98,467	4,528	102,995
Less loan loss reserves		(1,848)	(1,232)	(3,080)
Microfinance loans receivable, net	$	96,619	3,296	99,915

The reserves noted above can be attributed to loans that are current or past due as follows at June 30, 2018:

		Current	Past due	Total
Microfinance loans receivable	$	83,637	2,905	86,542
Less loan loss reserves		(2,132)	(1,813)	(3,945)
Microfinance loans receivable, net	$	81,505	1,092	82,597

(Dollars in thousands)

(5) Property and Equipment

		2019	2018
Land	$	3,807	3,807
Buildings and leasehold improvements		41,195	40,236
Vehicles		13,080	12,474
Furniture, fixtures, and equipment		12,110	11,633
Property and equipment		70,192	68,150
Less accumulated depreciation and amortization		(33,165)	(29,943)
Property and equipment, net	$	37,027	38,207

(6) Program-Related Investments

The Organization’s program-related investments at June 30 are as follows:

		2019	2018
ACF MCO, LLC, Kazakhstan	$	1,802	1,754
MiCRO – SCC		148	285
MEVCF		233	192
MCDH		1,234	1,210
	$	3,417	3,441

At June 30, 2019 and 2018 Mercy Corps owned 30% of Asian Credit Fund Micro Credit Organization, LLC (ACF MCO, LLC) directly and reports this investment on an equity basis. ACF, PF is a consolidated affiliate that owned 20% of ACF MCO, LLC at June 30, 2019 and reports this investment on an equity basis. The Organization sold 100% of its interest in ACF MCO, LLC in October 2019 to an external party.

MiCRO Insurance Catastrophe Risk Organization SCC (MiCRO – SCC) was formed on March 17, 2011. Its focus is to engage in providing micro-insurance products and services to achieve poverty alleviation in Central America and elsewhere in the Caribbean region by providing insurance protection to the economically disadvantaged in the event of natural disasters. At June 30, 2019 and 2018, Mercy Corps owned 26.7% and 29.9% of the shares in MiCRO, respectively. Mercy Corps reports the investment in MiCRO-SCC on an equity basis.

In fiscal year 2011, Mercy Corps invested in the Middle East Venture Capital Fund, L.P. (MEVCF). The purpose of MEVCF is a venture capital fund focusing primarily on stimulating economic development by making investments in medium-sized businesses in the information and communications technology sectors. At June 30, 2019 and 2018, Mercy Corps owned less than 2% of this fund. The investment is recorded on a cost basis.

(Dollars in thousands)

Mercy Corps Development Holdings, LLC (MCDH) invests in early stage start-up companies that have a social mission and focus that aligns with the Organizations' mission and programs. At June 30, 2019, MCDH had $556 in equity investments and $679 in convertible notes receivable invested in 10 ventures working in Southeast Asia, East Africa, and Latin America. These investments are recorded on a cost basis.

Mercy Corps has other small investments in various entities recorded on a cost basis. These investments allow the Organization to partner with developing social enterprises, consistent with its mission.

(7) Debt

At June 30, debt consisted of the following:

Line of Credit

The Organization has a $4,000 line of credit commitment with a bank for working capital purposes. The line of credit is collateralized by a security interest in the Organization's accounts receivable, inventory and equipment. It expires on March 1, 2020. During 2019 and 2018, there were no borrowings during the year, and as of June 30, 2019 and 2018, the outstanding balance was zero.

Tax Exempt Bonds and Long-Term Debt

On June 25, 2015 the Organization, through Oregon Facilities Authority, issued a tax exempt bond. The proceeds were used to refinance the debt of the headquarters building in Portland, Oregon, which also collateralized the promissory note. The balance due at June 30, 2019 and 2018 is consistent with the debt held by US Bank and is $8,096 and $8,368, respectively. The bond will mature and is due on June 30, 2022.

Future maturities of debt outstanding at June 30, 2019 are as follows:

2020	$	256
2021		288
2022		7,552
Thereafter		—
Total	$	8,096

(Dollars in thousands)

(8) Subsidiary and Subordinated Debt for Microfinancing Activities

Microfinancing debt is used to finance the Organization's microfinance lending activities. Typically, this debt is not collateralized, and principal payments are expected to be made from the flow of cash from collection of the loan receivables. The Organization does not guarantee the repayment on the Kompanion Bank debt. Payment terms on these loans vary.

Microfinancing debt maturities as of June 30, 2019 were as follows:

	Kompanion	MCG	Total
Year ended:			
2020	$ 7,792	206	7,998
2021	25,226	85	25,311
2022	10,493	85	10,578
2023	549	30	579
2024	—	—	—
Thereafter	3,461	—	3,461
Total	$ 47,521	406	47,927

(Dollars in thousands)

Interest rates of subsidiary microfinancing borrowings at June 30, 2019 are as follows:

Subsidiary	Lender	Interest rates	Due Date		Balance
Mercy Corps Global	Various	.875%–2.00%	2019-beyond	$	406
Kompanion	EBRD	5.88%–18.37%	2020–2021		5,066
Kompanion	NBKR	10.00 %	2019		387
Kompanion	FMO	10.54 %	2021		3,898
Kompanion	BistumEssen	6.00%–6.75%	2020		4,022
Kompanion	BlueOrchard	6.00 %	2020		2,006
Kompanion	Microvest	6.00 %	2020		2,673
Kompanion	Incofin	6.25 %	2019–2020		1,853
Kompanion	CVBA	8.00 %	2021		105
Kompanion	Triplejump	10.50 %	2020–2022		5,390
Kompanion	Deutsche Bank	3.00 %	2020		143
Kompanion	Global Impact	6%–12.50%	2020		4,008
Kompanion	MinFln	8.00%–12.00%	2020–2033		2,129
Kompanion	Symbiotics	12.50 %	2020–2021		3,494
Kompanion	Triodos	12.75 %	2021		7,745
Kompanion	DWS Access	6.00 %	2020		1,999
Kompanion	Russian-Kyrgyz Development Fund	6.00%–8.00%	2021–2023		1,015
Kompanion	State Mortgage Co	4.00%–6.00%	2032		1,588
				$	47,927

The above debt also includes subordinated debts of $708 and $822 at June 30, 2019 and 2018, respectively. This subordinated debt is subordinate to all other debt of the individual subsidiary. The subordinated debt matures in 2020.

(Dollars in thousands)

(9) Net Assets

As a result of the implementation of ASU 2016-14, temporarily restricted net assets previously released based on a time restriction associated with capital projects were retrospectively released and adjusted in the opening balances of unrestricted net assets and removed from net assets with donor restrictions. See below for adjustments to opening balances:

Net assets without donor restrictions at June 30, 2018, as previously reported	$	91,251
Adjustment to opening balance		5,815
Adjusted net assets without donor restrictions at June 30, 2018	$	97,066
Net assets with donor restrictions at June 30, 2018, as previously reported	$	16,088
Adjustment to opening balance		(5,815)
Adjusted net assets with donor restrictions at June 30, 2018	$	10,273

Net assets with donor restrictions available for programs are $8,617 and $10,273 as of June 30, 2019 and 2018, respectively.

(10) Liquidity and Availability

The Organization monitors liquidity at the Mercy Corps Global level of reporting as affiliated entities are managed independently of Mercy Corps Global. The Organization regularly monitors liquidity required to meet its operating needs, liabilities, and other financial commitments.

(Dollars in thousands)

Financial Assets at June 30, 2019		Mercy Corps Global	Affiliated Entities	Mercy Corps and Affiliates
Cash and cash equivalents	$	50,627	76,204	126,831
Investments		15,516	3,770	19,286
Financial instruments and derivatives, net		—	549	549
Grants and accounts receivable		36,342	21,907	58,249
Microfinance loans receivable, net		378	99,537	99,915
Total financial assets		102,863	201,967	304,830
Less financial assets limited to use:				
Donor cash received to be used for specific programs		41,230	51,373	92,603
Financial instruments and derivatives, net		—	549	549
Microfinance loans receivable, net		378	99,537	99,915
Total financial assets limited to use		41,608	151,459	193,067
Financial assets available for general and administrative expenditure	$	61,255	50,508	111,763

Board designated investments of $14,055 are included in the investment balance and require board approval for release. Effective in October 2019, the requirement was changed from board approval to board notification. As a result, these balances are included in the available total above.

(11) Obligations under Operating Leases

The Organization leases office space, housing, and equipment under operating leases with terms in excess of a year that require payments through 2025. The leases may contain annual escalation clauses at fixed percentages or based on the consumer price index. At June 30, 2019, the Organization's aggregate minimum annual operating lease commitments are as follows:

FY 20	$	2,332
FY 21		1,441
FY 22		1,174
FY 23		1,115
FY 24		943
Thereafter		1,109
Total	$	8,114

Total rent expense was $5,502 and $4,589 for the fiscal years ended June 30, 2019 and 2018, respectively.

(12) Commitments and Contingencies

The Organization receives a substantial portion of its funding in the form of grants from government and multilateral agencies. These grants contain certain compliance and internal control requirements that, if violated, may result in the disallowance of certain costs incurred under the grant programs. Additionally, the Organization is involved in various legal proceedings and claims arising in the normal course of business. The Organization adjusts the contingent liabilities each year based on settlement of accrued amounts and potential liabilities that are reasonably likely and estimable. At June 30, 2019 and 2018, the Organization had total accrued contingent liabilities of $3,137 and $1,869, respectively, which are included in accounts payable and accrued liabilities on the statement of financial position.

While it is not possible to determine the ultimate liability, if any, in these matters at this time, in the opinion of management, such matters will not have a material adverse effect on the financial condition of the Organization in excess of the recorded contingent liability.

(13) Employee Benefit Plan

MCG has a defined-contribution plan under Internal Revenue Code Section 403(b) for employees who meet the eligibility conditions. Employees are eligible to make voluntary pretax contributions beginning the first day of the month following their employment date. Employees are eligible to receive employer contributions equal to 6% of gross salary after one year of service. The Organization’s contributions to the plan for the years ended June 30, 2019 and 2018 amounted to $1,648 and $1,658, respectively.

MCG also has a nonqualified employee benefit plan for certain third-country nationals who are otherwise ineligible for the defined-contribution plan under Internal Revenue Code Section 403(b). These employees receive employer contributions equal to 6% of gross salary after one year of service. The Organization records expenses for the program on a monthly basis and makes a lump sum payment to team members upon end of service. The total expense for the program for the years ended June 30, 2019 and 2018 amounted to $644 and $495, respectively. At June 30, 2019 and 2018, the Organization had total amounts to be paid out for this plan of $2,272 and $2,086, respectively.

Mercy Corps Europe contributes to defined-contribution pension plans on behalf of employees. The assets of the plans are held separately from those of the company. Contributions are charged to the income and expenditure account and the statement of activities in the period in which they are incurred.

Within the various countries in which the Organization operates outside the United States and the United Kingdom, most employees are citizens of the host country. These employees are not eligible for the Organization’s defined-contribution plan or for the employee benefit plan for third-country nationals; however, they may be eligible for certain local government sponsored plans appropriate for that country.

(14) Significant Sources of Revenue and Concentration of Risk

(a) Significant Sources of Revenue

The Organization receives a majority of its funding through grants from government agencies. A reduction in the amount of grants available or in the Organization’s ability to receive government grants would have a material impact on its programs and operations.

(Continued)

(b) Concentration of Risk

For cash held in the United States, the Organization maintains its cash in commercial banks that are in excess of the Federal Deposit Insurance Company (FDIC) limits. Management believes the risk associated with balances in excess of FDIC limits is minimal.

For cash held in the United Kingdom, the Organization maintains cash in commercial banks that are in excess of U.K. deposit insurance limits. Management believes the risk associated with the balance in excess of the deposit insurance limits is minimal.

In order to fulfill grant agreements and maintain ongoing operations in foreign countries, the Organization maintains cash balances in both regional and local currencies. The Organization had cash deposits of 21.5% and 13.4% of the total cash balance in the Organization's foreign locations. Of the cash held in foreign locations, 39.8% and 22.4% was held by the Organization's MFI's, as of June 30, 2019 and 2018, respectively.

(15) Subsidiary Entities

The Organization is required to consolidate certain entities under the guidance of FASB ASC Topic 810, *Consolidation*. However, MCG has limitations on the use of the assets and is not obligated for the liabilities of these consolidated subsidiaries under the laws in place in the foreign jurisdiction of each of these subsidiaries and under the terms of the entities' by laws.

Mercy Corps continues to establish new entities to invest in new technology, business models, and social enterprises to provide transformational opportunities to alleviate suffering, poverty, and oppression. The following entities are yet to have significant activities but are controlled by Mercy Corps and have therefore been consolidated as of June 30, 2019:

Mercy Corps India was formed in August 2010 as joint-stock company to carry out operations in India.

Mercy Corps Egypt, LLC was formed in 2012 to establish a field office and operations in Egypt. This entity began dissolution in 2016.

Kompanion Development was formed in 2008 to assist with development in Kyrgyzstan.

Mercy Corps China Holdings, LLC was formed in 2013 to own a Chinese wholly owned foreign enterprise established under Chinese law to provide services in furtherance of the Mercy Corps mission. This entity began dissolution in 2019.

Mercy Corps Development Holdings, LLC was formed in 2015 as a for profit holding entity and invests in early stage start-up companies that have a social mission and focus that aligns with Mercy Corps' mission and programs.

Mercy Corps International Jordan, LLC was formed as a not for profit entity in 2007 to carry out operations in Jordan. This entity is inactive and in dissolution as of June 30, 2019.

(Continued)

CIT Services, LLC was formed in 2017 as a disregarded entity of Mercy Enterprise Corporation to provide management and back office support to the East Portland CIT Corporation (EPCIT). The entity transferred to Mercy Corps Global in February 2018 by resolution of the MEC board.

The total combined net assets of the 7 entities listed above are $1,320 and $1,292 as of June 30, 2019 and 2018, respectively.

(16) Subsequent Events

The Organization has performed an evaluation of subsequent events through November 14, 2019, which is the date the consolidated financial statements were available to be issued, and has determined there are no additional disclosures needed.

The following schedules I and II are a presentation of the financial position and activities and changes in net assets for MCG on an unconsolidated basis. These amounts are included as part of the consolidated financial statements of Mercy Corps and affiliates for the fiscal year ended June 30, 2019.

Schedule I

MERCY CORPS GLOBAL

Supplemental Schedule – Schedule of Financial Position

Year ended June 30, 2019
(With comparative financial information as of June 30, 2018)

(In thousands)

Assets		**2019**	**2018**
Cash and cash equivalents	$	50,627	63,319
Investments		15,516	19,881
Grants and accounts receivable		36,342	29,544
Microfinancing loans receivable, net		378	327
Due from unconsolidated affiliates, net		14,150	19,527
Inventories and material aid		1,810	887
Prepaid expenses, deposits, and other assets		5,797	6,300
Program-related investments		16,974	16,535
Property and equipment, net		31,111	32,624
Total assets	$	172,705	188,944
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued liabilities	$	47,328	47,213
Deferred revenue		41,230	48,263
Debt for microfinancing activities		406	490
Long-term debt		8,096	8,369
Total liabilities		97,060	104,335
Net assets:			
Without donor restrictions		68,075	74,988
With donor restrictions		7,570	9,621
Total net assets		75,645	84,609
Total liabilities and net assets	$	172,705	188,944

See accompanying independent auditors’ report.

Schedule II

MERCY CORPS GLOBAL

Supplemental Schedule – Schedule of Activities

Year ended June 30, 2019
(With comparative financial information for the year ended June 30, 2018)

	Without donor restrictions	With donor restrictions	Totals	2018 Total
Operating support and revenue:				
Public support and revenue:				
Government grants	$ 176,111	—	176,111	174,735
Material aid	1,419	—	1,419	735
Total public support and revenue	177,530	—	177,530	175,470
Other support and multilateral revenue:				
Other grants	92,428	—	92,428	88,328
Contributions	29,892	7,747	37,639	40,675
Gifts in kind	1,612	—	1,612	1,309
Bequests	1,142	—	1,142	2,090
Total other support and multilateral revenue	125,074	7,747	132,821	132,402
Other revenue:				
Interest income	852	—	852	670
Other revenue	1,296	74	1,370	923
Total other revenue	2,148	74	2,222	1,593
Net assets released from restriction	9,872	(9,872)	—	—
Total operating support and revenue	314,624	(2,051)	312,573	309,465
Operating expenses:				
Program services:				
Humanitarian assistance – relief	79,301	—	79,301	61,728
Humanitarian assistance – recovery	34,615	—	34,615	55,090
Livelihood/economic development	75,537	—	75,537	79,699
Civil society and education	42,430	—	42,430	32,276
Health	23,780	—	23,780	23,315
Total program services	255,663	—	255,663	252,108
Supporting services:				
General and administrative	49,021	—	49,021	44,310
Resource development	17,035	—	17,035	17,427
Total supporting services	66,056	—	66,056	61,737
Total operating expenses	321,719	—	321,719	313,845
Change in net assets from operations	(7,095)	(2,051)	(9,146)	(4,380)
Nonoperating revenue and expenses, net:				
Foreign currency exchange loss, net	(575)	—	(575)	(555)
Realized and unrealized gain (loss) on investments, net	757	—	757	(558)
Gain on other entities	—	—	—	989
Total nonoperating revenue and expenses, net	182	—	182	(124)
Change in net assets	(6,913)	(2,051)	(8,964)	(4,504)
Net assets at beginning of year	74,988	9,621	84,609	89,113
Net assets at end of year	$ 68,075	7,570	75,645	84,609

See accompanying independent auditors' report.