MERCY CORPS AND AFFILIATES

Consolidated Financial Statements
and Supplemental Schedules

June 30, 2020

(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, 2020, 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, 2020, and the changes in their net assets and cash flows for the year then ended, in accordance with U.S. generally accepted accounting principles.

Report on Summarized Comparative Information

We have previously audited Mercy Corps and affiliates' 2019 consolidated financial statements, and we expressed an unmodified audit opinion on those consolidated financial statements in our report dated November 14, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

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 11, 2020

MERCY CORPS AND AFFILIATES

Consolidated Statement of Financial Position

June 30, 2020
(With comparative financial information as of June 30, 2019)

(In thousands)

Assets		2020	2019
Cash and cash equivalents	$	172,794	126,831
Investments		14,638	19,286
Financial instruments and derivatives, net		457	549
Grants and accounts receivable		64,173	58,249
Microfinance loans receivable, net		98,389	99,915
Inventories and material aid		961	1,810
Prepaid expenses, deposits, and other assets		10,477	14,066
Program-related investments		1,847	3,417
Property and equipment, net		37,030	37,027
Total assets	$	400,766	361,150
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued liabilities	$	69,910	63,510
Line of credit		4,000	—
Deferred revenue		99,455	92,603
Customer deposits for microfinance activities		60,737	42,417
Subsidiary and subordinated debt for microfinancing activities		34,856	47,927
Long-term debt		15,427	8,096
Total liabilities		284,385	254,553
Net assets:			
Without donor restrictions:			
Controlling interests		90,135	87,061
Noncontrolling interests		11,333	10,919
Total without donor restrictions		101,468	97,980
With donor restrictions		14,913	8,617
Total net assets		116,381	106,597
Total liabilities and net assets	$	400,766	361,150

See accompanying notes to consolidated financial statements.

MERCY CORPS AND AFFILIATES

Consolidated Statement of Activities

Year ended June 30, 2020
(With summarized financial information for the year ended June 30, 2019)

(In thousands)

	Without donor restrictions	With donor restrictions	2020 Total	2019 Total
Operating support and revenue:				
Public support and revenue:				
Government grants	$ 326,824	—	326,824	294,295
Material aid	2,301	—	2,301	1,419
Total public support and revenue	329,125	—	329,125	295,714
Other support and multilateral revenue:				
Other grants	98,656	—	98,656	120,452
Contributions	33,271	14,933	48,204	38,857
Gifts in kind	1,036	—	1,036	1,612
Bequests	1,655	—	1,655	1,142
Total other support and multilateral revenue	134,618	14,933	149,551	162,063
Other revenue:				
Interest income	31,396	—	31,396	30,093
Other revenue	2,307	40	2,347	1,415
Total other revenue	33,703	40	33,743	31,508
Net assets released from donor restrictions	8,677	(8,677)	—	—
Total operating support and revenue	506,123	6,296	512,419	489,285
Operating expenses:				
Program services:				
Humanitarian assistance – relief	127,610	—	127,610	120,882
Humanitarian assistance – recovery	41,352	—	41,352	34,615
Livelihood/economic development	140,356	—	140,356	140,989
Civil society and education	67,850	—	67,850	81,100
Health	47,299	—	47,299	37,402
Total program services	424,467	—	424,467	414,988
Supporting services:				
General and administrative	57,201	—	57,201	55,617
Resource development	16,379	—	16,379	18,146
Total supporting services	73,580	—	73,580	73,763
Total operating expenses	498,047	—	498,047	488,751
Change in net assets from operations	8,076	6,296	14,372	534
Nonoperating revenue and losses net:				
Foreign currency exchange loss, net	(4,309)	—	(4,309)	(1,042)
Realized and unrealized gain on investments, net	68	—	68	446
Unrealized loss on derivatives	(347)	—	(347)	(680)
Total nonoperating revenue and losses, net	(4,588)	—	(4,588)	(1,276)
Change in net assets	3,488	6,296	9,784	(742)
Net assets at beginning of year	97,980	8,617	106,597	107,339
Net assets at end of year	$ 101,468	14,913	116,381	106,597

See accompanying notes to consolidated financial statements.

MERCY CORPS AND AFFILIATES

Consolidated Statement of Cash Flows

Year ended June 30, 2020
(With comparative financial information for the year ended June 30, 2019)

(In thousands)

		2020	2019
Cash flows from operating activities:			
Change in net assets	$	9,784	(742)
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		4,798	3,830
Provision for loan losses		2,149	(780)
Net realized and unrealized loss on investments		(36)	(345)
Forgiveness of debt		—	(135)
Unrealized loss on foreign exchange arrangements and financial instruments		4,656	1,722
Gain on disposition of fixed assets		(161)	(461)
Changes in assets and liabilities:			
Grants and accounts receivable		(5,924)	(7,011)
Inventories		849	(923)
Prepaid expenses, deposits, and other assets		3,589	(3,394)
Customer deposits for microfinance activities		18,320	25,502
Accounts payable and accrued liabilities		6,015	(1,206)
Deferred revenue		6,852	(2,241)
Net cash provided by operating activities		50,891	13,816
Cash flows from investing activities:			
Purchase of investments		(4,199)	(11,119)
Proceeds from sale of investments		10,453	15,225
Issuances of microfinance loans		(129,832)	(119,392)
Repayments on microfinance loans		125,736	102,989
Acquisition of property and equipment		(6,325)	(2,987)
Disposition of property and equipment		979	816
Net cash used in investing activities		(3,188)	(14,468)
Cash flows from financing activities:			
Proceeds from borrowings by microfinance entities		10,261	16,314
Repayments on borrowings of microfinance entities		(23,332)	(24,350)
Proceeds from borrowings on line of credit		4,000	—
Issuance of long term debt		7,611	—
Repayments on long-term debt		(280)	(272)
Net cash used in financing activities		(1,740)	(8,308)
Net increase (decrease) in cash and cash equivalents		45,963	(8,960)
Cash and cash equivalents at beginning of year		126,831	135,791
Cash and cash equivalents at end of year	$	172,794	126,831
Supplemental disclosures:			
Interest paid during the year	$	9,284	8,549
Noncash contributions		3,337	3,031

See accompanying notes to consolidated financial statements.

MERCY CORPS AND AFFILIATES

Consolidated Statement of Functional Expenses

Year ended June 30, 2020
(With summarized financial information for the year ended June 30, 2019)

(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 administration	Resource development	Total operating expenses	2019 Total
Personnel	$ 29,347	13,623	54,679	28,663	14,252	140,564	41,020	7,242	188,826	180,565
Professional services	6,455	2,871	8,922	4,915	5,739	28,902	5,743	1,773	36,418	32,011
Travel and vehicle expense	4,459	1,756	4,821	2,904	2,700	16,640	3,162	161	19,963	25,386
Office and occupancy expense	3,722	1,506	7,358	3,467	2,254	18,307	4,472	4,334	27,113	28,480
Other operating expenses	1,045	434	761	433	313	2,986	1,608	2,664	7,258	7,366
Material aid	—	189	1,697	—	562	2,448	—	—	2,448	1,523
Materials and supplies	9,203	2,972	5,612	2,812	3,577	24,176	11	—	24,187	27,016
Construction, non-owned assets	3,613	2,119	2,199	3,951	6,761	18,643	(16)	—	18,627	16,098
Training, monitoring, and evaluation	1,398	1,063	4,675	2,866	1,093	11,095	5	—	11,100	15,463
Subgrants	68,071	14,735	33,988	17,435	9,791	144,020	—	—	144,020	140,791
Microfinancing activity	—	—	13,290	—	—	13,290	—	—	13,290	10,222
Depreciation	297	84	2,354	404	257	3,396	1,196	205	4,797	3,830
	$ 127,610	41,352	140,356	67,850	47,299	424,467	57,201	16,379	498,047	488,751

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, nearly 6,000 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 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 under common control. 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:

Kompanion Development Institution
Kompanion Bank Closed Joint Stock Company (Kompanion)
Kompanion Invest
MC Nigeria LTD/GTE (Nigeria)
Mercy Corps Development Holdings, LLC
Mercy Corps Europe (MCE)
Mercy Corps India
Mercy Corps Corporate Fund (MCCF) (previously Asian Credit Public Fund)
Mercy Corps International Jordan, LLC (inactive)
Mercy Corps Netherlands (MCNL)
CIT Services, LLC

Entities deconsolidated, dissolved, or in dissolution as of June 30, 2020 include:

Mercy Corps China Holdings, LLC (dissolved February 2020)
MC Egypt, LLC (in dissolution June 2016)
Mercy Corps Condominium Unit Owners Association (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, 2020 or 2019.

(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 may have conditions associated with them, are deemed to be earned and reported as contribution revenue when the Organization has met the related condition in compliance with the specific terms and conditions of the grant or contract. Grant or contract funds received for which the condition has not yet been met are accounted for as deferred revenue. Performance of conditions made in advance of funds received are recorded as grants and accounts receivable.

A contribution is conditional if the agreement includes both a barrier that must be overcome for the recipient to be entitled to the assets transferred and a right of return for the transferred assets or a right of release of the promisor's obligation to transfer assets. Conditional promises to give are not recognized until they become unconditional, that is, when the barriers on which they depend are met. The conditional contributions are related to funding for the establishment of new programs or continuation of current programs within Mercy Corps' overall mission, subject to the terms of each funding agreement. At June 30, 2020, the Organization had $261,735 of conditional promises to give in the form of measurable performance related or other barriers and right of return that have not been reflected on the accompanying financial statements.

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 $721 and $811 of gifts in kind legal services were provided to the Organization in 2020 and 2019, 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.

(Continued)

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, 2020, 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 and cash equivalents consist of short-term, highly liquid investments with original maturities of three months or less at the date of acquisition, other than 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 $98,313 and $91,761 at June 30, 2020 and 2019, 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, 2020 and 2019 was $926 and $855, respectively. The Organization maintains segregated accounts for all gift annuities included in investments. The amounts in the accounts were $1,329 and $1,216 as of June 30, 2020 and 2019, 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).

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(m) Grants and Accounts Receivable

The majority of the Organization’s grants and accounts receivable are due from U.S. and European governments, with small 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 statement 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 organization 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 MFI 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.

(Continued)

(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.

(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, and 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 February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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, 2022. The Organization is currently evaluating the extent of the anticipated impact of the adoption of ASU No. 2016-02.

(t) Implementation of New Accounting Standards

The Organization has adopted 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 more consistent revenue recognition guidance for U.S. generally accepted accounting principles and International Financial Reporting Standards. The new standard was adopted by Mercy Corps on July 1, 2019. The Organization adopted the standard prospectively with no changes to prior periods. The update did not have a material impact on the financials.

The Organization has adopted Accounting Standards Update 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 assists 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 update did not have a material impact on the financials. The Organization adopted ASU No. 2018-08 as of July 1, 2019.

(u) COVID-19

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

(Dollars in thousands)

(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, 2020 consisted of the following:

	Level 1	Level 2	Total
Assets:			
Investments:			
Cash equivalents	$ 2,944	—	2,944
Certificates of deposit	1,004	—	1,004
Mutual funds – equity	742	—	742
Mutual funds – fixed income	8,157	—	8,157
Mutual funds – real estate investment trust	62	—	62
Foreign government securities	—	1,729	1,729
Total investments	12,909	1,729	14,638
Derivative financial instruments:			
Foreign currency swap arrangements	—	457	457
Total	$ 12,909	2,186	15,095

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 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

(Continued)

(Dollars in thousands)

The Organization had no Level 3 assets or liabilities measured at fair value at June 30, 2020 or 2019.

(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, 2020 and 2019:

		2020	2019
Kyrgyzstan	$	103,167	102,492
United States		450	503
Gross loans		103,617	102,995
Less loan loss reserves		(5,228)	(3,080)
Microfinance loans receivable, net	$	98,389	99,915

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, 2020 and 2019 are presented as follows:

		2020	2019
Loan loss reserve, beginning	$	(3,080)	(3,945)
Adjustments to reserve		(2,682)	782
Writeoff		533	84
Recovery		1	(1)
Loan loss reserve, ending	$	(5,228)	(3,080)

(Continued)

(Dollars in thousands)

The reserves noted above can be attributed to loans that are current or past due as follows at June 30, 2020:

		Current	Past due	Total
Microfinance loans receivable	$	99,522	4,095	103,617
Less loan loss reserves		(3,116)	(2,112)	(5,228)
Microfinance loans receivable, net	$	96,406	1,983	98,389

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

(5) Property and Equipment

		2020	2019
Land	$	3,787	3,807
Buildings and leasehold improvements		42,119	41,195
Vehicles		13,892	13,080
Furniture, fixtures, and equipment		12,944	12,110
		72,742	70,192
Less accumulated depreciation and amortization		(35,712)	(33,165)
	$	37,030	37,027

(Dollars in thousands)

(6) Program-Related Investments

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

		2020	2019
ACF MCO, LLC, Kazakhstan	$	—	1,802
MiCRO – SCC		215	148
MEVCF		245	233
MCDH		1,387	1,234
	$	1,847	3,417

The Organization sold 100% of its interest in ACF MCO, LLC in October 2019 to an external party. In September 2019 ACF, PF changed their name to Mercy Corps Corporate Fund (MCCF). Mercy Corps continues to consolidate the 100% interest in MCCF.

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, 2020 and 2019, Mercy Corps owned 21.3% and 26.7% 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, 2020 and 2019, Mercy Corps owned less than 2% of this fund. The investment is recorded on a cost basis.

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, 2020, MCDH had $803 in equity investments and $584 in convertible notes receivable invested in 15 ventures working in Southeast Asia, East Africa, and Latin America. These investments are recorded on a cost basis and are evaluated annually for impairment.

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.

(Dollars in thousands)

(7) Debt

Mercy Corps has debt of $7,815 outstanding from US Bank for the mortgage on the building in Portland. Mercy Corps received $7,612 in funding from The Small Business Administration's Payment Protection Program (PPP) on April 23, 2020. The terms of the funding agreement indicate that, to be forgiven, the Organization must utilize the proceeds to fund/offset qualifying expenses over a twenty-four week period. The terms of the agreement specify that the Organization must repay the principal of the loan back plus interest, which accrues at 1% semi-annually and matures in two years to the extent that the loan does not qualify for forgiveness. Upon maturity or approval of the application for forgiveness, the loan (and accrued interest payable) may be forgiven if the Organization fulfills the agreed-to terms. The regulations state that the transaction should be recorded as debt and therefore it is included in the table below.

At June 30, debt consisted of the following:

		2020	2019
US Bank, N.A.	$	7,815	8,096
Loan Payable PPP – US Bank, N.A.		7,612	—
Total	$	15,427	8,096

Future maturities of debt outstanding at June 30, 2020 are as follows:

2021	$	264
2022		15,163
	$	15,427

2020 Line of Credit

The Organization has a $6,000 line of credit commitment with a bank for working capital purposes. The 2020 Line of Credit replaces the 2017 Line of Credit that had been extended to May 1, 2020. The 2020 Line of credit increased the line from $4,000 to $6,000. Mercy Corps drew $4,000 from the credit line in March 2020 to assure liquidity through the first days of the pandemic lockdown and has recorded $4,000 of borrowing at June 30, 2020. The $4,000 was subsequently repaid after the fiscal year end. There were no borrowings as of June 30, 2019. The line of credit contains certain restrictive covenants.

2015 Tax Exempt Bonds

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, 2020 and 2019 is consistent with the debt held by US Bank and is $7,815 and $8,096, respectively. The bond will mature and is due on June 30, 2022.

(Continued)

(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, 2020 were as follows:

		Kompanion	MCG	Total
Year ended:				
2021	$	18,174	—	18,174
2022		10,467	85	10,552
2023		3,434	85	3,519
2024		205	30	235
2025		122	—	122
Thereafter		2,254	—	2,254
Total	$	34,656	200	34,856

Interest rates of subsidiary microfinancing borrowings at June 30, 2020 are as follows:

Subsidiary	Lender	Interest rates	Due Date		Balance
Mercy Corps Global	SBA	0.875% – 2.00%	2020-beyond	$	200
Kompanion	EBRD	7.99-13.06%	2020-2023		5,966
Kompanion	FMO	12.04 %	2021		1,791
Kompanion	BistumEssen	6.00 %	2020		1,005
Kompanion	BlueOrchard	6.00 %	2020		672
Kompanion	Incofin	6.25 %	2020		1,521
Kompanion	Triplejump	10.25%-10.95%	2020-2022		4,988
Kompanion	Global Impact	6.00%-12.50%	2020		3,971
Kompanion	MinFln	8.00 %	2033		1,581
Kompanion	Symbiotics	12.50 %	2020-2021		3,196
Kompanion	Triodos	12.60%-12.75%	2021		7,034
Kompanion	DWS Access	6.00 %	2020		1,004
Kompanion	Russian-Kyrgyz Development Fund	6.00% – 8.00%	2021-2023		646
Kompanion	State Mortgage Co	4.00% – 6.00%	2032		1,281
				$	34,856

(Dollars in thousands)

The above debt also includes subordinated debts of $827 and $708 at June 30, 2020 and 2019, respectively. This subordinated debt is subordinate to all other debt of the individual subsidiary. The subordinated debt matured in September, 2020.

(9) 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.

In addition to the assets shown in the following table, as of June 30, 2020 the Organization had access to an additional $2,000 undrawn line of credit described in footnote 7. Financial assets available to meet general expenditures over the next 12 months are shown in the below table:

Financial Assets at June 30, 2020		Mercy Corps Global	Affiliated Entities	Mercy Corps and Affiliates
Cash and cash equivalents	$	86,397	86,397	172,794
Investments		12,909	1,729	14,638
Financial instruments and derivatives, net		—	457	457
Grants and accounts receivable		32,243	31,930	64,173
Microfinance loans receivable, net		329	98,060	98,389
Total	$	131,878	218,573	350,451
Less financial assets limited to use:				
Donor cash received to be used for programs (Deferred Revenue)	$	46,495	52,960	99,455
Split interest agreements		1,329	—	1,329
Financial instruments and derivatives, net		—	457	457
Microfinance loans receivable, net		329	98,060	98,389
Total financial assets limited to use	$	48,153	151,477	199,630
Financial assets available for general and administrative expenditure	$	83,725	67,096	150,821

(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		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

The Organization has certain board-designated assets which are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the information above.

(10) 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 2036. The leases may contain annual escalation clauses at fixed percentages or based on the consumer price index. At June 30, 2020, the Organization's aggregate minimum annual operating lease commitments are as follows:

FY21	$	2,568
FY22		1,822
FY23		1,610
FY24		1,496
FY25		1,309
Thereafter		7,261
Total	$	16,066

Total rent expense was $5,617 and $5,502 for the fiscal years ended June 30, 2020 and 2019, respectively.

(11) 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, 2020 and 2019, the Organization had total accrued contingent liabilities of $2,894 and $3,137, 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.

(12) Employee Benefit Plans

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. Management made the decision to suspend employer contributions to the retirement plan in April 2020 following the COVID-19 pandemic. The Organization’s contributions to the plan for the years ended June 30, 2020 and 2019 amounted to $1,381 and $1,648, 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 are eligible to 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, 2020 and 2019 amounted to $487 and $644, respectively. At June 30, 2020 and 2019, the Organization had total amounts to be paid out for this plan of $2,227 and $2,272, 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. Total defined-contribution retirement plan costs charged to operations were $426 and $429 for the years ended June 30, 2020 and 2019, respectively, which are included in general and administrative expenses in the accompanying consolidated statement of activities and changes in net assets without donor restriction.

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.

(Continued)

(13) 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.

(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 15.6% and 21.5% of the total cash balance in the Organization's foreign locations. Of the cash held in foreign locations, 52.4% and 39.8% was held by the Organization's MFI's, as of June 30, 2020 and 2019, respectively.

(14) 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' bylaws.

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, 2020:

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 was dissolved in February 2020.

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 as of June 30, 2019 and 2020.

CIT Services, LLC was formed in 2017 to provide management and back office support to the East Portland CIT Corporation (EPCIT).

The total combined net assets of the 7 entities listed above are $1,650 and $1,320 as of June 30, 2020 and 2019, respectively.

(15) Subsequent Events

The Organization has performed an evaluation of subsequent events through November 11, 2020, 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, 2020.

Schedule I

MERCY CORPS GLOBAL

Supplemental Schedule – Mercy Corps Schedule of Financial Position

Year ended June 30, 2020
(With comparative financial information as of June 30, 2019)

(In thousands)

Assets		2020	2019
Cash and cash equivalents	$	86,397	50,627
Investments		12,909	15,516
Grants and accounts receivable		32,243	36,342
Microfinancing loans receivable, net		329	378
Due from unconsolidated affiliates, net		12,086	14,150
Inventories and material aid		960	1,810
Prepaid expenses, deposits, and other assets		4,783	5,797
Program-related investments		16,272	16,974
Property and equipment, net		30,045	31,111
Total assets	$	196,024	172,705
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued liabilities	$	50,485	47,328
Line of credit		4,000	—
Deferred revenue		46,495	41,230
Debt for microfinancing activities		201	406
Long-term debt		15,427	8,096
Total liabilities		116,608	97,060
Net assets:			
Without donor restrictions		68,701	68,075
With donor restrictions		10,715	7,570
Total net assets		79,416	75,645
Total liabilities and net assets	$	196,024	172,705

See accompanying independent auditors' report.

Schedule II

MERCY CORPS GLOBAL

Supplemental Schedule – Mercy Corps Schedule of Activities

Year ended June 30, 2020
(With comparative financial information for the year ended June 30, 2019)

	Without donor restrictions	With donor restrictions	Totals	2019 Total
Operating support and revenue:				
Public support and revenue:				
Government grants	$ 197,497	—	197,497	176,111
Material aid	2,301	—	2,301	1,419
Total public support and revenue	199,798	—	199,798	177,530
Other support and multilateral revenue:				
Other grants	75,912	—	75,912	92,428
Contributions	32,405	11,782	44,187	37,639
Gifts in kind	1,036	—	1,036	1,612
Bequests	1,655	—	1,655	1,142
Total other support and multilateral revenue	111,008	11,782	122,790	132,821
Other revenue:				
Interest income	531	—	531	852
Other revenue	2,048	40	2,088	1,370
Total other revenue	2,579	40	2,619	2,222
Net assets released from restriction	8,677	(8,677)	—	—
Total operating support and revenue	322,062	3,145	325,207	312,573
Operating expenses:				
Program services:				
Humanitarian assistance – relief	77,981	—	77,981	79,301
Humanitarian assistance – recovery	41,354	—	41,354	34,615
Livelihood/economic development	67,484	—	67,484	75,537
Civil society and education	36,874	—	36,874	42,430
Health	31,256	—	31,256	23,780
Total program services	254,949	—	254,949	255,663
Supporting services:				
General and administrative	49,870	—	49,870	49,021
Resource development	15,443	—	15,443	17,035
Total supporting services	65,313	—	65,313	66,056
Total operating expenses	320,262	—	320,262	321,719
Change in net assets from operations	1,800	3,145	4,945	(9,146)
Nonoperating revenue and expenses, net:				
Foreign currency exchange loss, net	(892)	—	(892)	(575)
Realized and unrealized loss on investments, net	(282)	—	(282)	757
Gain on other entities	—	—	—	—
Total nonoperating revenue and expenses, net	(1,174)	—	(1,174)	182
Change in net assets	626	3,145	3,771	(8,964)
Net assets at beginning of year	68,075	7,570	75,645	84,609
Net assets at end of year	$ 68,701	10,715	79,416	75,645

See accompanying independent auditors' report.