KPMG

MERCY CORPS AND AFFILIATES

Consolidated Financial Statements
and Supplemental Schedules

June 30, 2021

(With Independent Auditors' Report Thereon)

MERCY CORPS AND AFFILIATES

Table of Contents

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, 2021, 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, 2021, 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' 2020 consolidated financial statements, and we expressed an unmodified audit opinion on those consolidated financial statements in our report dated November 11, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020 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 2, 2021

MERCY CORPS AND AFFILIATES

Consolidated Statement of Financial Position

June 30, 2021
(With comparative financial information as of June 30, 2020)

(In thousands)

Assets		2021	2020
Cash and cash equivalents	$	163,489	172,794
Investments		16,066	15,095
Grants and accounts receivable		67,242	64,173
Microfinance loans receivable, net		97,945	98,389
Inventories and material aid		587	961
Prepaid expenses, deposits, and other assets		12,540	10,477
Program-related investments		3,022	1,847
Property and equipment, net		32,573	37,030
Total assets	$	393,464	400,766
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued liabilities	$	80,892	69,910
Line of credit		—	4,000
Deferred revenue		79,146	99,455
Customer deposits for microfinance activities		74,501	60,737
Subsidiary and subordinated debt for microfinancing activities		20,652	34,856
Long-term debt		7,527	15,427
Total liabilities		262,718	284,385
Net assets:			
Without donor restrictions:			
Controlling interests		105,222	90,135
Noncontrolling interests		11,888	11,333
Total without donor restrictions		117,110	101,468
With donor restrictions		13,636	14,913
Total net assets		130,746	116,381
Total liabilities and net assets	$	393,464	400,766

See accompanying notes to consolidated financial statements.

MERCY CORPS AND AFFILIATES

Consolidated Statement of Activities

Year ended June 30, 2021
(With summarized financial information for the year ended June 30, 2020)

(In thousands)

	2021 Without donor restrictions	2021 With donor restrictions	2021 Total	2020 Total
Operating support and revenue:				
Public support and revenue:				
Government grants	$ 385,456	—	385,456	326,824
Material aid	1,386	—	1,386	2,301
Total public support and revenue	386,842	—	386,842	329,125
Other support and multilateral revenue:				
Other grants	106,813	—	106,813	98,656
Contributions	29,289	8,603	37,892	48,204
Gifts in kind	1,335	—	1,335	1,036
Bequests	3,948	—	3,948	1,655
Total other support and multilateral revenue	141,385	8,603	149,988	149,551
Other revenue:				
Interest income	24,189	—	24,189	31,396
Other revenue	3,745	46	3,791	2,347
Total other revenue	27,934	46	27,980	33,743
Net assets released from donor restrictions	9,926	(9,926)	—	—
Total operating support and revenue	566,087	(1,277)	564,810	512,419
Operating expenses:				
Program services:				
Humanitarian assistance – relief	150,334	—	150,334	127,610
Humanitarian assistance – recovery	26,377	—	26,377	41,352
Livelihood/economic development	161,818	—	161,818	140,356
Civil society and education	83,327	—	83,327	67,850
Health	60,578	—	60,578	47,299
Total program services	482,434	—	482,434	424,467
Supporting services:				
General and administrative	57,796	—	57,796	57,201
Resource development	18,060	—	18,060	16,379
Total supporting services	75,856	—	75,856	73,580
Total operating expenses	558,290	—	558,290	498,047
Change in net assets from operations	7,797	(1,277)	6,520	14,372
Nonoperating revenue and losses net:				
Foreign currency exchange loss, net	(6)	—	(6)	(4,309)
Realized and unrealized gain on investments, net	239	—	239	68
Gain on extinguishment of debt	7,612	—	7,612	—
Unrealized loss on derivatives	—	—	—	(347)
Total nonoperating revenue (losses), net	7,845	—	7,845	(4,588)
Change in net assets	15,642	(1,277)	14,365	9,784
Net assets at beginning of year	101,468	14,913	116,381	106,597
Net assets at end of year	$ 117,110	13,636	130,746	116,381

See accompanying notes to consolidated financial statements.

MERCY CORPS AND AFFILIATES

Consolidated Statement of Cash Flows

Year ended June 30, 2021
(With comparative financial information for the year ended June 30, 2020)

(In thousands)

		2021	2020
Cash flows from operating activities:			
Change in net assets	$	14,365	9,784
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		4,426	4,798
Provision for loan losses		(225)	2,149
Net realized and unrealized gain on investments		(239)	(36)
Unrealized loss on foreign exchange arrangements and financial instruments		6	4,656
Gain on disposition of fixed assets		(2,033)	(161)
Gain on extinguishment of debt		(7,611)	—
Effects of currency translation on cash and cash equivalents		696	—
Changes in assets and liabilities:			
Grants and accounts receivable		(1,805)	(5,924)
Inventories		373	849
Prepaid expenses, deposits, and other assets		(2,341)	3,589
Customer deposits for microfinance activities		20,674	18,320
Accounts payable and accrued liabilities		9,799	6,015
Deferred revenue		(20,309)	6,852
Net cash provided by operating activities		15,776	50,891
Cash flows from investing activities:			
Purchase of investments		(4,744)	(4,199)
Proceeds from sale of investments		2,542	10,453
Issuances of microfinance loans		(96,156)	(129,832)
Repayments on microfinance loans		86,908	125,736
Acquisition of property and equipment		(3,786)	(6,325)
Proceeds from sale of PPE		5,265	979
Net cash used in investing activities		(9,971)	(3,188)
Cash flows from financing activities:			
Proceeds from borrowings by microfinance entities		11,274	10,261
Repayments on borrowings of microfinance entities		(22,095)	(23,332)
Borrowings on line of credit		(4,000)	4,000
Issuance of long term debt		—	7,611
Repayments on long-term debt		(289)	(280)
Net cash used in financing activities		(15,110)	(1,740)
Net (decrease) increase in cash and cash equivalents		(9,305)	45,963
Cash and cash equivalents at beginning of year		172,794	126,831
Cash and cash equivalents at end of year	$	163,489	172,794
Supplemental disclosures:			
Interest paid during the year	$	9,038	9,284
Noncash contributions		2,721	3,337

See accompanying notes to consolidated financial statements.

MERCY CORPS AND AFFILIATES

Consolidated Statement of Functional Expenses

Year ended June 30, 2021
(With summarized financial information for the year ended June 30, 2020)

(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	2020 Total
Personnel	$ 31,774	10,327	60,732	28,688	15,784	147,305	42,849	8,846	199,000	188,826
Professional services	8,908	1,312	10,587	7,536	3,678	32,021	7,844	1,856	41,721	36,418
Travel and vehicle expense	3,548	1,062	4,143	2,268	1,986	13,007	251	25	13,283	19,963
Office and occupancy expense	3,627	1,365	7,987	3,450	2,907	19,336	4,969	3,517	27,822	27,113
Other operating expenses	1,290	302	992	587	379	3,550	696	3,633	7,879	7,258
Material aid	—	264	1,234	—	152	1,650	—	—	1,650	2,448
Materials and supplies	9,695	2,024	8,255	4,984	3,233	28,191	70	1	28,262	24,187
Construction, non-owned assets	4,757	1,425	3,597	3,440	8,469	21,688	—	—	21,688	18,627
Training, monitoring, and evaluation	1,319	934	5,538	4,146	1,339	13,276	6	—	13,282	11,100
Subgrants	85,142	7,264	47,993	27,797	22,406	190,602	—	—	190,602	144,020
Microfinancing activity	—	—	8,656	19	—	8,675	—	—	8,675	13,290
Depreciation	274	98	2,104	412	245	3,133	1,111	182	4,426	4,797
	$ 150,334	26,377	161,818	83,327	60,578	482,434	57,796	18,060	558,290	498,047

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, 5,400 strong, powered by the belief that a better world is possible. In more than 40 countries affected by crisis, disaster, poverty and climate change Mercy Corps works alongside communities, local governments, forward-thinking corporations and social entrepreneurs to meet urgent needs and develop long-term solutions to make lasting change possible.

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, 2021 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, 2021 or 2020.

(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, 2021, the Organization had $316,286 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 $996 and $721 of gifts in kind legal services were provided to the Organization in 2021 and 2020, 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, 2021, 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.

(Continued)

(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 $81,633 and $98,313 at June 30, 2021 and 2020, 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, 2021 and 2020 was $801 and $926, respectively. The Organization maintains segregated accounts for all gift annuities included in investments. The amounts in the accounts were $1,548 and $1,329 as of June 30, 2021 and 2020, respectively.

(k) 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 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).

(l) 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.

(m) 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 MFI programs, 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 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 institution 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.

(n) 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.

(o) 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.

(Dollars in thousands)

(p) 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.

(q) 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.

(r) 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 the Organization on July 1, 2022. The Organization is currently evaluating the extent of the anticipated impact of the adoption of ASU No. 2016-02.

(Dollars in thousands)

(s) COVID-19

The spread of coronavirus (COVID-19) around the world has caused significant volatility in U.S. and international markets. There is still 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. To date, COVID-19 has had an impact on how the Organization runs programs and accomplishes its mission, but has not had a material impact on its ability to operate.

(t) Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation to more consistently present financial information between years.

(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, 2021 consisted of the following:

		Level 1	Level 2	Total
Assets:				
Investments:				
Cash equivalents	$	2,741	—	2,741
Certificates of deposit		753	—	753
Mutual funds – money market		7,440	—	7,440
Mutual funds – equity		890	—	890
Mutual funds – fixed income		579	—	579
Mutual funds – real estate investment trust		80	—	80
Foreign government securities		—	3,580	3,580
Total investments		12,483	3,580	16,063
Derivative financial instruments:				
Foreign currency swap arrangements		—	3	3
Total	$	12,483	3,583	16,066

(Dollars in thousands)

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 – money market		7,583	—	7,583
Mutual funds – equity		742	—	742
Mutual funds – fixed income		574	—	574
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

The Organization had no Level 3 assets or liabilities measured at fair value at June 30, 2021 or 2020.

(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, 2021 and 2020:

		2021	2020
Kyrgyzstan	$	101,415	103,167
United States		413	450
Gross loans		101,828	103,617
Less loan loss reserves		(3,883)	(5,228)
Microfinance loans receivable, net	$	97,945	98,389

(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, 2021 and 2020 are presented as follows:

		2021	2020
Loan loss reserve, beginning	$	(5,228)	(3,080)
Adjustments to reserve		659	(2,682)
Writeoff		686	533
Recovery		—	1
Loan loss reserve, ending	$	(3,883)	(5,228)

The reserves noted above can be attributed to loans that are current or past due as follows at June 30, 2021:

		Current	Past due	Total
Microfinance loans receivable	$	96,791	5,037	101,828
Less loan loss reserves		(1,616)	(2,267)	(3,883)
Microfinance loans receivable, net	$	95,175	2,770	97,945

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

(Continued)

(Dollars in thousands)

(5) Property and Equipment

		2021	2020
Land	$	2,534	3,787
Buildings and leasehold improvements		39,994	42,119
Vehicles		14,463	13,892
Furniture, fixtures, and equipment		12,911	12,944
		69,902	72,742
Less accumulated depreciation and amortization		(37,329)	(35,712)
	$	32,573	37,030

(6) Program-Related Investments

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

		2021	2020
MiCRO – SCC	$	230	215
MEVCF		232	245
MCDH		2,560	1,387
	$	3,022	1,847

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, 2021 and 2020, Mercy Corps Global owned 18.8% and 21.3% of the shares in MiCRO, respectively. Mercy Corps Global reports the investment in MiCRO-SCC on an equity basis.

In fiscal year 2011, Mercy Corps Global 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, 2021 and 2020, Mercy Corps Global 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, 2021, MCDH had $1,897 in equity investments and $663 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.

(Dollars in thousands)

Mercy Corps Global 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

The Organization has debt of $7,527 outstanding from US Bank for the mortgage on the building in Portland. The Organization received $7,612 in funding from The Small Business Administration's (SBA) Payment Protection Program (PPP) on April 23, 2020. The Organization received a letter from the SBA stating the debt and interest was forgiven in full on June 16, 2021.

At June 30, debt consisted of the following:

		2021	2020
US Bank, N.A.	$	7,527	7,815
Loan Payable PPP – USBNA		—	7,612
Total	$	7,527	15,427

The US Bank debt is the only debt outstanding on June 30, 2021 and the remaining balance matures and is due on June 30, 2022.

2021 Line of Credit

Mercy Corps Global 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, 2022. Mercy Corps Global drew $4,000 from the credit line in March 2020 to assure liquidity through the first days of the pandemic lockdown and repaid the $4,000 in July, 2020. There are no outstanding borrowings at June 30, 2021. The line of credit contains certain restrictive covenants.

2015 Tax Exempt Bonds

On June 25, 2015 Mercy Corps Global, 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, 2021 and 2020 is consistent with the debt held by US Bank and is $7,527 and $7,815, respectively. The bond will mature and is due on June 30, 2022.

(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.

(Dollars in thousands)

Microfinancing debt maturities as of June 30, 2021 were as follows:

	Kompanion	MCG	Total
Year ended:			
2022	$ 11,584	86	11,670
2023	6,085	30	6,115
2024	906	—	906
2025	109	—	109
2026	109	—	109
Thereafter	1,743	—	1,743
Total	$ 20,536	116	20,652

Interest rates of subsidiary microfinancing borrowings at June 30, 2021 are as follows:

Subsidiary	Lender	Interest rates	Due date	Balance
Mercy Corps Global	SBA	0.875% – 1.875%	2022-2023	$ 116
Kompanion	EBRD	7.99 – 13.06%	2021-2023	4,592
Kompanion	FMO	14.28 %	2023	3,000
Kompanion	Triplejump	10.25% – 10.95%	2021-2022	3,692
Kompanion	Global Impact	6.00 %	2023	2,001
Kompanion	MinFln	8.00	2033	1,310
Kompanion	Triodos	12.60	2021	2,939
Kompanion	NBKR	5.00	2022	1,678
Kompanion	Russian-Kyrgyz Development Fund	6.00% – 8.00%	2021-2023	347
Kompanion	State Mortgage Co	2.00% – 4.00%	2032	977
				$ 20,652

The above debt includes no subordinated debts at June 30, 2021 and $827 at June 30, 2020. This subordinated debt is subordinate to all other debt of the individual subsidiary. The subordinated debt matured in September, 2020.

(Dollars in thousands)

(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, 2021 the Organization had access to an additional $6,000 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, 2021		Mercy Corps Global	Affiliated Entities	Mercy Corps and Affiliates
Cash and cash equivalents	$	86,245	77,244	163,489
Investments		12,482	3,584	16,066
Grants and accounts receivable		32,020	35,222	67,242
Microfinance loans receivable		291	97,654	97,945
Total		131,038	213,704	344,742
Less financial assets limited to use:				
Donor cash received to be used for programs (Deferred Revenue)		46,123	33,023	79,146
Split interest agreements		1,548	—	1,548
Investments		—	3	3
Microfinance loans receivable		291	97,654	97,945
Total financial assets limited to use		47,962	130,680	178,642
Financial assets available for general and administrative expenditure	$	83,076	83,024	166,100

(Dollars in thousands)

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	2,186	15,095
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
Investments		—	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

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.

(Dollars in thousands)

(10) Obligations under Operating Leases

The Organization leases office space, housing, and equipment under operating leases with terms in excess of one 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, 2021, the Organization's aggregate minimum annual operating lease commitments are as follows:

Due		
FY22	$	2,475
FY23		1,623
FY24		1,450
FY25		1,280
FY26		1,223
Thereafter		6,203
Total	$	14,254

Total rent expense was $4,356 and $5,617 for the fiscal years ended June 30, 2021 and 2020, 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, 2021 and 2020, the Organization had total accrued contingent liabilities of $3,083 and $2,894, 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

Mercy Corps Global 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 contributions were reinstated at January 1, 2021. The Organization's contributions to the plan for the years ended June 30, 2021 and 2020 amounted to $982 and $1,381, respectively.

Mercy Corps Global 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, 2021 and 2020 amounted to $361 and $487, respectively. At June 30, 2021 and 2020, the Organization had total amounts to be paid out for this plan of $2,223 and $2,227, respectively.

Mercy Corps Europe contributes to defined-contribution pension plans on behalf of employees. The employer contribution to these plans was also suspended starting July 1, 2020 and reinstated January 1, 2021. 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 $205 and $172 for the years ended June 30, 2021 and 2020, 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.

(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 18.3% and 15.6% of the total cash balance in the Organization's foreign locations, as of June 30, 2021 and 2020, respectively. Of the cash held in foreign locations, 45.9% and 52.4% was held by the Organization's subsidiary entities involved in microfinance activities, as of June 30, 2021 and 2020, respectively.

(14) Subsidiary Entities

The Organization is required to consolidate certain entities under the guidance of FASB ASC Topic 810, *Consolidation*. However, Mercy Corps Global 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.

The Organization 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, 2021:

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, 2020 and 2021.

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 $2,857 and $1,650 as of June 30, 2021 and 2020, respectively.

(15) Subsequent Events

The Organization has performed an evaluation of subsequent events through November 2, 2021, which is the date the consolidated financial statements were available to be issued. Subsequent to year end Mercy Corps acquired Energy 4 Impact through a transfer agreement which transferred all membership interests from the Directors of Energy 4 Impact to Mercy Corps on September 30, 2021. Energy 4 Impact seeks to reduce poverty by accelerating access to clean energy, helping businesses and communities make better use of that expanded access, and working with the private sector to support the sustainability of these efforts.

(Continued)

The following schedules I and II are a presentation of the financial position and activities and changes in net assets for Mercy Corps Global 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, 2021 and 2020.

Schedule I

MERCY CORPS GLOBAL

Supplemental Schedule – Mercy Corps Schedule of Financial Position

Year ended June 30, 2021
(With comparative financial information as of June 30, 2020)

(In thousands)

Assets		**2021**	**2020**
Cash and cash equivalents	$	86,246	86,397
Investments		12,482	12,909
Grants and accounts receivable		32,020	32,243
Microfinancing loans receivable, net		291	329
Due from unconsolidated affiliates, net		19,510	12,086
Inventories and material aid		207	960
Prepaid expenses, deposits, and other assets		6,732	4,783
Program-related investments		17,383	16,272
Property and equipment, net		26,957	30,045
Total assets	$	201,828	196,024
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued liabilities	$	61,261	50,485
Line of credit		—	4,000
Deferred revenue		46,123	46,495
Debt for microfinancing activities		116	201
Long-term debt		7,527	15,427
Total liabilities		115,027	116,608
Net assets:			
Without donor restrictions		77,361	68,701
With donor restrictions		9,440	10,715
Total net assets		86,801	79,416
Total liabilities and net assets	$	201,828	196,024

See accompanying independent auditors’ report.

Schedule II

MERCY CORPS GLOBAL

Supplemental Schedule – Mercy Corps Schedule of Activities

Year ended June 30, 2021
(With comparative financial information for the year ended June 30, 2020)

	2021			2020
	Without donor restrictions	With donor restrictions	Total	Total
Operating support and revenue:				
Public support and revenue:				
Government grants	$ 226,746	—	226,746	197,497
Material aid	1,386	—	1,386	2,301
Total public support and revenue	228,132	—	228,132	199,798
Other support and multilateral revenue:				
Other grants	75,904	—	75,904	75,912
Contributions	28,282	8,606	36,888	44,187
Gifts in kind	1,335	—	1,335	1,036
Bequests	3,948	—	3,948	1,655
Total other support and multilateral revenue	109,469	8,606	118,075	122,790
Other revenue:				
Interest income	69	—	69	531
Other revenue	3,922	45	3,967	2,088
Total other revenue	3,991	45	4,036	2,619
Net assets released from restriction	9,926	(9,926)	—	—
Total operating support and revenue	351,518	(1,275)	350,243	325,207
Operating expenses:				
Program services:				
Humanitarian assistance – relief	100,557	—	100,557	77,981
Humanitarian assistance – recovery	26,377	—	26,377	41,354
Livelihood/economic development	85,074	—	85,074	67,484
Civil society and education	34,036	—	34,036	36,874
Health	36,522	—	36,522	31,256
Total program services	282,566	—	282,566	254,949
Supporting services:				
General and administrative	50,754	—	50,754	49,870
Resource development	17,033	—	17,033	15,443
Total supporting services	67,787	—	67,787	65,313
Total operating expenses	350,353	—	350,353	320,262
Change in net assets from operations	1,165	(1,275)	(110)	4,945
Nonoperating revenue (expenses), net:				
Foreign currency exchange loss, net	(512)	—	(512)	(892)
Realized and unrealized gain (loss) investments, net	395	—	395	(282)
Gain on extinguishment of debt	7,612	—	7,612	—
Total nonoperating revenue (expenses), net	7,495	—	7,495	(1,174)
Change in net assets	8,660	(1,275)	7,385	3,771
Net assets at beginning of year	68,701	10,715	79,416	75,645
Net assets at end of year	$ 77,361	9,440	86,801	79,416

See accompanying independent auditors' report.