

Mercy Corps Netherlands

DRAFT Financial Statements

Comprising Balance Sheet, Statement of Income & Expenses and Notes

For year ended 30 June 2019

Draft Balance Sheet as at 30 June 2019

(after proposed appropriation of result)

		30 June 2019		Adjusted	
		EUR	EUR	30 June 2018	EUR
				EUR	EUR
Receivables	1	258,143			635,029
Cash and cash equivalents	2	1,702,744			21,975
Total assets		1,960,887			657,004
Reserves					
General reserve					
	3	1,444,681		83,002	
Short-term liabilities	4	516,206		574,002	
Total liabilities		1,960,887			657,004

Draft Statement of Income and Expenses for the Year 2019

		2019 EUR	Adjusted 2018 EUR
Income			
Corporate Foundations & Trusts	5	401,744	693,127
Government grants	6	27,758	2,500
Associated parties	7	1,706,355	-
Total fundraising income		2,135,857	695,627
Sum of income		2,135,857	695,627
EXPENSES ON OBJECTIVES			
Project expenses	8	391,932	602,720
Policy and advocacy		37,364	
Strategy and programmes		4,813	
Sum of expenses on objectives			
FUNDRAISING EXPENSES	9	40,625	
MANAGEMENT AND ADMINISTRATION EXPENSES	10	297,459	22,958
Sum of expenses		772,193	625,678
Sum before financial income/costs		1,363,664	69,949
Financial gain/(loss)	12	(1,985)	13,053
Net income		1,361,679	83,002

Due to the early nature of the organisation, no formal budget procedures were in place for FY19

Appropriation of the Result for the Year 2019

	2019 EUR	2018 EUR
Addition to (withdrawal from):		
— General reserve	1,361,679	83,002
Total change in reserves and funds	1,361,679	83,002

The notes to the balance sheet provide further information about the composition of reserves and funds.

Notes to the draft annual accounts

General

These are the draft annual accounts of Mercy Corps Netherlands. Mercy Corps Netherlands (MCNL) is registered in The Hague, Netherlands as an Association under the Dutch Trade number 70333564 and came into operation on 19 December 2017. MCNL is registered in The Netherlands and recognised as an ANBI (Algemeen Nut Beogende Instelling) by the Dutch tax authorities. MCNL is located in The Hague at The Humanity Hub, Fluwelen Burgwal 58, 2511 CJ The Hague.

MCNL was established as an independent, non-profit association and operates in collaboration with its affiliate organisation, Mercy Corps Europe (MCE) and Mercy Corps Global (MCG) as one global organisation. All three entities share the same mission, vision, core values and charitable objectives. The relationship between MCNL and MCE is governed by a Governance Agreement and Memorandum of Understanding that also includes MCG and which covers matters relating to programmes, funding, governance, intellectual property and other legal affairs. MCNL is an affiliated entity and is consolidated into MCE.

The activities of MCNL consist mainly of providing of international development (aid) and economic opportunities for the needs of the poor around the world with a special attention of supporting the countries in development, refugees and hunger. MCNL deliver this through local country offices operating projects and programmes in country.

MCNL believes that secure, productive and just communities emerge and endure when the private, public and civil society sectors interact with accountability, inclusive participation and mechanisms for peaceful change.

Basis of preparation

The draft annual accounts 2019 are dated 30 June, 2019. The draft annual accounts have been prepared primarily in accordance with the Guideline RJ650 in combination with other applicable RJ for providing the required insight, which applies to Dutch fundraising organisations. The accounting policies have been consistently applied to all the years presented.

The valuation of assets and liabilities and of income and expenses is based on historical cost, unless otherwise stated in the further accounting principles.

The draft financial statements of MCNL have been prepared on the basis of the going concern assumption

Financial reporting period

MCNL financial year runs from 1 July 2018 to 30 June 2019.

Accounting policies for the measurement of assets and liabilities and the determination of the result

General

Unless stated otherwise, assets and liabilities are shown at historical costs.

An asset is recognized in the balance sheet when it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. Assets that are not recognised in the balance sheet are considered as off-balance sheet assets. A liability is recognised in the balance sheet when it is expected to result in an outflow from the entity of resources embodying economic benefits and the amount of the obligation can be measured with sufficient reliability. Liabilities that are not recognised in the balance sheet are considered as off-balance sheet liabilities.

Income is recognised in the statement of income and expenses when an increase in future economic potential related to an increase in an asset or a decrease of a liability has arisen, the size of which can be measured reliably. Expenses are recognised when a decrease in the economic potential related to a decrease in an asset or an increase of a liability has arisen, the size of which can be measured with sufficient reliability.

An asset or liability that is recognised in the balance sheet, remains recognised on the balance sheet if a transaction (with respect to the asset or liability) does not lead to a major change in the economic reality with respect to the asset or liability. Such transactions will not result in the recognition of results. When assessing whether there is a significant change in the economic circumstances, the economic benefits and risks that are likely to occur in practice are taken into account. The benefits and risks that are not reasonably expected to occur, are not taken into account in this assessment.

An asset or liability is no longer recognised in the balance sheet, and thus derecognised, when a transaction results in all or substantially all rights to economic benefits and all or substantially all of the risks related to the asset or liability are transferred to a third party. In such cases, the results of the transaction are directly recognised in the statement of income and expenses, taking into account any provisions related to the transaction.

If assets are recognised of which MCNL does not have the legal ownership, this fact is being disclosed.

Income and expenses are allocated to the respective period to which they relate.

Functional and presentation currency

The financial statements of the legal entity are presented in euros, which is the functional and presentation currency of MCNL.

Transactions in foreign currencies

At initial recognition, transactions denominated in a foreign currency are translated into euros, the functional currency of MCNL, at the exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated at the balance sheet date into euros at the exchange rate of that date. Exchange differences resulting from the settlement of monetary items, or resulting from the translation of monetary items denominated in foreign currency, are recognised in the statement of income and expenses in the period in which the exchange difference arises.

Non-monetary assets and liabilities denominated in foreign currency that are measured based on historical cost, are translated into euros at the exchange rates at the date of the transactions.

Cash and cash equivalents

Cash and cash equivalents include cash-in-hand, bank balances. Cash and cash equivalents are stated at nominal value. If cash and cash equivalents are not readily available, this fact is taken into account in the measurement.

Cash and cash equivalents denominated in foreign currencies are translated at the balance sheet date in euros at the exchange rate ruling at that date. Reference is made to the accounting policies for foreign currencies.

Reserves and funds

The additions to and the withdrawals from the reserves and funds take place from the appropriation of results. The general fund is an unrestricted fund which is available for use, at the discretion of the directors, in furtherance of the general objectives of the charity and which has not been designated for other purposes.

Earmarked reserves

Earmarked reserves are reserves to which the Board of directors of the organisation have made a more limited spending option than would exist on the basis of the articles of association.

Financial instruments

These financial statements contain the following financial instruments: other receivables, cash items, trade payables and other amounts payable. Financial assets and liabilities are recognised in the balance sheet at the moment that the contractual risks or rewards with respect to that financial instrument originate.

Financial instruments are derecognised if a transaction results in a considerable part of the contractual risks or rewards with respect to that financial instrument being transferred to a third party. Financial instruments are initially measured at fair value, including discount or premium and directly attributable transaction costs. After initial recognition, financial instruments are valued in the manner described below.

Non-current and current liabilities and other financial commitments

Non-current and current liabilities and other financial commitments are measured after their initial recognition at amortised cost on the basis of the effective interest rate method. The effective interest is directly recorded in the statement of income and expenses.

Redemption payments regarding non-current liabilities that are due next year, are presented under current liabilities.

Income recognition

Income

Income is recognised in the period in which there is legal entitlement, any performance conditions attached to the income have been met, the amount can be quantified with reasonable accuracy and there is probability of receipt.

Income is shown within three main categories in the Statement of Income and Expenses: Corporate foundations & trusts, government grants and associated parties.

Revenue donations

Unrestricted donations are accounted for as income in the earliest reporting period that they were received or committed to.

Income from companies or government grants

This comprises grants and contracts which are recognised using the performance model. Funds are recognised as income from charitable activities once there is entitlement, reasonable probability of receipt and the amount can be measured with sufficient reliability. Many projects are funded on the basis of claims made for actual expenditure incurred and are subject to post-project operational and financial reports. There remains the possibility that certain expenditure may be disallowed, and all income may not be spent.

Where grant funding is received in advance of MCNL meeting any performance-related conditions, receipts are credited to deferred income until such times as those conditions have been met. The donors have the right to repayment of disallowed expenditure and/or unused funds. Consequently, such income remains deferred until used or repaid, rather than being treated as unspent funds.

Interest income

Interest income is recognised in the statement of income and expenses on an accrual basis, using the effective interest rate method.

Expenses

Wherever possible, expenses are attributed to the expenditure on management and administration or to the objective directly. Where this is not possible, staff costs are apportioned among the functions to which they relate on the basis of estimated time allocation, and other indirect costs are allocated based on the FTE.

Leasing

MCNL may enter into finance and operating leases. A lease agreement under which the risks and rewards of ownership of the leased object are carried entirely or almost entirely by the lessee are classified as

finance leases. All other leases are classified as operating leases. For the lease classification, the economic substance of the transaction is conclusive rather than the legal form.

At inception of an arrangement, MCNL assesses whether the lease classifies as a finance or operating lease.

Operating leases

If MCNL acts as lessee in an operating lease, the leased property is not capitalised. Benefits received as an incentive to enter into an agreement are recognised as a reduction of rental expense over the lease term. Lease payments and benefits regarding operating leases are recognised to the statement of income and expenses on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern of the benefits from the use of the leased asset.

Employee benefits

Salaries, wages and social security contributions are taken to the statement of income and expenses based on the terms of employment, when they are due to employees.

MCNL do not currently have a pension or healthcare provider in place therefore pay a stipend to each employee towards this.

Determination of fair value

The fair value of a financial instrument is the amount for which an asset can be sold or a liability settled, involving parties who are well informed regarding the matter, willing to enter into a transaction and are independent from each other.

Related parties

MCNL, MCE and MCG work closely together under two Memorandums of Understanding. In some instances, organisations will pool administrative and technical resources for the benefit of their respective projects. In such cases a re-charge of the actual costs incurred will be made between MCNL, MCE and MCG.

Related party transactions include any income or expenditure made or received by MCNL on behalf of MCG or MCE.

Direct expenditure by field offices and / or MCG on MCNL programmatic activity is not treated as related party expenditure.

Fixed assets

Tangible fixed assets are recognised in the balance sheet when it is probable that the expected future economic benefits that are attributable to the asset will flow to the Company and the cost of that asset can be measured reliably. Donated fixed assets are included at fair market value having regard to the age and condition of the assets concerned. All assets financed by donor funding for specific projects are written off at the time of purchase through the statement of financial activities because in the majority of cases the projects are of limited duration and at the end of which the assets can be donated to the ongoing project. Therefore, such assets have not been incorporated in the balance sheet.

Subsequent events

Events that provide further information on the actual situation at the balance sheet date and that appear before the financial statements are being prepared, are recognised in the financial statements.

Events that provide no information on the actual situation at the balance sheet date are not recognised in the financial statements. When those events are relevant for the economic decisions of users of the financial statements, the nature and the estimated financial effects of the events are disclosed in the financial statements.

Correction of errors

After adoption of the 2018 financial statements, a material error was identified. As per 30 June 2018 a number of expenses relating to 2018 but recorded in 2019, along with corresponding income were reclassified. An FX gain potentially due to be repaid to the donor was reclassified. The impact on Total reserves is EUR €53k as per 30 June 2018. The comparative figures for the year 2018 have been restated.

A complete overview of the impact on the financial position in the balance sheet and the Statement of Income and expenditure can be specified as follows:

(30 June 2018; EUR x1,000)

	Impact of correction of error		
	As previously reported	Adjustment	As restated
<u>Balance sheet</u>			
Receivables	514	121	635
Cash and cash equivalents	22	-	22
Total assets	536	121	657
Short term liabilities	400	174	574
Total liabilities	400	174	574
Total reserves per 30 June 2018	136	(53)	83
<u>Statement of income and expenditure</u>			
INCOME			
Corporate Foundations & Trust	688	5	693
Government grants	20	(17)	3
Sum of Income	708	13	696
EXPENSES ON OBJECTIVES			
Project expenses	598	5	603
Management and administration expenses	8	15	23
Sum of Expenses	606	20	626
Sum before financial income / costs	102	32	70
Financial gain / (loss)	34	(21)	13
Net income	136	53	83

Notes to the draft balance sheet

1 Receivables

	30 June 2019 EUR	30 June 2018 EUR
Receivable from donors	1,737	-
Interagency receivables – MCG	246,650	635,029
Other receivables	9,756	-
Receivables	258,143	635,029

All receivables are expected to be received within one year and relate to our day to day operations.

A provision for doubtful receivables is deemed unnecessary and therefore no provision is recognised for this year (2018: EUR 0).

Receivable from donors relates to funds due from donors for projects in which expenses have already been paid by MCNL as at 30 June 2019.

Interagency receivables relate to MCG. There is not an agreement about the redemption and interest of the interagency.

Other receivables include, for example, prepayments and advances to employees.

The carrying values of the recognised receivables approximate their respective fair values, given the short maturities of the positions and the fact that allowances for doubtful debts have been recognised, if necessary.

Specification of receivables from donors

Receivables from donors relate to projects that have been implemented by MCNL, for which the funds from donors are committed in a grant contract but had not yet been received on the balance sheet date. The funds are expected to be received within one year. The amount receivable from donors at the balance sheet date can be broken down as follows.

	30 June 2019 EUR	30 June 2018 EUR
Dubai Cares	1,737	-
Receivable from donors	1,737	-

2 Cash and cash equivalents

	30 June 2019 EUR	30 June 2018 EUR
Cash and cash equivalents in the Netherlands	1,702,744	21,975
	1,702,744	21,975

The balance of cash and cash equivalents is readily available to MCNL.

3 Reserves

	1 July 2018 EUR	Additions EUR	Withdrawals EUR	30 June 2019 EUR
General reserve	83,002	2,135,857	(774,178)	1,444,681
Total reserves	83,002	2,135,857	(774,178)	1,444,681

No additional reserves have been set up within MCNL.

4 Short-term liabilities

	30 June 2019 EUR	30 June 2018 EUR
Grants received in advance	138,668	391,521
Payables to related parties	2,855	-
Payables to personnel – employee expenses	1,645	-
Audit fee	165,535	6,000
Other liabilities	3,841	17,318
Employee holiday allowance accrual	7,575	-
Hague Municipality	2,500	17,500
Payable to donor	193,587	141,663
Short-term liabilities	516,206	574,002

All short-term liabilities are due within one year.

Grants received in advance relates to project income received in advance, or the balance of income held for projects, which performance related conditions have not been met.

Payables to related parties with MCNL are the intercompany balance representing funds owed by the charity to MCE and MCG for funding advances to the charity's projects and in respect of the settlement of expenditure.

The carrying values of the recognised liabilities approximate their respective fair values, given the short maturities of the positions.

Financial risks and financial instruments

During its normal operations, MCNL is exposed to currency, interest, cash flow, credit and liquidity risks. To control these risks, MCNL has instituted policies and procedures that are intended to limit the risks of unpredictable adverse developments in the financial markets and thus for the ability of MCNL to fulfil its objectives.

MCNL does not apply nor trade in financial derivatives, such as interest rate swaps, forward exchange contracts or options to control its risks. Its main risk mitigation measures are described below. Any risk relating to liquidity is mitigated through strong project budgeting and cash flow monitoring.

The charity only has financial assets and financial liabilities of a kind that qualify as basic financial instruments.

Credit risk

The probability and impact of financial loss to MCNL due to a bank going bankrupt is mitigated by strict bank assessment procedures when opening a bank account.

The probability and impact of financial loss to MCNL due to the amount of outstanding receivables and concentrations of credit risk is considered low due to the status and reputation of the debtors the organisation engages with and their ability to honour any debts.

Foreign exchange rate risk

MCNL is exposed to currency risk on project obligations that are denominated in a currency other than the contractual currency of the grant contract that relates to such a project. The currencies in which these project obligations primarily are denominated are EUR and USD. The currencies in which MCNL donor grant contracts are denominated are primarily EUR and USD. MCNL policy is to denominate its contractual obligations as often as possible in the same currency as the donor's currency and to hold bank balances in the donor currency, so that the real exchange rate is closest to the reporting exchange rate. MCG often meet project expenditure on behalf of MCNL resulting in an intercompany balance. FX balances often result due to the nature of underlying project expenditure in local currency, reporting in donor currency and intercompany repayment in USD. MCNL does not hedge with any derivative instruments its estimated foreign currency exposure in respect of forecasted purchases over a future period.

Off-balance sheet obligations and rights

MCNL off-balance sheet obligations and rights are as follows and are further explained in the text below the table.

	Total	Due in	Due in	Due after
	EUR	1 year	1-5 years	5 years
		EUR	EUR	EUR
Office facility rental	5,808	5,808	-	-
Off-balance sheet obligations	5,808	5,808	-	-

Notes to the draft statement of income and expenses

5 Fundraising income from Corporate Foundations & Trusts

Restricted income from companies.

	2019 EUR	2018 EUR
Other companies – grant income	401,744	693,127
Total income businesses	401,744	693,127

Grant income is of a restricted nature and received for the purpose of delivering grant and project activities in line with MCNL's objectives. Income is recognised in compliance with grant conditions using the performance model and on the basis of claims made for actual expenditure incurred.

6 Fundraising Income from government grants

Income from governments includes income from individual governments, as well as from governmental bodies and from organisations that receive the vast majority of their funding from governments. All MCNL income from governments is incidental, although part of the income is related to multiyear grants. All grants have an end date and are recognised in the period to which they are entitled.

The Municipality of The Hague grant is from May 1st 2018 for 3 years and is for a financial contribution of €45,000 in total for setting up an office in The Hague and further development of the organisation. The grant is recognised in line with the award instalments relating to the date of the agreement for the period in which it relates.

The Dutch Government grant is from 1 November 2018 for 2 years to 31 October 2020 for €200,000 to deliver a project in Myanmar. In line with the agreement the income is recognised in line with the expenditure made to deliver the grant.

	2019 EUR	2018 EUR
Municipality of The Hague	15,000	2,500
Dutch Government	12,758	-
Total income from governments	27,758	2,500

7 Fundraising income from other organisations

The income from other organisations includes income from an associated entity and is unrestricted.

In 2019 MCNL received an unrestricted donation from MCE.

	2019 EUR	2018 EUR
Fundraising income – MCE	1,680,000	-
Recharged personnel cost – MCG	26,355	-
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	1,706,355	-
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8 Expenses on objectives

Expenses towards project, policy and advocacy and strategy and programmes are costs related to the implementation of MCNL programmatic activities. MCNL implements its projects itself as well as by partner organisations. Costs of project activities include expenses such as cash distributions, staff costs, materials purchased, location rent, transport costs and office expenses. Costs of policy and advocacy and strategy and programmes include costs of office and personnel.

	2019 EUR	2018 EUR
Project activity expenses	391,932	602,720
Policy and advocacy	37,364	-
Strategy and programmes	4,813	-
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	434,109	602,720
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9 Expenses on fundraising

Expenses on fundraising includes costs of personnel, office and travel spent on fundraising activities.

	2019 EUR	2018 EUR
Expenses on fundraising	40,625	-
	<hr/>	<hr/>
	40,625	-
	<hr/>	<hr/>

10 Management & admin

Management and admin includes the costs of office, audit fees, legal fees and personnel.

	2019 EUR	2018 EUR
Management & administration	297,459	22,958
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	297,459	22,958
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11 Personnel costs

MCNL total personnel expenses are specified below. The category other personnel expenses includes costs for commuting transport, insurance and training.

Average number of FTE 3 (2018: 0).

	2019 EUR	2018 EUR
Gross wages and salaries	146,426	-
Pensions	11,600	-
Social security	16,437	-
Other personnel expenses	12,356	-
	<hr/>	<hr/>
Total personnel expenses	186,819	-
	<hr/>	<hr/>

12 Financial gains/losses

	2019 EUR	2018 EUR
Exchange rate differences	(1,985)	13,053
	<hr/>	<hr/>
Financial gain/(loss)	(1,985)	13,053
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Draft Attribution of expenses

	Expenses on objectives					Total expenses
	<i>Project activities</i>	<i>Policy and advocacy</i>	<i>Strategy and programmes</i>	Fundraising	Management & Admin	
	EUR	EUR	EUR	EUR	EUR	EUR
Cash Distributions	144,391	-	-	-	-	144,391
Procurement	92,875	-	-	-	-	92,875
Outsourcing	14,134	-	-	-	215,552	142,755
Staff	122,808	32,302	3,854	36,088	74,094	356,077
Travel expenses	-	2,313	851	3,592	5,443	12,199
Housing	3,888	-	-	-	-	3,888
Office costs	8,256	3,652	143	1,255	3,224	16,530
General costs	5,580	(903)	(35)	(310)	(854)	3,478
Total	391,932	37,364	4,813	40,625	297,459	772,193

The above clarification of the attribution of expenses towards expense categories is in accordance with Annex 3 of the accounting guideline RJ650.

All costs associated with delivering grant programmes are allocated to Expenses on objectives. All office support costs are presented under Management & Admin. All fundraising expenses are presented under Expenses on fundraising.

Project expenditure costs include cash transfers to beneficiaries on humanitarian programmes.

Procurement costs include the cost of materials and supplies on capacity building programmes.

Outsourcing costs relate to the cost of contracted services for external consultants and legal fees.

Staff costs include salary, social security, pension, insurance and travel costs associated to personnel.

Housing costs include contributions to accommodation for staff working on field programmes.

Office costs include utilities, printing, postage and stationery.

General costs include vehicle rent & repairs, storage costs, memberships and bank charges

Remuneration of Directors

Marina Antunovic EUR
Director
Period of employment : 01.10.2018 – 30.06.2019

Duration	
Hours/week	40
Annual income	
Gross salary	67,835
Holiday allowance	5,426
Total director remuneration	73,260
Taxable allowances	3,600
Social Security	7,602
Total remuneration and benefits 2019	84,462
Total remuneration and benefits 2018	-

Simon O'Connell EUR
Executive Director
Period of directorship : 01.07.2018 – 30.06.2019

Duration	
Hours/week	15
Annual income	
Gross salary	-
Holiday allowance	-
Total director remuneration	-
Taxable allowances	-
Social Security	-
Total remuneration and benefits 2019	-
Total remuneration and benefits 2018	-

Simon O'Connell is Executive Director for MCE and MCNL and his salary is fully paid for by MCE and not recharged to MCNL.

No loans, advances or guarantees were given to MCNL directors.

Remuneration Board members

No remuneration is offered to Board members and no loans, advances or guarantees existed in 2019. In 2019, no expenses were incurred for Board members.