

Consolidated Financial Statements and
Report of Independent Certified Public
Accountants

Mercy Corps and Affiliates

June 30, 2024, and 2023

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Mercy Corps and Affiliates

Opinion

We have audited the consolidated financial statements of Mercy Corps and Affiliates (the "Organization"), which comprise the consolidated Statement of financial position as of June 30, 2024, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 2024, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for opinion

We conducted our audit of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for one year after the date the financial statements are issued.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on 2023 summarized comparative information

We have previously audited the Organization's 2023 consolidated financial statements (not presented herein), and we expressed an unmodified audit report on those audited consolidated financial statements in our report dated January 24, 2024. In our opinion, the accompanying summarized comparative information as of and for the year ended June 30, 2023 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Grant Thornton LLP

Mercy Corps and Affiliates

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

**June 30,
(in thousands)**

	2024	2023
ASSETS		
Cash and cash equivalents	\$ 252,664	\$ 215,699
Investments	10,444	12,649
Grants and accounts receivable, net	95,874	103,587
Microfinance loans receivable, net	194,313	147,857
Inventories and material aid	2,464	44
Prepaid expenses, deposits, and other assets	11,366	12,171
Program-related investments, net	7,331	5,695
Property and equipment, net	32,729	31,883
Right-of-use assets	15,019	14,204
	<u>\$ 622,204</u>	<u>\$ 543,789</u>
Total assets	<u>\$ 622,204</u>	<u>\$ 543,789</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued liabilities	\$ 79,336	\$ 94,827
Deferred revenue	167,907	115,398
Customer deposits for microfinance activities	167,023	123,455
Debt for microfinancing activities	21,683	12,852
Lease liabilities	13,529	11,641
Long-term debt, net	4,588	4,779
	<u>454,066</u>	<u>362,952</u>
Total liabilities	<u>454,066</u>	<u>362,952</u>
Net assets		
Without donor restrictions		
Controlling interests	131,549	138,872
Noncontrolling interests	18,533	16,035
	<u>150,082</u>	<u>154,907</u>
Total without donor restrictions	<u>150,082</u>	<u>154,907</u>
With donor restrictions	18,056	25,930
	<u>18,056</u>	<u>25,930</u>
Total net assets	<u>168,138</u>	<u>180,837</u>
Total liabilities and net assets	<u>\$ 622,204</u>	<u>\$ 543,789</u>

The accompanying notes are an integral part of these consolidated financial statements.

Mercy Corps and Affiliates

CONSOLIDATED STATEMENT OF ACTIVITIES

June 30, 2024
(with summarized financial information for the year ended June 30, 2023)
(in thousands)

	2024			2023 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
Operating support and revenue				
Public support and revenue				
Government grants	\$ 427,577	\$ -	\$ 427,577	\$ 493,438
Material aid	2,738	-	2,738	1,184
Total public support and revenue	430,315	-	430,315	494,622
Other support and multilateral revenue				
Other grants	128,463	-	128,463	105,146
Contributions	31,395	8,341	39,736	43,923
Gifts in kind	1,641	-	1,641	1,894
Bequests	2,912	-	2,912	2,434
Total other support and multilateral revenue	164,411	8,341	172,752	153,397
Other revenue				
Interest income	55,213	-	55,213	38,270
Other revenue	1,773	14	1,787	328
Total other revenue	56,986	14	57,000	38,598
Net assets released from donor restrictions	14,700	(14,700)	-	-
Total operating support and revenue	666,412	(6,345)	660,067	686,617
Operating expenses				
Program services				
Humanitarian assistance – relief	150,853	-	150,853	203,707
Humanitarian assistance – recovery	30,797	-	30,797	42,340
Livelihood/economic development	228,177	-	228,177	197,702
Civil society and education	89,688	-	89,688	94,679
Health	52,722	-	52,722	45,567
Total program services	552,237	-	552,237	583,995
Supporting services				
General and administrative	96,716	-	96,716	78,089
Resource development	22,293	-	22,293	18,489
Total supporting services	119,009	-	119,009	96,578
Total operating expenses	671,246	-	671,246	680,573
Change in net assets from operations	(4,834)	(6,345)	(11,179)	6,044
Non-operating gains and losses, net				
Foreign currency exchange loss, net	(315)	-	(315)	(2,025)
Realized and unrealized gain on investments, net	1,293	-	1,293	1,363
(Loss) gain on swap agreements	(31)	-	(31)	223
Total non-operating gains and losses, net	947	-	947	(439)
Change in net assets before other interests	(3,887)	(6,345)	(10,232)	5,605
Contributions from acquisitions	-	-	-	1,114
Discontinued operations	780	(1,529)	(749)	-
Affiliate capital activity	(1,718)	-	(1,718)	(2,988)
CHANGE IN NET ASSETS	(4,825)	(7,874)	(12,699)	3,731
Net assets at beginning of year	154,907	25,930	180,837	177,106
Net assets at end of year	\$ 150,082	\$ 18,056	\$ 168,138	\$ 180,837

The accompanying notes are an integral part of this consolidated financial statement.

Mercy Corps and Affiliates

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30,
(in thousands)

	2024	2023
Cash flows from operating activities:		
Changes in net assets	\$ (12,699)	\$ 3,731
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	6,032	5,019
Allowance for expected credit losses	(897)	18
Net realized and unrealized gains on investments	(1,293)	(1,363)
Unrealized loss on foreign exchange arrangements and financial instruments	315	2,025
Effects of currency translation on cash and cash equivalents	(2,211)	10,842
Non-cash contribution from acquisitions	-	(1,114)
Discontinued operations	(749)	-
Changes in assets and liabilities:		
Grants and accounts receivable	6,400	(19,972)
Inventories	(2,420)	767
Prepaid expenses, deposits, and other assets	995	(99)
Right-of-use assets	(810)	(14,209)
Customer deposits for microfinance activities	43,663	21,439
Accounts payable and accrued liabilities	(12,812)	24,308
Deferred revenue	52,509	23,446
Lease liabilities	1,884	11,646
	<u>77,907</u>	<u>66,484</u>
Net cash provided by operating activities		
Cash flows from investing activities:		
Cash acquired from acquisitions	-	1,505
Acquisition of investments and derivatives	(12,965)	(3,600)
Proceeds from sale of investments and derivatives	14,187	11,926
Proceeds from program-related investments	-	7,071
Issuances of microfinance loans	(207,129)	(156,381)
Repayments on microfinance loans	162,844	122,468
Acquisition of property and equipment	(6,916)	(6,061)
Proceeds from sale of property and equipment	180	1,374
	<u>(49,799)</u>	<u>(21,698)</u>
Net cash used in investing activities		
Cash flows from financing activities:		
Proceeds from borrowings by microfinance entities	40,677	10,692
Repayments on borrowings of microfinance entities	(31,629)	(10,996)
Repayments on long-term debt	(191)	(148)
	<u>8,857</u>	<u>(452)</u>
Net cash provided by (used in) financing activities		
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>36,965</u>	<u>44,334</u>
Cash and cash equivalents at beginning of year	<u>215,699</u>	<u>171,365</u>
Cash and cash equivalents at end of year	<u>\$ 252,664</u>	<u>\$ 215,699</u>
Supplemental disclosures:		
Interest paid during the year	<u>\$ 18,916</u>	<u>\$ 13,058</u>
Noncash contributions	<u>\$ 4,379</u>	<u>\$ 3,078</u>

The accompanying notes are an integral part of these consolidated financial statements.

Mercy Corps and Affiliates

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2024

(With summarized financial information for the year ended June 30, 2023)
(in thousands)

	Program Services					Total Program Services	Supporting Services		2024 Total Operating Expenses	2023 Total
	Humanitarian Assistance - Relief	Humanitarian Assistance - Recovery	Livelihood/ Economic Development	Civil Society and Education	Health		General and Administration	Resource Development		
Personnel	\$ 34,778	\$ 12,771	\$ 80,796	\$ 29,766	\$ 15,509	\$ 173,620	\$ 67,452	\$ 11,091	\$ 252,163	\$ 232,146
Professional services	4,029	1,556	11,109	2,345	1,665	20,704	10,142	3,266	34,112	38,575
Travel and vehicle expense	3,947	1,828	8,346	4,221	2,722	21,064	4,955	580	26,599	25,747
Office and occupancy expense	4,383	1,608	11,948	3,471	2,739	24,149	7,628	4,056	35,833	34,215
Other operating expenses	1,240	183	1,353	454	393	3,623	5,025	3,119	11,767	7,208
Material aid	-	-	1,172	-	1,567	2,739	675	-	3,414	1,841
Materials and supplies	9,703	1,593	8,358	2,687	5,782	28,123	23	-	28,146	25,464
Construction, non-owned assets	4,122	805	3,320	1,720	3,954	13,921	-	-	13,921	9,824
Training, monitoring, and evaluation	1,290	1,156	8,375	8,245	1,325	20,391	18	-	20,409	22,698
Subgrants	86,950	9,179	72,581	36,254	16,768	221,732	-	25	221,757	270,804
Microfinancing activity	30	-	17,033	-	30	17,093	-	-	17,093	7,032
Depreciation and amortization	381	118	3,786	525	268	5,078	798	156	6,032	5,019
	<u>\$ 150,853</u>	<u>\$ 30,797</u>	<u>\$ 228,177</u>	<u>\$ 89,688</u>	<u>\$ 52,722</u>	<u>\$ 552,237</u>	<u>\$ 96,716</u>	<u>\$ 22,293</u>	<u>\$ 671,246</u>	<u>\$ 680,573</u>

The accompanying notes are an integral part of this consolidated financial statement.

Mercy Corps and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2024, and 2023

(Dollars in thousands)

NOTE 1 - ORGANIZATION AND PURPOSE

Business and Organization

Mercy Corps is a global team of humanitarians working together on the front lines of today's biggest crises to create a future of possibility where everyone can prosper.

Our mission: to alleviate suffering, poverty, and oppression by helping people build secure, productive, and just communities. In more than 40+ countries around the world, over 6,000 + team members work side by side with people living through poverty, disaster, violent conflict, and the acute impacts of climate change. We're committed to creating global change through local impact – 95% of our team members are from the countries where they work.

We bring a comprehensive approach to every challenge, addressing problems from multiple angles. And we go beyond emergency aid, partnering with local governments, forward-thinking corporations, social entrepreneurs, and people living in fragile communities to develop bold solutions that make lasting change possible.

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

Kompanion Bank Closed Joint Stock Company (Kompanion)

Mercy Corps Europe (MCE)

Mercy Corps Netherlands (MCNL)

Mercy Corps Kenya

MC Nigeria LTD/GTE

Yayasan Mercy Corps Indonesia (YMCI)

Mercy Corps Corporate Fund (MCCF) (previously Asian Credit Public Fund)

Mercy Corps Development Holdings, LLC (MCDH)

CIT Services, LLC (CIT)

Humanitarian Energy PLC (HumEN)

The following entities are inactive, in dissolution, or dissolved as of June 30, 2024:

Mercy Corps International Jordan, LLC (inactive)

Mercy Corps Condominium Unit Owners Association (inactive)

MiCRO Insurance Catastrophe Risk Organization SCC (MiCRO) (In dissolution as of June 30, 2024)

Energy 4 Impact (E4I) (in dissolution as of June 30, 2024)

Mercy Corps India (in dissolution as of June 30, 2024)

Mercy Corps and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2024, and 2023

(Dollars in thousands)

MC Egypt, LLC (in dissolution as of June 30, 2024)

Kompanion Invest Microcredit Company LLC (dissolved as of June 30, 2024)

Kompanion Development Institution (dissolved as of June 30, 2024)

Effective September 30, 2021, Mercy Corps and E4I signed a transfer agreement whereby Mercy Corps assumed sole control of E4I. As of June 30, 2024, all programs, assets, and staff have been transferred and the Organization has recognized a loss on discontinued operations. Final dissolution is expected to be completed by June 30, 2025.

Effective July 1, 2022, Mercy Corps gained effective control of YMCI due to the restructuring of their governing board.

Effective January 1, 2023, Mercy Corps gained effective control of MiCRO, due to a redistribution of their voting shares. On May 13, 2024, Mercy Corps entered into an agreement to sell the assets of this entity with final dissolution expected to be completed by June 30, 2026.

Changes in governance structures are accounted for under Accounting Standard Codification (ASC) 958-805, *Not-for-Profit Entities - Business Combinations*.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

Basis of Accounting

The accompanying consolidated financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (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 and may be expended for any purpose in performing the primary objectives of the Organization.

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.

Contributions restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

The Organization has no assets that must be maintained in perpetuity as of June 30, 2024, or 2023.

Mercy Corps and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2024, and 2023

(Dollars in thousands)

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 the 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.

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 grants or contracts, which may have associated conditions, 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 1) a barrier that must be overcome for the recipient to be entitled to the assets transferred and 2) 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. On June 30, 2024, the Organization had \$290 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 consolidated financial statements.

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

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 common to several functions are allocated using various statistical bases such as headcount, hours worked, or as a percentage of total expenses.

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.

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

Mercy Corps and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2024, and 2023

(Dollars in thousands)

included in the accompanying consolidated statement of activities in the non-operating revenue and losses section as foreign currency exchange gains or losses.

Income Taxes

Mercy Corps 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 Organization's management to evaluate tax positions taken by the Organization 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 Organization and has concluded that as of June 30, 2024, 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.

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.

Project-related cash is held separately from the primary operating accounts per donor terms and internal processes. These segregated accounts totaled \$171 and \$97 on June 30, 2024, and 2023, respectively.

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.

Charitable Gift Annuities

Mercy Corps has certificates of authority from several 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, 2024 and 2023, was \$508 and \$807, respectively. Mercy Corps maintains segregated accounts for all gift annuities included in investments. The fair value of the accounts was \$1,321 and \$1,256 as of June 30, 2024 and 2023, respectively.

Fair Value Measurements

The Organization applies ASC Topic 820, *Fair Value Measurement*, which established a framework for measuring fair value. This standard defines fair value as the amount 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

Mercy Corps and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2024, and 2023

(Dollars in thousands)

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 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 unavailable.

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 is based on estimates using standard pricing models that consider the present value of future cash flows as of the date of the consolidated statement of financial position. The fair values of the derivative arrangements are based on models that rely on observable market-based data (Level 2).

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.

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 is the founder and majority shareholder of the following organization with a 65% ownership interest, which is thus consolidated in the accompanying consolidated financial statements.

Mercy Corps and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2024, and 2023

(Dollars in thousands)

Kompanion, 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.

Microfinance loans receivable are recorded in the consolidated statement of financial position at their unpaid principal balances, net of allowance for expected credit 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.

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 the 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.

From time to time, the Organization's subsidiaries may hold inventories related to their primary programs. The Organization considers these inventories immaterial as they are typically low value and distributed within 12 months of receipt.

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 private 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.

Mercy Corps and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2024, and 2023

(Dollars in thousands)

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:

	<u>Years</u>
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.

Customer Deposits for Microfinancing Activities

Customer deposits for microfinancing activities include liabilities related to term deposits and demand deposits held by Kompanion.

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.

Leases

The Organization determines if an arrangement is or contains a lease at inception and allocates the consideration between lease and non-lease components of the agreement. Leases are included in right-of-use (ROU) assets and lease liabilities in the consolidated statement of financial position. ROU assets and lease liabilities reflect the present value of the future minimum lease payments over the lease term, including any renewal options the Organization is reasonably certain to exercise, calculated using a discount rate equal to the Organization's incremental borrowing rate at the lease commencement date. Operating lease expense is recognized on a straight-line basis over the lease term. The Organization does not report ROU assets and lease liabilities for short-term leases (leases with a term of 12 months or less). Instead, the lease payments of those leases are reported as lease expense on a straight-line basis over the lease term.

Contributed Non-financial Assets and Services

Contributed non-financial assets are recorded at their estimated fair value in the principal market in the geographic region in which they were received as Gifts in Kind revenue with a corresponding increase to prepaid expenses, which are expensed as they are utilized. Contributed services are recognized as Gifts in Kind revenue and an appropriately classified expense at their estimated fair value if they create or enhance non-financial assets or if they require specialized skills that would need to be purchased if they were not donated. It is the Organization's policy not to monetize contributed in-kind gifts.

Mercy Corps and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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(Dollars in thousands)

Reclassifications

Certain reclassifications have been made to the 2023 consolidated financial statement presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

New Accounting Pronouncements

On December 13, 2023, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2023-08, which addresses the disclosure requirements for certain crypto assets. The new guidance requires entities to subsequently measure certain crypto assets at fair value, with changes in fair value recorded in net income. The guidance also requires that entities adopt the amendments for fiscal years beginning after December 15, 2024, by recording a cumulative effect adjustment to beginning net assets. The organization is currently evaluating the extent of and anticipated impact of the adoption of ASU No. 2023-08.

NOTE 3 - LIQUIDITY AND AVAILABILITY

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

As of June 30, 2024 and 2023, customer deposits of \$167,023 and \$123,455 held at Kompanion bank were subject to a 15.0% and 14.0% reserve ratio requirement, respectively.

The following table shows Mercy Corps' financial assets, as of June 30, 2024, and 2023, that the Organization has access to and are available to meet general expenditures over the next 12 months. Footnote 11, Debt, describes the financial instruments and derivatives, net, and an additional \$10,000 undrawn line of credit.

Mercy Corps and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2024, and 2023

(Dollars in thousands)

<u>Financial Assets at June 30, 2024</u>	<u>Mercy Corps</u>	<u>Affiliated Entities</u>	<u>Mercy Corps and Affiliates</u>
Cash and cash equivalents	\$ 145,327	\$ 107,337	\$ 252,664
Investments	8,384	2,252	10,444
Financial instruments and derivatives, net	192	-	192
Grants and accounts receivable	47,113	48,761	95,874
Microfinance loans receivable	-	194,313	194,313
Program-related investments	24,557	(17,226)	7,331
Total	225,573	335,245	560,818
Less: financial assets limited to use			
Deferred revenue	116,286	51,621	167,907
Net assets with donor restrictions	15,528	2,528	18,056
Split interest agreements	1,321	-	1,321
Financial instruments and derivatives, net	192	-	192
Microfinance loans receivable	-	194,313	194,313
Customer deposits for microfinance activities	-	25,053	25,053
Program-related investments	24,557	(17,226)	7,331
Total financial assets limited to use	157,884	256,289	414,173
Financial assets available for general and administrative expenditure	<u>\$ 67,689</u>	<u>\$ 78,956</u>	<u>\$ 146,645</u>
<u>Financial Assets at June 30, 2023</u>	<u>Mercy Corps</u>	<u>Affiliated Entities</u>	<u>Mercy Corps and Affiliates</u>
Cash and cash equivalents	\$ 130,264	\$ 85,435	\$ 215,699
Investments	11,145	1,504	12,649
Financial instruments and derivatives, net	223	-	223
Grants and accounts receivable	57,866	45,721	103,587
Microfinance loans receivable	236	147,621	147,857
Program-related investments	18,135	(12,663)	5,472
Total	217,869	267,618	485,487
Less: financial assets limited to use			
Deferred revenue	77,550	37,848	115,398
Net assets with donor restrictions	20,278	5,652	25,930
Split interest agreements	1,256	-	1,256
Financial instruments and derivatives, net	223	-	223
Microfinance loans receivable	236	147,621	147,857
Customer deposits for microfinance activities	-	17,282	17,282
Program-related investments	18,135	(12,663)	5,472
Total financial assets limited to use	117,678	195,740	313,418
Financial assets available for general and administrative expenditure	<u>\$ 100,191</u>	<u>\$ 71,878</u>	<u>\$ 172,069</u>

Mercy Corps and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2024, and 2023

(Dollars in thousands)

NOTE 4 - RECEIVABLES

Grants and Accounts Receivable

The Organization's grants and accounts receivable as of June 30 are as follows:

	2024	2023
Grant funds receivable	\$ 69,176	\$ 85,977
Due from banks and other financial institutions	18,731	9,878
Value-added tax (VAT) receivable	474	327
Notes receivable	244	244
Due from officers and employees	484	698
Due from affiliates	-	(319)
Other receivables	6,766	6,782
	\$ 95,874	\$ 103,587
Total grants and accounts receivable		

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. Individual loans are subject to various collateral arrangements, including unsecured, moveable property, real estate, cash equivalents, and combined collateral. 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 by the following consumer classes as of June 30:

	2024	2023
Small and medium business	\$ 111,306	\$ 99,827
Consumer lending	87,451	53,030
Microlending	105	442
	198,862	153,299
Gross loans		
Less: allowance for expected credit losses	(4,549)	(5,442)
Microfinance loans receivable, net	\$ 194,313	\$ 147,857

The Organization applies ASC Topics 310, *Receivables*, and 326, *Financial Instruments—Credit Losses*, for financing receivables and the corresponding allowance for expected credit losses.

Allowances for estimated credit losses are established based on prior collection experience and observed trends in the rate of default, consideration of current economic trends and indicators, credit quality indicators, and reasonable and supportable forecasts about the future. The Organization has established a credit quality review process to provide early identification of possible changes in creditworthiness of counterparties, including limitations of portfolio concentration and regular collateral revisions.

Mercy Corps and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2024, and 2023

(Dollars in thousands)

Changes in allowance for estimated credit losses on financing receivables as of June 30, 2024 and 2023 are presented as follows:

	2024	2023
Allowance for expected credit losses, beginning	\$ (5,442)	\$ (5,575)
Adjustments	565	(287)
Write-off	586	605
Recovery	(258)	(185)
Allowance for expected credit losses, ending	\$ (4,549)	\$ (5,442)

The allowance noted above can be attributed to loans that are current or past due as follows on June 30, 2024:

	Current	Past Due	Total
Microfinance loans receivable	\$ 190,129	\$ 8,733	\$ 198,862
Less: allowance for expected credit losses	(143)	(4,406)	(4,549)
Microfinance loans receivable, net	\$ 189,986	\$ 4,327	\$ 194,313

The allowance noted above can be attributed to loans that are current or past due as follows on June 30, 2023:

	Current	Past Due	Total
Microfinance loans receivable	\$ 147,569	\$ 5,730	\$ 153,299
Less: allowance for expected credit losses	(1,775)	(3,667)	(5,442)
Microfinance loans receivable, net	\$ 145,794	\$ 2,063	\$ 147,857

Mercy Corps and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2024, and 2023

(Dollars in thousands)

NOTE 5 - FAIR VALUE OF FINANCIAL INSTRUMENTS AND INVESTMENTS

Fair value measurements for the assets measured at fair value on a recurring basis on June 30, 2024, consisted of the following:

	Level 1	Level 2	Total
Assets			
Investments			
Certificates of deposit	\$ 739	\$ -	\$ 739
Mutual funds - equity	745	-	745
Mutual funds - fixed income	809	-	809
Mutual funds - real estate investment trust	58	-	58
U.S. government securities	6,033	-	6,033
Foreign government securities	-	2,061	2,060
Total investments	8,384	2,061	10,444
Derivative financial instruments			
Interest rate swap arrangements	-	192	192
Total investments and financial instruments	\$ 8,384	\$ 2,253	\$ 10,635

Fair value measurements for the assets measured at fair value on a recurring basis on June 30, 2023, consisted of the following:

	Level 1	Level 2	Total
Assets:			
Investments:			
Cash and cash equivalents	\$ 1,507	\$ -	\$ 1,507
Certificates of deposit	492	-	492
Mutual funds - equity	714	-	714
Mutual funds - fixed income	469	-	469
Mutual funds - real estate investment trust	59	-	59
U.S. government securities	7,904	-	7,904
Foreign government securities	-	1,504	1,504
Total investments	11,145	1,504	12,649
Derivative financial instruments:			
Interest rate swap arrangements	-	223	223
Total investments and financial instruments	\$ 11,145	\$ 1,727	\$ 12,872

The Organization had no Level 3 assets or liabilities measured at fair value on June 30, 2024, or 2023.

Mercy Corps and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2024, and 2023

(Dollars in thousands)

NOTE 6 - PROGRAM-RELATED INVESTMENTS

As of June 30, 2023, and 2024, two of the Organization's subsidiaries, Middle East Venture Capital Fund, L.P. and MCDH held private equity investments of \$7,318 and \$4,916 in companies that have a social mission that aligns with the Organization's mission and programs.

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 that are consistent with its mission.

NOTE 7 - PROPERTY AND EQUIPMENT

The Organization's property and equipment as of June 30 were as follows:

	2024	2023
Land	\$ 2,534	\$ 2,534
Buildings and leasehold improvements	39,854	38,902
Vehicles	18,871	17,518
Furniture, fixtures, and equipment	17,910	16,013
	79,169	74,967
Less: accumulated depreciation and amortization	(46,440)	(43,084)
Property and equipment, net	\$ 32,729	\$ 31,883

NOTE 8 - CUSTOMER DEPOSITS FOR MICROFINANCE ACTIVITIES

The Organization held customer deposits, which consisted of the following on June 30:

	2024	2023
Term deposits	\$ 107,686	\$ 81,036
Demand deposits	58,137	41,579
Accrued interest	1,200	826
Prepayment for bank guarantees	-	14
Total customer deposits	\$ 167,023	\$ 123,455

NOTE 9 - 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 cash flow from the collection of the loan receivables. Mercy Corps does not guarantee the repayment of the Kompanion debt. Payment terms on these loans vary.

Mercy Corps and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2024, and 2023

(Dollars in thousands)

Microfinancing debt maturities as of June 30, 2024, were as follows:

Year Ending	Kompanion
2025	\$ 11,185
2026	4,839
2027	4,426
2028	124
2029	107
Thereafter	1,001
	\$ 21,683

Interest rates of microfinancing borrowings as of June 30, 2024 and 2023, are as follows:

Entity	Lender	Interest Rates	Due Date	2024	2023
Mercy Corps	SBA	0.750%	2032	\$ -	\$ 486
Kompanion	EBRD	12.58%-17.55%	2025-2027	7,919	4,261
Kompanion	MinFln	8.0%	2033	962	759
Kompanion	Triodos	14.0%	2025	2,458	2,509
Kompanion	RU-KY Dev Fund	6.0%	2024	-	5
Kompanion	State Mortgage Co	4.0%-6.0%	2032	629	514
Kompanion	Symbiotics	11.0%-14.0%	2025-2027	9,715	3,261
				\$ 21,683	\$ 12,852

NOTE 10 - OBLIGATIONS UNDER OPERATING LEASES

As of June 30, 2024, the Organization maintained lease agreements for office space, residential units, warehouses, and equipment.

Future Minimum Lease Payments

The following is a maturity analysis of the annual undiscounted cash flows of the operating lease liabilities as of June 30, 2024:

Mercy Corps and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2024, and 2023

(Dollars in thousands)

<u>Year Ending</u>	<u>Payments</u>
2025	\$ 4,351
2026	3,359
2027	2,332
2028	1,925
2029	1,325
Thereafter	3,307
	16,629
Less: effects of discounting	(3,100)
Total lease liability	\$ 13,529

Lease Cost

	<u>2024</u>	<u>2023</u>
Operating lease cost (cost resulting from lease payments)	\$ 5,826	\$ 3,935
Short-term lease cost	2,465	1,855
Total lease cost	\$ 8,291	5,790

Other Information

	<u>2024</u>	<u>2023</u>
Operating cash flows (fixed payments)	\$ 4,688	\$ 3,593
Operating cash flows (liability reduction)	\$ 2,465	\$ 2,767
New ROU assets	\$ 6,988	\$ 16,727
Weighted average lease term (in years)	4.75	7.28
Weighted average discount rate	6.60%	3.36%

NOTE 11 - DEBT

On June 22, 2022, Mercy Corps refinanced the 2015 Tax Exempt Bonds with a \$5,000 term note issued by Wells Fargo. The proceeds were used to refinance the debt of the headquarters building in Portland, Oregon, which also collateralized the note. Under this debt, Wells Fargo has the security interest of first priority in all of the Organization's accounts receivable and other rights to payment, general intangible, inventory and equipment. Principal payments of \$17 are due monthly until maturity on July 1, 2027. The balance due, including unamortized loan fees on June 30, 2024 and 2023, are as follows:

Mercy Corps and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2024, and 2023

(Dollars in thousands)

On June 30, debt consisted of the following:

	2024	2023
Wells Fargo	\$ 4,617	\$ 4,817
Unamortized loan fees	(29)	(38)
	\$ 4,588	\$ 4,779
Total debt		

Future maturities of debt outstanding on June 30, 2024, are as follows:

Year Ending	Total Payments
2025	\$ 200
2026	200
2027	200
2028	4,017
	\$ 4,617

At the inception of borrowing, the Organization hedged its interest rate risk by entering into an interest rate swap agreement with Wells Fargo. The swap agreement provides that, each month, the Organization will pay to Wells Fargo interest on the notional amount at a fixed rate of 2.85%, and Wells Fargo will pay to the Organization interest on the notional amount at a rate equal to the United States Dollar Secured Overnight Financing Rate 30-day average rate. The Organization has elected to use the simplified hedge accounting approach consistent with ASC 815. On June 30, 2024 and 2023, the fair market value of the swap agreement was \$192 (an asset) and \$223 (an asset), respectively, which are included in prepaid expenses, deposits, and other assets on the consolidated statement of financial position.

2023 Line of Credit

Mercy Corps has a \$10,000 line of credit commitment with Wells Fargo for working capital purposes, which expires on July 1, 2027. No amounts were outstanding as of June 30, 2024 or 2023. The line of credit contains certain restrictive covenants that the Organization was in compliance with as of June 30, 2024.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

The Organization receives a substantial portion of its funding in the form of grants from government and multilateral agencies. These grants contain certain compliance and internal control requirements that, if violated, may result in the disallowance of certain costs incurred under the grant programs. Additionally, the Organization is involved in various legal proceedings and claims arising in the normal course of business. The Organization adjusts the contingent liabilities each year based on the settlement of accrued amounts and potential liabilities that are reasonably likely and estimable. As of June 30, 2024 and 2023, the Organization had total accrued contingent liabilities of \$1,479 and \$2,007, respectively, which are included in accounts payable and accrued liabilities on the consolidated statement of financial position.

Mercy Corps and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2024, and 2023

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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.

NOTE 13 - EMPLOYEE BENEFIT PLANS

Mercy Corps has a defined contribution plan under Internal Revenue Code Section 403(b) for employees who meet the eligibility conditions. Employees are eligible to make voluntary pretax contributions beginning the first day of the month following their employment date. Employees are eligible to receive employer contributions equal to 6% of gross salary after one year of service. The Organization's contributions to the plan for the years ended June 30, 2024 and 2023 amounted to \$2,324 and \$2,085, respectively.

Mercy Corps 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 expenses for the program for the years ended June 30, 2024 and 2023 amounted to \$1,009 and \$843, respectively. As of June 30, 2024 and 2023, the Organization had total amounts to be paid out for this plan of \$3,120 and \$2,859, 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 Organization. Contributions are charged to the income and expenditure account and the consolidated statement of activities in the period they are incurred. Total defined contribution retirement plan costs charged to operations were \$373 and \$305 for the years ended June 30, 2024 and 2023, respectively. These are included in general and administrative expenses in the accompanying consolidated statement of activities.

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.

Mercy Corps and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2024, and 2023

(Dollars in thousands)

NOTE 14 - SIGNIFICANT SOURCES OF REVENUE AND CONCENTRATION OF RISK

Significant Sources of Revenue

The Organization receives a majority of its funding through grants from government agencies, including 38% from the Organization's cognizant agent, the US Agency for International Development (USAID). A reduction in the amount of grants available or the Organization's ability to receive government grants would have a material impact on its programs and operations. The Organization's major donor groups are as follows:

<u>Agency</u>	<u>2024</u>	<u>2023</u>
US Agency for International Development (USAID)	\$ 248,360	\$ 360,154
UK Foreign, Commonwealth & Development Office (FCDO)	41,217	39,563
United Nations	22,838	23,349
European Union	22,393	12,744
Global Affairs Canada	18,125	12,645
Other US agencies	25,881	21,473
Other European agencies	54,058	50,439
Private contributions and other sources	228,455	166,250
	<u>\$ 661,327</u>	<u>\$ 686,617</u>

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.

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 16.4% and 20.3% of the total cash balance in the Organization's foreign locations as of June 30, 2024 and 2023, respectively. Of the cash held in foreign locations, 57.9% and 52.0% was held by the Organization's subsidiary entities involved in microfinance activities as of June 30, 2024 and 2023, respectively.

Mercy Corps and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2024, and 2023

(Dollars in thousands)

NOTE 15 - GIFTS IN KIND

The Organization received the following contributions of services and non-financial assets for the year ended June 30:

	2024	2023
Equipment	\$ 173	\$ 194
Software	10	804
Legal services	616	474
Other services	842	422
Total	\$ 1,641	\$ 1,894

As of June 30, 2024 and 2023, the Organization received no contributions of non-financial assets or services with donor restrictions.

NOTE 16 - NET ASSETS

Changes in Consolidated Net Assets without Donor Restrictions Attributable to Controlling and Noncontrolling Interests

	Controlling Interest	Noncontrolling Interest	Total
Balance on June 30, 2022	\$ 125,444	\$ 16,666	\$ 142,110
Excess of revenue over expenses	12,039	2,281	14,590
Change in net unrealized gains and losses on other than trading securities	81	-	81
Acquisition on subsidiaries	1,038	76	1,114
Dividends distributed	-	(2,988)	(2,988)
Change in net assets	13,428	(631)	12,797
Balance on June 30, 2023	138,872	16,035	154,907
Excess of revenue over expenses	(6,955)	3,099	(3,856)
Change in net unrealized gains and losses on other than trading securities	(31)	-	(31)
Discontinued operations	780	-	780
Dividends distributed	(1,117)	(601)	(1,718)
Change in net assets	(7,323)	2,498	(4,825)
Balance on June 30, 2024	\$ 131,549	\$ 18,533	\$ 150,082

Mercy Corps and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2024, and 2023

(Dollars in thousands)

Net Assets with Donor Restrictions

Net assets subject to donor restrictions were restricted for the following purposes or geographic regions as of June 30, 2024, and 2023:

	2024	2023
Subject to expenditure for a specified purpose		
Humanitarian assistance - relief	\$ 10,354	\$ 15,377
Humanitarian assistance - recovery	167	359
Livelihood/economic development	5,067	5,647
Civil society and education	1,870	2,646
Health	542	1,77
Resource development and general administration	19	210
Total net assets with purpose restrictions	17,939	25,416
Subject to expenditure in a specified region		
Africa	-	36
Americas	-	(45)
Asia	37	289
Europe & Middle East	-	234
Total net assets with region restrictions	37	514
Total net assets with donor restrictions	\$ 18,056	\$ 25,930

The Organization did not have net assets subject to time restrictions as of June 30, 2024.

Net assets released from donor restrictions as of June 30, 2024, and 2023 were as follows:

Mercy Corps and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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(Dollars in thousands)

	2024	2023
Satisfaction of purpose restrictions:		
Humanitarian assistance - relief	\$ 6,492	\$ 9,739
Humanitarian assistance - recovery	340	584
Livelihood/economic development	5,015	4,079
Civil society and education	1,074	1,955
Health	865	1,292
Resource development and general administration	444	383
Total net assets released from purpose restrictions	14,230	18,032
Satisfaction of geographic restrictions:		
Africa	119	2,848
Americas	71	586
Asia	129	355
Europe & Middle East	151	539
Total net assets released from geographic restrictions	470	4,328
Total net assets released from donor restrictions	\$ 14,700	\$ 22,360

NOTE 17 - CONSOLIDATION AND SUBSIDIARY ENTITIES

The Organization is required to consolidate certain entities under the guidance of FASB ASC Topic 810, *Consolidation*, and ASC Topic 958 820, *Not-for-Profit Entities - Consolidation*.

ASC Topic 810 allows for consolidated parents to account for their investments in subsidiaries under the initial value method. As such, the Organization has accounted for our subsidiary investments (program-related investments) under rules consistent with the initial value method as described in ASC Topic 321. Under this method, dividends are considered interagency dividend revenue and are eliminated on consolidation. The remaining investment in subsidiaries is eliminated upon consolidation against the subsidiaries' equity.

Mercy Corps 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, 2024:

MCCF (previously Asian Credit Public Fund) was formed in 2020 and is the custodian of the sales proceeds of the Asian Credit Fund.

MCDH 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 and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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(Dollars in thousands)

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

HumEN was established as a new entity in Ethiopia in 2022. Mercy Corps holds 80% of the shares.

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, 2024.

Mercy Corps Condominium Unit Owners Association, inactive since June 30, 2016.

Mercy Corps Egypt, LLC was formed in 2012 to establish a field office and operations in Egypt. It remains in dissolution as of June 30, 2024.

MiCRO was formed in 2011 to provide micro-insurance products and services to achieve poverty alleviation in Central America and the Caribbean. The entity is in dissolution as of June 30, 2024.

E4I, a UK entity with operations in Africa, was acquired by Mercy Corps as of September 30, 2021. The remaining operations were incorporated into Mercy Corps and Mercy Corps Europe in 2024. This entity remains in dissolution as of June 30, 2024.

Mercy Corps India was formed in August 2010 as a joint stock company to carry out operations in India. This entity remains in dissolution as of June 30, 2024.

The total combined net assets of the entities listed above are \$10,549 and \$9,834 as of June 30, 2024 and 2023, respectively.

NOTE 18 - SUBSEQUENT EVENTS

The Organization has performed an evaluation of subsequent events through December 10, 2024, which is the date the consolidated financial statements were available to be issued.