MERCY CORPS AND AFFILIATES

Consolidated Financial Statements
and Supplemental Schedules

June 30, 2014

(With Independent Auditors' Report Thereon)

MERCY CORPS AND AFFILIATES

Table of Contents

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

Independent Auditors' Report

The Board of Directors
Mercy Corps and affiliates:

We have audited the accompanying consolidated financial statements of Mercy Corps and affiliates, which comprise the consolidated statement of financial position as of June 30, 2014, and the related consolidated statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mercy Corps and affiliates as of June 30, 2014, and the changes in their net assets, cash flows, and functional expenses for the year then ended, in accordance with U.S. generally accepted accounting principles.

Report on Summarized Comparative Information

We have previously audited Mercy Corps and affiliates 2013 consolidated financial statements, and we expressed an unmodified audit opinion on those consolidated financial statements in our report dated November 4, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental information included in schedules I and II is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Portland, Oregon
October 31, 2014

MERCY CORPS AND AFFILIATES

Consolidated Statement of Financial Position

June 30, 2014
With comparative financial information as of June 30, 2013

(In thousands)

Assets		**2014**	**2013**
Cash	$	69,161	63,621
Financial instruments and derivatives, net		3,866	3,725
Grants and accounts receivable		15,985	11,679
Microfinance loans receivable, net		79,597	77,042
Due from unconsolidated affiliates, net		7,873	8,864
Inventories		5,833	7,503
Prepaid expenses, deposits, and other assets		7,049	6,720
Pledges receivable, net		2,512	955
Notes receivable		10,988	10,988
Investments		4,621	3,871
Program-related investments		5,352	6,562
Property and equipment, net		40,457	41,915
Total assets	$	253,294	243,445
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued liabilities	$	35,032	28,748
Deferred revenue		38,595	38,834
Subsidiary and subordinated debt for microfinancing activities		81,325	74,228
Long-term debt		24,312	24,330
Total liabilities		179,264	166,140
Net assets:			
Unrestricted		53,030	57,071
Temporarily restricted		21,000	20,214
Permanently restricted		—	20
Total net assets		74,030	77,305
Total liabilities and net assets	$	253,294	243,445

See accompanying notes to consolidated financial statements.

MERCY CORPS AND AFFILIATES

Consolidated Statement of Activities

Year ended June 30, 2014
With summarized financial information for the year ended June 30, 2013

(In thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Totals	2013 Total
Operating support and revenue:					
Public support and revenue:					
Government grants	$ 172,598	—	—	172,598	159,667
Material aid	12,406	—	—	12,406	11,099
Material aid – monetized	9,924	—	—	9,924	9,200
Total public support and revenue	194,928	—	—	194,928	179,966
Private support and revenue:					
Other grants	47,183	11	—	47,194	32,370
Contributions	22,623	13,336	—	35,959	25,020
Gifts in kind – services	574	—	—	574	672
Total private support and revenue	70,380	13,347	—	83,727	58,062
Other revenue:					
Interest income	27,005	—	—	27,005	27,468
Other revenue	1,067	—	—	1,067	1,825
Total other revenue	28,072	—	—	28,072	29,293
Net assets released from restriction	12,581	(12,561)	(20)	—	—
Total operating support and revenue	305,961	786	(20)	306,727	267,321
Operating expenses:					
Program services:					
Humanitarian assistance – relief	86,172	—	—	86,172	62,074
Humanitarian assistance – recovery	15,678	—	—	15,678	16,313
Livelihood/economic development	79,585	—	—	79,585	83,952
Civil society and education	46,056	—	—	46,056	43,900
Health	33,475	—	—	33,475	25,619
Total program services	260,966	—	—	260,966	231,858
Supporting services:					
General and administrative	33,411	—	—	33,411	28,730
Resource development	14,490	—	—	14,490	11,485
Total supporting services	47,901	—	—	47,901	40,215
Total operating expenses	308,867	—	—	308,867	272,073
Change in net assets from operations	(2,906)	786	(20)	(2,140)	(4,752)
Nonoperating revenue and losses net:					
Foreign currency exchange loss, net	(2,566)	—	—	(2,566)	(932)
Realized and unrealized gain (loss) on investments, net	(808)	—	—	(808)	536
Unrealized gain on swap agreements	1,743	—	—	1,743	214
Other nonoperating (decrease) increase in net assets	496	—	—	496	(171)
Total nonoperating revenue and losses net	(1,135)	—	—	(1,135)	(353)
Change in net assets	(4,041)	786	(20)	(3,275)	(5,105)
Net assets at beginning of year	57,071	20,214	20	77,305	82,410
Net assets at end of year	$ 53,030	21,000	—	74,030	77,305

See accompanying notes to consolidated financial statements.

MERCY CORPS AND AFFILIATES

Consolidated Statement of Cash Flows

Year ended June 30, 2014
With summarized financial information for the year ended June 30, 2013

(In thousands)

		2014	2013
Cash flows from operating activities:			
Change in net assets	$	(3,275)	(5,105)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:			
Depreciation and amortization		4,210	4,332
Provision for loan losses		929	559
Net realized and unrealized loss on investments		3,206	429
Unrealized gain on interest rate and foreign exchange swaps		(1,743)	(214)
Loss on disposition of fixed assets		1,578	226
Changes in assets and liabilities:			
Grants and accounts receivable		(4,334)	(259)
Due from unconsolidated affiliates, net		991	(751)
Inventories		1,670	(502)
Prepaid expenses, deposits, and other assets		1,272	(140)
Pledges receivable		(1,557)	1,564
Accounts payable and accrued liabilities		4,591	2,819
Deferred revenue		(239)	5,923
Net cash provided by operating activities		7,299	8,881
Cash flows from investing activities:			
Purchase of investments		(306)	(252)
Issuances of microfinance loans, net		(3,484)	(12,806)
Acquisition of property and equipment		(4,330)	(3,594)
Disposition of entities		(718)	—
Net cash used in investing activities		(8,838)	(16,652)
Cash flows from financing activities:			
Repayment of notes receivable		—	81
Proceeds from borrowings by microfinance entities		56,321	41,251
Repayments on borrowings of microfinance entities		(49,224)	(27,747)
Repayments on long-term debt		(18)	(1,028)
Net cash provided by financing activities		7,079	12,557
Net increase in cash and cash equivalents		5,540	4,786
Cash at beginning of year		63,621	58,835
Cash at end of year	$	69,161	63,621
Supplemental disclosures:			
Interest paid during the year	$	10,356	7,028
Noncash contributions		12,980	11,771

See accompanying notes to consolidated financial statements.

MERCY CORPS AND AFFILIATES

Consolidated Statement of Functional Expenses

Year ended June 30, 2014
With summarized financial information for the year ended June 30, 2013

(In thousands)

		Program services						Support services			
		Humanitarian assistance – relief	Humanitarian assistance – recovery	Livelihood/ economic development	Civil society and education	Health	Total program services	General and administration	Resource development	Total expenses	2013 Total
Personnel	$	16,193	5,098	16,437	12,723	9,348	59,799	22,450	6,329	88,578	77,763
Professional services		2,449	1,094	3,107	1,636	411	8,697	1,116	1,486	11,299	12,556
Travel and vehicle expense		3,204	885	3,093	1,982	1,868	11,032	4,216	567	15,815	13,316
Office and occupancy expense		3,270	677	2,269	1,565	1,504	9,285	2,546	3,868	15,699	13,403
Other operating expenses		375	104	1,996	345	157	2,977	1,500	2,204	6,681	9,642
Material aid		4,197	—	—	—	8,159	12,356	50	—	12,406	11,100
Materials and supplies		39,992	729	2,816	1,960	2,391	47,888	11	—	47,899	27,011
Construction, nonowned assets		4,004	416	3,081	2,173	2,435	12,109	—	—	12,109	11,840
Training, monitoring, and evaluation		2,120	1,002	2,858	4,080	1,184	11,244	30	—	11,274	9,342
Subgrants		9,989	5,558	13,642	19,048	5,630	53,867	155	—	54,022	58,048
Microfinancing activity		—	—	28,876	—	—	28,876	—	—	28,876	23,739
Depreciation		379	115	1,410	544	388	2,836	1,337	36	4,209	4,313
	$	86,172	15,678	79,585	46,056	33,475	260,966	33,411	14,490	308,867	272,073

See accompanying notes to consolidated financial statements.

(1) Organization and Purpose

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

Mercy Corps' Vision for Change, based on the Universal Declaration of Human Rights, is that peaceful, secure, and just societies emerge when the private, public, and civil society sectors are able to interact with accountability, inclusive participation, and mechanisms for peaceful change.

Mercy Corps' Strategy is to work in countries in transition, where communities are suffering and recovering from disaster, conflict, or economic collapse. Mercy Corps' experience demonstrates that during these times of turmoil and tragedy, there exists the possibility for positive change. Mercy Corps adds its greatest value as an international relief and development agency by supporting those kernels of positive change with community-led and market-driven action.

Mercy Corps operates programs in more than 42 countries throughout the world. Mercy Corps classifies its program activities into five major types: Humanitarian Assistance – Relief, Humanitarian Assistance – Recovery, Livelihood and Economic Development, Civil Society and Education, and Health.

The consolidated financial statements include the accounts of Mercy Corps and its controlled affiliates, collectively, "the Organization" or "Mercy Corps." All material intercompany transactions and balances have been eliminated. Consolidated affiliates include:

Mercy Corps Foundation (MCF)
Mercy Corps Headquarters Manager, Inc.
Mercy Corps Headquarters Building, LLC
Mercy Corps Headquarters Master Tenant Manager, LLC
Mercy Corps Headquarters Master Tenant, LLC
Kompanion Financial Group Microfinance Closed Joint Stock Company
Kompanion Development Institution
Asian Credit Public Fund
Hunchun Association for Poverty Alleviation in the Tumen River Area
Yanbian Association for Poverty Alleviation in the Tumen River Area
Yayasan Microfinance Innovation & Resource Center Foundation
Mercy Enterprise Corporation (MEC) d/b/a Mercy Corps Northwest
Mercy Corps India, Not For Profit, Joint Stock Company
Mercy Corps International, Jordan
Yayasan Mercy Corps Indonesia
MC Egypt, LLC
Custom Clouds Public Benefit Corporation
Mercy Corps China Holdings, LLC
MC Nigeria (Limited by Guarantee)

(2) Summary of Significant Accounting Principles

(a) Basis of Accounting

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

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:

- Unrestricted net assets – net assets that are not subject to donor-imposed restrictions.
- Temporarily restricted net assets – net assets that are subject to donor-imposed restrictions that permit the Organization to use or expend the assets as specified. The restrictions are satisfied either by the passage of time or by actions of Mercy Corps.
- Permanently restricted net assets – net assets that are subject to donor-imposed restrictions that are maintained in perpetuity by the Organization unless an action by the donor or courts removes the restriction.

(b) Use of Estimates

The preparation of consolidated financial statements, in conformity with accounting principles generally accepted in the United States, requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates in the Organization's consolidated financial statements include loan loss reserves, fair value of investments, functional expense allocations, and net realizable value of pledges receivables. Actual results may differ from those estimates.

(c) Revenue Recognition

Contributions, including unconditional promises to give, are recognized initially at fair value as revenue in the period received at net realizable value. Contribution revenues are reported as increases in unrestricted net assets unless their use is limited by donor-imposed restrictions.

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

Donated services that meet the criteria for recognition in accordance with generally accepted accounting principles are reported as gift-in-kind services and expenses in amounts equal to their estimated fair value on the date of receipt. Approximately $574 and $672 of legal services were provided pro bono to the Organization in 2014 and 2013, respectively.

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

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

(d) Functional Allocation of Expenses

The Organization allocates expenses on a functional basis among its various programs and supporting services. Expenses that can be identified with a specific program or supporting service are charged directly. Other expenses that are common to several functions are allocated by various statistical bases.

(e) Change in Net Assets from Operations

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

(f) Foreign Currency Translation

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

(g) 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.

Accounting principles generally accepted in the United States of America require Mercy Corps' management to evaluate tax positions taken by Mercy Corps and recognize a tax liability (or asset) if Mercy Corps has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed tax positions taken by Mercy Corps and has concluded that as of June 30, 2014, there are no uncertain positions taken or expected to be taken that would require recognition of liability (or asset) or disclosure in the financial statements. Mercy Corps is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Mercy Corps' management believes it is no longer subject to income tax examinations for years prior to 2011.

(h) Cash

Cash consist of short-term, highly liquid investments with original maturities of three months or less at the date of acquisition.

(Continued)

Certain cash accounts are maintained as separate accounts that represent cash held in trust or as collateralized cash. These types of accounts totaled $2,669 and $2,589 at June 30, 2014 and 2013, respectively.

(i) Investments

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

(j) Charitable Gift Annuities

The Organization has a certificate of authority from the state of Oregon and from the state of Washington and a few other states to receive transfers of money or property upon agreement to pay an annuity. The annuity assets included in investments was $613 and $603 as of June 30, 2014 and 2013, respectively. The annuity liability included in other liabilities as of June 30, 2014 and 2013 was $346 and $396, respectively. The Organization maintains trust accounts for all gift annuities. The amounts under trust were $618 and $617 as of June 30, 2014 and 2013, respectively. No annuity contracts have been issued in the state of Washington as of June 30, 2014.

(k) Derivative Financial Instruments

Derivative financial instruments include foreign currency swaps held by the consolidated microfinance institutions, and an interest rate swap on the building debt. The Organization utilizes these strategies to minimize risk associated with fluctuations in both interest rates and foreign currency exchange rates. Derivatives are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of the interest rate swaps are recognized currently as an unrealized gain or loss on swap agreements in nonoperating revenue and expenses, net.

(l) Fair Value Measurements

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

(Continued)

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

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

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

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

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

Investments – Fair values for these investments are based on quoted market prices (Level 1).

Derivative financial instruments – The fair value of the Organization's interest rate and currency swaps are based on estimates using standard pricing models that take into account the present value of future cash flows as of the date of the statements of financial position. The fair values of the interest and currency rate swaps are based on models that rely on observable market-based data (Level 2).

(m) Fair Value of Financial Instruments

The carrying value of cash, grants and other receivables, loans receivable and payable approximates their estimated fair value as of June 30, 2014 and 2013, due to the relative short maturities of these instruments. However, the inputs to these fair value estimates are considered Level 3 in the fair value hierarchy. The carrying value of variable rate long-term debt approximates fair value as such changes are captured in the changing interest rate rather than a change in the instrument value. The inputs to their fair value estimates are considered Level 2 in their fair value hierarchy. In accordance with ASC Subtopic 825-10-50, *Financial Instruments – Overall – Disclosures*, management has determined that it is not practicable to estimate the fair value of notes receivable, subsidiary and subordinated debt for microfinancing activities, and fixed rate long-term debt due to the unique nature of each of these transactions. None of these transactions have available quoted market equivalents. Additional information about matters affecting the fair value, such as current interest rates and maturities, is included at note 5 for notes receivable, note 9 for long-term debt, and note 10 for subsidiary and subordinated debt for microfinancing activities.

(n) Grants and Accounts Receivable

The majority of the Organization's grants and accounts receivable are due from private foundations and federal agencies. Grants and accounts receivable are expected to be collected within one year and are recorded at net realizable value.

Pledges receivable and notes receivable that are expected to be collected in future years are recorded at fair value at the date of the contribution, as determined using the net present value of estimated future cash flows. These inputs to the fair value estimate are considered Level 3 in the fair value hierarchy. In subsequent periods, the discount rate is unchanged and the allowance for uncollectible contributions is reassessed and adjusted if necessary. Amortization of the discounts is recorded as additional contribution revenue.

(o) Microfinance Loans Receivable

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

The following MFIs and MFI technical assistance organizations are consolidated in the accompanying consolidated financial statements.

Kompanion Financial Group Microfinance Closed Joint Stock Company (Kompanion), a for-profit entity, was formed in 2004 in the Kyrgyz Republic to engage in microfinance activities. Mercy Corps is the Founder and only shareholder of Kompanion.

Asian Credit Public Fund (ACF) was formed in 2001, and is registered in the Republic of Kazakhstan as a nonprofit nonmember organization to carry out certain types of banking operations. Mercy Corps is the Founder of ACF. Prior to 2014, ACF, along with Mercy Corps, owned 100% of Asian Credit Fund, Microcredit Organization, Limited Liability Company (ACF, MCO LLC), a for-profit commercial microcredit organization in the Republic of Kazakhstan. In April of 2014, ACF, MCO LLC sold 41% of its shares to a third party, resulting in a 24% ownership in ACF, MCO LLC for ACF and 35% ownership for Mercy Corps.

Hunchun Association for Poverty Alleviation in the Tumen River Area and the Yanbian Association for Poverty Alleviation in the Tumen River Area (collectively, the PATRAs) were formed in 2002 and 2003, respectively, as a means toward the alleviation of poverty and suffering in certain areas in China. These organizations are registered under Chinese law and are considered local projects of Mercy Corps. Under a Memorandum of Understanding, Mercy Corps controls the PATRA entities.

In 2001, Mercy Corps established Mercy Enterprise Corporation (MEC), dba Mercy Corps Northwest, as a nonprofit corporation under the laws of the state of Oregon in order to provide economic development services to low-income populations in the states of Oregon and Washington. Mercy Corps maintains control of the board of directors along with control and management of MEC's programs.

Yayasan Microfinance Innovation & Resource Center Foundation (MICRA Indonesia) was formed in 2006 in Indonesia to provide technical assistance to the development, improvement and progress of the microfinance industry sector. The Foundation is controlled by an Advisory Board, composed of Mercy Corps employees.

Microfinance loans receivable are recorded in the consolidated statements of financial position at their unpaid principal balances net of allowance for loan losses. Interest income is accrued based on the outstanding principal amount and contractual terms of each individual loan. The Organization reviews its loans to assess impairment on a regular basis. A loan is considered impaired when, based on current information, it is probable that the Organization 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 statements 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.

(p) 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 statements of activities as "Material aid." Funds received from monetization of commodities are deferred until utilized in program activities. Revenue earned from monetization proceeds is recognized in the consolidated statements of activities as "Material aid – monetized."

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.

(q) 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. generally accepted accounting principles. The investments are typically in the form of equity investments funded with grants or the Organization's unrestricted funds. 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.

(r) Property and Equipment, Net

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

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

The Organization has adopted a policy of applying a time restriction that expires over the useful life of the long-lived assets acquired, or constructed with contributions restricted for that purpose, and therefore, releases amounts from temporarily restricted net assets ratably over the same useful life.

(s) Reclassifications

Certain reclassifications have been made to prior years' amounts to conform to the current year presentation.

(In thousands)

(3) Fair Value of Financial Instruments and Investments

Fair value measurements for the assets measured at fair value on a recurring basis at June 30, 2014 consisted of the following:

	Level 1	Level 2	Total
Assets:			
Investments:			
Mutual Funds – equity	$ 3,857	—	3,857
Mutual Funds – fixed income	764	—	764
Total investments	4,621	—	4,621
Derivative financial instruments:			
Foreign currency swap arrangements	—	4,032	4,032
Total	4,621	4,032	8,653
Liabilities:			
Derivative financial instruments:			
Interest rate swaps	—	166	166
Total	—	166	166
Financial instruments and derivatives, net	$ 4,621	3,866	8,487

(In thousands)

Fair value measurements for the assets measured at fair value on a recurring basis at June 30, 2013 consisted of the following:

		Level 1	Level 2	Total
Assets:				
Investments:				
Mutual funds – equity	$	1,421	—	1,421
Mutual funds – fixed income		2,097	—	2,097
Common stocks		353	—	353
Total investments		3,871	—	3,871
Derivative financial instruments:				
Foreign currency swap arrangements		—	4,117	4,117
Total		3,871	4,117	7,988
Liabilities:				
Derivative financial instruments:				
Interest rate swaps		—	392	392
Total		—	392	392
Financial instruments and derivatives, net	$	3,871	3,725	7,596

Mercy Corps had no Level 3 assets or liabilities measured at fair value at June 30, 2014 and 2013.

(4) Pledges Receivable

Unconditional promises to give are included in the consolidated financial statements as pledges receivable and revenue of the appropriate net asset category. Pledges receivable are expected to be collected in future years and are recorded after discounting at 0.11% to 1.41% to the present value of expected future cash flows.

Unconditional promises are expected to be collected in the following periods:

		2014	2013
One year or less	$	2,248	621
Between one year and five years		273	343
		2,521	964
Less discount		(9)	(9)
Pledges receivable, net	$	2,512	955

(In thousands)

(5) Notes Receivable

At June 30, 2014 and 2013, notes receivable comprise the following:

		2014	2013
Mercy Corps Investment Fund, LLC, interest at 4.75%, matures April 1, 2015	$	10,988	10,988

As discussed further at note 9, Mercy Corps Investment Fund, LLC, is a third-party entity controlled by U.S. Bank, and therefore, it is not consolidated into the Organization's financials.

(6) Microfinance Loans Receivable

Microcredit loans comprise variable and fixed-rate loans with individuals and groups. Group loans are unsecured loans granted to a group of borrowers who sign a loan agreement with joint and several liability to repay a loan. The loans bear interest at rates generally at or below the local market industry average available. Microcredit loans are issued with original maturities ranging from 3 to 36 months. Individual microcredit loans are generally secured by business assets.

Microfinance loans receivable were concentrated in the following countries as of June 30, 2014 and 2013:

		2014	2013
China	$	1,467	1,213
Kazakhstan		—	4,979
Kyrgyzstan		81,414	73,860
Other		757	766
		83,638	80,818
Less loan loss reserves		(4,041)	(3,776)
Microfinance loans receivable, net	$	79,597	77,042

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

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

(In thousands)

Changes in allowance for estimated losses on financing receivables as of June 30, 2014 and 2013 are presented as follows:

		2014	2013
Loan loss reserve, beginning	$	(3,776)	(3,270)
Adjustments to reserve		(814)	(1,176)
Write-off		560	671
Recovery		(11)	(1)
Loan loss reserve, ending	$	(4,041)	(3,776)

The reserves noted above can be attributed to loans that are past due or current as follows at June 30, 2014:

		Current	Past due	Total
Microfinance loans receivable	$	82,951	687	83,638
Less loan loss reserves		(4,006)	(35)	(4,041)
Microfinance loans receivable, net	$	78,945	652	79,597

The reserves noted above can be attributed to loans that are past due or current as follows at June 30, 2013:

		Current	Past due	Total
Microfinance loans receivable	$	80,473	345	80,818
Less loan loss reserves		(3,478)	(298)	(3,776)
Microfinance loans receivable, net	$	76,995	47	77,042

(7) Property and Equipment

		2014	2013
Land	$	3,815	3,815
Buildings and leasehold improvements		37,522	37,264
Vehicles		10,339	10,427
Furniture, fixtures, and equipment		8,866	7,406
Property and equipment		60,542	58,912
Less accumulated depreciation and amortization		(20,085)	(16,997)
Property and equipment, net	$	40,457	41,915

(Continued)

(In thousands)

(8) Program-Related Investments

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

		2014	2013
PT Bank Andara, Indonesia	$	3,342	5,323
ACF, MCO, LLC		805	—
TenGer Financial Group LLC, Mongolia		624	624
Kompanion Invest		325	348
MICRO		211	222
MEVCF		45	39
Other		—	6
	$	5,352	6,562

PT Bank Andara (Andara), a limited liability company, was organized under the laws of the Republic of Indonesia in 2009 by an investor consortium, led by Mercy Corps. Mercy Corps founded Bank Andara to deliver innovative financial services to millions of low-income Indonesian families. Andara serves as the strategic banking partner to the Indonesian microfinance sector, which encompasses over 50,000 institutions. At June 30, 2014 and 2013, the Organization owned 22.1%, respectively, of the outstanding shares of Andara. This investment is reported on the equity method of accounting. The summarized financial data for Andara is as follows:

		2014	2013
Total assets	$	85,288	133,269
Total liabilities		(70,103)	(109,081)
Total equity	$	15,185	24,188
Total operating revenue	$	15,460	14,542
Total operating expense		(19,636)	(14,123)
Nonoperating (loss) gain		(1,495)	177
Net (loss) gain	$	(5,671)	596

In April 2014, ACF MCO, LLC sold 41% of its shares to a third party. Mercy Corps now owns 35% directly and reports this investment on an equity basis.

TenGer Financial Group, LLC (TenGer) is a Mongolian company, whose largest holding is XacBank. XacBank was formed in 2001 through a combination of microfinance activities from local nonbank financial institutions. Mercy Corps was one of the initial funders of this entity through a variety of investments that started in December 1999, when Mercy Corps formed a for-profit, nonbanking institution whose mission was to serve the credit needs of small and medium enterprises (SMEs) in the Mongolian

Gobi region. At June 30, 2014 and 2013, the Organization owned 7.5% of the outstanding shares of TenGer. This investment is recorded on the cost basis.

Kompanion Invest LLC was formed in Kyrgyzstan in October 2011 to provide a bank based on the Shariah principles. The organization is owned 99.9% by Kompanion. Mercy Corps does not consolidate Kompanion Invest due to its immaterial financial impact to Mercy Corps, but does report the investment on an equity basis.

MICRO Insurance Catastrophe Risk Organization SCC and MiCRO Insurance Catastrophe Risk Organization Cell A (MICRO) were formed in March 2011 to engage in the insurance business to achieve alleviation of poverty in Haiti and elsewhere in the Caribbean region by providing immediate relief to the economically disadvantaged in the event of future natural disasters. At June 30, 2014 and 2013, Mercy Corps owned 62.5% of MiCRO – SCC and 23.3% of MiCRO – Cell A. Mercy Corps reports the investment in MICRO's on an equity basis.

In fiscal 2011, Mercy Corps invested in the Middle East Venture Capital Fund, L.P. (MEVCF). The purpose of MEVCF is a venture capital fund focusing primarily on stimulating economic development by making investments sized businesses in the information and communications technology sectors. At June 30, 2014 and 2013, Mercy Corps owned less than 2% of this fund. The investment is recorded on a cost basis.

Mercy Corps has other small investments in various entities recorded on a cost basis. These investments are made in line with the mission of Mercy Corps to partner with developing social enterprises.

(9) Debt

On September 14, 2009, Mercy Corps occupied a new headquarters building in Portland, Oregon. Financing for the $38 million project was provided by a Mercy Corps capital campaign, commercial loans, sale of a condominiumized unit, and both New Market Tax Credit (NMTC) and Federal Historic Tax Credit (FHTC) funding.

Mercy Corps Investment Fund, LLC (MCIF) is the investor for the NMTC program. MCIF is funded by a commercial loan, a loan from Mercy Corps Foundation and equity investment from a private investor. As the NMTC program investor, MCIF is required to make Qualified Equity Investments (QEIs) in eligible Community Development Entities (CDEs) with available tax credit allocations. MCIF contributed QEI funds to three separate CDEs. Each of the three CDEs used the QEI funds, through designated sub-CDEs, to make Qualified Low-Income Community Investments (QLICIs) in the form of loans to Mercy Corps Headquarters Building, LLC, as a Qualified Active Low-Income Community Investment Business (QALICB). Mercy Corps does not control or have an interest in MCIF or in the sub-CDEs, and accordingly, MCIF and the sub-CDEs are not consolidated in Mercy Corps' consolidated financial statements. Mercy Corps guarantees MCIF's commercial loan. The guaranty requires that Mercy Corps set aside funds monthly into a bank-controlled account, the balance at June 30, 2014 of $620 is reported as a deposit on Mercy Corps' consolidated statement of financial position.

(In thousands)

Mercy Corps Headquarters Building, LLC's (Building) sole purpose is to function as a QALICB. Building is funded by QLICI loans from sub-CDEs, FHTC equity investment from Mercy Corps Headquarters Master Tenant, LLC (Tenant), and other equity investment from Mercy Corps Headquarters Manager, Inc. (Manager).

At June 30, long-term debt consisted of the following:

		2014	2013
NCF Sub-CDE, LLC:			
Interest rate of LIBOR+1.9% (2.06% at June 30, 2014 and 2.09% at June 30, 2013) for 28.12% of the outstanding principal balance and a fixed rate of 4.11% for 71.88% of the outstanding principal balance. Interest only payments are due monthly, until the loan matures on March 3, 2038, secured by real property	$	9,801	9,801
NNMF Sub-CDE III, LLC:			
Interest rate of LIBOR+1.9% (2.06% at June 30, 2014 and 2.09% at June 30, 2013) for 28.12% of the outstanding principal balance and a fixed rate of 3.67% for 71.88% of the outstanding principal balance. Interest only payments are due monthly, until the loan matures on March 19, 2038, secured by real property		7,275	7,275
USBCDE Sub-CDE XX, LLC:			
Interest rate of LIBOR+1.9% (2.06% at June 30, 2014 and 2.09% at June 30, 2013) for 28.12% of the outstanding principal balance and a fixed rate of 3.35% for 71.88% of the outstanding principal balance. Interest only payments are due monthly, until the loan matures on March 19, 2038, secured by real property		6,930	6,930
Portland Development Commission:			
Interest is variable (1% at June 30, 2014 and 2013), payable in monthly principal and interest installments, with a balloon payment due in March 2018, secured by real property		306	324
	$	24,312	24,330

(Continued)

(In thousands)

Future maturities of long-term debt outstanding at June 30, 2014 are as follows:

Year ending:		
2015	$	14
2016		15
2017		16
2018		261
2019		—
Thereafter		24,006
Total	$	24,312

(a) Line of Credit

The Organization has a $3,500 line of credit commitment with a bank for working capital purposes, which bears interest at a Base Rate (higher of Prime, LIBOR plus 1.50%, or Fed Funds Rate plus 1.50%) or LIBOR plus 2.15%, depending on the term selected by the Organization and a fee of 0.50% on the unused portion of the line of credit. The line is collateralized by a security interest in the Organization's nonbuilding assets and was renewed on July 1, 2013 and expires on March 1, 2015. During 2014 and 2013 there were no borrowings during the year and as of June 30, 2014 and 2013, the Organization has no outstanding borrowings under the line of credit.

(b) Covenants

The credit agreements under the building financing arrangements, and the line of credit bank contain certain restrictive covenants that require, among other things, that the Organization maintain certain fixed charge coverage ratios and minimum levels of unrestricted cash and cash equivalents.

(10) Subsidiary and Subordinated Debt for Microfinancing Activities

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

(In thousands)

Debt maturities as of June 30, 2014 were as follows:

Year ending:		
2015	$	23,888
2016		25,985
2017		18,752
2018		9,634
2019		100
Thereafter		2,966
	$	81,325

The above debt represents obligations of the following subsidiaries of Mercy Corps:

		2014	2013
Mercy Enterprise Corporation	$	1,263	1,002
Kompanion		80,062	66,396
ACF, MCO, LLC		—	6,830
	$	81,325	74,228

(In thousands)

Interest rates of subsidiary borrowings at June 30, 2014 are as follows:

Subsidiary	Lender	Interest rates		Balance
Mercy Enterprise Corporation	Various	0.00%–2.00%	$	1,263
Kompanion	BistumEssen	7.25%–7.40%		5,619
Kompanion	BlueOrchard	6.90%–7.25%		6,894
Kompanion	Calvert Social Invest	7.00%		1,515
Kompanion	Deutsche Bank	10.50%		6,121
Kompanion	Dual Return	16.25%		700
Kompanion	EBRD	Various		5,377
Kompanion	Frontiers	16.50%		1,536
Kompanion	Global Commercial	7.25%		2,024
Kompanion	IFC	6 months STB + 7.75%		2,722
Kompanion	Incofin	6.75%–7.50%		9,587
Kompanion	MinFln	8.00%		2,259
Kompanion	Netri Private	5.25%		605
Kompanion	Oikocredit	Various		4,267
Kompanion	RES_CrSuisse	7.25%		2,787
Kompanion	RES_SICAV	7.25%		7,944
Kompanion	SNS Institutional Fund	6.50%		3,089
Kompanion	Symbiotics	6.75%–7.25%		8,660
Kompanion	Triodos	7.25%		8,356
			$	81,325

The above debt also includes subordinated debts of $6,269 and $10,245, at June 30, 2014 and 2013, respectively. This subordinated debt is subordinate to all other debt of the individual subsidiary. Payment terms can be accelerated only if the respective subsidiary fails to make interest payments, uses proceeds for a purpose other than that stated in the debt agreements, or ceases its normal operations. The subordinated debt maturity dates range from 2014 to 2018; however, the actual maturity dates are automatically extended each year unless the lender exercises its rights to set the final maturity date.

(11) Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes as of June 30, 2014 and 2013:

		2014	2013
Organization programs	$	13,917	12,969
Headquarters building		7,083	7,245
	$	21,000	20,214

(In thousands)

(12) Permanently Restricted Net Assets

The Organization applies ASC Subtopic 958-205, *Not-for-Profit Entities, Presentation of Financial Statements* in accounting for their permanently restricted net assets. The Organization has interpreted UPMIFA as requiring the preservation of the original gift as of the gift date of donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The earnings on the donor restricted endowment fund are classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with standard of prudence prescribed by UPMIFA. During the fiscal year ended June 30, 2014, the permanent restriction of $20 was released from a subsidiary by the donor and transferred to Mercy Corps.

(13) Obligations under Operating Leases

The Organization leases office space under operating leases that require payments through 2024. The leases contain annual escalation clauses at fixed percentages or based on the consumer price index. At June 30, 2014, the Organization's aggregate minimum annual operating lease commitments are as follows:

2015	$	693
2016		601
2017		565
2018		515
2019		495
Thereafter		2,000
	$	4,869

Total rent expense was $4,469 and $4,812 for the fiscal years ended June 30, 2014 and 2013, respectively. A majority of this rent expense relates to facilities that are not under a formal lease agreement.

(14) Commitments and Contingencies

The Organization receives a substantial portion of its funding in the form of grants from the U.S. government. 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. As of June 30, 2014 and 2013, the Organization recorded a contingent liability of $1,134 and $1,001, respectively, for potential claims and disallowances based on management's review of prior history and assessment of the current status of grant programs.

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.

(15) Employee Benefit Plan

The Organization 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, 2014 and 2013 amounted to $1,213 and $1,146, respectively.

The Organization also has an 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's contributions to the program for the years ended June 30, 2014 and 2013 amounted to $347 and $283, respectively.

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

(16) Related Parties

Mercy Corps Scotland (MCS) is a nonprofit corporation registered in the United Kingdom. MCS has a separate board of directors and manages its own programs. MCS possesses legal and fiscal responsibility and final oversight for projects implemented with grants and contributions that it receives from donors and government agencies. MCS has a clear and unequivocal responsibility to ensure that any program it supports or undertakes falls within the scope of its activities as set forth under Scottish charity legislation and that all funds are used appropriately. The Organization does not and cannot exert direct financial or operational control over MCS, and as such, MCS is not included in the Organization's consolidated financial statements.

MCS and the Organization share the same mission, purpose, and values as partners in an international network of colleagues working together to fulfill the basic purpose of the Organization's programs worldwide. MCS and the Organization work closely together as affiliates and, in some instances, both organizations will pool administrative and technical resources for the benefit of their respective projects. In such cases, an invoice for the actual costs incurred will be sent between MCS and the Organization. Additionally, the Organization will advance cash to the field on behalf of MCS to facilitate program cash management. MCS will reimburse the Organization for these advances on a monthly basis.

The Organization entered into a Memorandum of Understanding (MOU) with MCS on April 14, 2005. This MOU states that the Organization will assume any of MCS' financial liabilities that might arise from donor disallowances. Additionally, the Organization has agreed to indemnify MCS for all expenses related to material aid transactions in Europe. As of June 30, 2014 and 2013, the Organization is not aware of any material known or contingent donor disallowances arising from program activities carried out by MCS.

As of June 30, 2014 and 2013, the net amount due from MCS and other affiliates was $7,873 and $8,864, respectively.

(17) Significant Sources of Revenue and Concentration of Risk

(a) Significant Sources of Revenue

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

(b) Concentration of Risk

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

In order to fulfill grant agreements and maintain ongoing operations, the Organization maintains cash balances inside foreign countries and in local currencies. The Organization had cash deposits of 38.3% and 35.4%, in the Organization's foreign locations, of which 15.9% and 11.1% was held by the Organization's MFI's, as of June 30, 2014 and 2013, respectively.

(18) Subsidiary Entities

Mercy Corps is required to consolidate certain entities under the guidance of Financial Accounting Standards Board (FASB) ASC Topic 810, *Consolidation*. However, Mercy Corps has limitations on the use of the assets and is not directly obligated for the liabilities of these consolidated subsidiaries under the laws in place in the foreign jurisdiction of each of these subsidiaries.

(In thousands)

The summarized statement of financial position and statements of activities of the significant foreign subsidiaries of Mercy Corps before consolidation is as follows:

		Kompanion Financial Group, LLC	PATRA's	MICRA Indonesia	Total
Total operating revenue	$	26,018	155	187	26,360
Total operating expense		(26,477)	(132)	(175)	(26,784)
Nonoperating gain (loss)		512	6	(41)	477
Net gain (loss)	$	53	29	(29)	53
Total assets	$	99,337	1,507	629	101,473
Total liabilities		(84,619)	(278)	(469)	(85,366)
Total equity	$	14,718	1,229	160	16,107

Mercy Corps continues to establish new entities to invest in new technology, business models and social enterprises to provide transformational opportunities for overcoming poverty. The following entities are yet to have significant activities, but are controlled by Mercy Corps and have therefore been consolidated as of June 30, 2014:

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

Mercy Corps Egypt, LLC was formed in August of 2012 to establish a field office and operations in Egypt.

Yayasan Mercy Corps Indonesia was formed in February 2012 to further the mission in Indonesia.

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

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

Custom Clouds Public Benefit Corporation was formed in 2013 to promote the creation of economic and employment opportunities in developing countries by catalyzing sustainable small business growth through the provision of Web marketing and other cloud based solutions and services.

Total combined net assets of the six entities listed above are $(77) and $50 as of June 30, 2014 and 2013, respectively.

(19) Subsequent Events

The Organization has performed an evaluation of subsequent events through October 31, 2014, which is the date the consolidated financial statements were available to be issued and have determined there are no additional disclosures needed.

MERCY CORPS AND AFFILIATES

Supplemental Schedules – Mercy Corps

June 30, 2014
With comparative information as of and for the year ended June 30, 2013

The following schedules I and II are a presentation of the financial position and financial activities and changes in net assets for Mercy Corps on an unconsolidated basis. These amounts are included as part of the consolidated financial statements of Mercy Corps and affiliates for the fiscal year ended June 30, 2014.

Schedule I

MERCY CORPS AND AFFILIATES

Supplemental Schedule – Mercy Corps Statement of Financial Position

June 30, 2014
With comparative financial information as of June 30, 2013

Assets		**2014**	**2013**
Cash	$	55,056	54,008
Grants and accounts receivable		18,129	13,570
Due from unconsolidated affiliates, net		13,152	14,533
Inventories		5,833	7,503
Prepaid expenses, deposits, and other assets		5,641	4,440
Pledges receivable, net		2,512	955
Notes receivable		400	—
Investments		8,835	8,085
Program-related investments		18,870	18,922
Property and equipment, net		7,493	8,376
Total assets	$	135,921	130,392
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued liabilities	$	31,398	24,473
Deferred revenue		37,385	37,388
Long-term debt		306	324
Total liabilities		69,089	62,185
Net assets:			
Unrestricted		45,832	47,993
Temporarily restricted		21,000	20,214
Total net assets		66,832	68,207
Total liabilities and net assets	$	135,921	130,392

See accompanying independent auditors' report.

Schedule II

MERCY CORPS AND AFFILIATES

Supplemental Schedule – Mercy Corps Statement of Activities

Year ended June 30, 2014
With comparative financial information for the year ended June 30, 2013

	Unrestricted	Temporarily restricted	Totals	2013 Total
Operating support and revenue:				
Public support and revenue:				
Government grants	$ 171,160	—	171,160	157,913
Material aid	12,406	—	12,406	11,099
Material aid – monetized	9,924	—	9,924	9,200
Total public support and revenue	193,490	—	193,490	178,212
Private support and revenue:				
Other grants	45,505	11	45,516	31,851
Contributions	22,347	13,336	35,683	24,738
Gift in kind – services	438	—	438	504
Total private support and revenue	68,290	13,347	81,637	57,093
Other revenue:				
Interest income	240	—	240	369
Other revenue	603	—	603	1,417
Total other revenue	843	—	843	1,786
Net assets released from restriction	12,561	(12,561)	—	—
Total operating support and revenue	275,184	786	275,970	237,091
Operating expenses:				
Program services:				
Humanitarian assistance – relief	86,172	—	86,172	62,074
Humanitarian assistance – recovery	15,678	—	15,678	16,364
Livelihood/economic development	48,523	—	48,523	53,559
Civil society and education	46,267	—	46,267	44,059
Health	33,474	—	33,474	25,619
Total program services	230,114	—	230,114	201,675
Supporting services:				
General and administrative	32,588	—	32,588	28,004
Resource development	14,787	—	14,787	11,707
Total supporting services	47,375	—	47,375	39,711
Total operating expenses	277,489	—	277,489	241,386
Change in net assets from operations	(2,305)	786	(1,519)	(4,295)
Nonoperating revenue and expenses, net:				
Foreign currency exchange loss, net	(1,418)	—	(1,418)	(479)
Realized and unrealized gain on investments, net	1,562	—	1,562	536
Total nonoperating revenue and expenses, net	144	—	144	57
Change in net assets	(2,161)	786	(1,375)	(4,238)
Net assets at beginning of year	47,993	20,214	68,207	72,445
Net assets at end of year	$ 45,832	21,000	66,832	68,207

See accompanying independent auditors’ report.