MERCY CORPS AND AFFILIATES

Consolidated Financial Statements

June 30, 2011 and 2010

(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 statements of financial position of Mercy Corps and affiliates (the Organization) as of June 30, 2011 and 2010, and the related consolidated statements of activities, cash flows, and functional expenses for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2011 and 2010, and the changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary information included in Schedules I and II is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, accordingly, we express no opinion on it.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary information included in Schedules III, IV and V is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

KPMG LLP

November 18, 2011

MERCY CORPS AND AFFILIATES

Consolidated Statements of Financial Position

June 30, 2011 and 2010

Assets		**2011**		**2010**
Cash	$	78,631,833	$	56,256,456
Financial instruments, derivatives		—		717,912
Grants and accounts receivable		20,774,875		26,424,408
Microfinance loans receivable		55,775,320		42,999,778
Due from unconsolidated affiliates, net		2,408,039		2,626,060
Inventories		5,730,014		11,174,357
Prepaid expenses, deposits, and other assets		5,591,138		6,085,524
Pledges receivable, net		2,408,730		2,656,358
Notes receivable		11,149,243		11,230,120
Investments		1,308,359		512,745
Program-related investments		6,382,106		7,803,093
Property and equipment, net		40,039,091		39,399,400
Total assets	$	230,198,748	$	207,886,211
Liabilities and Net Assets				
Liabilities:				
Accounts payable and accrued liabilities	$	38,253,219	$	31,958,225
Financial instruments, derivatives, net		111,136		—
Refundable advances		27,828,986		23,545,457
Subsidiary and subordinated debt for microfinancing activities		50,842,534		40,888,574
Long-term debt		26,712,241		31,675,549
Total liabilities		143,748,116		128,067,805
Net assets:				
Unrestricted		52,933,308		44,612,389
Temporarily restricted		33,497,324		35,186,017
Permanently restricted		20,000		20,000
Total net assets		86,450,632		79,818,406
Total liabilities and net assets	$	230,198,748	$	207,886,211

See accompanying notes to consolidated financial statements.

MERCY CORPS AND AFFILIATES

Consolidated Statements of Activities

Year ended June 30, 2011

	Unrestricted	Temporarily restricted	Permanently restricted	Totals
Operating support and revenue:				
Public support and revenue:				
Government grants	$ 186,522,916	$ —	$ —	$ 186,522,916
Material aid	14,338,387	—	—	14,338,387
Material aid – monetized	8,672,676	—	—	8,672,676
Total public support and revenue	209,533,979	—	—	209,533,979
Private support and revenue:				
Other grants	13,373,902	18,448,060	—	31,821,962
Private contributions	17,166,667	10,339,767	—	27,506,434
Contributions for the acquisition of property	—	829,294	—	829,294
Total private support and revenue	30,540,569	29,617,121	—	60,157,690
Other revenue:				
Interest income	25,959,973	—	—	25,959,973
Other revenue	5,791,114	5,500	—	5,796,614
Total other revenue	31,751,087	5,500	—	31,756,587
Net assets released from restriction	31,311,314	(31,311,314)	—	—
Total operating support and revenue	303,136,949	(1,688,693)	—	301,448,256
Operating expenses:				
Program services:				
Humanitarian assistance – relief	65,695,304	—	—	65,695,304
Humanitarian assistance – recovery	42,647,217	—	—	42,647,217
Livelihood/economic development	81,624,330	—	—	81,624,330
Civil society and education	47,973,805	—	—	47,973,805
Health	17,841,230	—	—	17,841,230
Total program services	255,781,886	—	—	255,781,886
Supporting services:				
General and administrative	27,664,414	—	—	27,664,414
Resource development	10,041,183	—	—	10,041,183
Total supporting services	37,705,597	—	—	37,705,597
Total operating expenses	293,487,483	—	—	293,487,483
Operating support and revenue in excess of operating expense	9,649,466	(1,688,693)	—	7,960,773
Other nonoperating revenue and expenses, net:				
Foreign currency exchange gain, net	276,867	—	—	276,867
Realized and unrealized loss on investments	(2,381,680)	—	—	(2,381,680)
Unrealized loss on swap agreements	(829,048)	—	—	(829,048)
Other nonoperating increase in net assets	1,605,314	—	—	1,605,314
Total nonoperating revenue and expenses, net	(1,328,547)	—	—	(1,328,547)
Change in net assets	8,320,919	(1,688,693)	—	6,632,226
Net assets at beginning of year	44,612,389	35,186,017	20,000	79,818,406
Net assets at end of year	$ 52,933,308	$ 33,497,324	$ 20,000	$ 86,450,632

See accompanying notes to consolidated financial statements.

MERCY CORPS AND AFFILIATES

Consolidated Statements of Activities

Year ended June 30, 2010

	Unrestricted	Temporarily restricted	Permanently restricted	Totals
Operating support and revenue:				
Public support and revenue:				
Government grants	$ 149,047,546	$ —	$ —	$ 149,047,546
Material aid	12,439,879	61,950	—	12,501,829
Material aid – monetized	5,325,434	—	—	5,325,434
Total public support and revenue	166,812,859	61,950	—	166,874,809
Private support and revenue:				
Other grants	20,869,882	19,014,946	—	39,884,828
Private contributions	17,407,975	13,404,922	—	30,812,897
Contributions for the acquisition of property	—	2,345,038	—	2,345,038
Total private support and revenue	38,277,857	34,764,906	—	73,042,763
Other revenue:				
Interest income	19,840,219	—	—	19,840,219
Other revenue	2,090,229	12,042	—	2,102,271
Total other revenue	21,930,448	12,042	—	21,942,490
Net assets released from restriction	41,581,257	(41,581,257)	—	—
Total operating support and revenue	268,602,421	(6,742,359)	—	261,860,062
Operating expenses:				
Program services:				
Humanitarian assistance – relief	65,235,070	—	—	65,235,070
Humanitarian assistance – recovery	34,287,630	—	—	34,287,630
Livelihood/economic development	70,418,564	—	—	70,418,564
Civil society and education	46,579,958	—	—	46,579,958
Health	15,259,481	—	—	15,259,481
Total program services	231,780,703	—	—	231,780,703
Supporting services:				
General and administrative	21,699,649	—	—	21,699,649
Resource development	8,843,200	—	—	8,843,200
Total supporting services	30,542,849	—	—	30,542,849
Total operating expenses	262,323,552	—	—	262,323,552
Operating support and revenue in excess of operating expense	6,278,869	(6,742,359)	—	(463,490)
Other nonoperating revenue and expenses, net:				
Foreign currency exchange gain	230,793	—	—	230,793
Realized and unrealized gain on investments	244,394	—	—	244,394
Unrealized loss on swap agreements	(2,193,439)	—	—	(2,193,439)
Other nonoperating expense	(74,408)	—	—	(74,408)
Total nonoperating revenue and expenses, net	(1,792,660)	—	—	(1,792,660)
Change in net assets	4,486,209	(6,742,359)	—	(2,256,150)
Net assets at beginning of year	40,126,180	41,928,376	20,000	82,074,556
Net assets at end of year	$ 44,612,389	$ 35,186,017	$ 20,000	$ 79,818,406

See accompanying notes to consolidated financial statements.

MERCY CORPS AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended June 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Change in net assets	$ 6,632,226	$ (2,256,150)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,297,457	3,096,277
Provision for loan losses	2,761,586	
Net realized and unrealized (gain) loss on investments	2,104,813	(475,187)
Unrealized loss on interest rate swap	829,048	2,193,439
Loss on disposition of fixed assets	160,555	1,921,291
Contributions restricted for long-term investment	(829,294)	(2,345,038)
Changes in assets and liabilities:		
Grants and accounts receivable	6,920,801	(7,568,956)
Due from unconsolidated affiliates, net	633,715	(1,223,515)
Inventories	5,444,343	3,634,683
Prepaid expenses, deposits, and other assets	(948,519)	(4,340,701)
Pledges receivable	(352,372)	3,439,853
Accounts payable and accrued liabilities	6,455,669	8,506,306
Refundable advances	3,820,270	10,349,265
Net cash provided by operating activities	36,930,298	14,931,567
Cash flows from investing activities:		
Purchase of investments	(1,796,401)	(1,070,949)
Issuances of microfinance loans, net	(17,975,849)	(9,019,435)
Proceeds from sale of property and equipment	—	2,555,173
Acquisition of property and equipment	(3,979,633)	(8,839,958)
Disposition and addition of entities	(548,460)	—
Net cash used in investing activities	(24,300,343)	(16,375,169)
Cash flows from financing activities:		
Repayment of notes receivable	80,877	76,096
Proceeds from borrowings by microfinance entities	31,215,236	9,677,856
Repayments on borrowings of microfinance entities	(17,482,468)	(13,210,658)
Contributions restricted for long-term investment	829,294	2,345,038
Proceeds from the issuance of long-term debt	100,000	1,812,882
Repayments on long-term debt	(4,997,517)	(6,695,497)
Net cash provided by (used in) financing activities	9,745,422	(6,070,379)
Net increase (decrease) in cash and cash equivalents	22,375,377	(7,513,981)
Cash at beginning of year	56,256,456	63,770,437
Cash at end of year	$ 78,631,833	$ 56,256,456
Supplemental disclosures:		
Interest paid during the year	$ 6,081,788	$ 5,436,729
Noncash contributions	$ 20,856,949	$ 27,853,854

See accompanying notes to consolidated financial statements.

MERCY CORPS AND AFFILIATES

Consolidated Statements of Functional Expenses

Year ended June 30, 2011

	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**
Personnel	$ 10,628,029	7,380,232	19,561,184	16,801,579	5,555,131	59,926,155	15,428,316	5,506,432	80,860,903
Professional services	3,051,405	203,580	1,060,257	1,789,964	334,390	6,439,596	820,855	704,271	7,964,722
Professional services – in kind	—	—	—	—	—	—	1,631,628	—	1,631,628
Travel and vehicle expense	2,893,252	1,490,298	3,807,347	3,013,294	1,093,627	12,297,818	2,922,589	411,658	15,632,065
Office and occupancy expense	2,143,121	1,488,913	3,292,026	2,876,530	1,192,335	10,992,925	2,311,370	2,362,910	15,667,205
Other operating expenses	338,609	279,793	1,922,939	565,681	179,483	3,286,505	2,162,967	1,029,924	6,479,396
Material aid	12,908,153	—	—	—	—	12,908,153	—	—	12,908,153
Materials and supplies	15,224,439	7,451,037	6,403,452	3,099,248	1,458,550	33,636,726	31,421	—	33,668,147
Construction, nonowned assets	2,726,893	2,663,849	3,775,944	8,239,345	2,729,139	20,135,170	6,623	—	20,141,793
Training, monitoring, and evaluation	862,915	774,430	2,903,213	2,379,026	1,115,157	8,034,741	8,354	—	8,043,095
Subgrants	14,446,152	20,737,834	14,816,677	8,765,088	4,040,491	62,806,242	128,290	—	62,934,532
Microfinancing activity	47,352	47,352	18,465,382	—	—	18,560,086	121,622	—	18,681,708
Depreciation	424,426	129,847	1,217,889	444,050	142,865	2,359,077	921,327	17,053	3,297,457
Interest expense	558	52	4,398,020	—	62	4,398,692	1,169,052	8,935	5,576,679
	$ 65,695,304	42,647,217	81,624,330	47,973,805	17,841,230	255,781,886	27,664,414	10,041,183	293,487,483

See accompanying notes to consolidated financial statements.

MERCY CORPS AND AFFILIATES

Consolidated Statements of Functional Expenses

Year ended June 30, 2010

	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
Personnel	$ 9,439,184	6,234,717	15,646,533	12,486,895	4,117,645	47,924,974	12,592,578	4,208,841	64,726,393
Professional services	3,414,687	534,822	2,776,822	2,359,562	398,002	9,483,895	1,159,744	1,459,620	12,103,259
Professional services – in kind	—	—	—	—	—	—	1,069,618	—	1,069,618
Travel and vehicle expense	2,296,879	1,168,228	3,287,740	2,720,132	893,159	10,366,138	1,915,373	215,703	12,497,214
Office and occupancy expense	2,220,675	1,798,284	3,992,272	2,606,970	1,535,585	12,153,786	1,507,715	2,361,968	16,023,469
Other operating expenses	365,093	177,012	—	557,392	117,088	1,216,585	1,231,556	546,688	2,994,829
Material aid	19,491,575	—	—	32,592	—	19,524,167	—	—	19,524,167
Materials and supplies	11,249,964	4,090,369	6,556,374	3,527,832	875,598	26,300,137	1,221	2,033	26,303,391
Construction, nonowned assets	3,509,477	1,473,483	3,994,375	12,642,223	1,361,622	22,981,180	—	—	22,981,180
Training, monitoring, and evaluation	1,568,572	885,200	1,640,525	1,654,937	2,260,684	8,009,918	86,729	21,198	8,117,845
Subgrants	11,277,838	17,829,995	13,871,202	7,314,672	3,643,663	53,937,370	130,425	—	54,067,795
Microfinancing activity	—	—	12,414,527	—	—	12,414,527	82,274	—	12,496,801
Depreciation	401,126	95,520	996,510	622,119	56,435	2,171,710	897,418	27,149	3,096,277
Interest expense	—	—	5,241,684	54,632	—	5,296,316	1,024,998	—	6,321,314
	$ 65,235,070	34,287,630	70,418,564	46,579,958	15,259,481	231,780,703	21,699,649	8,843,200	262,323,552

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 40 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 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
Asian Credit Public Fund
Ariana Financial Services JSC
Hunchun Association for Poverty Alleviation in the Tumen River Area
Yanbian Association for Poverty Alleviation in the Tumen River Area
MICRA Phillipines Foundation, Inc.
Yayasan Microfinance Innovation & Resource Center Foundation
Mercy Enterprise Corporation (MEC) d/b/a Mercy Corps Northwest
MC Hong Kong (dissolved 2010)
MC Canada (dissolved 2010)
MC Belgium (dissolved 2010)
MC Singapore (formed in 2010)
Mercy Corps India (formed 2010)

(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.

(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 and pledges receivables. Actual results may differ from those estimates.

(c) Revenue Recognition

Contributions, including unconditional promises to give, are recognized 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 incurred expenditures in compliance with the specific terms and conditions of the grant or contract. Grant or contract funds received for which no corresponding expenditure has yet been made are accounted for as refundable advances. Expenditures made in advance of funds received are recorded as grants receivable.

Donated services that meet the criteria for recognition in accordance with generally accepted accounting principles are reported as contributions and expenses in amounts equal to their estimated fair value on the date of receipt. Approximately $1.6 million and $1.1 million of legal services were provided pro bono to the Organization in 2011 and 2010, respectively.

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

(Continued)

Gifts in kind and contributions of fixed assets 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) Operating Support and Revenue in Excess of Expense

Operating support and revenue in excess of expense 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 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.

In 2010, Mercy Corps adopted the sections of Accounting Standards Codification (ASC) Topic 740, *Accounting for Income Taxes* (ASC 740), related to uncertainties in income taxes, which prescribes a comprehensive model for recognizing, measuring, presenting, and disclosing in the consolidated financial statements tax positions taken or expected to be taken on a tax return.

The Organization believes it has not taken any significant uncertain tax positions, and accordingly, the adoption of the applicable sections of ASC 740 did not have a significant impact on the Organization’s consolidated financial statements.

The Organization received a notice in August 2009 stating that the Internal Revenue Service (IRS) would be performing an examination of the Organization’s IRS Forms 990 for the years ended June 30, 2008 and 2007. The Organization has been advised orally that the audit will be closed without any adjustment but has not yet received official written confirmation.

(h) Cash

Cash and cash equivalents consist of short-term, highly liquid investments with original maturities of three months or less at the date of acquisition. The Organization held no cash equivalents as of June 30, 2011 and 2010.

(Continued)

Certain cash accounts are maintained as separate accounts that represent cash held in trust or as collateralized cash. These types of accounts totaled $2,918,947 and $3,048,176 at June 30, 2011 and 2010, respectively.

(i) Investments

The Organization holds various types of investments, including money market accounts and mutual funds. Investments are recorded at fair value. Interest and dividends earned on funds are included in other revenue classified as either unrestricted or temporarily restricted based on donor stipulations. There are no significant concentrations as the portfolio is diversified among issuers.

(j) Derivative Financial Instruments

Derivative financial instruments include currency swaps and an interest rate swap. 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 derivatives are recognized currently as a gain or loss in other nonoperating changes in net assets in the statements of activities.

(k) 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.

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 statement 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).

(l) Fair Value of Financial Instruments

The carrying value of cash, grants and other receivables, loans receivable and payable, and borrowings approximates their estimated fair value as of June 30, 2011 and 2010, due to the relative short maturities of these instruments.

(m) Grants and Accounts Receivable

The majority of the Organization's grants and accounts receivables 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.

(n) Microfinance Loans Receivable

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

The following MFI's 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.

Asian Credit Fund Microcredit Organization, Limited Liability Company (ACF MCO LLC) was incorporated in 2007 as a for-profit commercial microcredit organization in the Republic of

Kazakhstan and is wholly owned by ACF. In 2009, ACF MCO LLC was reregistered with Mercy Corps becoming a Participant, owning 60% of the capital, and ACF owning 40%. As Mercy Corps is the Founder of ACF and has a controlling interest, Mercy Corps controls ACF MCO LLC.

Ariana Financial Services JSC (AFS), a nondistributive joint stock company in Afghanistan, was formed in 2007 to engage in humanitarian purposes and social welfare activities with respect to the development of poor people in Afghanistan through the use of microfinance and microcredit. Mercy Corps owned 96% of outstanding shares of AFS, with the balance owned by employees of Mercy Corps and AFS at June 30, 2010. AFS ceased operations in May 2011 when it became apparent that the MFI would not become financially sustainable without a significant financial and human resource investment on the part of Mercy Corps for a minimum five-year period and/or a merger with another organization of similar size. An Assignment and Assumption Agreement was concluded on May 25, 2011 between AFS and the Microfinance Investment Support Facility for Afghanistan, LTD (MISFA), which had provided most of the lending capital and operating costs of AFS. The Agreement transferred all AFS rights to outstanding loans, including interest due on loans, and other assets to MISFA. Additionally Mercy Corps reserved $215,000 during fiscal year 2011 to settle the liabilities of AFS.

Hunchun Association for Poverty Alleviation in the Tumen River Area and the Yanbian Association for Poverty Alleviation in the Tumen River Area (collectively, the PATRA’s) 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.

MICRA Phillipines Foundation, Inc. was formed in 2008 as a non-stock, nonprofit corporation under the laws of the Republic of the Phillipines. The purpose of the Foundation is to support the Philippine microfinance sector by providing technical inputs, training, education and research. The Foundation is controlled by a Board of Trustees, composed primarily of Mercy Corps employees.

Yayasan Microfinance Innovation & Resource Center Foundation 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 Advisor 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.

(o) Inventories and Material Aid

The Organization receives agricultural commodities from governments for distribution via Organization programs and for monetization in which proceeds are to be used to fund Organization programs. Commodities received for distribution are recorded at estimated fair value as inventory and refundable advances. Revenue is recognized as inventory is distributed, and is recorded in the consolidated statement of activities as "Material Aid." Funds received from monetization of commodities are deferred until utilized in program activities. Revenue earned from monetization proceeds is recognized in the consolidated statements of activities as "Material aid – monetized."

The Organization also receives nonfood commodities and supplies from private donors for distribution in the Organization's programs. These contributions are recorded as inventory and temporarily restricted revenue. As inventory is distributed, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. At June 30, 2011, all nonfood commodities had been distributed.

Material aid commodities received from the U.S. government that are held for sale are valued at the lesser of the fair value on the contribution date or the expected sales price in the foreign location, if impaired. Material aid commodities held for distribution and not for sale are valued at estimated fair value.

(p) Program-Related Investments

Program-related investments represent the Organization's investments in domestic and overseas organizations that do not meet the standard of control for consolidation under U.S. generally accepted accounting principles. The investments are typically in the form of equity investments funded with grants or the Organization's unrestricted funds. The purpose of these investments is the furtherance of the Organization's mission rather than the generation of income. Investments are recorded on either a cost or equity basis, depending on the Organization's level of ownership and influence over the entities.

(q) Property and Equipment, Net

Land, buildings, and equipment are stated at acquisition cost or fair value on 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.

(r) Reclassifications

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

(3) Fair Value of Financial Instruments

Fair value measurements at June 30, 2011 consisted of the following:

	Level 1	Level 2	Total
Assets:			
Investments:			
Mutual funds–equity	$ 781,142	$ —	$ 781,142
Mutual funds–fixed income	486,420	—	486,420
Equity Investment	40,797	—	40,797
Total investments	1,308,359	—	1,308,359
Derivative financial instruments:			
Foreign currency swap arrangements	—	481,828	481,828
Total	$ 1,308,359	$ 481,828	$ 1,790,187
Liabilities:			
Derivative financial instruments:			
Interest rate swaps	$ —	$ 592,964	$ 592,964

Fair value measurements at June 30, 2010 consisted of the following:

	Level 1	Level 2	Total
Assets:			
Investments:			
Mutual funds–equity	$ 426,772	$ —	$ 426,772
Exchange–traded fund	76,720	—	76,720
Money market	9,253	—	9,253
Total investments	512,745	—	512,745
Derivative financial instruments:			
Foreign currency swap arrangements	—	717,912	717,912
Total	$ 512,745	$ 717,912	$ 1,230,657

Mercy Corps had no Level 3 assets or liabilities measured at fair value at June 30, 2011 and 2010.

(4) Pledges Receivable

Unconditional promises to give are included in the consolidated financial statements as pledges receivable and revenue of the appropriate net assets category. Pledges receivable are expected to be collected in future years and are recorded after discounting at 0.19% to 0.81% to the present value of expected future cash flows.

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

	2011	2010
One year or less	$ 2,026,967	1,560,648
Between one year and five years	992,500	1,111,800
	3,019,467	2,672,448
Less allowance	(600,000)	—
Less discount	(10,737)	(16,090)
Pledges receivable, net	$ 2,408,730	2,656,358

(5) Notes Receivable

At June 30, 2011 and 2010, notes receivable comprises the following:

	2011	2010
A note receivable from a U.S. corporation, interest at prime less 2.00% and at a guaranteed minimum 3.00% and maximum 6.00%, matures January 17, 2013, rate of 3% at June 30, 2011 and 2010	$ 161,754	$ 242,631
A note receivable from Mercy Corps Investment Fund, LLC, interest at 4.75%, matures April 1, 2015	10,987,489	10,987,489
Total notes receivable	$ 11,149,243	$ 11,230,120

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 real estate or business assets and have fixed payments.

Microfinance loans receivable were concentrated in the following countries as of June 30, 2011 and 2010:

	2011	2010
Afghanistan	$ —	$ 3,513,316
China	1,144,437	1,010,119
Kazakhstan	3,354,437	2,059,423
Kyrgyzstan	53,967,017	37,129,462
Other	612,834	991,207
	59,078,725	44,703,527
Less loan loss reserves	(3,303,405)	(1,703,749)
Microfinance loans receivable, net	$ 55,775,320	$ 42,999,778

Activity in the provision for loan loss reserve on microcredit loans is as follows for the years ended June 30, 2011 and 2010:

	2011	2010
Loan loss reserve, June 30, 2010	$ (1,703,749)	$ (2,039,747)
Additional reserve–current year, net	(1,599,656)	335,998
Loan loss reserve, June 30, 2011	$ (3,303,405)	$ (1,703,749)

(7) Property and Equipment

	2011	2010
Land	$ 3,787,172	$ 3,787,172
Building and leasehold improvements	33,695,716	32,669,288
Vehicles	6,875,014	6,011,939
Furniture, fixtures, and equipment	5,013,024	3,863,409
Property and equipment	49,370,926	46,331,808
Less accumulated depreciation and amortization	(9,331,835)	(6,932,408)
Property and equipment, net	$ 40,039,091	$ 39,399,400

(8) Program-Related Investments

The Organization’s program-related investments at June 30, 2011 and 2010 are as follows:

	2011	2010
PT Bank Andara, Indonesia	$ 5,008,428	$ 6,974,342
TenGer Financial Group LLC (previously, XAC–GE LLC), Mongolia	623,543	623,543
MicroVest I, LLP	200,000	200,000
MICRO Insurance	486,024	—
MC India	45,903	—
MEVC	13,000	—
MLO IMON International LLC, Tajikistan	5,208	5,208
	$ 6,382,106	$ 7,803,093

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. In December 2010, Mercy Corps purchased an additional 2,820 shares of Andara for $404,725. At June 30, 2011 and 2010, the Organization owned 33.65% and 33.39%, 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:

		2011		2010
Total assets	$	48,413,805	$	30,507,000
Total liabilities		(33,527,610)		(14,659,000)
Total equity	$	14,886,195	$	15,848,000
Total operating revenue		3,771,342		1,886,000
Total operating expense		(6,370,853)		(4,540,000)
Nonoperating loss		(200,911)		256,000
Net loss	$	(2,800,422)	$	(2,398,000)

TenGer Financial Group, LLC (TenGer), formerly, XAC-GE LLC, 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, 2011 and 2010, the Organization owned 11.42% and 13.67% of the outstanding shares of TenGer. This investment is recorded on a cost basis.

Micro Vest I, LP (the Fund) is a Delaware limited partnership. The investment objective of the Fund is to provide social impact and capital appreciation by lending to and making equity investments in MFI's located throughout the developing world. At June 30, 2011 and 2010, the Organization owns 1.17% of the Fund and accordingly reports this investment on a cost basis.

MICRO Insurance Catastrophe Risk Organization (MICRO) was for 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. Mercy Corps owns 50.0% of MICRO and reports interest on an equity basis.

Mercy Corps India was formed in August 2010 as joint stock company. As of June 30, 2011, there had yet to be any activity in Mercy Corps India other than a small amount of organizational expenses.

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 in companies in the West Bank and Gaza strip by providing seed and early stage financing to small and medium sized businesses in the information and communications technology sectors. At June 30, 2011, Mercy Corps owned less then 2% of this fund.

MLO IMON International LLC (IMON) is a microfinance institution established in 2008 in the Republic of Tajikistan. At June 30, 2011 and 2010, the Organization owns less than 1% of IMON. This investment is recorded on a cost basis. Mercy Corps is also one of two Founders of International Micro lending Fund IMON, a noncommercial not-for-profit microfinance fund that owns 90.8% of IMON. As Mercy Corps does not control International Micro Lending Fund IMON, their results are not included in Mercy Corps' consolidated financial statements.

(9) Debt

On September 14, 2009, Mercy Corps occupied a new headquarter 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 guarantees the commercial loan from US Bank CRE. The guaranty requires that Mercy Corps set aside funds monthly into a bank-controlled account, the balance of which is reported as a cash deposit on the Organization's consolidated statements of financial position.

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 of which is reported as a deposit on Mercy Corps' consolidated statement of financial position.

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, 2011 and 2010, long-term debt consisted of the following:

	2011	2010
NCF Sub-CDE, LLC: Interest rate of LIBOR+1.9% (2.09% at June 30, 2011 and 2.28% at 2010) 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	$ 9,801,000	$ 9,801,000
NNMF Sub-CDE III, LLC: Interest rate of LIBOR+1.9% (2.09% at June 30, 2011 and 2.28% at 2010) 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	7,275,000	7,275,000
U.S. Bank Sub-CDE XX, LLC: Interest rate of LIBOR+1.9% (2.09% at June 30, 2011 and 2.28% at 2010) 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	6,930,000	6,930,000
Wells Fargo Term Loan: Interest rate of LIBOR+2.25% (2.63% at June 30 2010) Secured by receivables and other assets. Balance was paid in November 2010	—	2,000,000
U.S. Bank: Interest rate of LIBOR+1.90% (2.28% at June 30 2010) Balance was paid in August 2010	—	1,441,661
Meyer Memorial Trust: Interest rate is fixed at 2.00%. The unsecured loan is payable in three installments from June 2011 through June 2013.	750,000	1,000,000
U.S. Bank: Interest rate of LIBOR+1.90% (2.09% at June 30, 2011 and 2.28% at 2010) principal is due in varying aggregate minimums annually and matures in March 2013, secured by Capital Campaign pledges	1,072,686	2,319,376

(Continued)

		2011		2010
Wainright Bank and Trust Company: Interest rate of Prime+1.00% (4.25% at June 30, 2011 and 2010, and payable in monthly principal and interest installments, with a balloon payment due in November 2018), secured by real property.		523,706		537,291
Portland Development Commission: Interest is variable (1% at June 30, 2011 and 2010), payable in monthly principal and interest installments, with a balloon payment due in March 2018, secured by real property		359,849		371,221
	$	26,712,241	$	31,675,549

Future maturities of long term debt outstanding at June 30, 2011 are as follows:

Year ended:		
2012	$	1,027,195
2013		851,060
2014		29,604
2015		30,887
2016		32,225
Thereafter		24,741,270
	$	26,712,241

(a) Line of Credit

The Organization has a $3,500,000 line of credit commitment with a bank for working capital purposes, which bears interest at LIBOR plus 1.90% 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 August 1, 2011 and expires on July 1, 2012. As of June 30, 2011 and 2010, the Organization has no outstanding borrowings under the line of credit.

(b) Covenants

The credit agreements with U.S. Bank, Wainwright Bank and Trust Company 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. Interest rates range from 2% to 20%.

Debt maturities as of June 30, 2011 were as follows:

		2011
Year ended:		
2012	$	20,876,322
2013		16,224,620
2014		3,226,005
2015		9,794,972
2016		520,615
Thereafter		200,000
	$	50,842,534

The above debt is held by the following subsidiaries of Mercy Corps:

		2011		2010
Mercy Enterprise Corporation	$	700,000	$	600,000
Kompanion		44,912,015		32,879,263
ACF		5,230,519		3,530,503
AFS		—		3,878,808
	$	50,842,534	$	40,888,574

The above debt also includes subordinated debts of $7,703,369 and $7,380,639 at June 30, 2011 and 2010 respectively. Subordinated debt is subordinate to all other Organization debt. Payment terms can be accelerated only if the Organization 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 2013 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, 2011 and 2010:

		2011		2010
Organization programs	$	26,259,692	$	27,418,327
Headquarters building		7,237,632		7,548,606
Material aid		—		219,084
	$	33,497,324	$	35,186,017

(12) Permanently Restricted Net Assets

The Organization applies ASC 958-205, *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 that 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. As of June 30, 2011 and 2010, the Organization had one donor-restricted endowment of $20,000.

(13) Obligations under Operating Leases

The Organization leases office space under operating leases that require payments through 2015. The leases contain annual escalation clauses at fixed percentages or based on the consumer price index. At June 30, 2011 the Organization's aggregate minimum annual operating lease commitments are as follows:

2012	$	764,079
2013		588,719
2014		378,219
2015		118,056
	$	1,849,073

Total rent expense was $3,841,145 and $3,443,637 for the fiscal years ended June 30, 2011 and 2010. A portion 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. As of June 30, 2011 and 2010, the Organization recorded a contingent liability of $691,500 for estimated disallowances based on management's review of prior history and assessment of the current status of grant programs.

The Organization is involved in various other legal matters and claims in the ordinary course of its operations. 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 year ended June 30, 2011 and 2010 amounted to $991,335 and $952,954, 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 year ended June 30, 2011 and 2010 amounted to $339,210 and $212,633, respectively.

Within the various countries in which the Organization operates outside the U.S., 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 controls 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.

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, 2011 and 2010, 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, 2011 and 2010, the net amount due from MCS and other affiliates was $2,408,039 and $2,626,060, 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 of America, the Organization places its cash in high credit quality institutions. At times, such amounts may be in excess of the Federal Deposit Insurance Company (FDIC) limits. Management believes that the risk with respect to the balances in excess of FDIC limits is minimal. At June 30, 2011 and 2010, the Organization held $50,765,941 and $33,453,737, respectively, of cash and cash equivalents in U.S. financial institutions, of which $48,727,268 and $32,289,609 was uninsured.

In order to fulfill grant agreements, the Organization maintains cash balances inside foreign countries and in the local currencies. The Organization's MFI's also hold cash overseas for purposes of ongoing operations. Uninsured cash held overseas, in approximately 38 countries, was $29,066,313 and $23,035,223, at June 30, 2011 and 2010.

(18) Subsequent Events

The Organization has performed an evaluation of subsequent events through November 18, 2011, which is the date the consolidated financial statements were available to be issued.

Schedule I

MERCY CORPS AND AFFILIATES

Supplementary Schedule – Statements of Financial Position

Selected Subsidiary Entities

June 30, 2011 and 2010

(Unaudited)

The following Schdules I and II are a summary of the statements of financial position and statements of activities for the Organization’s MFI entities and investments included as part of the consolidated financial statements of Mercy Corps and affiliates for the fiscal year ended June 30, 2011 and 2010:

		2011	2010
Cash	$	7,247,135	6,533,119
Financial instruments, derivatives		481,828	717,445
Grants and accounts receivable		561,087	180,390
Microfinance loans receivable, net		55,235,743	42,180,141
Prepaid expenses, deposits, and other assets		1,910,088	1,232,732
Program related investments		5,637,179	7,603,092
Property and equipment, net		3,415,436	2,549,531
Total assets	$	74,488,496	60,996,450
Liabilities:			
Accounts payable and accrued liabilities	$	2,562,346	2,486,207
Refundable advances		359,531	—
Subsidiary debt for microfinancing activities		50,142,534	40,288,574
Total liabilities		53,064,411	42,774,781
Unrestricted net assets		21,424,085	18,221,669
Total liabilities and net assets	$	74,488,496	60,996,450

Schedule II

MERCY CORPS AND AFFILIATES

Supplementary Schedule – Statements of Activities

Selected Subsidiary Entities

June 30, 2011 and 2010

(Unaudited)

	2011	2010
Operating support and revenue:		
Interest income	$ 24,695,248	$ 18,293,908
Other revenue	5,348,929	505,740
Total operating support and revenue	30,044,177	18,799,648
Operating expenses:		
Livelihood/economic development	24,271,179	17,353,306
Total operating expenses	24,271,179	17,353,306
Operating support and revenue in excess of operating expense	5,772,998	1,446,342
Other nonoperating changes in net assets:		
Foreign exchange gain (loss)	276,867	(227,100)
Realized and unrealized (loss) gain on investments	(2,460,156)	244,394
Unrealized loss on swap agreements	(821,135)	(1,991,535)
Addition of entities	433,842	—
Total nonoperating revenue and expenses	(2,570,582)	(1,974,241)
Change in net assets	$ 3,202,416	$ (527,899)

Schedule III

MERCY CORPS AND AFFILIATES

Supplemental Schedule – Mercy Corps Statements of Financial Position

Mercy Corps

June 30, 2011 and 2010

The following Schedules III, IV, and V are a summary of the statements of financial position and statements of activities 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 years ended June 30, 2011 and 2010.

Assets	**2011**	**2010**
Cash	$ 68,824,836	$ 48,658,426
Grants and accounts receivable	21,786,743	29,583,865
Microfinance loans receivable, net	29,376	1,114,437
Due from unconsolidated affiliates, net	9,214,589	8,598,133
Inventories	5,730,014	11,174,357
Prepaid expenses, deposits, and other assets	4,614,440	3,812,391
Pledges receivable, net	2,408,730	2,656,358
Notes receivable	161,754	242,631
Investments	5,522,091	4,726,477
Program-related investments	13,472,756	13,781,909
Property and equipment, net	6,855,904	6,280,115
Total assets	$ 138,621,233	$ 130,629,099
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	$ 36,160,960	$ 29,013,422
Refundable advances	26,886,335	23,340,985
Long-term debt	1,633,555	3,908,512
Total liabilities	64,680,850	56,262,919
Net assets:		
Unrestricted	40,443,059	39,180,163
Temporarily restricted	33,497,324	35,186,017
Permanently restricted	—	—
Total net assets	73,940,383	74,366,180
Total liabilities and net assets	$ 138,621,233	$ 130,629,099

Schedule IV

MERCY CORPS AND AFFILIATES

Supplemental Schedule – Mercy Corps Statement of Activities

Mercy Corps

Year ended June 30, 2011

	Unrestricted	Temporarily restricted	Totals
Operating support and revenue:			
Public support and revenue:			
Government grants	$ 185,277,544	$ —	$ 185,277,544
Material aid	14,271,440	—	14,271,440
Material aid – monetized	8,672,676	—	8,672,676
Total public support and revenue	208,221,660	—	208,221,660
Private support and revenue:			
Other grants	13,073,777	18,448,060	31,521,837
Private contributions	16,961,758	10,339,767	27,301,525
Contributions for the acquisition of property		829,294	829,294
Total private support and revenue	30,035,535	29,617,121	59,652,656
Other revenue:			
Interest income	665,742	—	665,742
Other revenue	2,045,837	5,500	2,051,337
Total other revenue	2,711,579	5,500	2,717,079
Net assets released from restriction	31,311,314	(31,311,314)	—
Total operating support and revenue	272,280,088	(1,688,693)	270,591,395
Operating expenses:			
Program services:			
Humanitarian assistance – relief	65,695,304	—	65,695,304
Humanitarian assistance – recovery	42,647,217	—	42,647,217
Livelihood/economic development	57,378,914	—	57,378,914
Civil society and education	48,078,250	—	48,078,250
Health	17,841,230	—	17,841,230
Total program services	231,640,915	—	231,640,915
Supporting services:			
General and administrative	26,744,101	—	26,744,101
Resource development	10,340,015	—	10,340,015
Total supporting services	37,084,116	—	37,084,116
Total operating expenses	268,725,031	—	268,725,031
Operating support and revenue in excess of operating expense	3,555,057	(1,688,693)	1,866,364
Other nonoperating revenue and expenses, net:			
Foreign currency exchange gain, net	277,159	—	277,159
Realized and unrealized loss on investments	(2,569,320)	—	(2,569,320)
Total nonoperating revenue and expenses, net	(2,292,161)	—	(2,292,161)
Change in net assets	1,262,896	(1,688,693)	(425,797)
Net assets at beginning of year	39,180,163	35,186,017	74,366,180
Net assets at end of year	$ 40,443,059	$ 33,497,324	$ 73,940,383

Schedule V

MERCY CORPS AND AFFILIATES

Supplemental Schedule – Mercy Corps Statement of Activities

Mercy Corps

Year ended June 30, 2010

	Unrestricted	Temporarily restricted	Totals
Operating support and revenue:			
Public support and revenue:			
Government grants	$ 148,214,953	$ —	$ 148,214,953
Material aid	12,439,879	61,950	12,501,829
Material aid – monetized	5,325,434	—	5,325,434
Total public support and revenue	165,980,266	61,950	166,042,216
Private support and revenue:			
Other grants	20,869,882	19,014,946	39,884,828
Private contributions	17,297,975	13,404,922	30,702,897
Contributions for the acquisition of property	—	2,345,038	2,345,038
Total private support and revenue	38,167,857	34,764,906	72,932,763
Other revenue:			
Interest income	993,166	—	993,166
Other revenue	5,120,189	12,042	5,132,231
Total other revenue	6,113,355	12,042	6,125,397
Net assets released from restriction	39,201,997	(39,201,997)	—
Total operating support and revenue	249,463,475	(4,363,099)	245,100,376
Operating expenses:			
Program services:			
Humanitarian assistance – relief	65,235,070	—	65,235,070
Humanitarian assistance – recovery	34,287,630	—	34,287,630
Livelihood/economic development	52,401,550	—	52,401,550
Civil society and education	46,579,958	—	46,579,958
Health	15,259,481	—	15,259,481
Total program services	213,763,689	—	213,763,689
Supporting services:			
General and administrative	20,836,096	—	20,836,096
Resource development	9,061,457	—	9,061,457
Total supporting services	29,897,553	—	29,897,553
Total operating expenses	243,661,242	—	243,661,242
Operating support and revenue in excess of operating expense	5,802,233	(4,363,099)	1,439,134
Other nonoperating revenue and expenses, net:			
Foreign currency exchange gain	944,115	—	944,115
Realized and unrealized gain on investments	244,394	—	244,394
Total nonoperating revenue and expenses, net	1,188,509	—	1,188,509
Change in net assets	6,990,742	(4,363,099)	2,627,643
Net assets at beginning of year, as restated (note 3)	32,189,421	39,549,116	71,738,537
Net assets at end of year	$ 39,180,163	$ 35,186,017	$ 74,366,180