MERCY CORPS AND AFFILIATES

Consolidated Financial Statements
and Supplemental Schedules

June 30, 2018

(With Independent Auditors' Report Thereon)

MERCY CORPS AND AFFILIATES

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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, 2018, and the related consolidated statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mercy Corps and affiliates as of June 30, 2018, and the changes in their net assets and cash flows for the year then ended, in accordance with U.S. generally accepted accounting principles.

KPMG

Report on Summarized Comparative Information

We have previously audited Mercy Corps and affiliates 2017 consolidated financial statements, and we expressed an unmodified audit opinion on those consolidated financial statements in our report dated November 10, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Matter

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

KPMG LLP

Portland, Oregon
November 12, 2018

MERCY CORPS AND AFFILIATES

Consolidated Statement of Financial Position

June 30, 2018
(With comparative financial information as of June 30, 2017)

(In thousands)

Assets		2018	2017
Cash and cash equivalents	$	135,791	132,226
Investments		23,870	18,061
Financial instruments and derivatives, net		681	796
Grants and accounts receivable		51,238	44,641
Microfinance loans receivable, net		82,597	69,210
Inventories and material aid		887	800
Prepaid expenses, deposits, and other assets		10,279	6,647
Pledges receivable, net		393	561
Program-related investments		3,441	2,829
Property and equipment, net		38,207	40,160
Total assets	$	347,384	315,931
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued liabilities	$	63,955	52,907
Deferred revenue		94,844	84,363
Customer deposits for microfinance activities		16,915	15,487
Subsidiary and subordinated debt for microfinancing activities		55,963	47,537
Long-term debt		8,368	9,782
Total liabilities		240,045	210,076
Net assets:			
Unrestricted:			
Controlling interests		82,485	81,383
Noncontrolling interests		8,766	7,277
Total unrestricted		91,251	88,660
Temporarily restricted		16,088	17,195
Total net assets		107,339	105,855
Total liabilities and net assets	$	347,384	315,931

See accompanying notes to consolidated financial statements.

MERCY CORPS AND AFFILIATES

Consolidated Statement of Activities

Year ended June 30, 2018
(With summarized financial information for the year ended June 30, 2017)

(In thousands)

	Unrestricted	Temporarily restricted	Total	2017 Total
Operating support and revenue:				
Public support and revenue:				
Government grants	$ 282,968	—	282,968	285,912
Material aid	685	—	685	1,238
Material aid – monetized	50	—	50	574
Total public support and revenue	283,703	—	283,703	287,724
Other support and multilateral revenue:				
Other grants	115,865	—	115,865	99,871
Contributions	31,846	10,232	42,078	38,585
Gifts in kind	1,528	—	1,528	1,726
Bequests	2,090	—	2,090	7,494
Total other support and multilateral revenue	151,329	10,232	161,561	147,676
Other revenue:				
Interest income	25,316	—	25,316	23,896
Other revenue	1,192	—	1,192	1,280
Total other revenue	26,508	—	26,508	25,176
Net assets released from restriction	11,339	(11,339)	—	—
Total operating support and revenue	472,879	(1,107)	471,772	460,576
Operating expenses:				
Program services:				
Humanitarian assistance – relief	102,448	—	102,448	139,876
Humanitarian assistance – recovery	55,090	—	55,090	46,699
Livelihood/economic development	139,655	—	139,655	124,292
Civil society and education	68,960	—	68,960	50,210
Health	35,356	—	35,356	31,318
Total program services	401,509	—	401,509	392,395
Supporting services:				
General and administrative	50,393	—	50,393	44,963
Resource development	18,929	—	18,929	18,003
Total supporting services	69,322	—	69,322	62,966
Total operating expenses	470,831	—	470,831	455,361
Change in net assets from operations	2,048	(1,107)	941	5,215
Nonoperating revenue and losses net:				
Foreign currency exchange gain (loss), net	1,406	—	1,406	(862)
Realized and unrealized (loss) gain on investments, net	309	—	309	4,104
Loss on disposal of entity	(1,119)	—	(1,119)	—
Unrealized loss on derivatives	(625)	—	(625)	(1,217)
Total nonoperating revenue and losses, net	(29)	—	(29)	2,025
Change in net assets before other interests	2,019	(1,107)	912	7,240
Other nonoperating gain	572	—	572	—
Change in net assets	2,591	(1,107)	1,484	7,240
Net assets at beginning of year	88,660	17,195	105,855	98,615
Net assets at end of year	$ 91,251	16,088	107,339	105,855

See accompanying notes to consolidated financial statements.

MERCY CORPS AND AFFILIATES

Consolidated Statement of Cash Flows

Year ended June 30, 2018
(With comparative financial information for the year ended June 30, 2017)

(In thousands)

		2018	2017
Cash flows from operating activities:			
Change in net assets	$	1,484	7,240
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		4,405	3,248
Provision for loan losses		(729)	894
Net realized and unrealized loss (gain) on investments		(309)	(4,685)
Forgiveness of debt		(117)	(185)
Unrealized loss on foreign exchange arrangements and financial instruments		402	1,903
Net change in entities added or dissolved		1,119	—
Gain on disposition of fixed assets		20	26
Changes in assets and liabilities:			
Grants and accounts receivable		(6,597)	761
Inventories		(87)	1,965
Prepaid expenses, deposits, and other assets		(3,632)	1,129
Pledges receivable		168	55
Customer deposits for microfinance activities		1,428	11,255
Accounts payable and accrued liabilities		11,429	17,345
Deferred revenue		10,481	16,293
Net cash provided by operating activities		19,465	57,244
Cash flows from investing activities:			
Purchase of investments		(13,700)	(5,612)
Proceeds from sale of investments		7,693	8,833
Issuances of microfinance loans		(99,739)	(91,204)
Repayments on microfinance loans		85,691	83,646
Acquisition of property and equipment		(3,679)	(3,200)
Disposition of property and equipment		1,178	526
Net cash used in investing activities		(22,556)	(7,011)
Cash flows from financing activities:			
Proceeds from borrowings by microfinance entities		36,616	7,559
Repayments on borrowings of microfinance entities		(28,546)	(39,807)
Issuance of long term debt		—	920
Repayments on long-term debt		(1,414)	(1,155)
Net cash provided by (used in) financing activities		6,656	(32,483)
Net increase in cash and cash equivalents		3,565	17,750
Cash and cash equivalents at beginning of year		132,226	114,476
Cash and cash equivalents at end of year	$	135,791	132,226
Supplemental disclosures:			
Interest paid during the year	$	6,637	8,731
Noncash contributions		2,044	3,538

See accompanying notes to consolidated financial statements.

MERCY CORPS AND AFFILIATES

Consolidated Statement of Functional Expenses

Year ended June 30, 2018
(With summarized financial information for the year ended June 30, 2017)

(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	2017 Total
Personnel	$ 24,343	11,542	51,574	22,602	13,220	123,281	36,045	7,392	166,718	154,909
Professional services	6,753	4,075	10,702	3,307	2,257	27,094	2,424	1,893	31,411	29,900
Travel and vehicle expense	4,687	2,086	6,172	2,944	2,795	18,684	5,179	528	24,391	22,656
Office and occupancy expense	2,929	1,734	8,257	2,961	1,968	17,849	3,689	5,034	26,572	25,195
Other operating expenses	1,511	633	318	500	402	3,364	707	3,854	7,925	7,205
Material aid	—	477	—	—	—	477	—	—	477	867
Materials and supplies	9,553	12,862	6,742	3,351	3,002	35,510	63	—	35,573	41,570
Construction, nonowned assets	4,405	2,369	2,792	5,349	2,332	17,247	(305)	—	16,942	20,370
Training, monitoring, and evaluation	1,772	862	4,723	4,121	1,397	12,875	467	1	13,343	13,236
Subgrants	46,246	18,375	38,805	23,437	7,811	134,674	—	—	134,674	125,951
Microfinancing activity	—	—	8,400	—	—	8,400	—	—	8,400	10,254
Depreciation	249	75	1,170	388	172	2,054	2,124	227	4,405	3,248
	$ 102,448	55,090	139,655	68,960	35,356	401,509	50,393	18,929	470,831	455,361

See accompanying notes to consolidated financial statements.

(1) Organization and Purpose

(a) Business and Organization

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

Mercy Corps is a global organization, 5,000 strong, powered by the belief that a better world is possible. Mercy Corps helps people survive and get back on their feet when natural disaster strikes, economies collapse, or conflict erupts. Where there are chronic threats to peace and progress, Mercy Corps partners with communities to overcome obstacles and thrive.

Mercy Corps employees live and work in more than 40 countries facing the world's toughest challenges. For nearly four decades, Mercy Corps has worked alongside more than 170 million extraordinary people to strengthen their communities from within. In everything we do, Mercy Corps looks for moments of transition to connect people to resources and expertise that can catalyze transformative change.

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

Asian Credit Public Fund (ACF, PF)
Kompanion Development Institution
Kompanion Bank Closed Joint Stock Company (Kompanion)
MC Nigeria LTD/GTE (Nigeria)
Mercy Corps China Holdings, LLC
Mercy Corps Development Holdings, LLC
Mercy Corps Europe (MCE)
Mercy Corps India
Mercy Corps Condominium Unit Owners Association (inactive)
Mercy Corps Foundation (inactive)
Mercy Corps International Jordan, LLC (inactive)

Entities deconsolidated, dissolved, or in dissolution as of June 30, 2018 include:

Hunchun Association for Poverty Alleviation in the Tumen River Area (deconsolidated August 2017)
Mercy Corps Liaoning Holdings, LLC (dissolved September 2017)
MC Egypt, LLC (in dissolution June 2016)
Yanbian Association for Poverty Alleviation in the Tumen River Area (deconsolidated August 2017)
Mercy Enterprise Corporation (MEC) d/b/a Mercy Corps Northwest (dissolved March 2018)

(2) Summary of Significant Accounting Principles

(a) Basis of Accounting

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

Net assets are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the Organization's net assets and changes therein are classified and reported as follows:

- 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 the Organization.
- 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 U.S. GAAP, requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates in the Organization's consolidated financial statements include loan loss reserves. Actual results may differ from those estimates.

(c) Revenue Recognition

Contributions, including unconditional promises to give, are recognized initially at fair value as revenue in the period received at net realizable value. Contribution revenue is reported as an increase in 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 the Organization 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 and accounts receivable.

Donated services that meet the criteria for recognition in accordance with U.S. GAAP are reported as gifts in kind revenue and expenses in amounts equal to their estimated fair value on the date of receipt. Approximately $726 and $1,017 of legal services were provided pro bono to the Organization in 2018 and 2017, respectively. Gifts in kind of software and travel credits are reported at fair value on the date of receipt and included in gifts in kind.

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

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

(d) Functional Allocation of Expenses

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

(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 primary business, as defined by its mission statement.

(f) Foreign Currency Translation

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

(g) Income Taxes

The Organization has been granted tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and corresponding sections of the state of Washington provisions as a publicly supported organization, which is not a private foundation.

U.S. GAAP requires 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 Internal Revenue Service (IRS). Management has analyzed tax positions taken by Mercy Corps and has concluded that as of June 30, 2018, there are no uncertain positions taken or expected to be taken that would require recognition of liability (or asset) or disclosure in the consolidated financial statements. Mercy Corps is subject to routine audits by taxing jurisdictions; however, there are currently no IRS audits for any tax periods in progress.

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(h) Cash and Cash Equivalents

Cash consists of short-term, highly liquid investments with original maturities of three months or less at the date of acquisition, other than those held as part of the investment portfolio.

Per donor terms and internal processes, project related cash is held in accounts separate from the primary operating accounts. These types of segregated accounts totaled $98,889 and $72,151 at June 30, 2018 and 2017, respectively.

(i) Investments

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

(j) Charitable Gift Annuities

The Organization has certificates of authority from the state of Oregon, the state of Washington, and a few other states to receive transfers of money or property upon agreement to pay an annuity. The annuity liability included in accounts payable and accrued liabilities as of June 30, 2018 and 2017 was $930 and $740, respectively. The Organization maintains segregated accounts for all gift annuities included in investments. The amounts in the accounts were $1,240 and $934 as of June 30, 2018 and 2017, respectively.

(k) Derivative Financial Instruments

Derivative financial instruments held by the Organizations' subsidiaries include back-to-back loans, which have the contractual effect of a currency swap or interest rate swap. The swap counter-parties to these transactions have no recourse to the Organization. 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 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 Codification (ASC) Topic 820, *Fair Value Measurement*, which established a framework for measuring fair value. This standard defines the fair value as the amount that would be exchanged for an asset or to transfer a liability in an orderly transaction between market participants at the measurement date.

(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 or published prices in active markets that are accessible at the measurement date for identical assets or liabilities.

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

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

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

Mutual Funds, Treasury Securities and Certificates of Deposit – Fair values for these investments are based on quoted market or published prices (Level 1).

Foreign Government Securities – Fair value for these investments may use a variety of inputs including inputs based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques (e.g., the Black-Scholes model) for which all significant inputs are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Where applicable, these models project future cash flows and discount the future amounts to a present value using market-based observable inputs including interest rate curves, credit spreads, foreign exchange rates, and forward and spot prices for currencies.

Derivative financial instruments – The fair value of a microfinance institution's derivatives are based on estimates using standard pricing models that take into account the present value of future cash flows as of the date of the statement of financial position. The fair values of the derivative arrangements are based on models that rely on observable market-based data (Level 2).

(m) Grants and Accounts Receivable

The majority of the Organization's grants and accounts receivable are due from U.S. and European governments, with small balances due from multilateral agencies and private foundations. Grants and accounts receivable are expected to be collected within one year and are recorded at net realizable value.

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

(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 (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.

Mercy Corps owns or controls 50% or more of the following MFIs and MFI technical assistance organizations and they are thus consolidated in the accompanying consolidated financial statements.

Kompanion Bank Closed Joint Stock Company, formerly Kompanion Financial Group Micro Credit Closed Joint Stock Company, was established in the Kyrgyz Republic in 2004. On January 11, 2016, the National Bank of the Kyrgyz Republic issued licenses to the bank for the right to conduct banking operations in national currency and in foreign currency. The bank takes deposits from the public, originates loans and transfers money in the territory of the Kyrgyz Republic and abroad, conducts currency exchange transactions, and provides other banking services to legal entities and private individuals. Mercy Corps is the founder and majority shareholder of Kompanion with a 65% ownership interest.

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. Under a Memorandum of Understanding, Mercy Corps controlled the PATRA entities. In August 2017, Mercy Corps resigned from the PATRAs boards and deconsolidated the entity. These organizations are registered under Chinese law and were considered local projects of Mercy Corps.

Microfinance loans receivable are recorded in the consolidated statement of financial position at their unpaid principal balances, net of allowance for loan losses. Interest income is accrued based on the outstanding principal amount and contractual terms of each individual loan. The affiliated organizations review their loans to assess impairment on a regular basis. A loan is considered impaired when, based on current information, it is probable that the MFIs will not receive all amounts due in accordance with the contractual terms of the underlying loan agreement. When an impairment loss has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan receivable and the present value of the estimated future cash flows, including amounts recoverable from guarantees and collateral discounted at the loan receivable's original effective interest rate. All loan receivable losses are recognized in the consolidated statement of activities. When a loan is uncollectible, it is written off against the related reserve for loan impairment. Loan balances are written off when management determines that the loans are uncollectible and when all necessary steps to collect the loan are exhausted.

(o) Inventories and Material Aid

The Organization receives agricultural commodities from governments for distribution via Organization programs and for monetization in which proceeds of the commodity sale are to be used to fund Organization programs. Commodities received for distribution are recorded at estimated fair value as inventory and deferred revenue. Revenue is recognized as inventory is distributed and is recorded in the consolidated statement of activities as material aid. Funds received from monetization of commodities are deferred until utilized in program activities and are then recorded in the consolidated statement of activities as “material aid-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.

(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. GAAP. 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.

(q) Property and Equipment, Net

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

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

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) Comparative Financial Information

The accompanying consolidated financial statements include certain prior year summarized information. With respect to the consolidated statement of functional expenses, information from the prior year is presented in the aggregate, is not presented by function, and does not include balances for unrestricted net assets and temporarily restricted net assets. Accordingly, such information should be read in conjunction with the Organization's prior year consolidated financial statements from which the summarized information was derived.

(s) New Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, with the intent to reduce diversity in reporting practice, reduce complexity, and enhance understandability of not-for-profit (NFP) financial statements. This ASU contains the following key aspects: (A) reduces the number of net asset classes presented from three to two: with donor restrictions and without donor restrictions, (B) requires all NFPs to present expenses by their functional and their natural classifications in one location in the financial statements, (C) requires NFPs to provide quantitative and qualitative information about management of liquid resources and availability of financial assets to meet cash needs within one year of the statement of financial position date, and (D) retains the option to present the statement of cash flows using either the direct or indirect method. The new standard is effective for Mercy Corps on July 1, 2018. The Organization has evaluated the extent of the impact of the adoption of ASU No. 2016-14, and will be implementing the ASU for the year beginning July 1, 2018. The impact of adoption will result in enhanced disclosures about the classification of expenses and management of liquid resources.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, to clarify the principles for recognizing revenue and to improve financial reporting by creating common revenue recognition guidance for U.S. generally accepted accounting principles and International Financial Reporting Standards. The amendments in the ASU can be applied either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the update recognized at the date of the initial application along with additional disclosures. The new standard is effective for Mercy Corps on July 1, 2019. The Organization is currently evaluating the extent of the anticipated impact of the adoption of ASU No. 2014-09.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires lessees to recognize a lease liability and a right of use asset for all lease obligations with exception for short-term leases. The lease liability will represent the lessee's obligation to make lease payments arising from the lease measured on a discounted basis and the right of use asset will represent the lessee's right to use or control the use of a specified asset for a lease term. The new standard is effective for Mercy Corps on July 1, 2020. The Organization is currently evaluating the extent of the anticipated impact of the adoption of ASU No. 2016-02.

(Dollars in thousands)

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which clarifies and improves the guidance for contributions received and contributions made. The amendments in this update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of ASC Topic 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to ASC Topic 606 and (2) determining whether a contribution is conditional. The amendments in this update are to be applied on a modified prospective basis and are effective for the Organization's fiscal year beginning July 1, 2019. The Organization is currently evaluating the potential impact of the adoption of ASU No. 2018-08 and does not expect it to have a material impact on the Organization's consolidated financial statements.

(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, 2018 consisted of the following:

		Level 1	Level 2	Total
Assets:				
Investments:				
Cash and cash equivalents	$	3,740	—	3,740
Treasury securities		981	—	981
Certificates of deposit		2,201	—	2,201
Mutual funds – equity		4,464	—	4,464
Mutual funds – fixed income		8,285	—	8,285
Mutual funds – real estate investment trust		210	—	210
Foreign government securities		—	3,989	3,989
Total investments		19,881	3,989	23,870
Derivative financial instruments:				
Derivative arrangements		—	681	681
Total	$	19,881	4,670	24,551

(Dollars in thousands)

Fair value measurements for the assets measured at fair value on a recurring basis at June 30, 2017 consisted of the following:

		Level 1	Level 2	Total
Assets:				
Investments:				
Mutual funds – equity	$	5,608	—	5,608
Mutual funds – fixed income		6,792	—	6,792
Mutual funds – real estate investment trust		276	—	276
Foreign government securities		5,385	—	5,385
Total investments		18,061	—	18,061
Derivative financial instruments:				
Derivative arrangements		—	796	796
Total	$	18,061	796	18,857

Mercy Corps had no Level 3 assets or liabilities measured at fair value at June 30, 2018 or 2017. Foreign government securities have been moved from Level 1 to Level 2 in the current year based on new information related to the nature of the securities.

(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 to the present value of expected future cash flows.

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

		2018	2017
One year or less	$	353	407
Between one year and five years		57	171
		410	578
Less:			
Discount		(17)	(17)
Pledges receivable, net	$	393	561

(Dollars in thousands)

(5) Microfinance Loans Receivable

Microfinance loans comprise variable and fixed-rate loans with individuals and groups. Group loans are unsecured loans granted to a group of borrowers who sign a loan agreement with joint and several liability to repay a loan. The loans bear interest at rates generally at or below the local market industry average available. Microfinance loans are issued with original maturities ranging from 3 to 60 months.

Microfinance loans receivable were concentrated in the following countries as of June 30, 2018 and 2017:

		2018	2017
China	$	—	1,452
Kyrgyzstan		86,140	72,100
United States		402	446
		86,542	73,998
Less loan loss reserves		(3,945)	(4,788)
Microfinance loans receivable, net	$	82,597	69,210

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

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

Changes in allowance for estimated losses on financing receivables as of June 30, 2018 and 2017 are presented as follows:

		2018	2017
Loan loss reserve, beginning	$	(4,788)	(4,126)
Adjustments to reserve		729	(894)
Write-off		117	232
Recovery		(3)	—
Loan loss reserve, ending	$	(3,945)	(4,788)

(Continued)

(Dollars in thousands)

The reserves noted above can be attributed to loans that are current or past due as follows at June 30, 2018:

		Current	Past due	Total
Microfinance loans receivable	$	83,637	2,905	86,542
Less loan loss reserves		(2,132)	(1,813)	(3,945)
Microfinance loans receivable, net	$	81,505	1,092	82,597

The reserves noted above can be attributed to loans that are current or past due as follows at June 30, 2017:

		Current	Past due	Total
Microfinance loans receivable	$	71,380	2,618	73,998
Less loan loss reserves		(3,313)	(1,475)	(4,788)
Microfinance loans receivable, net	$	68,067	1,143	69,210

(6) Property and Equipment

		2018	2017
Land	$	3,807	4,407
Buildings and leasehold improvements		40,236	40,898
Vehicles		12,474	10,979
Furniture, fixtures, equipment, and software		11,633	11,564
Property and equipment		68,150	67,848
Less accumulated depreciation and amortization		(29,943)	(27,688)
Property and equipment, net	$	38,207	40,160

(Dollars in thousands)

(7) Program-Related Investments

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

		2018	2017
ACF MCO, LLC, Kazakhstan	$	1,754	1,266
MiCRO – SCC		285	217
MEVCF		192	180
MCDH		1,210	1,166
	$	3,441	2,829

At June 30, 2018 and 2017 Mercy Corps owned 30% of Asian Credit Fund Micro Credit Organization, LLC (ACF MCO, LLC) directly and reports this investment on an equity basis. ACF, PF is a consolidated affiliate that owned 20% of ACF MCO, LLC at June 30, 2018 and reports this investment on an equity basis.

MiCRO Insurance Catastrophe Risk Organization SCC (MiCRO – SCC) was formed on March 17, 2011. Its focus is to engage in providing micro-insurance products and services to achieve poverty alleviation in Central America and elsewhere in the Caribbean region by providing insurance protection to the economically disadvantaged in the event of natural disasters. At June 30, 2018 and 2017, Mercy Corps owned 29.9% and 34.6% of the shares in MiCRO, respectively. Mercy Corps reports the investment in MiCRO-SCC on an equity basis.

In fiscal year 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 medium-sized businesses in the information and communications technology sectors. At June 30, 2018 and 2017, Mercy Corps owned less than 2% of this fund. The investment is recorded on a cost basis.

Mercy Corps Development Holdings, LLC (MCDH) invests in early stage start-up companies that have a social mission and focus that aligns with Mercy Corps' mission and programs. At June 30, 2018, MCDH had $806 in equity investments and $404 in convertible notes receivable invested in 12 ventures working in Southeast Asia, East Africa, and Latin America. These investments are recorded on a cost basis.

Mercy Corps has other small investments in various entities recorded on a cost basis. These investments allow Mercy Corps to partner with developing social enterprises, consistent with its mission.

(Dollars in thousands)

(8) Debt

At June 30, debt consisted of the following:

		2018	2017
U.S. Bank, N.A.	$	8,368	8,632
NW Bank		—	920
Other debt		—	230
Total	$	8,368	9,782

Future maturities of debt outstanding at June 30, 2018 are as follows:

2019	$	249
2020		279
2021		288
2022		7,552
Total	$	8,368

2017 Line of Credit

The Organization has a $4,000 line of credit commitment with a bank for working capital purposes, which bears interest at 2% above the daily one-month LIBOR when drawn upon. The line is collateralized by a security interest in the Organization’s accounts receivable, inventory, and equipment. On March 27, 2017, MCG renewed the line of credit. MCG increased the size of the line from $3,500 to $4,000 to reflect the growth in business. MCG also extended the term to March 1, 2020 and increased the uncommitted fee to 50 basis points from 35 basis points. During 2018 and 2017, there were no borrowings during the year, and as of June 30, 2018 and 2017, the Organization has no outstanding borrowings under the line of credit. The line of credit contains certain restrictive covenants that require, among other things, that the Organization maintain minimum levels of U.S. government grants and minimum levels of unrestricted cash and cash equivalents. Mercy Corps is the sole party to the line of credit.

(Dollars in thousands)

2015 Tax Exempt Bonds

On June 25, 2015, the Organization, through Oregon Facilities Authority, issued a tax exempt bond to U.S. Bank, N.A. The proceeds were used to refinance the debt of the HQ building in Portland, OR and purchase a portion of the building that was owned by another party through a condo arrangement. The promissory note is collateralized by the property it finances and contains certain restrictive covenants that require, among other things, that the Organization maintain a fixed charge coverage ratio and a minimum liquidity ratio. The interest rate is 3.07% until June 30, 2022, payable in monthly principal and interest installments of $44. At that time, the promissory note may be refinanced at a new rate at the option of U.S. Bank N.A., or a balloon payment will be due on June 30, 2022. The final maturity of the U.S. Bank N.A. promissory note is June 30, 2029. Mercy Corps is the sole party to the promissory note.

(9) Subsidiary and Subordinated Debt for Microfinancing Activities

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

Microfinancing debt maturities as of June 30, 2018 were as follows:

	Kompanion	MCG	Total
Year ended:			
2019	$ 10,380	85	10,465
2020	15,213	205	15,418
2021	25,906	85	25,991
2022	1,472	85	1,557
2023	511	30	541
Thereafter	1,991	—	1,991
Total	$ 55,473	490	55,963

(Dollars in thousands)

Interest rates of subsidiary microfinancing borrowings at June 30, 2018 are as follows:

Subsidiary	Lender	Interest rates	Due date	Balance
Mercy Corps Global	Various	0.875%–2.00%	beyond 2018	$ 490
Kompanion	EBRD	5.88%–18.37%	2018–2021	7,839
Kompanion	NBKR	5.00%	2019	1,170
Kompanion	Global Commercial	6.90%	2019	1,005
Kompanion	RES	6.75%–24.75%	2019	6,693
Kompanion	BistumEssen	6.00%–6.75%	2020	4,018
Kompanion	BlueOrchard	6.00%	2020	2,003
Kompanion	Microvest	6.00%	2020	5,343
Kompanion	Incofin	6.25%	2020	2,517
Kompanion	Oikocredit	7.50%	2020	516
Kompanion	Triplejump	10.50%	2020	822
Kompanion	Deutsche Bank	3.00%	2020	150
Kompanion	Global Impact	6.00%	2020–2021	4,014
Kompanion	Symbiotics	12.50%	2020–2021	3,558
Kompanion	MinFIn	8.00%–12.00%	2020–2033	2,528
Kompanion	FMO	10.00%	2021	5,954
Kompanion	Triodos	12.75%	2021	4,116
Kompanion	CVBA Alterfin	8.00%	2021	100
Kompanion	Russian-Kyrgyz Development Fund	6.00%–8.00%	2021–2023	1,345
Kompanion	State Mortgage Co	4.00%–6.00%	2032	1,782
				$ 55,963

The above debt also includes subordinated debts of $822 and $1,054 at June 30, 2018 and 2017, respectively. This subordinated debt is subordinate to all other debt of the individual subsidiary. The subordinated debt matures in 2020.

(10) Temporarily Restricted Net Assets

Temporarily restricted net assets available for programs are $9,620 and $10,575 as of June 30, 2018 and 2017, respectively. Temporarily restricted net assets available for the headquarters building are $6,468 and $6,620 as of June 30, 2018 and 2017, respectively.

(Dollars in thousands)

(11) Obligations under Operating Leases

The Organization leases office space, housing, and equipment under operating leases with terms in excess of a year that require payments through 2024. The leases may contain annual escalation clauses at fixed percentages or based on the consumer price index. At June 30, 2018, the Organization's aggregate minimum annual operating lease commitments are as follows:

FY 19	$	1,756
FY 20		1,212
FY 21		1,101
FY 22		934
FY 23		892
Thereafter		1,727
Total	$	7,622

Total rent expense was $4,589 and $4,757 for the fiscal years ended June 30, 2018 and 2017, respectively.

(12) Commitments and Contingencies

The Organization receives a substantial portion of its funding in the form of grants from government and multilateral agencies. These grants contain certain compliance and internal control requirements that, if violated, may result in the disallowance of certain costs incurred under the grant programs. Additionally, the Organization is involved in various legal proceedings and claims arising in the normal course of business. The Organization adjusts the contingent liabilities each year based on settlement of accrued amounts and potential liabilities that are reasonably likely and estimable. At June 30, 2018 and 2017, the Organization had total accrued contingent liabilities of $1,869 and $2,282, respectively, which are included in accounts payable and accrued liabilities on the statement of financial position.

While it is not possible to determine the ultimate liability, if any, in these matters at this time, in the opinion of management, such matters will not have a material adverse effect on the financial condition of the Organization in excess of the recorded contingent liability.

(13) Employee Benefit Plan

MCG 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, 2018 and 2017 amounted to $1,658 and $1,542, respectively.

MCG also has a nonqualified employee benefit plan for certain third-country nationals who are otherwise ineligible for the defined-contribution plan under Internal Revenue Code Section 403(b). These employees receive employer contributions equal to 6% of gross salary after one year of service. The Organization records expenses for the program on a monthly basis and makes a lump sum payment to team members upon end of service. The total expense for the program for the years ended June 30, 2018 and 2017 amounted to $495 and $463, respectively. At June 30, 2018 and 2017, the Organization had total amounts to be paid out for this plan of $2,086 and $1,782, respectively.

Mercy Corps Europe contributes to defined-contribution pension plans on behalf of employees. The assets of the plans are held separately from those of the company. Contributions are charged to the income and expenditure account and the statement of activities in the period in which they are incurred.

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

(14) Significant Sources of Revenue and Concentration of Risk

(a) Significant Sources of Revenue

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

(b) Concentration of Risk

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

For cash held in the United Kingdom, the Organization maintains cash in commercial banks that are in excess of U.K. deposit insurance limits. Management believes the risk associated with the balance in excess of the deposit insurance limits is minimal.

In order to fulfill grant agreements and maintain ongoing operations in foreign countries, the Organization maintains cash balances in both regional and local currencies. The Organization had cash deposits of 13.4% and 13.9% of the total cash balance, in the Organization’s foreign locations. Of the cash held in foreign locations, 22.4% and 11.3% was held by the Organization’s MFI’s, as of June 30, 2018 and 2017, respectively.

(15) Subsidiary Entities

The Organization is required to consolidate certain entities under the guidance of FASB ASC Topic 810, *Consolidation*. However, MCG has limitations on the use of the assets and is not obligated for the liabilities of these consolidated subsidiaries under the laws in place in the foreign jurisdiction of each of these subsidiaries and under the terms of the entities’ bylaws.

Mercy Corps continues to establish new entities to invest in new technology, business models, and social enterprises to provide transformational opportunities to alleviate suffering, poverty, and oppression. The following entities are yet to have significant activities but are controlled by Mercy Corps and have therefore been consolidated as of June 30, 2018:

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

Mercy Corps Egypt, LLC was formed in 2012 to establish a field office and operations in Egypt. This entity began dissolution in 2016.

Yayasan Mercy Corps Indonesia was formed in February 2012 to further the mission in Indonesia. This entity was deconsolidated in January 2017.

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

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

MC Morocco, LLC was formed in August 2014 to develop, implement, and manage projects in the areas of economic development, youth, and civil society. This entity was deconsolidated in June 2017.

MICRA Indonesia was formed in 2007 to support microfinance activities through trainings, workshops, and ratings and research in the microfinance sector. This entity was deconsolidated in June 2017.

Mercy Corps Development Holdings, LLC was formed in 2015 as a for profit holding entity and invests in early stage start up companies that have a social mission and focus that aligns with Mercy Corps’ mission and programs.

Mercy Corps Liaoning Holdings, LLC was formed in 2016 to own a Chinese wholly owned foreign enterprise under Chinese law to provide services in furtherance of Mercy Corps mission. This entity was dissolved in September 2017.

Mercy Corps International Jordan, LLC was formed as a not for profit entity in 2007 to carry out operations in Jordan. This entity is inactive as of June 30, 2018.

CIT Services, LLC was formed in 2017 as a disregarded entity of Mercy Enterprise Corporation to provide management and back office support to the East Portland CIT Corporation (EPCIT). The entity transferred to Mercy Corps Global in February 2018 by resolution of the MEC board.

The total combined net assets of the 11 entities listed above are $1,292 and $1,431 as of June 30, 2018 and 2017, respectively.

(16) Subsequent Events

The Organization has performed an evaluation of subsequent events through November 12, 2018, which is the date the consolidated financial statements were available to be issued, and has determined there are no additional disclosures needed.

The following schedules I and II are a presentation of the financial position and activities and changes in net assets for MCG 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, 2018.

In 2001, Mercy Corps established Mercy Enterprise Corporation, 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. In an effort to better align resources, the MEC board approved the statutory merger that combined the operations and governance of MCG and Mercy Corps Northwest and dissolved the MEC legal entity as of March 31, 2018. The Mercy Corps board approved this merger at the March 7, 2018 board meeting. MEC financial results are included in the MCG stand-alone financials as of April 1, 2018.

Schedule I

MERCY CORPS GLOBAL

Supplemental Schedule – Mercy Corps Schedule of Financial Position

Year ended June 30, 2018
(With comparative financial information as of June 30, 2017)

(In thousands)

Assets		**2018**	**2017**
Cash	$	63,319	74,007
Grants and accounts receivable		29,544	25,908
Microfinancing loans receivable		327	—
Due from unconsolidated affiliates, net		19,527	13,505
Inventories		887	800
Prepaid expenses, deposits, and other assets		5,907	5,616
Pledges receivable, net		393	561
Investments		19,881	12,676
Program-related investments		16,535	17,216
Property and equipment, net		32,624	33,002
Total assets	$	188,944	183,291
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued liabilities	$	47,213	40,282
Deferred revenue		48,263	45,265
Debt for microfinancing activities		490	—
Long-term debt		8,369	8,631
Total liabilities		104,335	94,178
Net assets:			
Unrestricted		68,520	71,946
Temporarily restricted		16,089	17,167
Total net assets		84,609	89,113
Total liabilities and net assets	$	188,944	183,291

See accompanying independent auditors’ report.

Schedule II

MERCY CORPS GLOBAL

Supplemental Schedule – Mercy Corps Schedule of Activities

Year ended June 30, 2018
(With comparative financial information for the year ended June 30, 2017)

	Unrestricted	Temporarily restricted	Totals	2017 Total
Operating support and revenue:				
Public support and revenue:				
Government grants	$ 174,735	—	174,735	184,604
Material aid	50	—	50	1,238
Material aid – monetized	685	—	685	574
Total public support and revenue	175,470	—	175,470	186,416
Other support and multilateral revenue:				
Other grants	88,328	—	88,328	82,559
Contributions	30,444	10,231	40,675	37,114
Gifts in kind	1,309	—	1,309	1,335
Bequests	2,090	—	2,090	6,742
Total other support and multilateral revenue	122,171	10,231	132,402	127,750
Other revenue:				
Interest income	670	—	670	318
Other revenue	923	—	923	800
Total other revenue	1,593	—	1,593	1,118
Net assets released from restriction	11,309	(11,309)	—	—
Total operating support and revenue	310,543	(1,078)	309,465	315,284
Operating expenses:				
Program services:				
Humanitarian assistance – relief	61,728	—	61,728	89,485
Humanitarian assistance – recovery	55,090	—	55,090	46,699
Livelihood/economic development	79,699	—	79,699	68,381
Civil society and education	32,276	—	32,276	28,283
Health	23,315	—	23,315	23,223
Total program services	252,108	—	252,108	256,071
Supporting services:				
General and administrative	44,310	—	44,310	39,714
Resource development	17,427	—	17,427	16,748
Total supporting services	61,737	—	61,737	56,462
Total operating expenses	313,845	—	313,845	312,533
Change in net assets from operations	(3,302)	(1,078)	(4,380)	2,751
Nonoperating revenue and expenses, net:				
Foreign currency exchange loss, net	(555)	—	(555)	(99)
Realized and unrealized (loss) gain on investments, net	(558)	—	(558)	4,569
Gain on other entities	989	—	989	—
Total nonoperating revenue and expenses, net	(124)	—	(124)	4,470
Change in net assets	(3,426)	(1,078)	(4,504)	7,221
Net assets at beginning of year	71,946	17,167	89,113	81,892
Net assets at end of year	$ 68,520	16,089	84,609	89,113

See accompanying independent auditors' report.