AUDITED FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED
30 JUNE 2009

THESE STATEMENTS ARE AVAILABLE FOR PUBLIC DISCLOSURE

Mercy Corps
Consolidated Financial Statements
June 30, 2009

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June 30, 2009

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Report of Independent Auditors

To the Board of Directors of
Mercy Corps

In our opinion, the accompanying consolidated statement of financial position and the related consolidated statements of activities, cash flows, and functional expenses present fairly, in all material respects, the financial position of Mercy Corps (the "Organization") as of June 30, 2009 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. 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 audit. We conducted our audit of these statements 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 financial statements are free of material misstatement. An audit 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, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

March 15, 2010

Mercy Corps
Consolidated Statement of Financial Position
June 30, 2009

Assets		
Cash and cash equivalents	$	43,097,149
Investments		164,645
Grants and accounts receivable		17,956,575
Revolving loan funds receivable, net		1,610,078
Due from affiliates, net		1,402,548
Inventories		14,809,040
Prepaid expenses, deposits and other assets		3,598,209
Pledges receivable, net		6,428,281
Note and loan receivables		11,306,216
Program-related investments		23,263,547
Property and equipment, net		39,032,442
Total assets	$	162,668,730
Liabilities		
Accounts payable and accrued liabilities	$	14,766,266
Refundable advances		24,996,821
Revolving loan funds payable		3,240,333
Program-related investments payable		17,772,131
Subordinated debt and other long-term debt		37,375,842
Total liabilities		98,151,393
Net Assets		
Unrestricted		22,568,961
Temporarily restricted		41,928,376
Permanently restricted		20,000
Total net assets		64,517,337
Total liabilities and net assets	$	162,668,730

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

Mercy Corps
Consolidated Statement of Activities
Year Ended June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Revenues and other support				
Government grants	$ 86,045,854	$ -	$ -	$ 86,045,854
Material aid	34,092,221	911,914	-	35,004,135
Material aid - monetized	6,898,835	-	-	6,898,835
Other grants	33,170,639	9,263,710	-	42,434,349
Private contributions	19,940,753	3,762,855	20,000	23,723,608
Other revenue	1,847,401	-	-	1,847,401
Contributions and capital advances received for the acquisition of property	-	967,229	-	967,229
Net assets released from restriction	14,315,220	(14,315,220)	-	-
Total revenues and other support	196,310,923	590,488	20,000	196,921,411
Expenses				
Program services				
Humanitarian assistance - relief	75,037,943			75,037,943
Humanitarian assistance - recovery	14,136,497			14,136,497
Livelihood/economic development	38,685,998			38,685,998
Civil society	31,530,281			31,530,281
Health	12,605,073			12,605,073
	171,995,792	-	-	171,995,792
Supporting services				
General and administrative	17,276,284			17,276,284
Resource development	8,316,288			8,316,288
	25,592,572	-	-	25,592,572
Total expenses	197,588,364	-	-	197,588,364
Change in net assets	(1,277,441)	590,488	20,000	(666,953)
Net assets at beginning of year	23,846,402	41,337,888	-	65,184,290
Net assets at end of year	$ 22,568,961	$ 41,928,376	$ 20,000	$ 64,517,337

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

Mercy Corps
Consolidated Statement of Cash Flows
Year Ended June 30, 2009

Cash flows from operating activities	
Decrease in net assets	$ (666,953)
Adjustments to reconcile increase in net assets to net cash used in operating activities	
Depreciation and amortization	787,084
Net realized and unrealized loss on investments	252,755
Net realized and unrealized loss on program-related investments	1,229,825
Contributions restricted for headquarters construction	(860,315)
Contributions restricted for endowment	(20,000)
Changes in assets and liabilities	
Grants and accounts receivable	(9,924,298)
Due from affiliates, net	1,612,888
Inventories	(732,472)
Prepaid expenses, deposits and other assets	232,850
Pledges receivable, net	(4,135,015)
Accounts payable and accrued liabilities	528,755
Refundable advances	3,269,698
Net cash used in operating activities	(8,425,198)
Cash flows from investing activities	
Purchase of investments	(54,000)
Proceeds of investments sold	2,329,647
Net change in program-related investments	2,921,179
Acquisition of property and equipment, net	(22,553,014)
New revolving loan funds granted	(496,728)
Repayments on the revolving loan funds granted	277,030
Net cash used in investing activities	(17,575,886)
Cash flows from financing activities	
Issuance of note and loan receivables	(9,210,304)
Net change in revolving loan funds payable	(564,884)
Net change in program-related investments payable	(2,978,251)
Contributions restricted for headquarters construction	860,315
Contributions restricted for endowment	20,000
New long-term borrowings	31,881,120
Repayments on long-term debt	(939,496)
Net cash provided by financing activities	19,068,500
Net decrease in cash and cash equivalents	(6,932,584)
Cash and cash equivalents at beginning of year	50,029,733
Cash and cash equivalents at end of year	$ 43,097,149
Supplemental disclosures	
Interest paid during the year	$ 982,694
Noncash contributions	35,004,135
Accrued for construction in progress and capital equipment	2,379,414

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

Mercy Corps
Consolidated Statement of Functional Expenses
Year Ended June 30, 2009

	Humanitarian Assistance - Relief	Humanitarian Assistance - Recovery	Livelihood/ Economic Development	Civil Society	Health	Program Expense Total	General and Administration	Resource Development	Total Expenses
Material aid grants	$ 39,441,896	$ -	$ -	$ -	$ -	$ 39,441,896	$ -	$ -	$ 39,441,896
Cash grants	6,298,802	3,357,192	8,606,425	4,016,240	3,613,905	25,892,564	15,882	-	25,908,446
Personnel	9,732,563	4,118,256	13,105,305	11,901,899	3,894,790	42,752,813	12,662,332	4,913,397	60,328,542
Construction	1,585,409	1,852,349	1,358,538	4,210,602	522,175	9,529,073	-	-	9,529,073
Materials and supplies	9,132,429	1,611,048	4,912,886	2,087,541	736,689	18,480,593	-	-	18,480,593
Office and occupancy expense	2,484,152	1,009,429	2,400,064	2,466,439	675,648	9,035,732	1,635,770	1,921,818	12,593,320
Travel and vehicle expense	2,290,085	887,185	2,622,131	2,338,166	806,441	8,944,008	1,675,282	267,369	10,886,659
Loan funds	-	-	203,187	-	-	203,187	-	-	203,187
Capital expenditures	827,536	526,814	1,162,771	1,108,022	601,681	4,226,824	73,992	26,324	4,327,140
Professional services	1,661,770	253,415	1,198,064	981,431	428,298	4,522,978	388,860	652,508	5,564,346
Other operating expenses	629,655	126,603	1,719,934	541,330	166,647	3,184,169	824,166	534,872	4,543,207
Training, monitoring and evaluation	953,646	394,206	1,396,693	1,878,611	1,158,799	5,781,955	-	-	5,781,955
	$ 75,037,943	$ 14,136,497	$ 38,685,998	$ 31,530,281	$ 12,605,073	$ 171,995,792	$ 17,276,284	$ 8,316,288	$ 197,588,364

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

1. Organization and Purpose

Mercy Corps 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 classifies its program activities into five major types: Humanitarian Assistance – Relief, Humanitarian Assistance – Recovery, Livelihood and Economic Development, Civil Society, and Health.

2. Mercy Corps Headquarters Building Financing

Since its inception Mercy Corps has leased its headquarters office space in Portland, Oregon. The headquarters office now consists of five separate buildings spanning four city blocks. In addition to the Portland headquarters office, there is a sixth Portland office housing the agency's local program team, Mercy Enterprise Corporation. In 2007 executive leadership decided that Mercy Corps should purchase its own headquarters building, consolidating the six local offices into a single site, and build an Action Center to End World Hunger modeled after the pilot site in New York City.

After a lengthy search process and much collaboration with local city authorities, a site was selected on SW First near the Burnside Bridge. The property consists of two lots: one lot containing a building, known as the Skidmore Property, and an adjacent parking lot known as the Silk and Satin Lot. Mercy Corps decided to renovate the existing building, construct a new building on the parking lot, and fuse the two structures together into a single office facility. The renovation of the existing building qualified the project for Federal Historic Rehabilitation Tax Credits ("FHTCs"), and the total project qualified for both New Market Tax Credits ("NMTCs") and grants from the Portland Development Commission ("PDC"), an office of the City of Portland.

It was also determined that a portion of the new building would be condominiumized and sold to a local entity with a mission well-aligned to Mercy Corps. The building was also to meet Leadership in Energy and Environmental Design ("LEED") certification requirements, for which Mercy Corps received grants from private and public donors.

As of June 30, 2009, Mercy Corps was in the process of constructing its new headquarters building, which was occupied September 14, 2009. Financing for the $38 million project is provided by a Mercy Corps capital campaign, commercial loans, sale of the condominiumized unit, and both NMTC and FHTC funding. In order to accommodate the structure, eight new entities were created:

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, 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' 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' financial statements.

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"). Building is managed and controlled by Mercy Corps Headquarters Manager, Inc., which is owned by Mercy Corps. Building is controlled indirectly by Mercy Corps, and accordingly is consolidated in Mercy Corps' financial statements.

Manager owns and manages Building. Manager is owned and controlled by Mercy Corps, and accordingly is consolidated in Mercy Corps' financial statements.

Tenant received an equity investment from a FHTC investor, which it in turn invested in Building. Tenant is managed and controlled by Mercy Corps Headquarters Master Tenant Manager, LLC ("Tenant Manager"), which is owned and controlled by Mercy Corps. Tenant is controlled indirectly by Mercy Corps, and accordingly is consolidated in Mercy Corps' financial statements.

Tenant Manager is the manager for Tenant. Tenant Manager is owned and controlled by Mercy Corps, and accordingly is consolidated in Mercy Corps' financial statements.

3. Description of Related Affiliates

In 1987 Mercy Corps established Mercy Corps Foundation ("MCF") as a nonprofit foundation under the laws of the State of Washington. MCF exists and operates exclusively for the benefit of Mercy Corps. Mercy Corps maintains a majority on MCF's board of directors along with control and management of MCF's activities.

In 2001 Mercy Corps established Mercy Enterprise Corporation (“MEC”) as a nonprofit corporation under the laws of the State of Oregon in order to provide community development financing services to low income individuals and communities. Mercy Corps maintains a majority on the board of directors along with control and management of MEC’s programs.

In 2002 Mercy Corps established MC Hong Kong (“MCHK”) as a nonprofit corporation under the laws of China. Mercy Corps maintains a majority on the board of directors along with control and management of MCHK's programs. Mercy Corps plans to dissolve MCHK in 2010.

In 2005 Mercy Corps established MC Canada (“MCC”) as a nonprofit corporation under the laws of Canada. Mercy Corps maintains a majority on the board of directors along with control and management of MCC’s programs. See also Note 20.

In 2005 Mercy Corps established MC Belgium (“MCB”) as a nonprofit corporation under the laws of Belgium. Mercy Corps maintains a majority on the board of directors along with control and management of MCB’s programs. Mercy Corps plans to dissolve MCB in 2010.

As part of the headquarters building financing in 2008, Mercy Corps established the following affiliates:

- Mercy Corps Headquarters Manager, Inc., ("Manager") as a corporation under the laws of the State of Oregon. Mercy Corps is the sole shareholder of Manager.

- Mercy Corps Headquarters Building, LLC, ("Building") as a limited liability company under the laws of the State of Oregon. Building is managed by Manager, which is wholly owned by Mercy Corps.

- Mercy Corps Headquarters Master Tenant Manager, LLC, ("Tenant Manager") as a limited liability company under the laws of the State of Oregon. Mercy Corps is the sole member and manager of Tenant Manager.

- Mercy Corps Headquarters Master Tenant, LLC, ("Tenant") as a limited liability company under the laws of the State of Oregon. Tenant is managed and controlled by Tenant Manager. U.S. Bancorp Community Development Corporation is the sole member.

4. Summary of Significant Accounting Principles

Basis of Accounting

The consolidated financial statements include the accounts of Mercy Corps and its wholly owned and controlled affiliates (collectively, "the Organization"). All inter-entity transactions and balances have been eliminated. The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Permanently Restricted Net Assets

Permanently restricted net assets result from (a) contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization, (b) other asset enhancements and diminishments subject to the same kinds of stipulations, and (c) reclassification from (or to) other classes of net assets as a consequence of donor-imposed stipulations.

Temporarily Restricted Net Assets

Temporarily restricted net assets result from (a) contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations, (b) other asset enhancements and diminishments subject to the same kinds of stipulations, and (c) reclassification to (or from) other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time or their fulfillment and removal by actions of the Organization pursuant to those stipulations. The Organization reports private grants and contributions of cash and material aid as temporarily restricted if they are received with donor stipulations that temporarily limit their use. When a donor stipulated purpose is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined statements of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the year of receipt are reported as unrestricted contributions. During the year ended June 30, 2009, $14,315,220 of temporarily restricted net assets were released from restrictions by satisfying the restricted purpose as specified by the donors.

Unrestricted Net Assets

Unrestricted net assets are net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Use of Estimates

In preparing the Organization's consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The carrying value of cash, grants and other receivables, loan funds receivable and payable, and borrowings approximate their estimated fair value.

Revenue Recognition

The Organization recognizes nongovernmental grants and contributions as revenue in the period received.

Government grants are recognized as revenue in the period the grant objectives are met and the grant expenditures are incurred. Any cash received prior to recognizing the grant is recorded as refundable advances. The Organization's management believes that in view of the uncertainty surrounding the expenditure of government grant revenues in highly volatile foreign countries and the requirements that are involved in accomplishing the grant objectives, the exchange transaction method more closely reflects the circumstances.

Cash and Cash Equivalents

Cash and cash equivalents consist of short-term, highly-liquid investments with original maturities of three months or less at the date of acquisition, including the purchase of short-term commercial paper. These investments are made pursuant to the Organization's Board of Directors approved investment guidelines and reflect a short-term, liquid investment strategy.

For cash held in the United States, 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, 2009, the Organization held $29,114,547 in United States financial institutions, of which $25,384,540 was uninsured.

Under various grant agreements, the Organization is required to maintain cash balances inside foreign countries and in the local currencies. Cash held overseas in uninsured accounts was $13,521,796 at June 30, 2009 in approximately 38 countries.

Investments

The Organization holds various types of investments, including corporate bonds and mutual funds. All investments are recorded at fair value. Fair value is determined in accordance with the provisions of Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS 157") as further described in Note 5. Interest and dividends earned on funds that are not temporarily or permanently restricted by the donor are considered unrestricted revenue and are included in Unrestricted – Other Revenue. Interest and dividends earned from donor-restricted funds whose restrictions are met in the year of receipt are included in Unrestricted - Other Revenue. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities and the level of the uncertainty related to the changes in the value of investment securities, it is possible that changes in fair value could materially affect the Organization's long-term investment and total net asset balance.

Grants and Accounts Receivable

The majority of the Organization's grant and accounts receivables are due from private contributors and federal agencies. An allowance for uncollectible grants and accounts receivable is based on management's judgment, including an assessment of prior collection history and age of the receivable.

Revolving Loan Funds Receivable/Payable

Revolving Loan Funds Receivable

Revolving loan funds receivables are due from individuals and small businesses that apply for loans under the Organization's loan programs. Credit is extended based upon an evaluation of a customer's financial condition and character. Loan funds receivable are due in installment payments monthly and are stated at amounts due from customers net of the reserves. Accounts outstanding longer than the contractual payment terms are considered past due. The Organization determines its allowance by considering a number of factors, including the length of time receivables are past due, the Organization's previous loss history, the customer's current ability to pay its obligation to the Organization, and the condition of the general economy and the industry as a whole. The Organization writes off loan funds receivables when they become uncollectible and payments subsequently received on such receivables are credited to the loan loss reserve account. Activity in the allowance for loan losses for the year ended June 30, 2009 is as follows:

Balance at beginning of year	$ 55,298
Provision for loan losses	26,006
Loans charged off	(14,350)
Balance at end of year	$ 66,954

Revolving Loan Funds Payable

The Organization has recorded revolving loan funds payable with proceeds from the sale of U.S. Department of Agriculture commodities and other grant funds. The loan funds payable are offset by the loan funds receivable and any cash that is not in the lending cycle. The Organization would have to return the funds to the original grantors if the Organization did not use the funds in accordance with original grant agreements.

Inventories and Material Aid

The Organization receives agricultural commodities from governments and other institutions 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 deferred revenue. Revenue is recognized as inventory is distributed and is recorded in the financial statements 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 financial statements 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 material aid 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. Material aid inventory distributed in the year of receipt is reported as unrestricted material aid.

Material aid commodities received from the U.S. government which are held for sale are valued at the lesser of the fair value as determined by the grantor agency or the expected sales price in the foreign location. Material aid commodities held for distribution and not for sale are valued at fair value as determined by the grantor agency. Additional inventories, consisting of supplies, are valued at cost. The Organization also receives private gifts-in-kind from a large apparel and footwear manufacturer and maintains a warehouse for distribution of the donated items in Belgium. Inventory, consisting of apparel, footwear and sports equipment, is valued at fair value.

Program-Related Investments and Program-Related Investments Payable
Program-related investments represent the Organization's investments in domestic and overseas for-profit and not-for-profit microfinance institutions. The investments are typically in the form of loans and equity investments funded with grant or Organization funds. The purpose of these investments is the furtherance of the Organization's mission rather than the generation of income.

Program-related investment loans represent the evolution of a revolving loan fund whose capital is loaned to a legally separate microfinance institution. Accordingly, for each program-related investment loan receivable there is an offsetting program-related investment payable. Though the funds have been transferred to a legally separate entity, the Organization would have to return the funds to the original grantor if the Organization did not ensure use of the funds in accordance with the original agreement. The loans are low or non-interest bearing and are due upon demand.

Program-related equity investments represent revolving loan fund capital transferred to a legally separate microfinance institution in exchange for an equity interest as well as equity investments purchased outright. Program-related equity investments resulting from a transfer of revolving loan fund capital are funded by grant funds and are offset by program-related investment payables. Program-related equity investments purchased outright are funded both by grants and by the Organization and are not offset by a program-related investment payable.

Property and Equipment
Property and equipment acquired for the general purpose of the Organization are stated at historical cost. Donated property and equipment are stated at fair value at the date of the gift. Depreciation is provided based on the estimated useful lives of the related assets using the straight-line basis over 3 to 39 years. Amortization of leasehold improvements is provided using the straight-line method over the estimated service lives or the lease commitment, whichever is shorter.

The Organization holds title to property and equipment acquired with grant revenues that are not originally expensed. Upon the sale or retirement of the property and equipment, the related cost and accumulated depreciation are removed from the accounts and the resulting gain or losses are reflected in the Consolidated Statement of Activities.

Personal property and equipment acquired with grant revenues are recorded in the year of acquisition as these assets are ordinarily consumed in the current period or donated as part of the specific program requirements.

Interest Rate Swap Agreement
The Organization uses an overall interest rate risk-management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in interest expense that are caused by interest rate volatility. Interest rate swaps involve the exchange of fixed-rate and variable-rate interest payments between two parties, based on a common notional principal amount and maturity date. Under current accounting standards, if the interest rate swap is associated with long-term debt obtained for construction purposes, the interest rate swap is recognized on the

Statement of Financial Position at their fair values and the changes in fair value are recognized as part of the capitalizable construction costs until the building is completed. The Organization has one interest rate swap to reduce the impact of changes in interest rates on its outstanding debt. The agreement effectively limits the Organization's interest rate exposure on such debt to a fixed rate of 3.80% as of June 30, 2009. The Organization recorded an accrual of $265,470 for the unrealized loss at June 30, 2009.

Charitable Gift Annuities
The Organization enters into agreements with donors in which donors contribute assets to the Organization in exchange for an annuity to be paid to the donor or their designees for a specified period of time. The assets received are recorded at fair value at the date of the gift. The associated liability is recorded at the present value based upon the donor's life expectancy and is adjusted annually. The difference between the fair value of the asset and the present value of the liability is recorded as unrestricted revenue in the Consolidated Statement of Activities.

Advertising
The Organization expenses the costs of advertising the first time the advertising takes place. Advertising expense was approximately $545,200 for the year ended June 30, 2009.

Donated Services
Volunteers have contributed significant services to the Organization. The accompanying consolidated financial statements do not reflect the value of these services as there is no objective basis for valuation.

Foreign Currency Translation
Foreign activities are considered to be an extension of U.S. operations, and the gain or loss resulting from re-measuring these transactions into U.S. dollars is included in the Consolidated Statement of Activities and the Consolidated Statement of Functional Expenses. Transactions in currencies other than dollars are translated in dollars at the rate of exchange approximately in effect on the date of the transaction. Assets and liabilities denominated in non-U.S. currency are translated into dollars at the exchange rate in effect at the date of the Consolidated Statement of Financial Position.

Functional Allocation of Expenses
The costs of providing the various program services have been summarized on a functional basis in the Consolidated Statement of Functional Expenses. Accordingly, certain costs have been allocated, principally on a direct cost basis, among the programs and supporting services.

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. However, in any year the Organization has gross income of $1,000 or more from unrelated business activities it may have taxes to pay on such income.

Risks and Uncertainties
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.

5. Fair Value Instruments

During 2009, the Organization adopted SFAS 157 as required by accounting principles generally accepted in the United States of America. SFAS 157 established a framework for measuring fair value and defines the fair value as the amount that would be exchanged for an asset or to transfer a liability between market participants in an orderly transaction.

SFAS 157 establishes a three-level fair value hierarchy that prioritizes the valuation techniques used to measure fair value. The three levels of the fair value hierarchy are:

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted 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 Prices or valuations that require inputs that are supported by little or no market activity and that are both significant to the fair value measurement and unobservable

As of June 30, 2009, assets and liabilities measured at fair value, consisted of the following:

	Level 1	Level 2	Total
Assets			
Mutual funds	$ 7,624	$ -	$ 7,624
Marketable equity securities	11,612	-	11,612
Investments held under split-interest agreements	-	145,409	145,409
Total assets	$ 19,236	$ 145,409	$ 164,645
Liabilities			
Interest rate swap instrument	$ -	$ 265,470	$ 265,470

6. Inventories

Inventories at June 30, 2009 consisted of the following:

Apparel, footwear and sports equipment	$ 8,379,776
Agricultural commodities, emergency equipment and supplies held for sale and/or distribution	6,429,264
	$ 14,809,040

7. 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 received prior to July 1, 2008 are recorded after discounting at 0.12% to 4.89% to the present value of future cash flows. Pledges received subsequent to July 1, 2008 are recorded at fair value.

Pledges receivable at June 30, 2009 have the following restrictions:

Organization programs and activities	$ 5,276,517
Headquarters building construction	1,151,764
	$ 6,428,281

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

In one year or less	$ 3,721,142
Between one year and five years	2,707,139
	$ 6,428,281

8. Note and Loan Receivables

At June 30, 2009, note and loan receivable represents:

A note receivable from a corporation, interest at prime less 2.00% and at a guaranteed minimum 3.00% and maximum 6.00%, matures January 17, 2013	$ 318,727
A loan receivable from Mercy Corps Investment Fund, LLC, interest at 4.75%, matures April 1, 2015	10,987,489
	$ 11,306,216

9. Property and Equipment

Land	$ 4,104,806
Building and leasehold improvements	5,295,974
Vehicles	2,049,430
Computers and equipment	900,095
Furniture and fixtures	3,332,874
Construction in progress - building and leasehold improvements	27,349,983
	43,033,162
Less accumulated depreciation and amortization	(4,000,720)
	$ 39,032,442

Depreciation and amortization expense for the year ended June 30, 2009 was $787,084. The new headquarters building was placed in service September 14, 2009.

10. Charitable Gift Annuities

Charitable gift annuity balances and activity as of and for the year ended June 30, 2009 were as follows:

Assets held in trust	$ 490,829
Annuities payable	345,420
Interest, dividends, realized and unrealized gain/loss on annuity obligations	(90,228)
Change in actuarial value of liability	26,582

11. Program-Related Investments and Program-Related Investments Payable

The Organization's program-related investments in microfinance institutions ("MFIs") and MFI investment entities and program-related investments payable at June 30, 2009, are as follows:

Entity and Country	**Loans Receivable**	**Equity Investments**	**Total Program-Related Investment**	**Program-Related Investment Payable**
Not-for-profit entities				
Partner, Bosnia	$ 6,747,669	$ -	$ 6,747,669	$ 6,747,669
Agency for Finance in Kosovo, Kosovo	3,140,924	-	3,140,924	3,140,924
Borshud Micro Credit Fund, Tajikistan	654,643	-	654,643	659,437
	10,543,236	-	10,543,236	10,548,030
For-profit entities				
MCO Asia Credit Fund LLC, Kazakhstan	-	513,165	513,165	513,165
MLO IMON International LLC, Tajikistan	-	1,787,076	1,787,076	1,781,868
Kompanion Financial Group, LLC, Kyrgyzstan	-	4,779,068	4,779,068	4,779,068
Bank Andara, Indonesia	-	5,248,002	5,248,002	-
TenGer Financial Group LLC (previously Xacbank-GE), Mongolia	-	150,585	150,585	150,000
MicroVest I, LLP	-	242,415	242,415	-
	-	12,720,311	12,720,311	7,224,101
	$ 10,543,236	$ 12,720,311	$ 23,263,547	$ 17,772,131

The Organization holds a noncontrolling interest in MLO IMON International LLC, Bank Andara, TenGer Financial Group LLC, and MicroVest I, LLP.

MCO Asia Credit Fund LLC and Kompanion Financial Group LLC are for-profit institutions registered as limited liability companies in Kazakhstan and Kyrgyzstan, respectively. The Organization directly owns 60% of MCO Asia Credit Fund LLC and controls the Board of Directors. The Organization is the founder and only member of Kompanion Financial Group LLC and currently controls the Board of Directors.

As a result of the Organization’s intent to eventually relinquish its interest , the continued expectation of the dilution of its interest in both institutions and the grants requirements that the Organization cannot receive an unrestricted return of the grant funds from the micro-credit lending activities, MCO Asia Credit Fund LLC and Kompanion Financial Group LLC are not recognized in the consolidated financial statements. Summarized financial data for MCO Asia Credit Fund LLC and Kompanion Financial Group LLC as of December 31, 2008 (the date of the most current audited financial statement) in US dollars follows:

	Kompanion Financial Group LLC	MCO Asia Credit Fund LLC
Total assets	$42,296,179	$ 5,384,707
Total liabilities	32,937,280	4,287,512
Total equity	9,358,899	1,097,195
Total operating income	10,650,026	627,046
Total operating expenses	7,628,471	1,064,724
Net profit	3,021,555	(437,678)

12. Subordinated Debt, Other Long-Term Debt and Line of Credit

Other subordinated debt represents funds payable to:

A bank, interest at 2.00%, matures February 5, 2013	$ 150,000
A bank, interest at 2.00%, matures January 31, 2016	100,000
U.S. Treasury CFDI Fund, interest at 2.00%, matures February 11, 2018	100,000
	$ 350,000

Other subordinated debts are referred to as “equity equivalents” because they are 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 loan agreements, or ceases its normal operations. The subordinated debt maturity dates are described above, but the actual maturity dates are automatically extended each year unless the lender exercises its rights to set the final maturity date.

In July 2003 the Organization issued a mortgage note to a financial institution in exchange for $675,000. The note is collateralized by the Organization's office building at 9 Waterhouse Street, Cambridge, Massachusetts. Interest had been negotiated at 4.64%. Payments of $4,347 per month were based on a 20-year amortization with a balloon payment due in July 2008 for $562,506. The mortgage was refinanced in July 2008 into a new $560,000 25-year note bearing interest at Prime + 1.00% (currently 4.25%), with current monthly principal and interest payments of $3,040 and a balloon payment due in October 2018. The outstanding balance on the note was $550,313 at June 30, 2009.

In March 2007 MEC entered into a loan with Community Capital Development Inc., for $150,000 with a balloon payment in March 2012. Interest rate on the loan is 3.00%.

In December 2008 MEC entered into a loan with Community Capital Development Inc., for $75,000 with a balloon payment in March 2012. The loan is non-interest bearing.

In February 2009 MEC entered into a loan with a commercial bank for $125,000 with a balloon payment in March 2012. Interest rate on the loan is 3.00%.

In March 2008 Building entered three loan agreements with the sub-CDEs as part of the new market tax credit program as follows:

- Loan with a Sub-CDE, LLC - the total balance was $9,801,000 as of June 30, 2009. The loan matures on March 19, 2038. Interest rate on the loan is at LIBOR + 1.90% (2.22% at June 30, 2009) for 28.12% of the outstanding principal balance and at 4.11% for 71.88% of the outstanding principal balance.

- Loan with a Sub-CDE, LLC - the total balance was $7,275,000 as of June 30, 2009. The loan matures on March 19, 2038. Interest rate on the loan is at LIBOR + 1.90% (2.22% at June 30, 2009) for 28.12% of the outstanding principal balance and at 3.67% for 71.88% of the outstanding principal balance.

- Loan with a Sub-CDE, LLC - the total balance was $6,930,000 as of June 30, 2009. The loan matures on March 19, 2038. Interest rate on the loan is at LIBOR + 1.90% (2.22% at June 30, 2009) for 28.12% of the outstanding principal balance and at 3.35% for 71.88% of the outstanding principal balance.

In April 2008 the Organization entered into a loan agreement with a local not-for-profit entity for $1,000,000. This loan is due in three installments from June 2011 through June 2013. Interest is fixed at 2.00%.

In March 2008 Building entered into a commercial real estate loan with a financial institution for a total of $2,700,000 of which $2,306,683 was received as of June 30, 2009. The loan was paid in full October 2009. Interest rate on the loan was at LIBOR + 1.90% (2.22% at June 30, 2009).

In November 2008 the Organization entered into a term loan with a financial institution for $2,000,000, with a balloon payment in November 2010 and an interest rate of LIBOR + 1.90% (2.22% at June 30, 2009).

In March 2008 MCF entered into a commercial real estate loan with a financial institution for $8,770,000 of which $6,812,846 was outstanding as of June 30, 2009. Interest rate on the loan is LIBOR + 1.90% (2.22% at June 30, 2009). Principal is due in varying aggregate minimum amounts through March 2013.

Long-term debt consists of (in order based on last maturity date):

Commercial real estate loan with US Bank	$ 2,306,683
Term loan with Wells Fargo Bank	2,000,000
Loan with Community Capital Development, Inc.	150,000
Loan with Community Capital Development, Inc.	75,000
Loan with Shorebank Enterprises	125,000
Loan with Meyer Memorial Trust	1,000,000
Commercial real estate loan with US Bank	6,812,846
Mortgage note with Wainright Bank and Trust Company	550,313
Loan with Sub-CDE, LLC	9,801,000
Loan with Sub-CDE, LLC	7,275,000
Loan with Sub-CDE, LLC	6,930,000
	$ 37,025,842

Future maturities of long-term debt outstanding at June 30, 2009 are as follows:

Years Ended	Principal
2010	$ 2,862,881
2011	4,263,930
2012	2,114,534
2013	3,285,164
2014	15,821
Thereafter	24,483,512
	$ 37,025,842

Line of Credit
The Organization has a $3,500,000 line of credit commitment with a bank for working capital and bearing interest at LIBOR plus 1.90% and an unused fee of 0.50%. The line is collateralized by a security interest in the Organization's non-building assets. The line of credit commitment expired on February 1, 2010. The Organization will pay a 1.25% fee to the bank upon issuance of letters of credit. As of June 30, 2009, the Organization has no outstanding borrowings under the line of credit. The Organization renegotiated the line of credit commitment, which will expire on July 1, 2010 with an interest at LIBOR plus 2.15%.

Covenants
The credit agreements 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. The Organization was not in compliance with the financial covenants at June 30, 2009 relating to the minimum level of unrestricted cash and cash equivalents and positive year to date unrestricted income. The Organization has obtained waivers for the noncompliance from their lenders.

13. Unrestricted Net Assets

Unrestricted net assets is comprised of the following as of June 30, 2009:

Undesignated	$ 20,424,592
Board designated for the capital campaign	2,144,369
	$ 22,568,961

14. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes as of June 30, 2009:

Organization programs	$ 26,751,608
Headquarters building	6,796,095
Material aid	8,380,673
	$ 41,928,376

15. Permanently Restricted Net Assets

The Organization adopted FSP 117-1 effective for the beginning of fiscal year 2009. 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, (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 remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is 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, 2009, the Organization had one donor restricted endowment of $20,000.

16. Obligations under Operating Leases

The Organization leases office space under operating leases that require payments through November 2014. The leases contain annual escalation clauses at fixed percentages or based on the consumer price index. At June 30, 2009, the Organization's aggregate minimum annual operating lease commitments are as follows:

2010	$ 564,691
2011	445,175
2012	414,983
2013	383,080
2014	225,574
Thereafter	90,076
	$ 2,123,579

Total rent expense was $2,800,809 for the fiscal year ended June 30, 2009.

In October 2006 the Organization entered into an agreement with a New York City municipality to lease from the municipality at a deeply discounted rate approximately 4,000 square feet of new riverfront commercial property in Lower Manhattan for use in the Organization's Action Center to End World Hunger activities. The lease commenced October 2008 and will expire in 2037. A restricted gift equal to the amount of $935,000 was recorded as a long-term pledge receivable in 2009. The pledge receivable balance at June 30, 2009 was $911,914.

17. Commitments and Contingencies

The Organization receives a substantial portion of its funding in the form of grants from the government of the United States of America. These grants contain certain compliance and internal control requirements that, if violated, may result in the disallowance of some costs incurred under the grant programs. As of June 30, 2009, the Organization recorded a liability for estimated disallowances based on management's review of prior history and assessment of the potential for disallowances.

During the year ended June 30, 2003, management of the Organization became aware of allegations of irregularities associated with operations of a program site receiving federal grant funding. From 2000 to 2003 the total amounts expended under these federal grants approximated $46 million. The Organization undertook an extensive review of the operations at this location and concluded that there were deficiencies in the internal controls at this site and ineffective management oversight by local management. The Organization has aggressively investigated the operations of this site and worked with the United States government agencies to determine the amount of any potential disallowed costs. The Organization is presently in negotiations with U.S. government agencies and has made an accrual related to potential disallowed costs in an amount that management believes is sufficient to cover the estimated liability.

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.

18. 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 pre-tax 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, 2009 amounted to $890,853.

There are also certain third country nationals ineligible for the defined contribution plan under Internal Revenue Code Section 403(b) who qualify for the Organization’s program for third country nationals. 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, 2009 amounted to $159,880.

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 program for third-country nationals, but they are eligible for local government or Organization sponsored plans appropriate for that country.

19. 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 exert direct financial or operational control over MCS, and as such, MCS is not included in the Organization’s consolidated financial statements; however, the Organization does participate in the governance, program, finance and administrative matters of MCS.

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. During the year, the following transactions arose:

Grant paid by the Organization to MCS	$ 162,881
Net expenditures paid by MCS on behalf of the Organization	974,960
Due to MCS	2,432,541
Due from MCS	3,634,428

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 which 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, 2009, the Organization is not aware of any known or contingent donor disallowances arising from program activities carried out by MCS. As such, the Organization has not accrued for any amounts relating to this indemnification in the consolidated financial statements.

Projecto Aldea Global ("PAG") is a nonprofit corporation registered in Honduras. PAG has a separate board of directors and controls and manages its own programs. The Organization exerts no financial or operational control over PAG, and as such, PAG is not included in the Organization's consolidated financial statements.

The Organization entered into a MOU with PAG in April 1999. PAG and the Organization share the same mission, purpose, and values as partners in carrying out programs and projects that are of mutual beneficial interest to both parties. The Organization's donor funded programs are currently being implemented in Honduras with PAG. The Organization's staff supports PAG with technical and administrative assistance. During the year, the following transactions arose:

Grant paid by the Organization to PAG	$ 32,505
Subgrants issued to PAG	592,538
Pass-through funds collected and forwarded to PAG	204,545
Due from PAG	1,090

20. Subsequent Events

In March 2008 Building entered into a commercial real estate loan with a financial institution for $1,631,160 with an interest rate of LIBOR + 1.90%. There were no borrowings under this loan until November 2009. Principal is due in full September 1, 2010.

In March 2008 the Organization entered into a loan agreement with a local government agency for $375,000 with an interest rate ranging from 1.00% to 8.50%, depending on certain programmatic indicators. There were no borrowings under this loan until October 2009. Principal is due in full March 1, 2018.

In July 2008 the Organization's Canada operations were audited by the Canada Revenue Agency ("CRA"). The CRA issued its audit report March 2009. The report identified several areas of noncompliance with provisions of the Canadian Income Tax Act and its Regulations. Following the audit, the Organization reassessed its business requirements in Canada and determined that an official presence, in the form of a separate Canadian registered charity, was no longer necessary.

The Organization requested a voluntary revocation of MCC's charitable registration. The CRA granted MCC's revocation in November 2009 and the Organization filed final dissolution documents with Canadian authorities in March 2010.

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, 2007 and June 30, 2008. This examination is currently in progress.

The Organization has performed an evaluation of subsequent events through March 15, 2010, which is the date the consolidated financial statements were available to be issued. The Organization determined no additional disclosure is necessary.