MERCY SHIPS AND AFFILIATES

Consolidated and Combined
Financial Statements
With Independent Auditor's Report

December 31, 2025 and 2024

MERCY SHIPS AND AFFILIATES

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Mercy Ships and Affiliates
Lindale, Texas

Opinion

We have audited the accompanying consolidated and combined financial statements of Mercy Ships and Affiliates which comprise the consolidated and combined statement of financial position as of December 31, 2025, and the related consolidated and combined statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated and combined financial statements.

In our opinion, the consolidated and combined financial statements referred to above present fairly, in all material respects, the consolidated and combined financial position of Mercy Ships and Affiliates as of December 31, 2025, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated and Combined Financial Statements* section of our report. We are required to be independent of Mercy Ships and Affiliates and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated and Combined Financial Statements

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

In preparing the consolidated and combined financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Mercy Ship and Affiliates' ability to continue as a going concern within one year after the date that the consolidated and combined financial statements are available to be issued.

Board of Directors
Mercy Ships and Affiliates
Lindale, Texas

Auditor's Responsibility for the Audit of the Consolidated and Combined Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated and combined financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated and combined financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Mercy Ships and Affiliates' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated and combined financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Mercy Ships and Affiliates' ability to continue as a going concern for a reasonable period of time.

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

Report on Summarized Comparative Information

We have previously audited Mercy Ships and Affiliates' 2024 consolidated and combined financial statements, and we expressed an unmodified audit opinion on those audited consolidated and combined financial statements in our report dated May 15, 2025. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2024, is consistent, in all material respects, with the audited consolidated and combined financial statements from which it has been derived.

Capin Crouse LLC

Irving, Texas
May 27, 2026

MERCY SHIPS AND AFFILIATES

Consolidated and Combined Statement of Financial Position

December 31, 2025
With Summarized Financial Information for December 31, 2024

	2025	2024
ASSETS:		
Cash and cash equivalents	$ 77,033,527	$ 74,579,257
Cash held for others–ship bank	1,756,080	1,983,028
Cash held for capital	27,632,710	4,857,813
Investments	162,395,730	130,414,032
Pledges receivable–net	131,259,491	121,946,975
Other receivables	6,291,199	5,926,788
Inventory–net	13,066,669	14,445,861
Prepaid expenses and other assets	5,550,270	7,699,135
Prepaid construction costs	-	20,160,323
Property and equipment–net	197,399,664	167,262,639
Total Assets	$ 622,385,340	$ 549,275,851
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable and accrued expenses	$ 11,423,911	$ 13,449,815
Ship bank payable	1,756,080	1,983,028
Other liabilities	3,141,475	2,112,612
Total liabilities	16,321,466	17,545,455
Net assets:		
Net assets without donor restrictions	401,569,048	389,919,573
Net assets with donor restrictions:		
Restricted by purpose or time	203,306,326	140,623,323
Restricted in perpetuity	1,188,500	1,187,500
	204,494,826	141,810,823
Total net assets	606,063,874	531,730,396
Total Liabilities and Net Assets	$ 622,385,340	$ 549,275,851

See notes to consolidated and combined financial statements

MERCY SHIPS AND AFFILIATES

Consolidated and Combined Statement of Activities

For the Year Ended December 31, 2025
With Summarized Financial Information for the Year Ended December 31, 2024

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	2025 Total	2024 Total
SUPPORT AND REVENUE:				
Contributions of financial assets	$ 121,307,389	$ 131,708,580	$ 253,015,969	$ 305,313,052
Contributions of financial assets for staff support	3,669,346	-	3,669,346	3,887,037
Contributions of nonfinancial assets–goods	8,997,553	-	8,997,553	7,351,169
Contributions of nonfinancial assets–services	54,129,447	-	54,129,447	39,476,249
Fee revenue	40,852	-	40,852	39,708
Investment income–net	18,854,310	19,701	18,874,011	14,864,029
Sales and other revenue	6,751,975	-	6,751,975	4,120,977
Gain (loss) from translation adjustments	1,073,914	-	1,073,914	(305,724)
Total Support and Revenue	214,824,786	131,728,281	346,553,067	374,746,497
NET ASSETS RELEASED:				
Purpose restrictions	69,044,278	(69,044,278)	-	-
EXPENSES:				
Program services:				
Ship and field operations	216,523,697	-	216,523,697	174,934,611
Supporting activities:				
General and administrative	17,048,009	-	17,048,009	20,473,116
Fundraising	38,937,188	-	38,937,188	33,318,789
	55,985,197	-	55,985,197	53,791,905
Total Expenses	272,508,894	-	272,508,894	228,726,516
Change in Net Assets Before Change in Cumulative Translation Adjustments	11,360,170	62,684,003	74,044,173	146,019,981
Cumulative Translation Adjustments	289,305	-	289,305	(1,202,187)
Change in Net Assets	11,649,475	62,684,003	74,333,478	144,817,794
Net Assets, Beginning of Year	389,919,573	141,810,823	531,730,396	386,912,602
Net Assets, End of Year	$ 401,569,048	$ 204,494,826	$ 606,063,874	$ 531,730,396

See notes to consolidated and combined financial statements

MERCY SHIPS AND AFFILIATES

Consolidated and Combined Statement of Functional Expenses

For the Year Ended December 31, 2025

	Program Services	Supporting Activities		
	Ship and Field Operations	General and Administrative	Fundraising	Total Expenses
Advertising and marketing	$ 11,270,585	$ 1,292,181	$ 14,207,351	$ 26,770,117
Auto expense	478,855	14,820	38,272	531,947
Conference, seminar, and trade shows	202,653	60,883	35,369	298,905
Contract labor	27,545,338	2,046,657	4,555,775	34,147,770
Contributed salary expense	54,129,447	-	-	54,129,447
Cost of goods sold	530,510	6,331	7,579	544,420
Depreciation	11,923,866	116,677	157,932	12,198,475
Distribution inventory	12,629,459	80,967	2,688	12,713,114
Dry docking and related expense	3,472,957	-	-	3,472,957
Food purchases	2,754,554	52,127	282	2,806,963
Freight and customs	3,476,859	21,292	31,337	3,529,488
Fuel and lube oil	5,312,757	815	-	5,313,572
Gift expense–other charities	2,083,195	96,641	152,747	2,332,583
Insurance	1,443,197	192,749	20,080	1,656,026
Interest	85,016	64,607	21,525	171,148
Legal and professional fees	419,042	262,584	109,813	791,439
Meals and entertainment	203,198	41,103	35,968	280,269
Miscellaneous	1,495,579	579,551	755,882	2,831,012
Postage and printing	3,179,253	619,447	8,694,777	12,493,477
Rents	1,320,552	165,578	1,090,165	2,576,295
Repairs and maintenance	3,726,192	68,682	30,400	3,825,274
Service charges	-	2,452,179	-	2,452,179
Small equipment and furniture	2,669,344	75,903	12,302	2,757,549
Staff support and expenses	48,609,719	7,836,570	8,137,728	64,584,017
Supplies	6,770,690	297,751	295,227	7,363,668
Taxes and fees	108,340	16,576	17,511	142,427
Telecommunications	720,963	36,238	15,716	772,917
Travel	9,407,251	468,894	487,470	10,363,615
Utilities	554,326	80,206	23,292	657,824
Total expenses	$ 216,523,697	$ 17,048,009	$ 38,937,188	$ 272,508,894

See notes to consolidated and combined financial statements

MERCY SHIPS AND AFFILIATES

Consolidated and Combined Statement of Functional Expenses

For the Year Ended December 31, 2024

	Program Services	Supporting Activities		
	Ship and Field Operations	General and Administrative	Fundraising	Total Expenses
Advertising and marketing	$ 8,651,698	$ 1,308,985	$ 12,340,320	$ 22,301,003
Auto expense	533,671	30,345	35,937	599,953
Conference, seminar, and trade shows	134,978	41,390	28,279	204,647
Contract labor	22,530,584	2,915,491	3,249,345	28,695,420
Contributed salary expense	39,476,249	-	-	39,476,249
Cost of goods sold	242,216	25,611	4,261	272,088
Depreciation	12,413,185	135,551	106,471	12,655,207
Distributed inventory	10,106,892	163,676	41	10,270,609
Dry docking and related expenses	2,235,235	-	-	2,235,235
Food purchases	1,862,549	62,796	1,761	1,927,106
Freight and customs	1,190,712	16,011	18,086	1,224,809
Fuel and lube oil	5,776,087	940	-	5,777,027
Gift expense–other charities	948,699	42,200	49,478	1,040,377
Insurance	1,138,141	325,276	11,944	1,475,361
Interest	85,046	44,029	25,056	154,131
Legal and professional fees	370,745	292,464	103,009	766,218
Meals and entertainment	141,979	42,713	23,930	208,622
Miscellaneous	1,945,774	645,731	834,837	3,426,342
Postage and printing	2,984,605	582,572	7,634,375	11,201,552
Rents	937,588	200,079	952,877	2,090,544
Repairs and maintenance	2,661,125	92,053	22,173	2,775,351
Service charges	-	1,871,791	-	1,871,791
Small equipment and furniture	3,392,410	205,224	20,143	3,617,777
Staff support and expenses	41,417,611	10,207,380	7,112,875	58,737,866
Supplies	5,672,491	508,220	186,859	6,367,570
Taxes and fees	106,464	12,289	10,906	129,659
Telecommunications	857,892	69,070	14,486	941,448
Travel	6,658,803	546,441	509,787	7,715,031
Utilities	461,182	84,788	21,553	567,523
Total expenses	$ 174,934,611	$ 20,473,116	$ 33,318,789	$ 228,726,516

See notes to consolidated and combined financial statements

MERCY SHIPS AND AFFILIATES

Consolidated and Combined Statement of Cash Flows

For the Year Ended December 31, 2025
With Summarized Financial Information for the Year Ended December 31, 2024

	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 74,333,478	$ 144,817,794
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	12,198,475	12,655,207
Net realized and unrealized (gains) losses on investments	(15,896,016)	(10,017,126)
Allowance adjustment on pledges	607,275	2,081,536
Change in discount on pledges	(11,925,395)	24,021,678
Contributions receivable received for capital purposes	(27,701,000)	(157,357,500)
Cash contributions received for capital purposes	(29,109,032)	(1,561,264)
Loss (gain) from translation adjustments	(289,305)	1,202,187
Changes in operating assets and liabilities:		
Pledges receivable	2,469,208	6,143,649
Other receivables	(364,411)	5,896,155
Inventory–net	1,379,192	(2,527,724)
Prepaid expenses and other assets	2,148,865	(3,080,676)
Accounts payable and accrued expenses	(2,025,904)	(374,203)
Ship bank payable	(226,948)	(8,155)
Other liabilities	1,028,863	(142,361)
Net Cash Provided by Operating Activities	6,627,345	21,749,197
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(89,435,153)	(52,389,012)
Sale of investments	73,349,471	58,767,953
Prepaid construction costs	-	(20,160,323)
Purchases of property and equipment	(22,175,177)	(4,465,190)
Net Cash Used by Investing Activities	(38,260,859)	(18,246,572)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions for long-term purposes	56,346,428	15,472,064
Net Cash Provided by Financing Activities	56,346,428	15,472,064
Effect of Exchange Rate Changes on Cash	289,305	(1,202,187)
Change in Cash, Cash Equivalents, cash held for others and cash held for capital	25,002,219	17,772,502
Cash, Cash Equivalents, cash held for others and cash held for capital, Beginning of year	81,420,098	63,647,596
Cash, Cash Equivalents, cash held for others and cash held for capital, End of year	$ 106,422,317	$ 81,420,098

See notes to consolidated and combined financial statements

MERCY SHIPS AND AFFILIATES

Consolidated and Combined Statement of Cash Flows

For the Year Ended December 31, 2025
With Summarized Financial Information for the Year Ended December 31, 2024

	2025	2024
The following table provides a reconciliation of cash and cash equivalents, cash held for others, and cash held for capital:		
Cash and cash equivalents	$ 77,033,527	$ 74,579,257
Cash held for others–ship bank	1,756,080	1,983,028
Cash held for capital	27,632,710	4,857,813
	$ 106,422,317	$ 81,420,098

See notes to consolidated and combined financial statements

1. NATURE OF ORGANIZATION:

Mercy Ships International (the Organization) is a ship-based international health care organization that follows the 2000 year old model of Jesus, bringing hope and healing to the world's underserved poor by mobilizing people and resources worldwide. Through its hospital ships and related healthcare and capacity building programs and partnerships, the Organization provides surgical interventions, training and capacity building, and other healthcare services without regard to ethnicity, gender, political affiliation, or religious preference.

The financial statements are referred to as consolidated and combined financial statements on the cover page as well as the opinion. Consolidated and combined information is reflected in all other references to the following statements or items: financial statements, statements of financial position, statements of activities, statements of functional expenses, statements of cash flows, and notes to financial statements. If any of these statements are not consolidated or combined, they will be identified accordingly. In addition, all references to Mercy Ships on these statements are a reflection of Mercy Ships and Affiliates, unless otherwise identified.

PRINCIPLES OF CONSOLIDATION

The accompanying financial statements include the accounts of Mercy Ships International and Mercy Ships Community of Faith, LLC., a nonprofit religious organization under Section 501(c)(3) of the Internal Revenue Code (the Code) and a publicly supported organization under Sections 170(b)(1) and 509(a) of the Code. It is not considered to be a private foundation under Section 509(a) of the Code. This affiliate is under common control as defined by accounting principles generally accepted in the United States of America and are consolidated in the financial statements.

PRINCIPLES OF COMBINATION

The accompanying financial statements also include the accounts of Mercy Ships Foundation, a Texas nonprofit, (which includes AFM MI Ltd. and GLM MI Ltd, both Marshall Islands Maritime Corporations), Mercy Ships Australia Ltd., an Australian nonprofit limited by Guarantee, Mercy Ships Belgium VZW, a Belgium nonprofit corporation, Mercy Ships Deutschland e.V., a German nonprofit corporation, Stichting Mercy Ships Holland, a Netherlands charitable organization, Foundation Mercy Ships-Norge, a Norwegian nonprofit corporation, Mercy Ships Sweden, a Fundraising Foundation, Association Mercy Ships, a Swiss nonprofit, Mercy Ships Global Association, a Swiss nonprofit association and Mercy Ships-U.K. Ltd., a U.K. nonprofit limited by Guarantee. All of these affiliates operate independently with their own separate boards of directors and work together collaboratively to achieve their respective charitable purposes. The Mercy Ships International board is a collaborative board that includes representatives from both the consolidated and combined affiliates. This board does not control any one affiliate but rather works collaboratively with them to ensure that their respective charitable programs are carried out in a consistent and coordinated manner with those of Mercy Ships International and one another, subject to the applicable laws of their originating jurisdictions. Due to lack of common board control, these affiliates are not consolidated with Mercy Ships International. However, given the collaborative nature of this structure, these affiliates are included in these financial statements on a combined basis.

1. NATURE OF ORGANIZATION, continued:

The consolidated and combined affiliates (collectively, Mercy Ships) are part of the consolidated and combined financial statements. All material intercompany accounts and transactions have been eliminated in the consolidated and combined financial statements. The following affiliates have been excluded from the financial statements, due to immateriality: Mercy Ships Canada Society, a Canadian nonprofit corporation, Mercy Ships Denmark, Mercy Ships France, Mercy Ships Korea, Mercy Ships New Zealand, Mercy Ships South Africa, and Mercy Ships Spain. Mercy Ships provides funds for and receives funds from the non-combined organizations. The related revenues from and expenditures with these organizations are netted in the consolidated and combined statement of activities within sales and other revenue.

Mercy Ships Foundation is a nonprofit religious organization under Section 501(c)(3) of the Internal Revenue Code (the Code) and is a publicly supported organization under Sections 170(b)(1) and 509(a) of the Code. It is not considered to be a private foundation under Section 509(a) of the Code.

The other combined affiliates of Mercy Ships that are organized and operating outside of the United States are tax-exempt based on the various laws of the country in which they operate. These affiliates are generally not subject to any federal or state income tax including any tax liabilities due to unrelated business income.

2. SIGNIFICANT ACCOUNTING POLICIES:

Mercy Ships maintains its accounts and prepares its consolidated and combined financial statements on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. The preparation of the consolidated and combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of any contingent assets and liabilities at the date of the consolidated and combined financial statements, and the reported revenues and expenses during the reporting periods. Actual results could differ from the estimates. The significant accounting policies followed are described below to enhance the usefulness of the consolidated and combined financial statements to the reader.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of checking and money market accounts. Mercy Ships considers all highly liquid investment instruments purchased with an original maturity of three months or less to be cash equivalents. At December 31, 2025 and 2024, Mercy Ship’s cash balances exceeded federally insured limits by approximately $100,500,000 and $68,300,000, respectively. Mercy Ships purchased investments during the years ended December 31, 2025 and 2024, to mitigate credit risk.

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

CASH HELD FOR OTHERS–SHIP BANK
Mercy Ships maintains a bank on board its ship for the convenience of its crew members. The funds are shown separately on the consolidated and combined statements of financial position. Accordingly, a corresponding liability, ship bank payable, is recorded on the consolidated and combined statements of financial position.

CASH HELD FOR CAPITAL
Cash held for capital consists of cash received restricted for capital projects, primarily the construction of the new ship.

INVESTMENTS
Mercy Ships' investment portfolio consists of corporate and government bonds and mutual funds which are carried at fair value. Mercy Ships considers cash held at cost in investments accounts to be investments. Gains and losses on investments are recorded in the consolidated and combined statements of activities as increases in net assets without donor restrictions, unless their use is restricted by donor stipulation. Donated investments are recorded at fair value at the date of donation.

PLEDGES RECEIVABLE–NET
Pledges receivable-net represent unconditional promises to give to Mercy Ships, primarily for capital purposes. Pledges are discounted to their net present value and management evaluates these pledges for collectability based on past collection history, future economic considerations, among other factors. Refer to Note 5 for further information on the pledges receivable balance.

OTHER RECEIVABLES
Other receivables consist primarily of estate gifts receivable, grants receivable from affiliate organizations, and other small trade receivables occurring during the course of business. Management has estimated that estates and grant receivables will be collectible, thus no allowance has been established. As the trade receivables are not a material balance, the associated disclosures on evaluation of collectability have been omitted from these consolidated and combined financial statements.

INVENTORY–NET
Inventory consists primarily of medical supplies, food, fuel, and lubricating oil. If purchased, these items are stated at the lower of cost or net realizable value on the first-in, first-out basis. If donated, items are valued at the lower of their estimated fair market values as of the date of receipt or current market value. As of December 31, 2025 and 2024, management determined an allowance for obsolescence was necessary of approximately $1,145,000 and $1,497,000, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

PREPAID CONSTRUCTION COSTS
During 2024, Mercy Ships began work on a new hospital ship. As part of this process, Mercy Ships was required to put down a deposit of a certain portion of the total ship build before construction began. At December 31, 2024, these costs totaled approximately $20,200,000. As construction began, the prepaid cost were transferred to construction in progress within property and equipment–net.

Construction on the new hospital ship began in 2025 and the balance in prepaid construction costs were transferred to construction in progress within property and equipment-net.

PROPERTY AND EQUIPMENT–NET
Land, buildings, and equipment are stated at cost, or if donated, at fair value as of the date of the gift. Purchases or donations in excess of $25,000 are capitalized with lesser amounts expensed. All capital assets, other than land, are depreciated using the straight-line method with useful lives ranging from 3-35 years. Assets not placed into service consist of capital expenditures for the new ship that are currently not being depreciated, but will be depreciated based on the depreciation policy once these assets are operable.

NET ASSETS
The following classes of net assets are maintained:

Net assets without donor restrictions include those currently available at the discretion of Mercy Ships' board of directors for use in its associated ministries and those resources invested in property and equipment, net of any related debt.

Net assets with donor restrictions include assets of Mercy Ships related to gifts with explicit donor-imposed restrictions that have not been met as to the specified purpose or to later periods of time or after specified dates. These include donor restrictions requiring that net assets be held in perpetuity with use of all or part of the income earned on related investments for specific purposes.

The management of Mercy Ships has interpreted the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Mercy Ships classifies as net assets with donor restrictions in perpetuity (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in net assets with donor restrictions in perpetuity is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by Mercy Ships in a manner consistent with the standard prudence prescribed by TUPMIFA.

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

NET ASSETS, continued
In accordance with TUPMIFA, Mercy Ships considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of Mercy Ships and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of Mercy Ships
7. The investment policies of Mercy Ships

Due to immateriality, remaining disclosures have been omitted.

SUPPORT, REVENUE, AND EXPENSES
Contributions are recorded when made, which may be when cash or other assets are received or unconditionally promised. Mercy Ships reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, the associated net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated and combined statements of activities as satisfaction of purpose restrictions. Support for Mercy Ships is primarily derived from contributions from individuals, church congregations, and corporations.

Fee revenue, sales, and other revenue are recognized when earned, which is when the sale is made or when an event occurs. Fee and other revenue received in advance of the goods and services being provided are recorded as performance obligation liabilities. There were no contract asset or liabilities at December 31, 2025 and 2024.

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

CONTRIBUTIONS OF NON-FINANCIAL ASSETS
Mercy Ships receives various donated products such as medical and pharmaceutical supplies and food to supply the ships. The products are donated primarily by corporations. The receipt of donated products by Mercy Ships is reflected as contributions of non-financial assets and the distribution is reflected as distributed inventory. The donated products are valued in a manner consistent with Association of Evangelical Relief and Development Organizations Interagency Gift-in-Kind Standards.

Contributed services are recognized if the services received require specialized skills or certifications that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Mercy Ships also receives contributed services related to ship berthing within the ports. Due to such services not meeting the requirement for recording under GAAP, these contributed services are not included within the consolidated and combined statements of activities.

For the year ended December 31, contributed non-financial assets recognized within the consolidated and combined statements of activities included:

	Year Ended December 31,	
	2025	2024
Without donor restrictions:		
Goods:		
Marine operations	$ 73,173	$ -
Information systems	2,130,370	1,838,112
Medical supplies	3,535,510	4,278,286
General supplies	3,258,500	1,234,771
	8,997,553	7,351,169
Services–professional and medical	54,129,447	39,476,249
Total contributions of nonfinancial assets	$ 63,127,000	$ 46,827,418

All of the contributions of nonfinancial assets reflected in the consolidated and combined statements of activities for the years ended December 31, 2025 and 2024, were used 100% by Mercy Ships in its own programs in both years. There were no donor restrictions on the contributions of nonfinancial assets for either year ended December 31, 2025 and 2024.

Contributed goods are recorded at the fair market value at the time of donation and fair value is determined by evaluation of market prices. Contributed services are recorded at the market value of the services provided.

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

ADVERTISING AND PROMOTIONAL COSTS
Advertising and promotional costs are expensed when they are incurred. Mercy Ships expended approximately $26,770,000 and $22,301,000 promoting its mission for the years ended December 31, 2025 and 2024, respectively.

ALLOCATION OF EXPENSES
Expenses are recorded when incurred in accordance with the accrual basis of accounting. The costs of providing various program services and supporting activities have been summarized on a functional basis in the consolidated and combined statements of activities. Accordingly, certain costs such as depreciation and salaries have been allocated among the program services and supporting activities benefited. The consolidated and combined statements of functional expenses report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation expense and utilities that are based on square footage, as well as salaries and benefits which are allocated based on estimates of time and effort.

3. LIQUIDITY AND FUNDS AVAILABLE:

The following table reflects Mercy Ship's financial assets as of December 31, 2025 and 2024, reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year, or because the governing board has set aside the funds for specific contingency reserves and projects or a long-term investment as board-designated endowments.

	December 31, 2025	December 31, 2024
Financial assets:		
Cash and cash equivalents	$ 77,033,527	$ 74,579,257
Cash held for others–ship bank	1,756,080	1,983,028
Cash held for capital	27,632,710	4,857,813
Investments	162,395,730	130,414,032
Other receivables	6,291,199	5,926,788
Pledges receivable–net	131,259,491	121,946,975
Financial assets, at year-end	406,368,737	339,707,893
Less those unavailable for general expenditure within one year:		
Cash held for others–ship bank	(1,756,080)	(1,983,028)
Cash held for capital	(27,632,710)	(4,857,813)
Pledges receivable, not for capital expected to be collected in more than one year	(1,085,246)	(964,035)
Pledges receivable, restricted for capital projects	(128,012,570)	(116,718,213)
Donor-restricted endowment	(1,188,500)	(1,187,000)
Unappropriated endowment income	(134,226)	(114,525)
Board reserves and quasi-endowment	(27,645,283)	(26,325,164)
Unavailable	(187,454,615)	(152,149,778)
Financial assets available to meet cash needs for general expenditures within one year	$ 218,914,122	$ 187,558,115

At December 31, 2025 and 2024, approximately $0 and $3,338,000, respectively, of the outstanding pledge balance was internally designated by management for long-term use to build operational reserves.

3. LIQUIDITY AND FUNDS AVAILABLE, continued:

As part of the Mercy Ships' liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Mercy Ships has a line of credit for $5,000,000 which expires June 30, 2027. The balance on the line of credit at December 31, 2025 and 2024, was $0. This line could be used to fund operations if required. At December 31, 2025 and 2024, there were approximately $7,000,000 and $4,000,000, respectively, that are considered net assets with donor restrictions that are available to be used for Mercy Ships' cash needs in these areas over the next 12 months. In addition, board reserves and quasi-endowment may be drawn upon board approval.

4. INVESTMENTS AND FAIR VALUE MEASUREMENTS:

Investments consist of the following:

	December 31, 2025	December 31, 2024
Cash, at cost	$ 5,631,536	$ 2,066,316
Government bonds, at fair value	42,630,269	20,491,975
Corporate bonds, at fair value	9,891,944	12,361,992
Mutual funds, at fair value	104,241,981	95,493,749
	$ 162,395,730	$ 130,414,032

The disclosure of the estimated fair value of financial investments at December 31, 2025 and 2024, is made in accordance with the requirements of the *Fair Value Measurements and Disclosure* topic of the Financial Accounting Standards Board Accounting Standards Codification. Mercy Ships' investments consist of bonds, mutual funds, and certain cash held in the investment account. The fair value of these financial instruments is based on yields currently available on comparable securities of issuers with similar credit ratings.

Mercy Ships uses appropriate valuation techniques to determine fair value based on inputs available. When available, Mercy Ships measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 1 inputs indicate there is a quoted market price available for identical assets. Level 2 inputs indicate there are market prices available for similar assets. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available and indicate there are not readily available market prices. Government and corporate bonds, while identified as a Level 2 investment, can be liquidated within a few days to provide cash flow for Mercy Ships.

4. INVESTMENTS AND FAIR VALUE MEASUREMENTS, continued:

The following tables present the fair value measurements of investments recognized in the accompanying consolidated and combined statements of financial position measured at fair value on a recurring basis, and are investments within the fair value hierarchy at December 31, 2025:

	Level 1	Level 2	Level 3	Total
Government bonds	$ -	$ 42,630,269	$ -	$ 42,630,269
Corporate bonds	-	9,891,944	-	9,891,944
Mutual funds	104,241,981	-	-	104,241,981
	$ 104,241,981	$ 52,522,213	$ -	156,764,194
Reconciling items:				
Cash, at cost				5,631,536
				$ 162,395,730

Investments within the fair value hierarchy at December 31, 2024:

	Level 1	Level 2	Level 3	Total
Government bonds	$ -	$ 20,491,975	$ -	$ 20,491,975
Corporate bonds	-	12,361,992	-	12,361,992
Mutual funds	95,493,749	-	-	95,493,749
	$ 95,493,749	$ 32,853,967	$ -	128,347,716
Reconciling items:				
Cash, at cost				2,066,316
				$ 130,414,032

Investment income consists of:

	Year Ended December 31,	
	2025	2024
Net realized and unrealized gains	$ 15,896,016	$ 10,017,126
Investment income	2,977,995	4,846,903
Total investment income–net	$ 18,874,011	$ 14,864,029

5. PLEDGES RECEIVABLE–NET:

Pledges receivable–net, consist of:

	December 31, 2025	December 31, 2024
Due in less than one year	$ 39,463,962	$ 28,445,024
Due in one to five years	107,177,299	120,101,535
Due in more than five years	200,000	300,000
	146,841,261	148,846,559
Less present value discount (.5%-7.5%)	(12,468,490)	(24,218,190)
Less allowance for uncollectible promises	(3,113,280)	(2,681,394)
	$ 131,259,491	$ 121,946,975

Mercy Ships launched a plan for a new, third hospital ship during 2024 and received a pledge for approximately half the cost of this new ship. This unconditional pledge is expected to be paid to Mercy Ships in alignment with the ship construction schedule and totaled approximately $99,250,000. As of December 31, 2025 and 2024, the gross balance of the pledge was approximately $79,400,000 and $89,000,000, respectively. Mercy Ships has and continues to raise contributions through pledges and other capital contributions for the remaining cost of the ship.

6. INVENTORY–NET:

Inventory–net consists of the following:

	December 31, 2025	December 31, 2024
Medical supplies	$ 10,788,197	$ 13,402,947
Fuel	498,022	1,138,534
Food	-	9,606
Other	2,925,450	1,391,774
	14,211,669	15,942,861
Allowance for obsolescence	(1,145,000)	(1,497,000)
Total inventory–net	$ 13,066,669	$ 14,445,861

7. PROPERTY AND EQUIPMENT–NET:

Property and equipment consists of:

	December 31, 2025	December 31, 2024
Land and buildings	$ 15,279,681	$ 14,587,700
Ships and related improvements	218,253,820	218,177,127
Tools and equipment	18,446,476	18,044,083
Vehicles	3,249,850	3,088,236
Medical equipment	10,731,831	10,541,793
	265,961,658	264,438,939
Less accumulated depreciation	(109,717,509)	(97,419,613)
	156,244,149	167,019,326
Assets not placed into service*	41,155,515	243,313
Property and equipment–net	$ 197,399,664	$ 167,262,639

*Includes approximately $40,300,000 of construction in progress for the new ship. The new ship will take several years to build and will be placed into service when construction is completed. Other in-progress assets will be reclassified to their appropriate asset class once completed and placed into service.

8. NET ASSETS WITHOUT DONOR RESTRICTIONS:

Net assets without donor restrictions consist of:

	December 31, 2025	December 31, 2024
Available for operations	$ 206,224,857	$ 163,837,169
Equity in property and equipment–net	154,632,239	185,311,379
Equity in inventory–net	13,066,669	14,445,861
Board-designated operating reserve	27,624,535	26,306,023
Quasi endowments	20,748	19,141
	$ 401,569,048	$ 389,919,573

9. NET ASSETS WITH DONOR RESTRICTIONS BY PURPOSE OR TIME:

Net assets with donor restrictions by purpose or time consist of:

	December 31, 2025	December 31, 2024
Capital project–new ship:		
Pledges made, not received	$ 128,012,570	$ 116,718,213
New ship asset in progress	40,306,623	-
Other restricted gifts for capital project	27,632,710	14,782,813
	195,951,903	131,501,026
Pledges restricted for time, not received	3,246,921	5,228,762
Women's health projects	1,470,678	1,795,270
General surgery projects	1,046,192	-
Orthopedic projects	680,659	607,785
Non-surgical projects	459,430	-
Other ministry projects (including unappropriated endowment income)	291,973	767,978
Dental projects	158,570	344,754
Mercy vision projects	-	377,748
	$ 203,306,326	$ 140,623,323

10. ENDOWMENT FUNDS AND RELATED ASSETS:

Assets held for endowment funds consist of:

	December 31, 2025	December 31, 2024
Cash and cash equivalents	$ 1,343,474	$ 1,321,166

Net assets with donor restrictions in perpetuity consist of:

	December 31, 2025	December 31, 2024
Crew assistance fund	$ 107,000	$ 107,000
Operations	81,500	80,500
Technical training	1,000,000	1,000,000
	$ 1,188,500	$ 1,187,500

The endowment net asset composition by type of fund as of December 31, 2025:

		With donor restrictions		
	Without donor restrictions	Accumulated gains (losses)	Original gift amount	Total
Donor-restricted endowment funds	$ -	$ 134,226	$ 1,188,500	$ 1,322,726
Board-designated endowment funds	20,748	-	-	20,748
	$ 20,748	$ 134,226	$ 1,188,500	$ 1,343,474

Changes in endowment net assets for the year ended December 31, 2025:

		With donor restrictions		
	Without donor restrictions	Accumulated gains (losses)	Original gift amount	Total
Endowment net assets, beginning of year	$ 19,141	$ 114,525	$ 1,187,500	$ 1,321,166
Contribution	-	-	1,000	1,000
Investment income	1,607	19,701	-	21,308
Endowment net assets, end of year	$ 20,748	$ 134,226	$ 1,188,500	$ 1,343,474

10. ENDOWMENT FUNDS AND RELATED ASSETS, continued:

The endowment net asset composition by type of fund as of December 31, 2024:

		With donor restrictions		
	Without donor restrictions	Accumulated gains (losses)	Original gift amount	Total
Donor-restricted endowment funds	$ -	$ 114,525	$ 1,187,500	$ 1,302,025
Board-designated endowment funds	19,141	-	-	19,141
	$ 19,141	$ 114,525	$ 1,187,500	$ 1,321,166

Changes in endowment net assets for the year ended December 31, 2024:

		With donor restrictions		
	Without donor restrictions	Accumulated gains (losses)	Original gift amount	Total
Endowment net assets, beginning of year	$ 18,695	$ 109,025	$ 1,187,000	$ 1,314,720
Contribution	-	-	500	500
Investment income	446	5,500	-	5,946
Endowment net assets, end of year	$ 19,141	$ 114,525	$ 1,187,500	$ 1,321,166

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or TUPMIFA requires Mercy Ships to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported in net assets without donor restrictions. As of December 31, 2025 and 2024, there are no deficiencies resulting from unfavorable market fluctuations.

11. DEFINED CONTRIBUTION PENSION PLAN:

Mercy Ships provides a 403(b) defined contribution retirement plan to eligible employees. As of April 1, 2019, all full-time employees were eligible to participate on the first day of the month following their hire date. Eligible employees can contribute toward tax sheltered and/or Roth elections up to the maximum allowed by the IRS for the plan year. Mercy Ships matches 100% of employee contributions to the plan up to 3% of employee's gross annual wage. Employer matching contributions as of December 31, 2025 and 2024, were approximately $775,000 and $806,000, respectively.

12. TRANSFERS FROM AFFILIATES:

Mercy Ships' international affiliates are certified by various charity boards within their countries. To satisfy requirements of these boards, the following information is presented for the purpose of disclosing the amount of funds transferred from each affiliate and disbursed to pay for program and ship operational expenses and long-term liabilities of Mercy Ships. These amounts are considered intercompany transactions for the purposes of the consolidated and combined financial statements and are therefore eliminated upon combination.

The amount of funds transferred from the affiliates was as follows:

	Grants–Accrual Basis		Grants–Cash Basis	
	2025	2024	2025	2024
Australia	$ 3,830,039	$ 3,410,188	$ 4,152,497	$ 3,862,466
Belgium	4,667,422	4,772,033	4,753,268	4,836,006
Germany	4,629,557	2,298,566	4,544,515	2,298,566
Holland	4,027,006	4,775,658	4,027,006	4,791,307
Norway	3,853,823	2,487,319	1,667,601	2,487,319
Sweden	3,889,151	2,776,059	3,423,176	3,000,718
Switzerland	6,947,225	5,698,529	6,234,075	5,716,656
United Kingdom	10,468,902	7,696,399	10,468,902	7,696,399
	$ 42,313,125	$ 33,914,751	$ 39,271,040	$ 34,689,437

13. <u>NON-U.S. OPERATIONS:</u>

Mercy Ships' international affiliates are located in various countries. Non-U.S. operations are subject to risks inherent in operating under different legal systems and various political and economic environments. Among the risks are changes in existing tax laws, possible limitations on non-U.S. investment and income repatriation, government price or non-U.S. exchange controls, and restrictions on currency exchange. For the years ended December 31, 2025 and 2024, net assets of non-U.S. operations were 4.2% and 4.5% of Mercy Ships' total net assets, respectively.

The majority of Mercy Ships' international affiliates use the local currency as the functional currency. The consolidated and combined financial statements of Mercy Ships' international affiliates have been translated into U.S. dollars. The consolidated and combined statements of financial position accounts have been translated using the exchange rate in effect at the consolidated and combined statement of financial position date. Consolidated and combined statements of activities amounts have been translated using the average exchange rate for the year. These adjustments for the years ended December 31, 2025 and 2024, are reflected accordingly on the consolidated and combined statements of activities.

As of the date of the consolidated and combined statements of financial position and statements of activities, there continues to be fluctuations in the value of the U.S. dollar relative to several non-U.S. currencies in which Mercy Ships operates. It is not practicable to determine the effects of these rate changes on Mercy Ships' consolidated and combined financial statements.

14. <u>SUBSEQUENT EVENTS:</u>

Subsequent events have been evaluated through May 27, 2026, which represents the date the consolidated and combined financial statements were available to be issued. Subsequent events after that date have not been evaluated.

SUPPLEMENTAL INFORMATION

CAPINCROUSE
A DIVISION OF Carr, Riggs & Ingram

INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY INFORMATION

Board of Directors
Mercy Ships and Affiliates
Lindale, Texas

We have audited the consolidated and combined financial statements of Mercy Ships and Affiliates, as of and for the year ended December 31, 2025, and our report thereon dated May 27, 2026, which expressed an unmodified opinion on those consolidated and combined financial statements, appears on pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the consolidated and combined financial statements as a whole. The consolidating and combining statements of financial position and activities are presented for purposes of additional analysis of the consolidated and combined financial statements rather than to present the financial position and results of operations of the individual organizations, and it is not a required part of the consolidated and combined 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 and combined financial statements. The consolidating and combining information has been subjected to the auditing procedures applied in the audit of the consolidated and combined 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 and combined financial statements or to the consolidated and combined 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 and combined financial statements as a whole.

Capin Crouse LLC

Irving, Texas
May 27, 2026

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MERCY SHIPS AND AFFILIATES

Consolidating and Combining Statement of Financial Position

December 31, 2025

		Mercy Ships Foundation					
	Mercy Ships	Mercy Ships Foundation Operations	Africa Mercy-Malta Ltd.	Global Mercy Shipping Ltd.	Mercy Ships National Offices	Eliminations	Total
ASSETS:							
Cash and cash equivalents	$ 45,051,452	$ 497,208	$ -	$ -	$ 30,855,551	$ 629,316	$ 77,033,527
Cash held for others–ship bank	2,385,396	-	-	-	-	(629,316)	1,756,080
Cash held for capital	27,632,710	-	-	-	-	-	27,632,710
Investments	30,552,744	131,363,606	-	-	479,380	-	162,395,730
Pledges receivable–net	131,259,491	-	-	-	-	-	131,259,491
Other receivables	11,618,184	-	-	-	4,381,840	(9,708,825)	6,291,199
Inventory	12,175,008	-	-	-	891,661	-	13,066,669
Prepaid expenses and other assets	3,998,699	-	-	-	1,551,571	-	5,550,270
Property and equipment–net	175,675,247	3,131,289	15,757,315	126,007,825	2,852,097	(126,024,109)	197,399,664
Total Assets	$ 440,348,931	$ 134,992,103	$ 15,757,315	$ 126,007,825	$ 41,012,100	$ (135,732,934)	$ 622,385,340
LIABILITIES AND NET ASSETS:							
Liabilities:							
Accounts payable and accrued expenses	$ 8,640,864	$ -	$ -	$ -	$ 12,491,364	$ (9,708,317)	$ 11,423,911
Ship bank payable	1,756,080	-	-	-	-	-	1,756,080
Other liabilities	200	-	-	-	3,141,275	-	3,141,475
	10,397,144	-	-	-	15,632,639	(9,708,317)	16,321,466
Net assets:							
Net assets without donor restrictions	225,456,961	134,992,103	15,757,315	126,007,825	25,379,461	(126,024,617)	401,569,048
Net asset with donor restrictions	204,494,826	-	-	-	-	-	204,494,826
	429,951,787	134,992,103	15,757,315	126,007,825	25,379,461	(126,024,617)	606,063,874
Total Liabilities and Net Assets	$ 440,348,931	$ 134,992,103	$ 15,757,315	$ 126,007,825	$ 41,012,100	$ (135,732,934)	$ 622,385,340

MERCY SHIPS AND AFFILIATES

Consolidating and Combining Statement of Activities

December 31, 2025

	Mercy Ships	Mercy Ships Foundation: Mercy Ships Foundation	Mercy Ships Foundation: Africa Mercy-Malta Ltd.	Mercy Ships Foundation: Global Mercy Shipping Ltd.	Mercy Ships National Offices	Eliminations	Total
SUPPORT AND REVENUE:							
Contributions of financial assets	$ 180,993,897	$ 445,370	$ -	$ -	$ 69,642,123	$ 1,934,579	$ 253,015,969
Contributions of financial assets–staff support	2,026,408	-	-	-	1,642,938	-	3,669,346
Contributions of nonfinancial assets–goods	5,643,778	-	-	-	3,353,775	-	8,997,553
Contributions of nonfinancial assets–services	54,129,448	-	-	-	9,336,492	(9,336,493)	54,129,447
Fee revenue	40,852	-	-	-	-	-	40,852
Investment income–net	262,092	18,663,871	-	-	(51,952)	-	18,874,011
Sales and other revenue	2,794,862	942,991	-	-	3,042,640	(28,518)	6,751,975
Gain/loss from translation adjustments	315,473	-	-	-	(179,262)	937,703	1,073,914
Grant revenue–nonfinancial assets	763,710	-	4,677,104	4,966,050	-	(10,406,864)	-
Grant revenue–financial assets	66,061,704	1,127,355	-	-	10,567,858	(77,756,917)	-
Total Support and Revenue	313,032,224	21,179,587	4,677,104	4,966,050	97,354,612	(94,656,510)	346,553,067
EXPENSES:							
Non-grant expenses	235,150,878	602,046	2,529,638	4,942,122	45,077,987	(15,793,777)	272,508,894
Grant expenses	18,398,990	14,181,000	-	-	51,174,357	(83,754,347)	-
Total Expenses	253,549,868	14,783,046	2,529,638	4,942,122	96,252,344	(99,548,124)	272,508,894
Change in Net Assets Before Change in Cumulative Translation Adjustments	59,482,356	6,396,541	2,147,466	23,928	1,102,268	4,891,614	74,044,173
Cumulative Translation Adjustments	-	-	-	-	289,305	-	289,305
Change in Net Assets	59,482,356	6,396,541	2,147,466	23,928	1,391,573	4,891,614	74,333,478
Net Assets, Beginning of Year	370,469,431	128,595,562	13,609,849	125,983,897	23,987,888	(130,916,231)	531,730,396
Net Assets, End of Year	$ 429,951,787	$ 134,992,103	$ 15,757,315	$ 126,007,825	$ 25,379,461	$ (126,024,617)	$ 606,063,874