

MUSLIM ADVOCATES

**AUDITED FINANCIAL STATEMENTS
WITH AUDITOR'S REPORT**

YEARS ENDED DECEMBER 31, 2010 AND 2009

**Ghaffari Zaragoza LLP
CERTIFIED PUBLIC ACCOUNTANTS**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Muslim Advocates
San Francisco, California

We have audited the accompanying statements of financial position of Muslim Advocates as of December 31, 2010 and 2009, and the related statement of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Muslim Advocates as of December 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Ghaffari Zaragoza LLP

November 9, 2011
Oakland, California

MUSLIM ADVOCATES

Statements of Financial Position At December 31, 2010 and 2009

	<u>2010</u>	<u>Restated 2009</u>
Assets		
Current assets		
Cash and cash equivalents (Note 3)	\$ 360,974	\$ 373,540
Grants and pledges receivable, net (Note 4)	509,124	569,320
Prepaid expenses	18,685	11,235
	<u>888,783</u>	<u>954,095</u>
Total Current Assets	888,783	954,095
Grants receivable beyond one year, net (Note 4)	-	258,000
Office equipment, net of accumulated depreciation of \$9,825 and \$2,780 respectively	-	7,045
Deposits	9,975	8,875
	<u>9,975</u>	<u>8,875</u>
Total Assets	<u>\$ 898,758</u>	<u>\$1,228,015</u>
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	\$ 24,678	\$ 58,233
Accrued vacation liability	6,819	4,222
	<u>31,497</u>	<u>62,455</u>
Total Current Liabilities and Total Liabilities	31,497	62,455
Net Assets		
Unrestricted	354,511	322,269
Temporarily restricted (Note 5)	512,750	843,291
	<u>867,261</u>	<u>1,165,560</u>
Total Net Assets	867,261	1,165,560
Total Liabilities and Net Assets	<u>\$ 898,758</u>	<u>\$1,228,015</u>

See notes to financial statements

MUSLIM ADVOCATES

Statements of Activities
Years Ended December 31, 2010 and 2009

	Year Ended December 31, 2010			Year Ended December 31, 2009 (Restated)		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and Revenue						
Grants	\$ 120,000	\$ 100,000	\$ 220,000	\$ 223,805	\$ 820,000	\$ 1,043,805
Contributions	179,439	43,650	223,089	150,966	19,100	170,066
In-kind contributions (Note 6)	257,487	-	257,487	-	-	-
Loss from uncollectable pledges	-	(78,000)	(78,000)	-	-	-
Fundraising event income	136,100	-	136,100	-	-	-
Fundraising event expense	(25,503)	-	(25,503)	-	-	-
Fundraising event, net	110,597	-	110,597	-	-	-
Net assets released from restriction: Purpose accomplished	396,191	(396,191)	-	367,988	(367,988)	-
Total Support and Revenue	1,063,714	(330,541)	733,173	742,759	471,112	1,213,871
Expenses						
Program services						
Racial profiling	482,839	-	482,839	161,393	-	161,393
Muslim charity works	278,530	-	278,530	238,390	-	238,390
Supporting services						
Management and general	143,930	-	143,930	103,038	-	103,038
Fundraising	126,173	-	126,173	65,229	-	65,229
Total Expenses	1,031,472	-	1,031,472	568,050	-	568,050
Change in Net Assets	32,242	(330,541)	(298,299)	174,709	471,112	645,821
Net Assets at beginning of year, restated (Note 7)	322,269	843,291	1,165,560	147,560	372,179	519,739
Net Assets at end of year	\$ 354,511	\$ 512,750	\$ 867,261	\$ 322,269	\$ 843,291	\$ 1,165,560

See notes to financial statements

MUSLIM ADVOCATES

Statements of Cash Flows Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Change in net assets	\$ (298,298)	\$ 645,821
Adjustments to reconcile change in net assets to cash from operating activities:		
Depreciation	7,045	1,599
Increase in allowance for uncollectible pledges	75,250	1,250
(Increase) decrease in operating assets:		
Grants and pledges receivable	242,946	(606,935)
Prepaid expenses	(7,450)	(9,872)
Deposits	(1,100)	3,726
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	<u>(30,959)</u>	<u>15,393</u>
Net cash provided (used) by operating activities	<u>(12,566)</u>	<u>50,982</u>
Cash flows from investing activities:		
Purchase of equipment	<u>-</u>	<u>(3,205)</u>
Net cash used by investing activities	<u>-</u>	<u>(3,205)</u>
Net increase (decrease) in cash and cash equivalents	(12,566)	47,777
Cash and cash equivalents at beginning of year	<u>373,540</u>	<u>325,763</u>
Cash and cash equivalents at end of year	<u>\$ 360,974</u>	<u>\$ 373,540</u>

See notes to financial statements

MUSLIM ADVOCATES

Statement of Functional Expenses Year Ended December 31, 2010

	Program Services		Supporting Services		Total
	Racial Profiling	Muslim Charity Works	Management and General	Fundraising	
Salaries	\$ 146,263	\$ 136,113	\$ 57,764	\$ 61,082	\$ 401,222
Payroll taxes	12,000	11,228	4,703	4,892	32,823
Employee benefits (Note 8)	27,747	27,791	12,140	11,715	79,393
Occupancy	23,219	23,153	9,668	9,735	65,775
Professional fees	232,691	38,122	49,996	24,526	345,335
Travel	21,794	15,949	118	3,254	41,115
Meetings	67	490	115	30	702
Event and facility rental	1,111	3,844	-	-	4,955
Website expenses	2,720	2,708	982	684	7,094
Printing and publications	1,975	5,806	886	6,269	14,936
Supplies	302	150	1,239	340	2,031
Insurance	3,446	3,444	887	756	8,533
Telephone and internet	2,986	2,947	827	836	7,596
Postage	86	179	220	792	1,277
Equipment purchase	1,043	1,043	360	316	2,762
Depreciation	2,819	2,818	704	704	7,045
Staff development and recruitment	-	-	492	-	492
Bank charges and fees	-	-	2,245	93	2,338
Advertising	194	369	-	-	563
Dues and subscriptions	2,376	2,376	227	100	5,079
Miscellaneous	-	-	357	48	405
Total expenses	\$ 482,839	\$ 278,530	\$ 143,930	\$ 126,172	\$ 1,031,471

See notes to financial statements

MUSLIM ADVOCATES

Statement of Functional Expenses Restated Year Ended December 31, 2009

	Program Services		Supporting Services		Total
	Racial Profiling	Muslim Charity Works	Management and General	Fundraising	
Salaries	\$ 91,377	\$ 125,147	\$ 52,754	\$ 38,754	\$ 308,032
Payroll taxes	8,183	10,210	4,700	3,207	26,300
Employee benefits (Note 8)	10,242	17,465	9,659	5,842	43,208
Occupancy	10,578	18,974	8,509	6,157	44,218
Professional fees	15,646	27,639	14,452	580	58,317
Travel	8,240	12,585	2,992	1,302	25,119
Meetings	54	192	1,148	-	1,394
Event and facility rental	-	8,025	-	4,318	12,343
Website expenses	397	771	1,258	194	2,620
Printing and publications	9,334	7,773	394	2,452	19,953
Supplies	418	1,031	1,376	320	3,145
Insurance	531	1,112	1,469	394	3,506
Telephone	1,261	1,956	960	472	4,649
Postage	186	63	190	747	1,186
Depreciation	395	695	279	230	1,599
Staff development and recruitment	1,990	1,769	1,089	260	5,108
Bank charges and fees	-	225	1,289	-	1,514
Dues and subscriptions	2,561	2,708	520	-	5,789
Miscellaneous	-	50	-	-	50
	\$ 161,393	\$ 238,390	\$ 103,038	\$ 65,229	\$ 568,050

See notes to financial statements

MUSLIM ADVOCATES

Notes to Financial Statements
Years Ended December 31, 2010 and 2009

Note 1 - Organization

Muslim Advocates (the Organization) is a non-profit organization incorporated in Washington, DC on February 4, 2005 to promote and protect freedom, justice and equality for all, regardless of faith, using the tools of legal advocacy, policy engagement and civic education and by serving as a legal resource to promote the full and meaningful participation of Muslims in American public life.

Located in San Francisco, California, the Organization supports its operations through private grants and contributions.

Note 2 - Summary of Significant Accounting Policies

Significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

- (a) **Method of Accounting** – The financial statements of the Organization have been prepared using the accrual method of accounting, which involves the recognition of revenue and gains when earned and expenses and losses when incurred.
- (b) **Cash and Cash Equivalents** – For purposes of the statement of cash flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.
- (c) **Grants and Pledges Receivable** – Grants and pledges receivable include unconditional commitments from various foundations and individuals that are recorded at the net realizable value of the amount expected to be collected by management, less an allowance for uncollectible pledges. Grants receivable are deemed to be collectible in its entirety. Allowance for uncollectible pledges from individuals is provided for at 50%-100% of pledges after 18-24 months depending on the dollar amount. This allowance is then adjusted based on significant other information about the recoverability of the pledge.
- (d) **Fixed Assets and Depreciation** – The Organization records acquisitions of items with a cost of \$1,000 or more as fixed assets. Fixed assets are recorded at cost when purchased and fair value when received as a donation. Depreciation is provided over the estimated useful lives of respective assets, using the straight-line method of depreciation.

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Notes to Financial Statements
Years Ended December 31, 2010 and 2009

(e) **Income Tax Status** – The Organization is recognized as a public charity exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code, whereby only unrelated business income, as defined by Section 512(a)(1) of the Internal Revenue Code and similar code section of the California Revenue and Taxation Code, is subject to income tax. Management believes that all of the organization’s activities were directly related to its exempt purpose, thus the accompanying financial statements do not include any provision for income taxes.

(f) **Basis of Presentation** – Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets represent net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets represent net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time.

(g) **Restricted Resources** – The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Gifts of fixed assets are recorded as unrestricted support unless explicit donor stipulations specify how the donated asset must be used.

(h) **In-Kind Services** – Contributed services are recognized at their fair value if such services a) create or enhance nonfinancial assets or b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not contributed. Due to the nature of the Organization’s operations, pro bono legal services have been performed by a number of attorneys who have contributed their time to the Organization. The Organization has valued and recorded these contributed services as revenue and expenses at fair value based on the attorney’s average billing rates. A substantial number of general volunteers also donated their time to the program services and fund raising campaigns of the Organization; such time is not reflected in the financial statements in as much as applicable

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Notes to Financial Statements
Years Ended December 31, 2010 and 2009

- recognition criteria are not met.
- (i) **Allocation of Common Expenses** – Common costs are allocated based on management’s estimate of employees effort.
- (j) **Use of Estimates** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant accounting estimates reflected in the Organization’s financial statements include valuation and collectability of grants and pledges receivable and the functional allocation of expenses. Actual result may differ from those estimates.

Note 3 – Concentrations of Credit Risk

Cash and cash equivalents at various financial institutions are insured by the Federal Deposit Insurance Corporation. The uninsured cash and cash equivalent balances at December 31, 2010 and 2009 were \$0 and \$102,869, respectively.

Note 4 – Grants and Pledges Receivable

Grants and pledges receivable are as follows:

	<u>12/31/2010</u>	<u>12/31/2009</u>
Receivable in less than one year	\$ 591,974	\$ 576,920
Receivable in one to five years	<u>0</u>	<u>258,000</u>
Total grants and pledges receivable	591,974	834,920
Unamortized discount	(0)	(0)
Allowance for uncollectible pledges	<u>(89,850)</u>	<u>(7,600)</u>
Grants and pledges receivable, net	<u>\$ 509,124</u>	<u>\$ 827,320</u>

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Notes to Financial Statements
Years Ended December 31, 2010 and 2009

Note 5 - Temporarily Restricted Net Assets

Temporarily restricted net assets were available for:

	<u>12/31/2010</u>	<u>12/31/2009</u>
Racial Profiling	\$ 68,000	\$ 68,000
Muslim Charity Works	0	32,881
Financial Capacity	0	2,761
Future periods	<u>444,750</u>	<u>739,649</u>
	<u>\$ 512,750</u>	<u>\$ 843,291</u>

Note 6 – In-Kind Services

In-kind services received and recorded under “in-kind contributions” in the statement of activities consisted of:

	<u>12/31/2010</u>	<u>12/31/2009</u>
<u>Legal Services:</u>		
Management and General	\$ 15,395	\$ 0
Racial Profiling	213,179	0
Muslim Charity Works	18,660	0
<u>Communications Advice:</u>		
Racial Profiling	4,800	0
Muslim Charity Works	<u>4,800</u>	<u>0</u>
	<u>\$ 256,834</u>	<u>\$ 0</u>

Note 7 - Correction of Prior Year's Errors

Unrestricted net assets at December 31, 2009 were decreased by \$19,100 for pledges receivable with implied time restrictions. The change did not have any impact on the total change in net assets for the year ended December 31, 2009, but it resulted in decrease in change in unrestricted net assets and a corresponding increase to change in temporarily restricted net assets.

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Notes to Financial Statements
Years Ended December 31, 2010 and 2009

Note 8 – Defined Contribution Plan

The Organization has a defined contribution retirement plan under Section 401(k) of the Internal Revenue Code. The plan provides for voluntary salary deferrals for employees who have completed one month of service. The Organization may elect to make matching contributions to the plan at its discretion. During the year ended December 31, 2010 and 2009 employer contributions to the plan were \$27,742 and \$15,142, respectively.

Note 9 – Operating Lease

The Organization has a month-to-month arrangement for its office facility. Total rent expense under the arrangement were \$65,775 and \$44,218 for the year ended December 31, 2010 and 2009, respectively.

Note 10 – Subsequent Events

Management has evaluated subsequent events through November 9, 2011, the date on which the financial statements were available to be issued.