

Muslim Advocates

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT

December 31, 2016 and 2015

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INDEPENDENT AUDITORS' REPORT

Board of Directors  
Muslim Advocates  
Oakland, California

We have audited the accompanying financial statements of Muslim Advocates (a nonprofit organization), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

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

**Auditors' Responsibility**

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

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Muslim Advocates as of December 31, 2016 and 2015, 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.

*DZH Phillips LLP*

Oakland, California  
November 20, 2017

Muslim Advocates

STATEMENTS OF FINANCIAL POSITION

December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 787,780	\$ 553,655
Grants and pledges receivable, net	516,000	429,672
Other receivables	30,247	9,482
Prepaid expenses	<u>30,043</u>	<u>17,537</u>
Total Current Assets	1,364,070	1,010,346
Long-term grants receivable, net	284,080	-
Property and equipment, net	17,479	27,654
Deposits	<u>8,369</u>	<u>8,369</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 1,673,998</u></u>	<u><u>\$ 1,046,369</u></u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 49,886	\$ 45,952
Accrued vacation liability	<u>40,028</u>	<u>36,294</u>
Total Current Liabilities	89,914	82,246
Deferred rent	<u>30,999</u>	<u>38,092</u>
<b>TOTAL LIABILITIES</b>	<u>120,913</u>	<u>120,338</u>
<b>NET ASSETS</b>		
Unrestricted	611,935	496,359
Temporarily restricted	<u>941,150</u>	<u>429,672</u>
<b>TOTAL NET ASSETS</b>	<u>1,553,085</u>	<u>926,031</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 1,673,998</u></u>	<u><u>\$ 1,046,369</u></u>

The accompanying notes are an integral part of these statements.

Muslim Advocates

STATEMENTS OF ACTIVITIES

Years ended December 31, 2016 and 2015

	December 31, 2016			December 31, 2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>SUPPORT AND REVENUE</b>						
Grants	\$ 175,046	\$ 909,860	\$ 1,084,906	\$ 146,950	\$ 640,000	\$ 786,950
Contributions	467,352	312,635	779,987	267,586	191,005	458,591
In-kind contributions	626,669	-	626,669	1,120,315	-	1,120,315
Fundraising events income	477,612	-	477,612	488,598	-	488,598
Cost of direct benefits to donors	(112,137)	-	(112,137)	(79,336)	-	(79,336)
Fundraising events, net	365,475	-	365,475	409,262	-	409,262
Legal awards	140,000	-	140,000	-	-	-
Interest and other income	6,165	-	6,165	14,313	-	14,313
Net assets released from restrictions:						
Purpose accomplished or time restrictions met	711,017	(711,017)	-	680,588	(680,588)	-
<b>TOTAL SUPPORT AND REVENUE</b>	<b>2,491,724</b>	<b>511,478</b>	<b>3,003,202</b>	<b>2,639,014</b>	<b>150,417</b>	<b>2,789,431</b>
<b>EXPENSES</b>						
Program Services						
End profiling	390,593	-	390,593	822,804	-	822,804
Counter hate	681,571	-	681,571	1,216,545	-	1,216,545
Strengthen charities	579,442	-	579,442	159,249	-	159,249
Supporting services						
Management and general	213,176	-	213,176	163,788	-	163,788
Fundraising	511,366	-	511,366	427,274	-	427,274
<b>TOTAL EXPENSES</b>	<b>2,376,148</b>	<b>-</b>	<b>2,376,148</b>	<b>2,789,660</b>	<b>-</b>	<b>2,789,660</b>
Change in net assets	115,576	511,478	627,054	(150,646)	150,417	(229)
Net assets at beginning of year	496,359	429,672	926,031	647,005	279,255	926,260
Net assets at end of year	\$ 611,935	\$ 941,150	\$ 1,553,085	\$ 496,359	\$ 429,672	\$ 926,031

The accompanying notes are an integral part of these statements.

Muslim Advocates

STATEMENT OF FUNCTIONAL EXPENSES

Year ended December 31, 2016

	Program Services			Supporting Services			Total
	End Profiling	Counter Hate	Strengthen Charities	Total Program Services	Management and General	Fundraising	
Salaries	\$ 98,252	\$ 183,296	\$ 145,916	\$ 427,464	\$ 23,324	\$ 219,249	\$ 670,037
Payroll taxes	7,166	13,312	10,522	31,000	1,751	16,630	49,381
Employee benefits	20,761	34,592	27,469	82,822	8,591	43,234	134,647
Professional fees	210,681	372,572	324,259	907,512	153,264	127,939	1,188,715
Occupancy	17,723	30,926	26,292	74,941	9,489	23,076	107,506
Travel	18,988	22,915	21,543	63,446	1,511	23,779	88,736
Dues & subscriptions	5,750	7,099	6,415	19,264	2,709	1,202	23,175
Printing & publications	47	566	1,302	1,915	13	14,921	16,849
Depreciation	2,502	4,366	3,711	10,579	1,339	3,257	15,175
Bank charges & fees	-	-	67	67	944	12,732	13,743
Insurance	2,662	3,070	2,927	8,659	3,379	712	12,750
Meetings	378	747	2,235	3,360	3,511	4,649	11,520
Telephone & internet	1,763	3,077	2,616	7,456	940	2,286	10,682
Supplies	632	1,325	976	2,933	389	3,899	7,221
Uncollectible pledges	-	-	-	-	-	6,850	6,850
Advertising	1,724	600	1,018	3,342	-	1,759	5,101
Postage	245	323	330	898	85	4,020	5,003
Equipment purchases	528	922	783	2,233	1,149	360	3,742
Website hosting, software & maintenance	685	1,386	1,016	3,087	169	411	3,667
Miscellaneous	34	477	45	556	128	401	1,085
Staff development & recruitment	72	-	-	72	491	-	563
<b>Total Expenses</b>	<b>\$ 390,593</b>	<b>\$ 681,571</b>	<b>\$ 579,442</b>	<b>\$ 1,651,606</b>	<b>\$ 213,176</b>	<b>\$ 511,366</b>	<b>\$ 2,376,148</b>

The accompanying notes are an integral part of these statements.

Muslim Advocates

STATEMENT OF FUNCTIONAL EXPENSES

Year ended December 31, 2015

	Program Services			Supporting Services			Total
	End Profiling	Counter Hate	Strengthen Charities	Total Program Services	Management and General	Fundraising	
Salaries	\$ 235,523	\$ 207,874	\$ 75,958	\$ 519,355	\$ 20,441	\$ 193,106	\$ 732,902
Payroll taxes	18,473	15,961	5,923	40,357	1,600	15,158	57,115
Employee benefits	41,272	32,943	12,224	86,439	5,327	31,288	123,054
Professional fees	429,607	846,916	23,075	1,299,598	119,406	108,148	1,527,152
Travel	31,816	39,973	20,452	92,241	38	21,613	113,892
Occupancy	32,616	43,302	5,367	81,285	5,276	15,728	102,289
Printing & publications	65	1,312	1,651	3,028	9	17,101	20,138
Meetings	6,164	3,341	4,586	14,091	1,316	4,081	19,488
Dues & subscriptions	8,110	2,220	2,349	12,679	2,571	529	15,779
Depreciation	4,972	6,601	818	12,391	338	2,397	15,126
Insurance	4,613	2,923	1,339	8,875	1,477	657	11,009
Equipment purchases	1,346	1,787	2,975	6,108	3,055	951	10,114
Bank charges & fees	14	422	149	585	1,032	7,935	9,552
Telephone & internet	2,881	3,825	474	7,180	465	1,387	9,032
Supplies	1,322	1,745	322	3,389	689	2,333	6,411
Advertising	2,083	2,766	423	5,272	-	442	5,714
Postage	596	808	283	1,687	86	2,987	4,760
Staff development & recruitment	193	241	674	1,108	454	1,004	2,566
Website hosting, software & maintenance	894	1,186	147	2,227	66	197	2,490
Miscellaneous	244	399	60	703	142	232	1,077
<b>Total Expenses</b>	<b>\$ 822,804</b>	<b>\$ 1,216,545</b>	<b>\$ 159,249</b>	<b>\$ 2,198,598</b>	<b>\$ 163,788</b>	<b>\$ 427,274</b>	<b>\$ 2,789,660</b>

The accompanying notes are an integral part of these statements.

Muslim Advocates

STATEMENTS OF CASH FLOWS

Year ended December 31, 2016

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	627,054	\$ (229)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	15,175	15,126
(Increase) decrease in operating assets:		
Receivables	(370,408)	(180,412)
Prepaid expenses	(33,271)	2,630
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	7,668	2,826
Deferred rent	<u>(7,093)</u>	<u>(3,278)</u>
Net cash provided by (used in) operating activities	<u>239,125</u>	<u>(163,337)</u>
Cash flows from investing activities:		
Acquisition of fixed assets	<u>(5,000)</u>	<u>(9,160)</u>
Net cash used in investing activities	<u>(5,000)</u>	<u>(9,160)</u>
Net increase (decrease) in cash and cash equivalents	234,125	(172,497)
Cash and cash equivalents - beginning of the year	<u>553,655</u>	<u>726,152</u>
Cash and cash equivalents - end of the year	<u>\$ 787,780</u>	<u>\$ 553,655</u>

The accompanying notes are an integral part of these statements.



Muslim Advocates

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE A – DESCRIPTION OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Muslim Advocates (the Organization) is a non-profit organization incorporated in Washington, DC, registered with Attorney General of California, and headquartered in Oakland, California. The Organization is a national legal advocacy and educational organization that works on the frontlines of civil rights to guarantee freedom and justice for Americans of all faiths. The Organization supports its operations primarily through private grants and contributions.

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

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.

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.

Grants and Pledges Receivable

Grants and pledges receivable include unconditional commitments from various foundations, corporations, and individuals that are recorded at the net realizable value of the amount expected to be collected by management, less an allowance for doubtful pledges. Grants receivable beyond one year are discounted to the present value of expected future cash flows using a risk-based discount rate. For the years ended December 31, 2016 and 2015, the discount rate was 2.26%. Grants receivable are deemed to be collectible in their entirety. An allowance for uncollectible pledges from individuals is provided at 50%-100% of pledges after 18-24 months depending on the dollar amount. The allowance is adjusted based on significant other information about the recoverability of the pledge.

Property, Equipment and Depreciation

The Organization records acquisitions with a cost or basis of \$5,000 or more as property and equipment. Property and equipment are recorded at cost when purchased and fair value when received as a donation. Depreciation is provided over the estimated useful lives of the respective assets, using the straight-line method of depreciation.

Muslim Advocates

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2016 and 2015

NOTE A – DESCRIPTION OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Each year, management considers whether any material tax position the Foundation has taken is more likely than not to be sustained upon examination by the applicable taxing authority. Management believes that any positions the Foundation has taken are supported by substantial authority and, hence, do not need to be measured or disclosed in these financial statements.

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.

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 property and equipment are recorded as unrestricted support unless explicit donor stipulations specify how the donated asset must be used.

Muslim Advocates

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2016 and 2015

NOTE A – DESCRIPTION OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 services as revenue and expenses at fair value based on the attorneys' 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 the applicable recognition criteria are not met.

Allocation of Expenses

Salaries and employee benefit expenses are allocated to programs and supporting activities based on employees' actual time spent in each activity. Shared operating costs and communication and outreach costs are allocated to activities benefitting from them based on the direct cost of such activities.

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 the valuation and collectability of grants and pledges receivable and the functional allocation of expenses. Actual results may differ from those estimates.

Muslim Advocates

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2016 and 2015

NOTE B – CONCENTRATIONS OF CREDIT RISK

Concentrations of credit risk primarily include cash and cash equivalents and grants and pledges receivable. Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents. Risks associated with cash and cash equivalents are mitigated by banking with creditworthy institutions. Such balances with any one institution may, at times, be in excess of federally insured amounts (currently \$250,000 per depositor). The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

At December 31, 2016 and 2015, 75% and 49% of the grants receivable were from one private foundation.

NOTE C – GRANTS AND PLEDGES RECEIVABLE

Grants and pledges receivable consists of the following:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Receivable in less than one year	\$ 518,750	\$ 429,672
Receivable in one to five years	<u>300,000</u>	<u>-</u>
Total grants and pledges receivable	818,750	429,672
Less: allowance for doubtful accounts	(2,750)	-
Less: present value discounts	<u>(15,920)</u>	<u>-</u>
Total grants and pledges receivable - net	<u>\$ 800,080</u>	<u>\$ 429,672</u>
Current grants and pledges receivable - net	\$ 516,000	\$ 429,672
Long-term grants receivable - net	<u>284,080</u>	<u>-</u>
Total grants and pledges receivable - net	<u>\$ 800,080</u>	<u>\$ 429,672</u>

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NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2016 and 2015

NOTE D – PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
<u>Depreciable:</u>		
Computers	\$ 26,119	\$ 26,119
Website	24,966	24,966
Leasehold improvements	9,120	9,120
Furniture and fixtures	<u>8,800</u>	<u>8,800</u>
Depreciable property and equipment	69,005	69,005
Accumulated depreciation	<u>(56,526)</u>	<u>(41,351)</u>
Depreciable property and equipment - net	12,479	-
Website development in progress	<u>5,000</u>	<u>-</u>
Property and equipment, net	<u>\$ 17,479</u>	<u>\$ 27,654</u>

NOTE E – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purposes:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Restricted for future periods	\$ 802,830	\$ 409,672
End Profiling	15,752	20,000
Counter Hate	<u>122,568</u>	<u>-</u>
	<u>\$ 941,150</u>	<u>\$ 429,672</u>

Muslim Advocates

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2016 and 2015

NOTE E – TEMPORARILY RESTRICTED NET ASSETS (continued)

Temporarily restricted net assets were released by satisfying the purpose or time restrictions as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Restricted for future periods	\$ 377,182	\$ 665,588
End Profiling	4,248	-
Counter Hate	328,557	15,000
Security	<u>1,030</u>	<u>-</u>
	<u>\$ 711,017</u>	<u>\$ 680,588</u>

NOTE F – IN-KIND SERVICES

In-kind services received and recorded as “in-kind contributions” in the statement of activities consisted of legal and consulting services recorded in the following functions:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
End Profiling	\$ 157,064	\$ 368,160
Management and General	54,879	16,090
Strengthen Charities	240,048	13,888
Fundraising	6,241	-
Counter Hate	<u>168,437</u>	<u>722,177</u>
Total in-kind services	<u>\$ 626,669</u>	<u>\$ 1,120,315</u>

NOTE G – 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 six months of service. The Organization may elect to make contributions to the plan at its discretion. During the years ended December 31, 2016 and 2015, employer contributions to the plan were \$47,120 and \$50,329, respectively.

Muslim Advocates

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2016 and 2015

NOTE H – COMMITMENTS UNDER OPERATING LEASES

The Organization has a five-year non-cancelable operating lease arrangement for its office location in Oakland, California, that commenced on February 1, 2014, with an option to extend for an additional five years upon expiration. The agreement provides for 3% annual increases and a proportionate share of increases in the operating costs defined in the lease agreement, as additional rent. The Organization records the rental expense under this arrangement using the straight line method. Therefore the difference between actual rents paid and rent expense is reflected as deferred rent in the statement of financial position.

Following are the minimum annual commitments under this lease arrangement:

Year ending December 31, 2017	\$ 109,471
Year ending December 31, 2018	112,756
Year ending December 31, 2019	<u>57,928</u>
	<u>\$ 280,155</u>

Rent expense during the years ended December 31, 2016 and 2015 was \$107,506 and \$102,289, respectively.

NOTE I – SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 20, 2017, the date on which the financial statements were available to be issued.