

MUSLIM ADVOCATES

**FINANCIAL STATEMENTS
WITH AUDITORS' REPORT
YEARS ENDED
DECEMBER 31, 2013 AND
DECEMBER 31, 2012**

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report.....	1
Statements of Financial Position.....	3
Statements of Activities	4
Statement of Functional Expenses - 2013.....	5
Statement of Functional Expenses - 2012.....	6
Statements of Cash Flows	7
Notes to Financial Statements.....	8

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, 2013 and 2012, 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

The management of Muslim Advocates 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 audit 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 auditor's 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 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, 2013 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements as of December 31, 2012, were audited by Ghaffari Accountancy, Inc., who merged with DZH Phillips LLP as of February 1, 2014 and whose report dated August 5, 2013, expressed an unmodified opinion on those statements.

DZH Phillips LLP

Oakland, California
July 8, 2014

MUSLIM ADVOCATES

Statements of Financial Position At December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Assets		
Current assets		
Cash and cash equivalents (Note 3)	\$ 771,227	\$ 669,074
Grants and pledges receivable, net (Note 4)	312,355	355,787
Other receivables	18,015	44,235
Prepaid expenses	<u>30,958</u>	<u>7,875</u>
Total Current Assets	1,132,555	1,076,971
Grants and pledges receivable beyond one year (Note 4)	1,600	6,250
Fixed assets, net (Note 5)	21,417	15,633
Deposits	<u>19,744</u>	<u>9,975</u>
Total Assets	<u><u>\$ 1,175,316</u></u>	<u><u>\$ 1,108,829</u></u>
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	\$ 70,543	\$ 35,854
Accrued vacation liability	<u>33,112</u>	<u>24,428</u>
Total Current Liabilities and Total Liabilities	<u>103,655</u>	<u>60,282</u>
Net Assets		
Unrestricted	749,691	686,510
Temporarily restricted (Note 6)	<u>321,970</u>	<u>362,037</u>
Total Net Assets	<u>1,071,661</u>	<u>1,048,547</u>
Total Liabilities and Net Assets	<u><u>\$ 1,175,316</u></u>	<u><u>\$ 1,108,829</u></u>

See notes to financial statements

MUSLIM ADVOCATES

Statements of Activities Years Ended December 31, 2013 and 2012

	Year Ended December 31, 2013			Year Ended December 31, 2012		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and Revenue						
Grants	\$ 572,000	\$ 260,000	\$ 832,000	\$ 362,000	\$ 300,000	\$ 662,000
Contributions	344,104	61,970	406,074	359,725	62,037	421,762
In-kind contributions (Note 7)	132,752	-	132,752	330,919	-	330,919
Fundraising event income	279,945	-	279,945	191,855	-	191,855
Net assets released from restrictions	-	-	-	17,300	(17,300)	-
Fundraising event expense	(50,803)	-	(50,803)	(35,411)	-	(35,411)
Fundraising event, net	229,142	-	229,142	173,744	(17,300)	156,444
Interest and other income	6,917	-	6,917	3,581	-	3,581
Net assets released from restrictions: Purpose or time restrictions met	362,037	(362,037)	-	240,000	(240,000)	-
Total Support and Revenue	<u>1,646,952</u>	<u>(40,067)</u>	<u>1,606,885</u>	<u>1,469,969</u>	<u>104,737</u>	<u>1,574,706</u>
Expenses						
Program services						
Racial profiling	370,661	-	370,661	575,100	-	575,100
Anti-Muslim hate	242,637	-	242,637	123,365	-	123,365
Strengthening Muslim Charities	332,003	-	332,003	216,358	-	216,358
Supporting services						
Management and general	210,410	-	210,410	194,861	-	194,861
Fundraising	428,060	-	428,060	234,838	-	234,838
Total Expenses	<u>1,583,771</u>	<u>-</u>	<u>1,583,771</u>	<u>1,344,522</u>	<u>-</u>	<u>1,344,522</u>
Change in Net Assets	63,181	(40,067)	23,114	125,447	104,737	230,184
Net Assets at the beginning of the year	<u>686,510</u>	<u>362,037</u>	<u>1,048,547</u>	<u>561,063</u>	<u>257,300</u>	<u>818,363</u>
Net Assets at the end of the year	<u>\$ 749,691</u>	<u>\$ 321,970</u>	<u>\$ 1,071,661</u>	<u>\$ 686,510</u>	<u>\$ 362,037</u>	<u>\$ 1,048,547</u>

See notes to financial statements

MUSLIM ADVOCATES

Statement of Functional Expenses Year Ended December 31, 2013

	Program Services			Supporting Services		Total
	Racial Profiling	Anti- Muslim Hate	Strengthening Muslim Charities	Management and General	Fundraising	
Salaries	\$ 177,516	\$ 130,696	\$ 160,570	\$ 31,902	\$ 181,886	\$ 682,570
Payroll taxes	14,603	10,053	12,005	2,108	15,609	54,378
Employee benefits (Note 8)	31,006	23,157	25,434	5,254	32,220	117,071
Professional fees	81,227	34,551	66,809	152,805	70,543	405,935
Occupancy	25,579	17,972	21,966	2,948	26,625	95,090
Travel	15,602	9,343	12,383	2,443	33,335	73,106
Printing and publications	3,242	2,081	5,074	1,070	20,572	32,039
Meetings	3,108	2,991	7,923	842	14,275	29,139
Insurance	3,492	2,154	2,902	2,745	2,626	13,919
Bank charges and fees	398	-	148	423	12,454	13,423
Supplies	1,571	1,336	800	267	6,458	10,432
Telephone and internet	2,518	1,715	2,185	878	2,714	10,010
Staff development and recruitment	1,622	879	4,598	2,770	-	9,869
Dues and subscriptions	4,453	1,041	3,502	249	79	9,324
Depreciation	1,119	2,103	2,571	348	3,118	9,259
Website hosting, software and maintenance	2,450	1,721	2,104	283	2,550	9,108
Postage	364	289	323	1,502	2,465	4,943
Advertising	720	508	618	505	-	2,351
Equipment purchase	-	-	88	652	-	740
Miscellaneous	71	47	-	416	531	1,065
Total expenses	\$ 370,661	\$ 242,637	\$ 332,003	\$ 210,410	\$ 428,060	\$1,583,771

See notes to financial statements

MUSLIM ADVOCATES

Statement of Functional Expenses Year Ended December 31, 2012

	Program Services			Supporting Services		Total
	Racial Profiling	Anti- Muslim Hate	Strengthening Muslim Charities	Management and General	Fundraising	
Salaries	\$ 119,476	\$ 53,942	\$ 104,399	\$ 57,709	\$ 133,518	\$ 469,044
Payroll taxes	10,144	4,837	8,597	3,597	11,533	38,708
Employee benefits (Note 8)	19,491	19,264	21,879	12,684	10,816	84,134
Professional fees	372,243	21,448	24,821	73,677	20,728	512,917
Occupancy	21,460	8,098	14,560	7,442	19,240	70,800
Travel	16,439	11,908	27,780	2,526	12,236	70,889
Printing and publications	677	199	2,433	1,034	8,632	12,975
Meetings	97	108	300	1,003	2,376	3,884
Insurance	2,474	251	1,248	5,155	2,759	11,887
Bank charges and fees	698	-	-	4,964	-	5,662
Supplies	60	-	146	2,740	2,906	5,852
Telephone and internet	2,409	791	1,392	906	2,070	7,568
Staff development and recruitment	-	-	881	12,993	-	13,874
Dues and subscriptions	1,335	252	1,048	2,073	1,079	5,787
Depreciation	2,529	898	1,671	1,171	2,320	8,589
Website hosting, software and maintenance	3,032	1,137	2,467	845	2,430	9,911
Postage	147	131	155	450	2,040	2,923
Advertising	-	-	-	2,210	-	2,210
Equipment purchase	102	101	102	1,639	-	1,944
Miscellaneous	2,287	-	2,479	43	155	4,964
Total expenses	\$ 575,100	\$ 123,365	\$ 216,358	\$ 194,861	\$ 234,838	1,344,522

See notes to financial statements

MUSLIM ADVOCATES

Statements of Cash Flows Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Change in net assets	\$ 23,114	\$ 230,184
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	9,259	8,589
Change in allowance for uncollectible pledges	-	(9,380)
(Increase) decrease in operating assets:		
Grants and pledges receivable	48,082	(97,137)
Prepaid expenses	3,137	(46,060)
Deposits	(9,769)	-
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	43,373	(2,700)
Deferred income	-	5,071
	<u>117,196</u>	<u>88,567</u>
Net cash provided by operating activities		
Cash flows from investing activities:		
Acquisition of fixed assets	<u>(15,043)</u>	<u>(2,106)</u>
Net cash used by investing activities	<u>(15,043)</u>	<u>(2,106)</u>
Net increase in cash and cash equivalents	102,153	86,461
Cash and cash equivalents at the beginning of the year	<u>669,074</u>	<u>582,613</u>
Cash and cash equivalents at the end of the year	<u><u>\$ 771,227</u></u>	<u><u>\$ 669,074</u></u>

See notes to financial statements

MUSLIM ADVOCATES

Notes to Financial Statements
Years Ended December 31, 2013 and 2012

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 Oakland, 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 doubtful pledges. Grants receivable beyond one year are discounted to present value of expected future cash flow using a risk-based discount rate. Grants receivable are deemed to be collectible in its entirety. 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.
- (d) **Fixed Assets and Depreciation** – The Organization records acquisitions with a cost or basis 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.

MUSLIM ADVOCATES

Notes to Financial Statements
Years Ended December 31, 2013 and 2012

- (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. The Organization does not have any uncertain tax positions that are material to the financial statements, as management believes all of its activities are related to its tax exempt purposes. The Organization’s annual informational returns are subject to examination by IRS, generally three years after they were filed.
- (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 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 recognition criteria are not met.

MUSLIM ADVOCATES

Notes to Financial Statements
Years Ended December 31, 2013 and 2012

- (i) **Allocation of Expenses** – Salaries and employee benefit expenses have been allocated to programs and supporting activities based on employees’ actual time spent in each activity. Common costs, i.e. costs primarily related to facility operations, are allocated based on the ratio of total staff time.
- (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 – Concentration of Credit Risk

Concentration of credit risk primarily includes cash and cash equivalents and grants and pledges receivable. The Organization maintains cash balances in financial institutions that from time to time exceed the guaranteed amount of the Federal Deposit Insurance Corporation. Total uninsured cash and cash equivalents balance at December 31, 2013 was \$510,822.

At December 31, 2013, 72% of the grants and pledges receivable were from one private foundation.

Note 4 – Grants and Pledges Receivable

Grants and pledges receivable were as follows:

	<u>12/31/2013</u>	<u>12/31/2012</u>
Receivable in less than one year	\$ 312,355	\$ 355,787
Receivable in one to five years	<u>1,600</u>	<u>6,250</u>
	<u>\$ 313,955</u>	<u>\$ 362,037</u>

Management believes that grants and pledges receivable are collectible in their entirety and therefore has not provided for allowance for uncollectible pledges.

MUSLIM ADVOCATES

Notes to Financial Statements
Years Ended December 31, 2013 and 2012

Note 5 – Fixed Assets and Depreciation

Fixed assets consisted of the following:

	<u>12/31/2013</u>	<u>12/31/2012</u>
<u>Non-depreciable:</u>		
Website development in progress	\$ 12,187	\$ -
<u>Depreciable:</u>		
Computers	\$ 16,780	\$ 16,780
Website	19,310	19,310
Furniture and fixtures	<u>2,856</u>	<u>-</u>
Total property and equipment	51,133	36,090
Accumulated depreciation	<u>(29,716)</u>	<u>(20,457)</u>
Property and equipment, net	<u>\$ 21,417</u>	<u>\$ 15,633</u>

Note 6 - Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2013 and 2012 were available for program and supporting expenses of the future periods.

Note 7 – In-Kind Services

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

	<u>12/31/2013</u>	<u>12/31/2012</u>
<u>Legal Services:</u>		
Racial Profiling	\$ 46,038	\$ 275,929
Management and General	43,142	34,483
Strengthening Muslim Charities	32,542	10,477
Anti-Muslim Hate	<u>9,030</u>	<u>10,030</u>
	<u>\$ 130,752</u>	<u>\$ 330,919</u>

MUSLIM ADVOCATES

Notes to Financial Statements Years Ended December 31, 2013 and 2012

	<u>12/31/2013</u>	<u>12/31/2012</u>
<u>Communication Services:</u>		
Racial Profiling	\$ 600	\$ -
Management and General	300	-
Strengthening Muslim Charities	440	-
Anti-Muslim Hate	540	-
Fundraising	<u>120</u>	<u>-</u>
	<u>\$ 2,000</u>	<u>\$ -</u>

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 contributions to the plan at its discretion. During the years ended December 31, 2013 and 2012 employer contributions to the plan were \$46,763 and \$30,323, respectively.

Note 9 – Conditional Promises to Give

The Organization has received a conditional promise to give in the amount of \$250,000. To meet the condition, the Organization should raise matching amount in new donations by May 2014. This grant is not recognized as support in the accompanying financial statements since the condition was not met as of December 31, 2013.

Note 10 – Commitments under Operating Leases

During 2013, the Organization entered into a five-year non-cancelable operating lease arrangement for its new office location in Oakland, California, with an option to extend for one additional five years. The agreement provides for 3% annual increases and proportionate share of increases of the operating costs defined in the lease agreement, as additional rent. Following is the minimum commitment under this lease arrangement:

<u>Year ending:</u>	
December 31, 2014	\$ 100,426
December 31, 2015	100,426
December 31, 2016	100,426
December 31, 2017	100,426
December 31, 2018 and beyond	<u>133,901</u>
	<u>\$ 535,605</u>

MUSLIM ADVOCATES

Notes to Financial Statements
Years Ended December 31, 2013 and 2012

Rent expense during the years ended December 31, 2013 and 2012 was \$95,090 and \$70,800, respectively.

Note 11 – Subsequent Events

Management has evaluated subsequent events through July 8, 2014, the date on which the financial statements were available to be issued.