

Middle East Children's Alliance

Audited Financial Statements

For Year Ended June 30, 2016

Rubian Moss, CPA
A Professional Corporation

Middle East Children’s Alliance

Financial Statements

Year ended June 30, 2016

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Independent Auditor's Report

Board of Directors
Middle East Children's Alliance
Berkeley, California

We have audited the accompanying financial statements of Middle East Children's Alliance, a nonprofit tax-exempt corporation, which comprise the statement of financial position as of as of June 30, 2016 and the related statements of activities and cash flows for the year 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 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 statement .

We believe that our 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 Middle East Children's Alliance as of June 30, 2016 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.

Rubian Moss, CPA

Walnut Creek, California
March 26, 2017

Middle East Children's Alliance

Consolidated Statement of Financial Position

As of June 30, 2016

Assets

Current assets:

Cash (<i>Note 1</i>)	\$ 694,733
Investments (<i>Note 2</i>)	416,884
Accounts receivable (<i>Note 3</i>)	236,144
Inventory	149,853
Prepaid expenses	11,185
Total current assets	<u>1,508,799</u>
Deposits	27,552
Property and equipment, net (<i>Note 4</i>)	<u>183,747</u>
Total assets	<u>\$ 1,720,098</u>

Liabilities and net assets

Current liabilities:

Accounts payable	\$ 144,029
Accrued liabilities	106,921
Capital lease (<i>Note 5</i>)	52,451
Line of credit (<i>Note 6</i>)	36,048
Total current liabilities	<u>339,449</u>

Net assets:

Unrestricted	1,057,323
Temporarily restricted (<i>Note 6</i>)	<u>323,326</u>
Total net assets	<u>1,380,649</u>
Total liabilities and net assets	<u>\$ 1,720,098</u>

See accompanying notes.

Middle East Children's Alliance
Consolidated Statement of Activities

For the year ended June 30, 2016

	Unrestricted	Temporarily Restricted	Total
Revenues, gains, and other support:			
Grants and contributions	\$ 1,812,329	\$ 230,106	\$ 2,042,435
In-kind contributions <i>(Note 1)</i>	39,145	-	39,145
Special events, net	21,517	-	21,517
MECA sales, net <i>(Note 8)</i>	65,826	-	65,826
Income/(loss) from graphics business <i>(Note 9)</i>	79,778	-	79,778
Investment income	667	-	667
	<u>2,019,262</u>	<u>230,106</u>	<u>2,249,368</u>
Net assets released from restrictions	<u>388,975</u>	<u>(388,975)</u>	<u>-</u>
Total revenues, gains, and other support	2,408,237	(158,869)	2,249,368
Expenses <i>(Note 1)</i> :			
Program services	1,435,951	-	1,435,951
General and administrative	179,261	-	179,261
Fundraising	293,314	-	293,314
Total expenses	<u>1,908,526</u>	<u>-</u>	<u>1,908,526</u>
Change in net assets	499,711	(158,869)	340,842
Net assets, beginning of year	<u>557,612</u>	<u>482,195</u>	<u>1,039,807</u>
Net assets, end of year	<u>\$ 1,057,323</u>	<u>\$ 323,326</u>	<u>\$ 1,380,649</u>

See accompanying notes.

Middle East Children's Alliance
Consolidated Statement of Cash Flows

For the year ended June 30, 2016

Cash flows from operating activities:	
Change in net assets	\$ 340,842
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation expense	43,774
Increase in accounts receivable	(21,212)
Increase in inventory	(39,812)
Increase in prepaid expenses	(11,255)
Increase in deposits	(212)
Decrease in accounts payable	(19,543)
Increase in accrued liabilities	58,161
	350,743
Cash flows from investing activities:	
Purchases of property and equipment	(3,284)
Purchases of investments	(58,404)
	(61,688)
Cash flows from financing activities:	
Net cash from loans payable	7,362
Principal payments on capital lease	(45,391)
Net cash from line of credit	(92,216)
	(130,245)
Net change in cash	158,810
Cash, beginning of year	535,923
Cash, end of year	\$ 694,733

See accompanying notes.

Middle East Children's Alliance

Notes to Consolidated Financial Statements

For the year ended June 30, 2016

1. Organization and Summary of Significant Accounting Policies

Organization

The Middle East Children's Alliance ("MECA") was founded in 1988 to fight injustice, poverty, and violence of the Israeli occupation of Palestine. MECA provides direct support for clinics, counseling programs, children's centers and libraries, and organizations working for the rights of prisoners, women, labor, and Palestinians inside Israel.

Basis of Consolidation

MECA is the sole owner of Alliance Graphics ("AG"), a for-profit corporation. AG exists to generate additional revenue for MECA's programs. The accompanying consolidated financial statements include the accounts of MECA and AG. Material intercompany transactions and account balances have been eliminated in the consolidation.

Income Taxes

MECA is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from California income taxes under Section 23701(d) of the California Revenue Taxation Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements. In addition, MECA qualifies for the charitable contribution deduction under Section 170(b)(1)(A) of the Internal Revenue Code and has been classified as an organization that is not a private foundation under Section (509(a)(1) of the Internal Revenue Code.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Accordingly, actual results could differ from those estimates.

Middle East Children's Alliance

Notes to Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Cash

Cash consists of accounts with an original maturity of three months or less. Financial instruments that potentially subject MECA to concentrations of credit risk include cash. Cash deposits are generally federally insured in limited amounts. Cash is stated at fair market value.

Net Assets

MECA reports contributions 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 and changes in net assets as net assets released from restrictions.

Accordingly, the net assets of MECA are reported using the following net asset classifications:

Unrestricted Net Assets — Include unrestricted contributions, income earned on unrestricted or restricted net assets, and amounts for which restrictions have expired.

Temporarily Restricted Net Assets — Represent resources restricted by donors by time or for a specific purpose. The related investment income is transferred to unrestricted net assets.

Permanently Restricted Net Assets — Represent cash and investments that are subject to gift instrument restrictions that require the principal to be invested in perpetuity.

As of June 30, 2016 MECA has not received any permanently restricted net assets.

Contributions and Grants

MECA receives most of its funding from foundation grants and individual donations. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or are restricted by the donor for specific purposes are reported as temporarily restricted net support that increase that net asset class. Unconditional promises to give, which do not state a due date, are presumed to be time-restricted by the donor until received and are reported as temporarily restricted net assets.

Middle East Children's Alliance

Notes to Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Contributions and Grants (continued)

A donor restriction expires when a stipulated time restriction ends, when an unconditional promise with an implied time restriction is collected, or when a specific purpose restriction is accomplished. Upon expiration, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restrictions. Restricted contributions received in the same year in which the restrictions are met are reported as unrestricted contributions.

In-Kind Contributions

In-kind contributions are recognized when received. Donated equipment and other donated goods are recorded at their estimated fair value as of the date of the donation. Contributed services, which require a specialized skill and which MECA would have paid for if not donated, are recorded at the estimated fair value at the time the services are rendered.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities and changes in net assets. Accordingly, certain costs have been allocated among programs and supporting services benefited.

Defined Benefit Pension Plan

Employees at AG participate in a defined benefit pension plan. Contributions to the plan, amounting to \$47,987 for the year ended June 30, 2016, are expensed when paid.

2. Fair Value Measurements

MECA's financial assets and liabilities carried at fair value have been classified, for disclosure purposes, based on a hierarchy that gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). The levels of fair value hierarchy are as follow:

Level 1 — Values are unadjusted quoted prices for identical assets in active markets accessible at the measurement date.

Middle East Children's Alliance

Notes to Financial Statements (continued)

2. Fair Value Measurements (continued)

Level 2 — Inputs include quoted prices for similar assets in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data from the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.

Level 3 — Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect MECA's best estimate of what hypothetical market participants would use to determine a transaction price for the asset at the reporting date.

At June 30, 2016 investments consist of the following Level 1 assets:

Common stock	\$	147,033
Fixed income funds		139,731
Cash funds		36,811
Other investments		<u>93,309</u>
Total	\$	<u><u>416,884</u></u>

3. Accounts Receivable

Receivables from sales and services are reported at the amount management expects to collect on balances outstanding at year-end. MECA believes all receivable to be collectible. Therefore, no allowance for uncollectible accounts has been recorded.

At June 30, 2016 accounts receivable consists of the following:

Trade receivables	\$	<u>236,144</u>
Total	\$	<u><u>236,144</u></u>

Middle East Children's Alliance

Notes to Financial Statements (continued)

4. Property and Equipment

MECA follows the practice of capitalizing, at cost, all expenditures for fixed assets in excess of \$1,000. Depreciation is computed on a straight-line basis over the estimated useful life of the assets, which range from 3 to 15 years.

At June 30, 2016 property and equipment consists of the following:

Tools, machinery, and equipment	\$	284,311
Leasehold improvements		67,525
Office furniture and equipment		55,051
Software		4,528
Total cost		411,415
Accumulated depreciation		(227,668)
Property and equipment, net	\$	<u>183,747</u>

5. Leases

Capital Lease

MECA financed the acquisition of a printing press with a capital lease. The total capitalized cost is \$100,685, of which \$100,685 had been depreciated as of June 30, 2016.

6. Line of Credit

MECA has a \$200,000 line of credit with a bank. The bank charges interest at an annual rate of 5.25%. At June 30, 2016 MECA had used \$36,048 of the line of credit.

7. Temporarily Restricted Net Assets

At June 30, 2016 temporarily restricted net assets are restricted for the following purposes:

Scholarships	\$	107,658
Humanitarian aid		215,668
Temporarily restricted net assets	\$	<u>323,326</u>

Middle East Children's Alliance

Notes to Financial Statements (continued)

8. MECA Sales

MECA holds an annual bazaar to help generate funds to support its programs. In addition, smaller sales occur from time to time during the year. For the year ending June 30, 2016 sales were as follows:

Sales	\$ 142,789
Cost of sales	<u>(76,963)</u>
Net	<u><u>\$ 65,826</u></u>

9. Income From Graphics Business

Income from Alliance Graphics for the year ending June 30, 2016 was calculated as follows:

Sales and services	\$ 3,204,687
Cost of sales	(1,548,623)
Other expenses	<u>(1,576,286)</u>
Net	<u><u>\$ 79,778</u></u>

10. Concentration of Credit Risk

Cash

Financial instruments which potentially subject MECA to concentrations of credit risk consist principally of cash. MECA maintains its cash in various bank deposit accounts which, at times, may exceed federally insured limits. MECA has not experienced any losses in such accounts. At June 30, 2016 none of MECA's cash balances exceeded federally insured limits.

11. Contingencies

Funding Source Requirements

MECA receives grants and donations that are restricted for specific programs or purposes. If such restrictions are not met in accordance with the funding source agreement, there is the possibility that funds would have to be returned to the funding source. It is management's opinion that all funding source restrictions have been met for amounts that have been either recorded as unrestricted or for which donor restrictions have been released.

Uncertain Tax Positions

MECA is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code except on net income derived from unrelated business activities (i.e. income for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

Middle East Children's Alliance

Notes to Financial Statements (continued)

12. Subsequent Events

MECA has evaluated all subsequent events through March 26, 2017, the date through which the financial statements were available to be issued. There were no subsequent events that require recognition or disclosure in the financial statements.