

COTÉ & COMPANY, APC
CERTIFIED PUBLIC ACCOUNTANTS

**MIDDLE EAST CHILDREN'S ALLIANCE
(A NOT-FOR-PROFIT CORPORATION)**

CONSOLIDATED FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

MIDDLE EAST CHILDREN'S ALLIANCE
(A NOT-FOR-PROFIT CORPORATION)

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Middle East Children's Alliance
(A Not-For-Profit Corporation)
Berkeley, California

Report on the Financial Statements

We have audited the accompanying consolidated statements of **MIDDLE EAST CHILDREN'S ALLIANCE** (A Not-For-Profit Corporation), which comprise the consolidated statements of financial position, as of June 30, 2020 and 2019 and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related consolidated notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 of material misstatement, whether due to error or fraud.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the risks of material misstatement of the financial statements, whether due to error or fraud. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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.

INDEPENDENT AUDITORS' REPORT
(Continued)

Auditor's Responsibility (Continued)

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Middle East Children's Alliance (A Not-For-Profit Corporation) as of June 30, 2020 and 2019 and the changes in its net assets, functional expenses and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



El Cerrito, California
June 7, 2021

MIDDLE EAST CHILDREN'S ALLIANCE
(A NOT-FOR-PROFIT CORPORATION)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 723,479	\$ 889,520
Investments, at fair value	405,250	105,468
Accounts receivable	145,490	205,702
Inventory	91,229	144,763
Employee advances	11,061	10,509
Prepaid expenses	<u>18,685</u>	<u>37,694</u>
Total current assets	<u>1,395,194</u>	<u>1,393,656</u>
FIXED ASSETS		
Computers and software	19,540	19,540
Furniture and fixtures	54,131	54,131
Auto	34,397	34,397
Leasehold improvements	67,525	67,525
Machinery and equipment	<u>289,827</u>	<u>289,827</u>
	465,420	465,420
Less accumulated depreciation	<u>(378,176)</u>	<u>(369,022)</u>
Total fixed assets	<u>87,244</u>	<u>96,398</u>
OTHER ASSETS		
Deposits	27,340	27,340
Investments, at fair value	<u>2,032,834</u>	<u>1,243,349</u>
Total other assets	<u>2,060,174</u>	<u>1,270,689</u>
 TOTAL ASSETS	 <u>\$ 3,542,612</u>	 <u>\$ 2,760,743</u>

The accompanying notes are an integral part of these financial statements.

MIDDLE EAST CHILDREN'S ALLIANCE
(A NOT-FOR-PROFIT CORPORATION)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 276,116	\$ 462,280
Credit cards payable	23,750	27,580
Accrued payroll and payroll related	153,288	170,728
Sales taxes payable	55,357	43,460
Federal and state income taxes payable	10,269	12,636
Customer deposits	15,456	55,471
Leases payable	1,573	2,614
Loans payable	3,333	10,000
Total current liabilities	539,142	784,769
LONG-TERM LIABILITIES		
Leases payable, net of current	-	1,753
Loans payable, net of current	-	3,333
PPP loan payable	319,952	-
Total long-term liabilities	319,952	5,086
Total liabilities	859,094	789,855
NET ASSETS		
Without donor restrictions	1,996,300	1,491,409
With donor restrictions	831,713	541,509
Retained deficit	(144,495)	(62,030)
Total net assets	2,683,518	1,970,888
TOTAL LIABILITIES AND NET ASSETS	\$ 3,542,612	\$ 2,760,743

The accompanying notes are an integral part of these financial statements.

MIDDLE EAST CHILDREN'S ALLIANCE
(A NOT-FOR-PROFIT CORPORATION)
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2020

	Without Donor <u>Unrestricted</u>	With Donor <u>Restrictions</u>	Alliance <u>Graphics</u>	<u>Total</u>
OPERATING ACTIVITIES				
Contributions	\$ 1,742,563	\$ 768,425	\$ -	\$ 2,510,988
Grants	<u>755,520</u>	<u>-</u>	<u>-</u>	<u>755,520</u>
Total contributions and grants	<u>2,498,083</u>	<u>768,425</u>	<u>-</u>	<u>3,266,508</u>
Sales, net of cost of goods sold of \$1,621,754	-	-	1,795,508	1,795,508
Sales, net of cost of goods sold of \$133,635	36,878	-	-	36,878
Special events, net of expenses of \$5,130	33,237	-	-	33,237
Other income	<u>39,584</u>	<u>-</u>	<u>10,757</u>	<u>50,341</u>
Total revenues and other support	<u>109,699</u>	<u>-</u>	<u>1,806,265</u>	<u>1,915,964</u>
	2,607,782	768,425	1,806,265	5,182,472
Support provided by expiring time and purpose restrictions	<u>478,221</u>	<u>(478,221)</u>	<u>-</u>	<u>-</u>
Total revenues, gains and other support	<u>3,086,003</u>	<u>290,204</u>	<u>1,806,265</u>	<u>5,182,472</u>
EXPENSES				
Program Services				
Humanitarian aid	1,283,104	-	-	1,283,104
GR Pro for kids	249,977	-	-	249,977
Education and culture	433,190	-	-	433,190
University	<u>134,001</u>	<u>-</u>	<u>-</u>	<u>134,001</u>
Total programs	2,100,272	-	-	2,100,272
Management and general	215,404	-	-	215,404
Fund raising	306,280	-	-	306,280
Allied Graphics	-	-	1,878,970	1,878,970
Total expenses	<u>2,621,956</u>	<u>-</u>	<u>1,878,970</u>	<u>4,500,926</u>
Changes in net assets from operating activities	<u>464,047</u>	<u>290,204</u>	<u>(72,705)</u>	<u>681,546</u>
NONOPERATING ACTIVITIES				
Realized and unrealized gains, net of investment expenses of \$8,447	8,432	-	-	8,432
Interest and dividends	<u>32,412</u>	<u>-</u>	<u>-</u>	<u>32,412</u>
Total nonoperating income	<u>40,844</u>	<u>-</u>	<u>-</u>	<u>40,844</u>
Changes in net assets before income taxes	504,891	290,204	(72,705)	722,390
Federal and state income tax expense	<u>-</u>	<u>-</u>	<u>(9,760)</u>	<u>(9,760)</u>
Changes in net assets	504,891	290,204	(82,465)	712,630
NET ASSETS, beginning of year	<u>1,491,409</u>	<u>541,509</u>	<u>(62,030)</u>	<u>1,970,888</u>
NET ASSETS, end of year	<u>\$ 1,996,300</u>	<u>\$ 831,713</u>	<u>\$ (144,495)</u>	<u>\$ 2,683,518</u>

The accompanying notes are an integral part of these financial statements.

MIDDLE EAST CHILDREN'S ALLIANCE
(A NOT-FOR-PROFIT CORPORATION)
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2019

	Without Donor <u>Unrestricted</u>	With Donor <u>Restrictions</u>	Alliance <u>Graphics</u>	<u>Total</u>
OPERATING ACTIVITIES				
Contributions	\$ 858,923	\$ 1,124,489	-	\$ 1,983,412
Grants	<u>487,558</u>	-	-	<u>487,558</u>
Total contributions and grants	<u>1,346,481</u>	<u>1,124,489</u>	-	<u>2,470,970</u>
Sales, net of cost of goods sold of \$1,845,623		-	2,053,339	2,053,339
Sales, net of cost of goods sold of \$136,751	47,942	-	-	47,942
Special events, net of expenses of \$5,468	3,475	-	-	3,475
Other income	<u>43,777</u>	-	4	<u>43,781</u>
Total revenues and other support	<u>95,194</u>	-	<u>2,053,343</u>	<u>2,148,537</u>
	1,441,675	1,124,489	2,053,343	4,619,507
Support provided by expiring time and purpose restrictions	<u>1,044,095</u>	<u>(1,044,095)</u>	-	-
Total revenues, gains and other support	<u>2,485,770</u>	<u>80,394</u>	<u>2,053,343</u>	<u>4,619,507</u>
EXPENSES				
Program Services				
Humanitarian aid	497,860	-	-	497,860
GR Pro for kids	994,118	-	-	994,118
Education and culture	305,350	-	-	305,350
University	<u>132,089</u>	-	-	<u>132,089</u>
Total programs	1,929,417	-	-	1,929,417
Management and general	197,188	-	-	197,188
Fund raising	293,535	-	-	293,535
Allied Graphics	-	-	1,931,385	1,931,385
Total expenses	<u>2,420,140</u>	-	<u>1,931,385</u>	<u>4,351,525</u>
Changes in net assets from operating activities	<u>65,630</u>	<u>80,394</u>	<u>121,958</u>	<u>267,982</u>
NONOPERATING ACTIVITIES				
Realized and unrealized gains, net of investment expenses of \$7,942	25,634	-	-	25,634
Interest and dividends	<u>12,206</u>	-	-	<u>12,206</u>
Total nonoperating income	<u>37,840</u>	-	-	<u>37,840</u>
Changes in net assets before income taxes	103,470	80,394	121,958	305,822
Federal and state income tax expense	-	-	<u>(53,141)</u>	<u>(53,141)</u>
Changes in net assets	103,470	80,394	68,817	252,681
NET ASSETS, beginning of year	<u>1,387,939</u>	<u>461,115</u>	<u>(130,847)</u>	<u>1,718,207</u>
NET ASSETS, end of year	<u>\$ 1,491,409</u>	<u>\$ 541,509</u>	<u>\$ (62,030)</u>	<u>\$ 1,970,888</u>

The accompanying notes are an integral part of these financial statements.

**MIDDLE EAST CHILDREN'S ALLIANCE
(A NOT-FOR-PROFIT CORPORATION)**

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2020

	Humanitarian Aid	GR Pro For Kids	Education & Culture	University Aid	Total Programs	General & Admin.	Fundraising	Allied Graphics	Total
Salaries and wages	\$ 52,640	\$ 78,960	\$ 118,439	\$ 13,160	\$ 263,199	\$ 99,320	\$ 134,083	\$ 1,023,138	\$ 1,519,740
Payroll taxes	4,442	6,663	9,995	1,110	22,210	8,470	11,216	84,961	126,857
Employee benefits	7,507	11,260	16,890	1,877	37,534	14,316	18,952	350,657	421,459
Total payroll and payroll related	64,589	96,883	145,324	16,147	322,943	122,106	164,251	1,458,756	2,068,056
Professional services	43,037	43,037	57,384	-	143,458	31,908	56,606	19,431	251,403
Grants and donations	1,159,645	94,224	203,826	106,438	1,564,133	-	-	-	1,564,133
Travel	4,463	4,463	4,463	4,464	17,853	2,529	4,249	2,141	26,772
Advertising and marketing	135	135	135	135	540	95	2,838	94,131	97,604
Dues and subscriptions	775	775	775	775	3,100	1,412	1,376	5,677	11,565
Bank fees and charges	-	-	-	-	-	9,266	47,524	42,048	98,838
Insurance	-	-	-	-	-	5,306	-	9,566	14,872
Meetings and conferences	1,845	1,845	2,460	-	6,150	717	2,217	5,047	14,131
Occupancy	-	-	-	-	-	25,440	-	172,150	197,590
Repairs and maintenance	-	-	-	-	-	-	-	7,530	7,530
Postage and shipping	2,289	2,289	4,872	1,771	11,221	-	10,337	104	21,662
Printing and publications	3,221	3,221	7,248	2,415	16,105	95	16,105	-	32,305
Telephone	1,260	1,260	2,518	13	5,051	4,072	-	9,565	18,688
Supplies	-	-	495	-	495	10,777	756	17,459	29,487
Website and internet	1,845	1,845	3,690	1,843	9,223	-	21	-	9,244
Education and training	-	-	-	-	-	-	-	2,143	2,143
Interest and finance charges	-	-	-	-	-	-	-	4,836	4,836
Office	-	-	-	-	-	1,681	-	19,191	20,872
Miscellaneous	-	-	-	-	-	-	-	41	41
Depreciation	-	-	-	-	-	-	-	9,154	9,154
Total	\$ 1,283,104	\$ 249,977	\$ 433,190	\$ 134,001	\$ 2,100,272	\$ 215,404	\$ 306,280	\$ 1,878,970	\$ 4,500,926

The accompanying notes are an integral part of these financial statements.

MIDDLE EAST CHILDREN'S ALLIANCE
(A NOT-FOR-PROFIT CORPORATION)

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2019

	Humanitarian <u>Aid</u>	GR Pro <u>For Kids</u>	Education & <u>Culture</u>	University <u>Aid</u>	Total <u>Programs</u>	General <u>& Admin.</u>	<u>Fundraising</u>	Allied <u>Graphics</u>	<u>Total</u>
Salaries and wages	\$ 60,162	\$ 90,243	\$ 135,364	\$ 15,040	\$ 300,809	\$ 111,609	\$ 150,022	\$ 1,044,188	\$ 1,606,628
Payroll taxes	4,643	6,964	10,446	1,161	23,214	8,760	11,826	83,984	127,784
Employee benefits	5,179	7,769	11,653	1,295	25,896	9,862	13,192	337,860	386,810
Total payroll and payroll related	69,984	104,976	157,463	17,496	349,919	130,231	175,040	1,466,032	2,121,222
Professional services	72,648	-	6,082	-	78,730	39,906	20,566	21,079	160,281
Grants and donations	337,988	871,902	116,937	98,027	1,424,854	-	-	21,600	1,446,454
Travel	4,974	4,974	4,974	4,974	19,896	1,242	5,179	1,666	27,983
Advertising and marketing	531	531	770	451	2,283	180	4,198	49,672	56,333
Dues and subscriptions	971	971	971	970	3,883	290	249	12,251	16,673
Bank fees and charges	-	-	-	-	-	2,835	32,005	36,575	71,415
Insurance	-	-	-	-	-	4,946	-	11,146	16,092
Meetings and conferences	-	-	-	-	-	1,359	1,608	3,537	6,504
Occupancy	-	-	-	-	-	-	-	188,804	188,804
Repairs and maintenance	-	-	-	-	-	-	-	9,771	9,771
Postage and shipping	591	591	1,331	444	2,957	120	17,611	2,065	22,753
Printing and publications	1,904	1,904	4,108	1,463	9,379	98	26,448	-	35,925
Telephone	3,831	3,831	3,831	3,832	15,325	5,218	-	12,995	33,538
Supplies	-	-	-	-	-	7,012	-	38,580	45,592
Website and internet	4,438	4,438	8,883	4,432	22,191	-	119	-	22,310
Education and training	-	-	-	-	-	-	-	2,061	2,061
Innterest and finance charges	-	-	-	-	-	-	-	7,868	7,868
Office	-	-	-	-	-	3,751	10,512	10,904	25,167
Depreciation	-	-	-	-	-	-	-	34,779	34,779
Total	\$ 497,860	\$ 994,118	\$ 305,350	\$ 132,089	\$ 1,929,417	\$ 197,188	\$ 293,535	\$ 1,931,385	\$ 4,351,525

The accompanying notes are an integral part of these financial statements.

MIDDLE EAST CHILDREN'S ALLIANCE
(A NOT-FOR-PROFIT CORPORATION)

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 712,630	\$ 252,681
Adjustments to reconcile the increase in net assets to net cash provided by operation activities:		
Depreciation	9,154	34,779
Donated stock	-	(308,599)
Net realized and unrealized gains on investment	(16,879)	(33,576)
(Increase) decrease in:		
Accounts receivable	60,212	(37,652)
Inventory	53,534	41,504
Prepaid expenses	19,009	(23,218)
Increase (decrease) in:		
Accounts payable and accrued expenses	(203,604)	255,969
Credit cards payable	(3,830)	(13,043)
Sales taxes payable	11,897	16,193
Federal and state income taxes payable	(2,367)	(23,148)
Grants payable	-	(12,000)
Customer deposits	(40,015)	37,099
Net cash provided by operating activities	<u>599,741</u>	<u>186,989</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Net increase in employee advances	(552)	14,491
Purchases of investments	(2,840,947)	(617,260)
Sales of investments	<u>1,768,559</u>	<u>524,545</u>
Net cash used by investing activities	<u>(1,072,940)</u>	<u>(78,224)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Increase in PPP loan	319,952	-
Payments on leases and loans	<u>(12,794)</u>	<u>(42,546)</u>
Net cash provided (used) by financing activities	<u>307,158</u>	<u>(42,546)</u>
NET INCREASE (DECREASE) IN CASH	(166,041)	66,219
CASH		
Beginning of year	<u>889,520</u>	<u>823,301</u>
End of year	<u>\$ 723,479</u>	<u>\$ 889,520</u>

The accompanying notes are an integral part of these financial statements.

**MIDDLE EAST CHILDREN’S ALLIANCE
(A NOT-FOR-PROFIT CORPORATION)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2020 and 2019

NOTE A – DESCRIPTION OF THE 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.

Management and general activities include the functions necessary to provide support for the Organization’s program activities. They include activities that provide governance (Board of Directors), oversight, business management, financial recordkeeping, budgeting, legal services, human resource management, and similar functions that ensure an adequate working environment and an equitable employment program.

Fundraising activities include publicizing and conducting fundraising campaigns; maintaining donor lists; conducting special fundraising events; and other activities involved with soliciting contributions from corporations, foundations, individuals, and others.

NOTE B – SIGNIFICANT ACCOUNTING POLICIES

The Organization prepares its financial statements in accordance with generally accepted accounting principles promulgated in the United States of America (U.S. GAAP) for not-for-profit entities. The significant accounting and reporting policies used by the Organization are described subsequently to enhance the usefulness and understandability of the financial statements.

Basis of Accounting

The Organization prepares its financial statements using the accrual method of accounting and accounting principles generally accepted in the United States of America.

Basis of Consolidation

The Organization owns 100% of Alliance Graphics (“AG), a for-profit corporation. AG exists to generate additional revenue for the Organization’s programs. The accompanying consolidated financial statements include the accounts of the Organization and AG. Material intercompany transactions and account balances have been eliminated in the consolidation.

**MIDDLE EAST CHILDREN'S ALLIANCE
(A NOT-FOR-PROFIT CORPORATION)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2020 and 2019

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the financial statements. On an ongoing basis, the Organization's management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. The Organization's management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates

Net Assets

The financial statements report net assets and changes in net assets in two classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

Net Assets Without Donor Restrictions

Net assets without donor restrictions are resources available to support operations. The only limit on the use of these assets are the broad limits resulting from the nature of the organization, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

Net Assets With Donor Restrictions

Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose or in a particular future period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions or when the stipulate time has passed. Other donor-imposed restrictions are perpetual in nature and the organization must continue to use the resources in accordance with the donor's instructions. The Organization's unspent contributions are included in this class if the donor limited their use.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by a passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions.

Classification of Transactions

All revenues and net gains are reported as increases in net assets without donor restrictions in the statement of activities unless the donor specified the use of the related resources for a particular purpose or in a future period. All expenses and net losses are reported as decreases in net assets without donor restrictions.

**MIDDLE EAST CHILDREN'S ALLIANCE
(A NOT-FOR-PROFIT CORPORATION)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2020 and 2019

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Classification of Transactions

All revenues and net gains are reported as increases in net assets without donor restrictions in the statement of activities unless the donor specified the use of the related resources for a particular purpose or in a future period. All expenses and net losses are reported as decreases in net assets without donor restrictions.

Cash and Equivalents

Cash equivalents are short term, interest bearing, highly liquid investments with original maturities of three months or less, unless the investments are held for meeting restrictions. The Organization maintains cash balances at several financial institutions. Deposit accounts at each bank are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per account. The balances occasionally exceed those limits. Cash equivalents, other securities, and limited amounts of cash held in brokerage accounts are protected by the Securities Investor Protection Corporation (SIPC) in the event of broker-dealer failure, up to \$500,000 of protection for each brokerage account, with a limit of \$250,000 for claims of uninvested cash balances. Additional brokerage insurance – in addition to SIPC protection – is provided through underwriters in London. The SIPC insurance does not protect against market losses on investments.

Contribution Receivable

Contributions receivable are unconditional promises to give that are recognized as contributions when the promise is received. Contributions receivable that are expected to be collected in less than one year are reported at net realizable value. Contributions receivable that are expected to be collected in more than one year are recorded at fair value at the date of promise. That fair value is computed using a present value technique applied to anticipated cash flows. Amortization of the resulting discount is recognized as additional contribution revenue. The allowance for uncollectible contributions receivable is determined based on management's evaluation of the collectability of individual promises.

Investments

Investments in mutual funds and certificates of deposit are reported at fair market value in accordance with FASB ASC 958-320, *Not-for-Profit Entities – Investments in Debt and Equity Securities*. Under ASC 958-320, the Organization reports at fair value all investments in debt and equity securities with gains and losses included in the statements of activities. (NOTE D).

Inventory

Inventory consists of purchased products (MECA), finished good and work-in-progress (AG), and is valued at lower of cost (first-in, first-out) or market.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2020 and 2019

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory (Continued)

Inventory consisted of the following at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
MECA -		
Olive oil	\$ 1,813	\$ 3,675
Palestinian products	56,536	52,967
U.S. products	7,857	11,100
AG -		
Finished goods	8,208	12,526
Work-in-progress	<u>16,815</u>	<u>64,495</u>
Total	\$ <u>91,229</u>	\$ <u>144,763</u>

Fixed Assets

Fixed assets are reported in the statement of financial position at cost, if purchased, and at fair value at the date of donation, if donated. Fixed assets are capitalized if it has a cost of \$2,500 or more and a useful life when acquired of more than 1 year. Repairs and maintenance that do not significantly increase the useful life of the asset are expense as incurred. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the assets as follows:

Furniture and fixtures	5-10 years
Equipment	5-7 years

Accounting for Contributions

Contributions, including unconditional promises to give, are recognized when received. All contributions are reported as increases in net assets without donor restrictions unless use of the contributed assets is specifically by the donor. Amounts received that are restricted by the donor to use in future periods or for specific purposes are reported as increases in net assets with donor restrictions. Unconditional promises with payments due in future years have an implied restriction to be used in the year the payment is due, and therefore are reported as restricted until the payment is due, unless the contribution is clearly intended to support activities of the current fiscal year. Conditional promises, such as matching grants, are not recognized until they become unconditional, that is, until all conditions on which they depend are substantially met.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2020 and 2019

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expense Recognition and Allocation

The cost of providing the Organization's programs and other activities is summarized on a functional basis in the statement of activities and statement of functional expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited using a reasonable allocation method that is consistently applied, as follows:

- Salaries and wages, payroll taxes, and benefits are allocated based on activity reports prepared by personnel.
- Occupancy and depreciation are allocated on a square foot basis dependent on the programs and supporting activities occupying the space.
- Administrative expenses that cannot be directly identified are allocated on the basis of employee headcount for each program and supporting activity.

The bases on which costs are allocated are evaluated periodically.

General and administrative expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the Organization.

Fundraising costs are expensed as incurred, even though they may result in contributions received in future years. The Organization generally does not conduct its fundraising activities in conjunction with its other activities.

Changes in Accounting Principles

The Organization has implemented FASB ASU No. 2016-14 in the current year, applying the changes retrospectively. The new standards change the following aspects of the financial statements:

- The temporarily restricted net asset class has been renamed net assets with donor restrictions.
- The unrestricted net asset class has been renamed net assets without donor restrictions.
- The financial statements include a disclosure about liquidity and availability of resources (NOTE C).

Advertising

Advertising is expensed as incurred. Advertising expense for the fiscal year ended June 30, 2020 and 2019 amounted to \$39,891 and \$14,680, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2020 and 2019

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Tax Status

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Organization and recognize a tax liability or asset if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service or the Franchise Tax Board. Management has analyzed the tax positions taken by the Organization, and has concluded that, as of June 30, 2020, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability or asset or disclosure in the financial statements. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in question. Management believes it is no longer subject to federal (IRS) and state (FTB) tax examinations for years prior to 2016 and 2015, respectively.

Income Taxes - MECA

The Organization is exempt from Federal income taxes under Internal Revenue Code Section 501 (c)(3) and from California Franchise taxes under Revenue and Taxation Code Section 23701d. The IRS has also determined that MECA is not a private foundation under the provisions of Internal Revenue Code Section 509(a).

Income Taxes - AG

The Company accounts for income taxes in accordance with FASB ASC 740, Income Taxes which requires the use of the "Liability Method" of accounting for income taxes. Accordingly, deferred tax liabilities and assets are determined based on the difference between the financial statement and tax bases of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse. Current income taxes are based on the year's income taxable for Federal and State income tax reporting purposes. At June 30, 2020 and 2019, there are no deferred tax assets or liabilities as the amounts are deemed immaterial.

Defined Benefit Pension Plan

The employees of AG participate in a defined benefit pension plan. Contributions to the plan are expensed when paid and amounted to \$63,083 and \$78,317 for the fiscal years ended June 30, 2020 and 2019, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2020 and 2019

NOTE C – LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditures, that is, without donor restrictions limiting their use, within one year of June 30, 2020 are:

Financial assets:	
Cash and cash equivalents	\$ 723,479
Accounts receivable	145,490
Inventory	91,229
Investments	<u>2,438,084</u>
Total financial assets	3,398,282
Less financial assets held to meet donor-imposed restrictions:	
Purpose-restricted net assets	<u>(831,747)</u>
Amount available for general expenditures within one year	\$ <u>2,566,535</u>

As part of its liquidity management plan, the Organization invests cash in excess of daily requirements in short-term investments.

NOTE D – FAIR VALUE MEASUREMENTS

FASB ASC Topic 820, *Fair Value Measurements and Disclosures* establishes a framework for measuring fair value which provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted market prices (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy under ASC Topic 820 are described below:

Level 1 -

Inputs to the valuation methodology are unadjusted quoted market prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 -

Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual term), the Level 2 input must be observable for substantially the full term of the asset or liability.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2020 and 2019

NOTE D – FAIR VALUE MEASUREMENTS (Continued)

Level 3 -

Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset’s or liability’s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for asset measured at fair value. There have been no changes in the methodologies used at June 30, 2020 and 2019.

Certificates of Deposit -

The fair values are determined by reference to quoted market prices and other relevant information generated by market transactions.

Equity Securities -

The fair values are determined by reference to quoted market prices and other relevant information generated by market transactions.

Mutual Funds -

Valued at the net asset value (“NAV”) of shares held by the Organization at year end.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future values. Furthermore, while the Organization believes that the valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables set forth by level, within the fair value hierarchy, the Plan’s assets at fair value as of June 30, 2020 and 2019:

	June 30, 2020			
	(Level 1)	(Level 2)	(Level 3)	Total
Cash – sweep accounts	\$ 18,837	\$ -0-	\$ -0-	\$ 18,837
Cash – money market	407,974	-0-	-0-	407,974
Certificates of deposit	-0-	1,524,325	-0-	1,524,325
Mutual funds	238,573	-0-	-0-	238,573
Equity securities	<u>248,375</u>	<u>-0-</u>	<u>-0-</u>	<u>248,375</u>
Total investments	\$ <u>913,759</u>	\$ <u>1,524,325</u>	\$ <u>-0-</u>	\$ <u>2,438,084</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2020 and 2019

NOTE D – FAIR VALUE MEASUREMENTS (Continued)

	June 30, 2019			<u>Total</u>
	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>	
Cash – sweep account	\$ 23,871	\$ -0-	\$ -0-	\$ 23,871
Certificates of deposit	-0-	850,812	-0-	850,812
Mutual funds	239,009	-0-	-0-	239,009
Equity securities	<u>235,125</u>	<u>-0-</u>	<u>-0-</u>	<u>235,125</u>
Total investments	<u>\$ 498,005</u>	<u>\$ 850,812</u>	<u>\$ -0-</u>	<u>\$ 1,348,817</u>

NOTE E – LINE OF CREDIT

The Organization has a \$250,000 unsecured line of credit with Wells Fargo Bank, at an annual interest rate of 5.25%. At June 30, 2020 and 2019, there was no balance due.

NOTE F – LOANS PAYABLE

Term Loan

The Organization obtained a loan from Wells Fargo Bank in November, 2017 for \$30,000. The terms of the loan require thirty-six (36) monthly payments of \$833 plus interest. Interest is at 2.80%

Copier

In June 2018, the Organization purchased a Ricoh copier. The amount financed was \$5,516 and is payable in thirty-six (36) monthly payments of \$500 at 40.05% interest per annum.

At June 30, 2020 and 2019 long-term debt consisted of the following:

	<u>2020</u>	<u>2019</u>
Term Loan – Wells Fargo Bank, secured by the server, approximate interest of 2.80%, 36 monthly installments of \$371.	\$ 3,333	\$ 13,333
Copier Loan – Ricoh Financial Services, secured by the copier, approximate interest of 40.05%, 36 monthly installments of \$272.	<u>1,573</u>	<u>4,367</u>
Subtotal	4,906	17,700
Less current portion	<u>(4,906)</u>	<u>(12,614)</u>
Total long-term	<u>\$ -0-</u>	<u>\$ 5,086</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2020 and 2019

NOTE F – LOANS PAYABLE (Continued)

The debt maturities are as follows:

Year Ended <u>June 30,</u>	<u>Amount</u>
2021	\$ <u>5,086</u>

NOTE G – COMMITMENTS

In April, 2008, the Organization signed a lease through January 31, 2016 for its premises in Berkeley. The premises are to be used as a warehouse and for a processing/printing center along with related business operations. In October, 2015 the Organization signed a Second Amendment to Lease extending the lease through January 31, 2021. In addition, there is an option to extend the lease through January 31, 2024 provided the lessor is given written notice on or before July 31, 2020 of the Organization’s intent to extend the lease.

The monthly rent from February 1, 2016 to January 31, 2017 was \$11,185. For the period February 1, 2017 to January 31, 2018 was \$11,670. Effective February 1, 2018 and each February thereafter, the rent shall increase by 3%. Currently the rent is \$12,020 per month.

The annual lease commitments at June 30, 2020 are as follows:

Year Ended <u>December 31,</u>	<u>Amount</u>
2021	\$ 154,939
2022	159,590
2023	164,378
2024	<u>97,545</u>
	\$ <u>576,452</u>

NOTE I – UNEARNED REVENUE – PPP FUNDS

On May 3, 2020, the Organization received loan proceeds of \$209,462 (MECA) and \$110,490) from a promissory note issued by Wells Fargo Bank under the Paycheck Protection Program (“PPP”) which was established under the Coronavirus Aid, Relief and Economic Security Act (“CARES ACT”) and administered by the U.S. Small Business Administration. Loans are provided to qualifying businesses for up to 2.5 times of the average monthly payroll and certain other expenses of the qualifying business. The loans and accrued interest are forgivable after eight weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of the loan

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE I – UNEARNED REVENUE – PPP FUNDS (Continued)

forgiveness will be reduced if the borrower terminates employees or reduces salaries during the eight-week period. PPP loan recipients can apply for and be granted forgiveness for all or a portion of the loans granted under PPP. Such forgiveness will be determined based on the use of the loan proceeds for payroll costs, rent and utility expenses and the maintenance of workforce and compensation levels with certain limitations. The Organization believes that it will likely qualify for full forgiveness, but there is uncertainty around the standard and operation of PPP, and no assurance is provided that the Organization will obtain forgiveness in full or in part.

The unforgiven portion of the PPP loan, in whole or in part, is payable over eighteen months at an interest rate of 1%, with a deferral of payments for the first six months.

In the event that the loans are not forgiven, monthly payments in the amount of \$8,819 (MECA) and \$4,688 (AG) will be made for twenty-four (24) months.

NOTE J – INCOME TAXES

The consolidated provision for federal and state income taxes for the fiscal years ended June 30, 2020 and 2019 consisted of the following:

	<u>2020</u>	<u>2019</u>
Federal income taxes	\$ -0-	\$ 37,122
State franchise taxes	<u>9,760</u>	<u>16,019</u>
Total	\$ <u>9,760</u>	\$ <u>53,141</u>

NOTE J – SUPPLEMENTAL CASH FLOW INFORMATION

The following amounts were paid for interest and federal and state income taxes in the fiscal years ended June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Interest	\$ <u>4,836</u>	\$ <u>7,163</u>
Taxes	\$ <u>20,500</u>	\$ <u>76,994</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2020 and 2019

NOTE K - TEMPORARILY RESTRICTED NET ASSETS

The temporarily restricted net assets are available for the following purposes at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Cycling and Sports	\$ 53,074	\$ 21,079
Circus	-0-	4,690
RAWA	398,817	337,644
Play and Heal	55,055	37,355
Summer camps	7,076	-0-
Scholarships	40,823	68,762
Maia	57,712	27,253
Gaza	160,352	-0-
Jenin Freedom Theater	16,669	15,061
Khuzza	8,465	-0-
Siraj	1,068	1,960
E. Said Library	23,351	17,703
Various other programs	<u>9,251</u>	<u>10,002</u>
	<u>\$ 831,713</u>	<u>\$ 541,509</u>

Net assets are released from donor restrictions by incurring expenses satisfying programming restrictions.

NOTE L – SUBSEQUENT EVENTS

In March 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses and shelter in place orders. While business disruption is expected to be temporary, there is considerable uncertainty around the duration of the closings and shelter in place orders. Because our donor and customers are directly impacted by these events, and we have adjusted certain aspects of our operations to protect our employees, donors and customers it is probable that this matter will negatively impact the Organization. However, the ultimate financial impact and duration cannot be reasonably estimated at this time.

The extent to which the COVID-19 pandemic may impact our operating results, financial condition, and cash flows will depend on future developments, which are highly uncertain and cannot be predicted at this time, including new information that may emerge concerning the severity of COVID-19 and the steps taken to contain it or treat its impact, among others.