American Near East Refugee Aid, Inc.

Financial Report
May 31, 2017

Contents

Independent Auditor's Report

To the Board of Directors
American Near East Refugee Aid, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of American Near East Refugee Aid, Inc. (ANERA), which comprise the statements of financial position as of May 31, 2017 and 2016, 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.

Auditor's 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 and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. 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 audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Near East Refugee Aid, Inc. as of May 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter
As discussed in Note 1 to the financial statements, ANERA retroactively adopted the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our reports dated August 29, 2017, and August 30, 2016, on our consideration of ANERA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of these reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ANERA's internal control over financial reporting and compliance.

RSM US LLP

Washington, D.C.
August 29, 2017

American Near East Refugee Aid, Inc.

Statements of Financial Position
May 31, 2017 and 2016

	2017	2016
Assets		
Cash and cash equivalents (Note 12):		
Unrestricted	**$ 7,202,026**	$ 5,943,868
Restricted	**6,390,664**	7,851,133
Total cash and cash equivalents	**13,592,690**	13,795,001
Accounts receivable	**66,103**	68,570
Grants and contributions receivable, net (Note 3)	**162,614**	357,213
Advances to subrecipients	**343,100**	146,621
Prepaid expenses and other assets	**348,242**	288,853
Inventory (Note 7)	**729,559**	4,513,797
Property and equipment, net (Note 4)	**207,583**	149,807
Total assets	**$ 15,449,891**	$ 19,319,862
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	**$ 682,402**	$ 688,986
Accrued benefits (Note 5)	**2,805,717**	2,420,957
Deferred grant advances (Note 6)	**1,838,437**	3,124,164
Total liabilities	**5,326,556**	6,234,107
Commitments and contingencies (Notes 9 and 11)		
Net assets:		
Without donor restrictions:		
Undesignated	**4,269,296**	3,294,626
Board designated reserves	**2,955,929**	2,699,307
Designated for inventory	**729,559**	4,513,797
Invested in property and equipment	**207,583**	149,807
Total net assets without donor restrictions	**8,162,367**	10,657,537
With donor restrictions (Note 10):		
Purpose restricted	**1,887,765**	2,355,015
Perpetual in nature	**73,203**	73,203
Total net assets with donor restrictions	**1,960,968**	2,428,218
Total net assets	**10,123,335**	13,085,755
Total liabilities and net assets	**$ 15,449,891**	$ 19,319,862

See notes to financial statements.

American Near East Refugee Aid, Inc.

Statements of Activities
Years Ended May 31, 2017 and 2016

	2017				2016			
	Without Donor Restrictions	With Donor Restrictions: Purpose Restricted	With Donor Restrictions: Perpetual in Nature	Total	Without Donor Restrictions	With Donor Restrictions: Purpose Restricted	With Donor Restrictions: Perpetual in Nature	Total
Support and revenue:								
Gifts-in-kind contributions (Note 7)	$ 45,173,354	$ -	$ -	$ 45,173,354	$ 34,048,155	$ -	$ -	$ 34,048,155
Governmental grant revenue	10,069,691	-	-	10,069,691	15,646,997	-	-	15,646,997
Non-governmental grant revenue	7,889,271	-	-	7,889,271	3,988,608	-	-	3,988,608
Contributions	2,969,847	1,527,718	-	4,497,565	2,646,149	1,471,046	-	4,117,195
Other income	142,526	-	-	142,526	103,698	-	-	103,698
Net assets released from restrictions (Note 10)	1,994,968	(1,994,968)	-	-	1,886,003	(1,886,003)	-	-
Total support and revenue	68,239,657	(467,250)	-	67,772,407	58,319,610	(414,957)	-	57,904,653
Expenses:								
Program services:								
Medical in-kind and health services (Note 7)	49,635,007	-	-	49,635,007	32,921,878	-	-	32,921,878
Community and economic development	11,152,629	-	-	11,152,629	16,267,932	-	-	16,267,932
Education	6,508,017	-	-	6,508,017	3,296,990	-	-	3,296,990
Total program services	67,295,653	-	-	67,295,653	52,486,800	-	-	52,486,800
Supporting services:								
Management and general	2,395,131	-	-	2,395,131	2,511,278	-	-	2,511,278
Fundraising	1,044,043	-	-	1,044,043	810,440	-	-	810,440
Total supporting services	3,439,174	-	-	3,439,174	3,321,718	-	-	3,321,718
Total expenses	70,734,827	-	-	70,734,827	55,808,518	-	-	55,808,518
Change in net assets	(2,495,170)	(467,250)	-	(2,962,420)	2,511,092	(414,957)	-	2,096,135
Net assets:								
Beginning	10,657,537	2,355,015	73,203	13,085,755	8,146,445	2,769,972	73,203	10,989,620
Ending	$ 8,162,367	$ 1,887,765	$ 73,203	$ 10,123,335	$ 10,657,537	$ 2,355,015	$ 73,203	$ 13,085,755

See notes to financial statements.

American Near East Refugee Aid, Inc.

Statement of Functional Expenses
Year Ended May 31, 2017

	Program Services				Supporting Services			
	Medical in-kind and Health Services	Community and Economic Development	Education	Total Program Services	Management and General	Fundraising	Total Supporting Services	2017 Total
Salaries	$ 286,998	$ 1,904,536	$ 523,021	$ 2,714,555	$ 1,055,264	$ 317,097	$ 1,372,361	$ 4,086,916
Fringe benefits	174,022	1,289,480	334,040	1,797,542	523,324	149,432	672,756	2,470,298
Total salaries and fringe benefits	461,020	3,194,016	857,061	4,512,097	1,578,588	466,529	2,045,117	6,557,214
Grants-in-kind (Note 7)	48,404,397	54,120	499,076	48,957,593	-	-	-	48,957,593
Grants	509,234	6,949,834	3,927,784	11,386,852	13,912	-	13,912	11,400,764
Occupancy	36,751	261,390	117,139	415,280	271,321	-	271,321	686,601
Professional services	7,225	85,355	37,861	130,441	274,895	320,338	595,233	725,674
Travel	38,785	131,389	48,822	218,996	45,813	92,339	138,152	357,148
Office supplies and equipment	6,890	72,023	32,887	111,800	30,626	3,901	34,527	146,327
Vehicle expense	6,565	134,914	39,234	180,713	1,571	-	1,571	182,284
Printing and lettershop	2,712	5,823	14,467	23,002	23,084	70,603	93,687	116,689
Telephone and communications	11,306	58,325	22,146	91,777	27,789	53	27,842	119,619
Postage and shipping	215	1,056	202	1,473	14,125	27,951	42,076	43,549
Technical assistance	34,798	114,302	856,372	1,005,472	364	-	364	1,005,836
Repairs and maintenance	3,426	5,334	15,730	24,490	7,182	-	7,182	31,672
Conferences and memberships	18,175	36,138	3,702	58,015	22,789	14,325	37,114	95,129
Banking fees	1,586	10,503	5,598	17,687	1,353	30,319	31,672	49,359
In-kind shipping and storage	83,983	640	9,389	94,012	-	-	-	94,012
Advertising and marketing	7	4,805	114	4,926	8,863	9,891	18,754	23,680
Risk management	-	-	-	-	37,617	1,382	38,999	38,999
Board and committee meetings	-	-	-	-	8,958	-	8,958	8,958
Miscellaneous	710	320	2,562	3,592	14,568	6,412	20,980	24,572
Total expenses before depreciation	49,627,785	11,120,287	6,490,146	67,238,218	2,383,418	1,044,043	3,427,461	70,665,679
Depreciation	7,222	32,342	17,871	57,435	11,713	-	11,713	69,148
Total expenses before allocations	49,635,007	11,152,629	6,508,017	67,295,653	2,395,131	1,044,043	3,439,174	70,734,827
Allocation of indirect costs	231,025	1,360,954	410,430	2,002,409	(2,357,453)	355,044	(2,002,409)	-
Total expenses after allocations	$ 49,866,032	$ 12,513,583	$ 6,918,447	$ 69,298,062	$ 37,678	$ 1,399,087	$ 1,436,765	$ 70,734,827

See notes to financial statements.

American Near East Refugee Aid, Inc.

Statement of Functional Expenses
Year Ended May 31, 2016

	Program Services				Supporting Services			
	Medical in-kind and Health Services	Community and Economic Development	Education	Total Program Services	Management and General	Fundraising	Total Supporting Services	2016 Total
Salaries	$ 300,556	$ 1,747,709	$ 384,784	$ 2,433,049	$ 995,606	$ 307,060	$ 1,302,666	$ 3,735,715
Fringe benefits	163,214	979,484	219,460	1,362,158	588,744	153,012	741,756	2,103,914
Total salaries and fringe benefits	463,770	2,727,193	604,244	3,795,207	1,584,350	460,072	2,044,422	5,839,629
Grants-in-kind (Note 7)	31,964,900	-	206,513	32,171,413	-	-	-	32,171,413
Grants	309,923	12,791,299	1,815,008	14,916,230	-	-	-	14,916,230
Professional services	4,758	42,950	183,093	230,801	318,667	105,177	423,844	654,645
Occupancy	31,772	246,551	68,423	346,746	261,238	-	261,238	607,984
Technical assistance	2,964	63,965	287,876	354,805	339	-	339	355,144
Travel	15,987	68,138	44,657	128,782	86,632	83,057	169,689	298,471
Vehicle expense	19,955	112,138	24,038	156,131	1,472	-	1,472	157,603
Telephone and communications	10,607	57,766	16,630	85,003	28,124	253	28,377	113,380
Office supplies and equipment	11,061	47,052	24,359	82,472	28,550	938	29,488	111,960
Printing and lettershop	1,027	2,548	1,874	5,449	31,342	68,525	99,867	105,316
In-kind shipping and storage	69,994	-	1,018	71,012	-	-	-	71,012
Conferences and memberships	2,958	27,321	1,581	31,860	22,490	9,782	32,272	64,132
Bad debt expense	-	-	-	-	59,400	-	59,400	59,400
Banking fees	1,091	8,862	2,466	12,419	7,959	37,433	45,392	57,811
Postage and shipping	187	1,010	609	1,806	17,404	22,365	39,769	41,575
Risk management	-	-	-	-	28,587	-	28,587	28,587
Advertising and marketing	511	3,909	190	4,610	2,736	18,324	21,060	25,670
Repairs and maintenance	3,418	2,367	5,447	11,232	6,872	-	6,872	18,104
Miscellaneous	977	188	1,858	3,023	2,131	4,514	6,645	9,668
Board and committee meetings	-	-	-	-	5,119	-	5,119	5,119
Total expenses before depreciation	32,915,860	16,203,257	3,289,884	52,409,001	2,493,412	810,440	3,303,852	55,712,853
Depreciation	6,018	64,675	7,106	77,799	17,866	-	17,866	95,665
Total expenses before allocation of indirect costs	32,921,878	16,267,932	3,296,990	52,486,800	2,511,278	810,440	3,321,718	55,808,518
Allocation of indirect costs	261,445	1,372,547	401,962	2,035,954	(2,368,203)	332,249	(2,035,954)	-
Total expenses	$ 33,183,323	$ 17,640,479	$ 3,698,952	$ 54,522,754	$ 143,075	$ 1,142,689	$ 1,285,764	$ 55,808,518

See notes to financial statements.

American Near East Refugee Aid, Inc.

Statements of Cash Flows
Years Ended May 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Receipts from grants	$ 16,985,194	$ 19,415,267
Receipts from donations	4,512,252	4,102,306
Interest and dividends received	15,962	2,260
Miscellaneous receipts	38,448	99,830
Payments for personnel costs	(6,231,450)	(5,493,945)
Payments for other support costs	(2,958,454)	(2,073,417)
Payments for program costs	(12,437,339)	(15,420,853)
Net cash (used in) provided by operating activities	(75,387)	631,448
Cash flows from in investing activities:		
Net cash (to) from purchase/sale of assets	(126,924)	(49,421)
Net cash used in investing activities	(126,924)	(49,421)
Net (decrease) increase in cash and cash equivalents	(202,311)	582,027
Cash and cash equivalents:		
Beginning of fiscal year	13,795,001	13,212,974
End of fiscal year (Note 2)	$ 13,592,690	$ 13,795,001

See notes to financial statements.

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: American Near East Refugee Aid, Inc. (ANERA) is a nonprofit corporation organized in 1968 for the purpose of improving the lives of Palestinian and other needy communities in the Middle East through grants and gifts-in-kind. Consistent with this purpose is the support of infrastructure, education and health programs for relief and development goals.

ANERA has its headquarters in Washington, D.C. ANERA is incorporated in Washington, D.C. and registered as required by local laws in Jerusalem, West Bank, Gaza and Lebanon.

A summary of ANERA's significant accounting policies follows:

Basis of accounting: The accompanying financial statements include the accounts of ANERA's Washington, D.C., Jerusalem, West Bank, Gaza and Lebanon locations. All significant transactions between these locations have been eliminated in the accompanying financial statements. ANERA maintains its accounts on the accrual basis of accounting.

Basis of presentation: The financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (Codification). As required by the Non-Profit Entities topic of the Codification, ANERA reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and nets assets with donor restrictions as follows.

Net assets without donor restrictions: Net assets without donor restrictions include unrestricted undesignated, board designated and certain amounts not available to support general operations.

Undesignated net assets: Undesignated net assets result from revenue and other inflows of assets whose use by ANERA is not limited by donor-imposed restrictions.

Board-designated reserves: As of May 31, 2017 and 2016, board designated reserves that are to be used for emergencies and contingencies were $2,955,929 and $2,699,307, respectively.

Nets assets with donor restrictions: Net assets with donor restrictions include purpose restricted net assets and assets that are perpetual in nature.

Purpose restricted net assets: Purpose restricted net assets result from contributions and other inflows of assets whose use by ANERA is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of ANERA pursuant to those stipulations.

Perpetual-in-nature net assets: Perpetual-in-nature restricted net assets result from contributions and other inflows of assets whose use is subject to donor-imposed stipulations that the principal must be maintained in perpetuity by ANERA

Cash and cash equivalents: Cash and cash equivalents consist of cash and money market accounts and funds. Total money market funds included in cash and cash equivalents as of May 31, 2017 and 2016, were $5,385,416 and 4,778,956, respectively.

ANERA entered into a guidance line of credit in December 2015 for $750,000. A guidance line of credit provides for the opportunity to draw funds on a short-term basis and is not considered a committed line of credit. ANERA has not drawn funds from this letter of credit as of May 31, 2017. This credit facility is renewed annually and currently expires November 30, 2017.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Restricted cash: Restricted cash consists of cash received with donor-imposed restrictions for its use, advances from donors for restricted purposes and amounts set aside to meet future obligations, including accrued benefits. At May 31, 2017 and 2016, restricted cash was $6,390,664 and $7,851,133, respectively.

Financial risk: ANERA maintains accounts at a number of financial institutions in the United States and the Middle East. The United States bank accounts are insured by the Federal Deposit Insurance Corporation up to $250,000. ANERA holds certain of its cash and cash equivalents in U.S. financial institutions which, at times, may exceed federally-insured limits. ANERA had $1,189,548 and $999,724 in foreign accounts, which are not insured as of May 31, 2017 and 2016, respectively. ANERA has not experienced any losses in such accounts. ANERA believes it is not exposed to any significant financial risk on cash and cash equivalents.

Grants, contributions and accounts receivable: Grants, contributions and accounts receivable are carried at original unbilled, promised or invoiced amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a quarterly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using the historical experience applied to an aging of accounts. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. The allowance for doubtful accounts at May 31, 2017 and 2016, respectively, was $0 and $121,927.

Advances to subrecipients: Advances to subrecipients represent funds that were provided to subrecipients for services to be provided at a later date. Once the services are complete, ANERA recognizes the expense.

Inventory: Inventory consists of pharmaceuticals, medical supplies and dry-goods, for example, clothing and blankets, donated by other organizations that have not been distributed at May 31, 2017 and 2016. Donated inventory is carried at its fair market value on the date of the donation.

Property and equipment: Property and equipment, including software with a cost in excess of $5,000 per unit, are capitalized at cost and are depreciated using the straight-line method over a five- to ten-year estimated useful life. Equipment purchased with federal funds and temporarily restricted funds are billed to donors when purchased and capitalized in accordance with ANERA’s capitalization policy as previously stated.

Deferred grant advances: Deferred grant advances consist of cash received for grants that have not yet been expended. ANERA records grant revenue in relation to expenses incurred.

Foreign currency transactions and translation: The functional currency of ANERA is the U.S. Dollar. The financial statements and transactions of ANERA’s foreign operations are generally maintained in U.S. Dollars. Where local currencies are used, assets and liabilities are re-measured at the exchange rate on the statements of financial position date. Monthly expenses that are incurred by project field office operations in foreign countries are translated using a weighted monthly average exchange rate in effect at the end of each month. At year-end, balances denominated in foreign currency are valued at the exchange rate in effect at year-end, with gains and losses included within other income on the accompanying statements of activities.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Use of estimates: The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Functional allocation of expenses: The costs of providing ANERA's various programs and supporting services have been summarized on a functional basis. Certain direct administrative charges have been allocated to programs and supporting services based on salaries or use of space. This basis is consistently applied. Allocated expenses include depreciation, occupancy, vehicle expenses and office expenses, which are allocated on a use-of-space basis, as well as fringe benefits, which are allocated based on salaries.

Support and revenue: Unconditional contributions are recorded when received as without donor restrictions or with donor restrictions. Contributions with donor restrictions can be either purpose restricted or perpetual-in-nature, depending on the existence and/or nature of any donor restrictions

All donor restricted revenue and support is reported as an increase in purpose restricted or perpetual-in-nature net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose of restriction is accomplished), purpose restricted net assets are reclassified to without donor restrictions net assets and reported in the statements of activities as net assets released from restrictions. Conditional contributions are not recorded as support until the condition(s) are probable of being met.

Gifts-in-kind contributions and grants-in-kind expenses: ANERA receives medical and other supplies from both for-profit and nonprofit organizations and ships them to the Middle East. ANERA delivers these donated supplies to hospitals, clinics and charitable organizations. Contributed equipment and supplies received by the field offices are also recorded as support and expenses.

Gifts-in-kind revenue is recognized as revenue in circumstances where ANERA has sufficient discretion over the use and disposition of the items to recognize a contribution in conformity with the Codification. Accordingly, the recognition of gifts-in-kind revenue is limited to circumstances in which ANERA takes constructive possession of the gifts-in-kind, and ANERA is the recipient of the gift, rather than an agent or intermediary (as defined by the Codification).

ANERA obtains United States FDA-approved pharmaceuticals from donors for distribution in developing countries or areas where disasters have occurred. Management has concluded that the geographical areas do not represent its principal market and therefore considers the United States region as its principal market for determining the fair value of the donated prescription drugs. The principal market is the market in which ANERA would sell the asset with the greatest volume and level of activity for the asset. Contributions of United States FDA-approved pharmaceuticals are recorded at the Average Wholesale Price (AWP) as published by Thomson Reuters in the Red Book. The Red Book is an industry recognized drug pricing reference guide for pharmaceuticals in the United States. Contributions of medical equipment and supplies are recorded at estimated fair value based upon appropriate wholesale price guides or other online pricing sources as applicable. Non-pharmaceutical gifts-in-kind contributions received by ANERA have been valued at their estimated fair value as provided by the donor or, in the absence of the donors' valuation, using like-kind methodology that references United States wholesale pricing data for similar products. One donor, International Health Partners, uses the Monthly Index of Medical Specialties (MIMS), a British publication, as the basis for their valuation. It is similar to the Red Book mentioned above. ANERA also receives donation of shoes for which the donor does not provide a value; ANERA conservatively estimates the price to value the shoes based on the value of the shoe per various retail stores in the beneficiary locale.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Grants-in-kind expense is recorded when the gifts-in-kind contributions are distributed for program use. While it is ANERA's policy to distribute the gifts-in-kind contributions as promptly as possible, undistributed gifts-in-kind contributions are recorded as inventory. The inventory is valued at fair value estimated by ANERA. ANERA believes that this approximates the lower of cost or market.

Income taxes: ANERA is generally exempt from federal and state income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. However, ANERA is subject to income taxes on unrelated business income as defined by the Internal Revenue Service (IRS). During the years ended May 31, 2017 and 2016, ANERA had no taxable unrelated business income and, accordingly, no provision for income taxes was required in the accompanying financial statements.

ANERA follows the accounting standard on accounting for uncertainty in income taxes. Under this guidance, ANERA may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes and accounting in interim periods.

Management evaluated ANERA's tax positions and concluded that ANERA had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. Generally, ANERA is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2013.

Foreign assets: Assets (excluding foreign cash) held in foreign countries, consisting primarily of in-kind inventory, were $1,516,635 and $5,043,658 as of May 31, 2017 and 2016, respectively.

Reclassifications: Certain 2016 amounts previously reported have been reclassified to be consistent with the 2017 presentation. The reclassifications had no effect on the previously reported change in net assets or net assets.

Early adoption of new accounting pronouncements: In August 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* The amendments in this ASU make improvements to the information provided in financial statements and accompanying notes of nonprofit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a nonprofit entity's liquidity, financial performance and cash flows. The ASU is effective for fiscal years beginning after December 15, 2017. Earlier applicable is permitted. The changes in this ASU should generally be applied on a retrospective basis in the year that the ASU is first applied. Management has early adopted this standard, during the year ended May 31, 2017, and made retrospective adoption to its 2016 financial statements. The adoption of this new standard impacted the presentation of the classification net assets. The total net assets and change in net assets were not impacted.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. The amendments in this update clarify the guidance regarding the classification of operating, investing and financing activities for certain types of cash receipts and payments. The amendments in this update are effective for the annual periods and the interim periods within those years, beginning after December 15, 2018, and should be applied using a retrospective transition method to each period presented. Early adoption is permitted. Management has early adopted this standard during the year ended May 31, 2017. The adoption of this new standard impacted only the presentation of the cash flows statements. The total net assets and change in net assets were not impacted.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force),* which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statements of cash flows. These amendments are effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2018. Management has early adopted this standard during the year ended May 31, 2017. The adoption of this new standard impacted the presentation of the classification net assets. The total net assets and change in net assets were not impacted.

Upcoming accounting pronouncements: In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. ANERA is currently evaluating the impact of the pending adoption of the new standard on the financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in generally accepted accounting principles in the United States of America (U.S. GAAP) when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. Early adoption is not permitted. The updated standard will be effective for annual reporting periods beginning after December 15, 2017. In August 2015, the FASB issued ASU No. 2015-14, which defers the effective date of ASU No. 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. ANERA has not yet selected a transition method and is currently evaluating the effect that the update will have on the financial statements.

Subsequent events: ANERA evaluated subsequent events for potential required disclosure through August 29, 2017, which is the date the financial statements were available to be issued.

Note 2. Liquidity

The following reflects ANERA's financial assets as of the statements of financial position date, reduced by certain amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statements of financial position date. Amounts not available include amounts set aside for long-term investing in the board designated reserves, which can be drawn upon if the governing board approves that action. However, amounts already appropriated from either donor-restricted net assets or board designated reserves for general expenditure within one year of the statements of financial position date have not been subtracted as unavailable as follows:

	2017	2016
Financial assets, at year-end		
Cash and cash equivalents	$ 13,592,690	$ 13,795,001
Accounts receivable	66,103	68,570
Grants and contributions receivable	162,614	357,213
Total financial assets, at year-end	13,821,407	14,220,784
Less those unavailable for general expenditures within one year, due to:		
Contractual or donor-imposed restrictions:		
Deferred grant advances	(1,838,437)	(3,124,164)
Donor-imposed purpose restriction	(1,887,765)	(2,355,015)
Donor-imposed restrictions perpetual in nature	(73,203)	(73,203)
Cash or cash equivalents held in trust	(161,775)	(157,514)
Designated for specific purposes:		
Amounts set aside for board designated reserve fund, net of board approved appropriation	(2,705,929)	(2,699,307)
Amounts set aside for end-of-service indemnity retirement benefits	(2,504,649)	(2,135,675)
Liability for accrued vacation	(301,068)	(285,282)
Financial assets available to meet cash needs for general expenditures within one year	$ 4,348,581	$ 3,390,624

ANERA is substantially supported by restricted contributions. Because donor restrictions require resources to be used in a particular manner or in a future period, ANERA must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of ANERA's liquidity management, it has a policy to structure its financial assets to be available when its general expenditures, liabilities and other obligations are due. In addition, ANERA invests cash in excess of daily requirements in short-term financial instruments. The board designates a portion of bequests received to its board designated reserve fund, which for the years ended May 31, 2017 and 2016, was $256,622 and $109,213, respectively. This reserve is a fund that has been established by the governing board to drawn upon in the event of financial need resulting from planned or unforeseen events outside of normal operations or the typical life cycle of converting financial assets to cash or settling financial liabilities. In the event of an unanticipated liquidity need, ANERA may also draw upon a $750,000 guidance line of credit.

Note 3. Grants and Contributions Receivable

Grants receivable at May 31, consist of the following:

	2017	2016
International organizations	$ 162,614	$ 86,646
U.S. Government	-	387,926
Other	-	4,568
	162,614	479,140
Less allowance for doubtful accounts	-	(121,927)
Total	$ 162,614	$ 357,213

Note 4. Property and Equipment

Property and equipment at May 31, consist of the following:

	2017	2016
Vehicles	$ 645,703	$ 618,703
Furniture and office equipment	290,392	266,346
Computer equipment and design	166,459	132,581
Website design	67,900	25,900
Subtotal	1,170,454	1,043,530
Less accumulated depreciation	(962,871)	(893,723)
Total	$ 207,583	$ 149,807

Depreciation expense was $69,148 and $95,665 for the years ended May 31, 2017 and 2016, respectively. There was property and equipment with a net book value of $157,966 and $136,342 held in foreign field offices at May 31, 2017 and 2016, respectively.

Note 5. Accrued Benefits

Accrued benefits at May 31, consist of the following:

	2017	2016
Accrued severance*	$ 2,392,740	$ 2,087,677
Accrued vacation	301,068	285,282
Other benefits	111,909	47,998
Total	$ 2,805,717	$ 2,420,957

*The law operative in Jerusalem, West Bank, Gaza and Lebanon dictates that upon retirement, an employee shall receive a defined end-of-service indemnity benefit. The benefit is calculated based on one month of the employee's salary rate as of the end-of-service and multiplied by the number of years of service. Accrued severance was $2,392,740 and $2,087,677 at May 31, 2017 and 2016, respectively. Of that, $2,392,740 and $2,085,210 was funded via money market funds included with cash and cash equivalents at May 31, 2017 and 2016, respectively.

Note 5. Accrued Benefits (Continued)

During the years ended May 31, 2017 and 2016, termination benefits of $359,333 and $31,683, respectively, were paid.

Note 6. Deferred Grant Advances

Deferred grant advances at May 31, consist of the following:

	2017	2016
International organizations	$ 1,402,917	$ 923,233
U.S. Government	356,201	172,682
Foundations	79,319	2,028,249
Total	$ 1,838,437	$ 3,124,164

Note 7. Gifts-in-Kind Contributions

For the years ended May 31, 2017 and 2016, ANERA recognized gifts-in-kind contributions of $45,173,354 and $34,048,155, respectively, and grants-in-kind expenses of $48,957,593 and $32,171,413, respectively. These expenses are included primarily in the medical in-kind and health services expense line on the statements of activities. Gifts-in-kind contributions are recognized when the goods are received in ANERA's warehouse. Grants-in-kind expense is recognized when the goods are distributed. The inventory balance at May 31, 2017 and 2016, was $729,559 and $4,513,797, respectively. All inventory is located in foreign field offices.

As of May 31, 2017, ANERA had no gifts-in-kind inventory of that had landed but not cleared customs. It is ANERA's policy to count inventory after it has been inspected and not count inventory that may be rejected during the process of clearing customs. As of May 31, 2016, there was $1,040,939.

Note 8. Pension Plan

ANERA has a defined contribution pension plan, or 401(a) Money Purchase Pension Plan, which covers substantially all of its headquarters' employees. Contributions are based on annual salaries. Pension plan expense amounted to $205,860 and $181,652 for the years ended May 31, 2017 and 2016, respectively.

ANERA also offers a 403(b) Tax Deferred Annuity (TDA) to its headquarters employees. In accordance with applicable regulations, the employees can contribute into the TDA and the employer does not contribute to this TDA.

In January 2017 ANERA established a 457(b) plan for certain members of management to defer a limited portion of their compensation on a pre-tax basis. Eligible employees may contribute to this 457(b) plan up to the legal limits defined by the IRS. The employer does not contribute to this 457(b) plan. As of May 31, 2017, the value of assets held and the deferred compensation liability was $51,761.

Note 9. Contingencies

ANERA participates in a number of federally-assisted grant programs, which are subject to financial and compliance audits by the federal agencies or their representatives. As such, there exists a contingent liability for potential questioned costs that may result from such audits. Management does not anticipate any significant adjustments as a result of such audits.

Note 10. Net Assets With Donor Restrictions

Changes in purpose restricted net assets in 2017 were as follows:

	Balance May 31, 2016	Apportionments	Additions	Released From Restrictions	Balance May 31, 2017
Specific community or location	$ 1,262,301	$ (511,794)	$ 18,225	$ -	$ 768,732
Community and economic development	360,207	270,944	523,401	(518,979)	635,573
Education	484,334	12,652	431,456	(624,269)	304,173
Medical in-kind and health services	248,173	228,198	554,636	(851,720)	179,287
Total	$ 2,355,015	$ -	$ 1,527,718	$ (1,994,968)	$ 1,887,765

Changes in purpose restricted net assets in 2016 were as follows:

	Balance May 31, 2015	Apportionments	Additions	Released From Restrictions	Balance May 31, 2016
Specific community or location	$ 2,222,075	$ (999,382)	$ 39,608	$ -	$ 1,262,301
Community and economic development	175,625	574,309	365,404	(755,131)	360,207
Education	266,117	45,360	615,841	(442,984)	484,334
Medical in-kind and health services	106,155	379,713	450,193	(687,888)	248,173
Total	$ 2,769,972	$ -	$ 1,471,046	$ (1,886,003)	$ 2,355,015

Apportionments represent transfers of funding to support projects within the restriction categories or for programs operating in specific locations as permitted by the donors.

Net assets that are perpetual in nature total $73,203 as of May 31, 2017 and 2016.

Note 11. Commitments

ANERA entered into a lease for the headquarters office with an effective date of April 1, 2010. The lease payments are subject to an annual base rent increase and a proportional share of operating expenses and real estate taxes that are in excess of the base year for the lease. Other office sites are rented overseas on a year-to-year basis.

At May 31, 2017, the minimum future lease payments under the long term agreements are as follows:

Years ending May 31:	
2018	$ 226,684
2019	232,351
2020	197,643
Total	$ 656,678

Total rent expense for all ANERA offices was $676,760 and $607,984 for the years ended May 31, 2017 and 2016, respectively.

Note 12. Fair Value Measurements

The Fair Value Measurement Topic of the FASB Codification establishes a fair value hierarchy that is based on the valuation inputs used in the fair value measurements. This Topic applies to all assets and liabilities that are being measured and reported on a fair value basis. The Topic establishes a framework for measuring fair value in U.S. GAAP and a hierarchy for ranking the quality and reliability of the information used to determine fair values. This Topic requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities

Level 2: Observable market-based inputs or unobservable inputs corroborated by market data

Level 3: Unobservable inputs not corroborated by market data

To determine the appropriate levels, ANERA performs a detailed analysis of the assets and liabilities that are subject to the Fair Value Measurement Topic. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. There were no Level 3 inputs for any assets held by ANERA at May 31, 2017.

The table below presents the balances of assets and liabilities at May 31, 2017, measured at fair value on a recurring basis by level within the hierarchy:

	Total	Level 1	Level 2	Level 3
Financial assets:				
Included with cash and cash equivalents:				
Money market funds	$ 5,385,416	$ 5,385,416	$ -	$ -
Included with prepaid expenses and other assets:				
Deferred compensation:				
Mutual fund:				
Emerging markets	$ 1,841	$ 1,841	$ -	$ -
World large stock	1,839	1,839	-	-
High yield bond	5,136	5,136	-	-
Mid-cap value	16,811	16,811	-	-
Large growth	3,707	3,707	-	-
Mid-cap growth	1,783	1,783	-	-
Large value	20,644	20,644	-	-
	$ 51,761	$ 51,761	$ -	$ -
Financial liabilities:				
Included with accrued benefits:				
Deferred compensation	$ 51,761	$ -	$ 51,761	$ -

Note 12. Fair Value Measurements (Continued)

The table below presents the balances of assets and liabilities at May 31, 2016, measured at fair value on a recurring basis by level within the hierarchy:

	Total	Level 1	Level 2	Level 3
Financial assets:				
Included with cash and cash equivalents:				
Money market funds	$ 4,778,956	$ 4,778,956	$ -	$ -
Total	$ 4,778,956	$ 4,778,956	$ -	$ -

The fair value of ANERA's money market funds and mutual funds are determined based on quoted prices in active markets; thus, they are categorized as a Level 1 input.

The deferred compensation liability is not traded in an open market, and thus, does not qualify for Level 1 classification. However, the fair value is derived from the fair value of the underlying assets in the deferred compensation plan and based on this comparable information is classified as a Level 2 item.