

American Near East Refugee Aid

Financial Report
May 31, 2019

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RSM US LLP

Independent Auditor's Report

To the Board of Directors
American Near East Refugee Aid

Report on the Financial Statements

We have audited the accompanying financial statements of American Near East Refugee Aid (Anera), which comprise the statements of financial position as of May 31, 2019 and 2018, 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 as of May 31, 2019 and 2018, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2019, 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 this report is solely 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 the effectiveness of Anera's internal control over financial reporting or on compliance. This report is 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.
September 6, 2019

American Near East Refugee Aid

**Statements of Financial Position
May 31, 2019 and 2018**

	2019	2018
Assets		
Cash and cash equivalents (Note 12):		
Unrestricted	\$ 4,923,734	\$ 7,627,207
Restricted	11,104,809	7,261,150
Total cash and cash equivalents	16,028,543	14,888,357
Accounts receivable	222,974	93,198
Grants and contributions receivable, net (Note 3)	733,354	338,234
Advances to subrecipients	167,113	254,711
Prepaid expenses and other assets	254,886	404,213
Inventory (Note 7)	2,984,763	730,372
Property and equipment, net (Note 4)	154,433	150,887
Total assets	\$ 20,546,066	\$ 16,859,972
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 392,798	\$ 464,261
Accrued benefits (Note 5)	1,202,368	3,110,450
Deferred revenue (Note 6)	4,479,372	1,951,058
Total liabilities	6,074,538	5,525,769
Commitments and contingencies (Notes 9 and 11)		
Net assets:		
Without donor restrictions:		
Undesignated	5,877,636	5,715,147
Board designated reserves	3,215,493	3,108,451
Designated for inventory	2,984,763	730,372
Invested in property and equipment	154,433	150,887
Total net assets without donor restrictions	12,232,325	9,704,857
With donor restrictions (Note 10):		
Purpose restricted	2,135,500	1,525,643
Perpetual in nature	103,703	103,703
Total net assets with donor restrictions	2,239,203	1,629,346
Total net assets	14,471,528	11,334,203
Total liabilities and net assets	\$ 20,546,066	\$ 16,859,972

See notes to financial statements.

American Near East Refugee Aid

Statements of Activities Years Ended May 31, 2019 and 2018

	2019					2018				
	Without Donor Restrictions	With Donor Restrictions			Total	Without Donor Restrictions	With Donor Restrictions			Total
		Purpose Restricted	Perpetual in Nature	Subtotal			Purpose Restricted	Perpetual in Nature	Subtotal	
Support and revenue:										
Gifts-in-kind contributions (Note 7)	\$ 30,850,680	\$ -	\$ -	\$ -	\$ 30,850,680	\$ 43,348,377	\$ -	\$ -	\$ -	\$ 43,348,377
Governmental grant revenue	11,839,067	-	-	-	11,839,067	12,239,102	-	-	-	12,239,102
Non-governmental grant revenue	7,694,884	-	-	-	7,694,884	8,740,563	-	-	-	8,740,563
Contributions	3,449,271	2,160,551	-	2,160,551	5,609,822	3,618,647	1,784,358	30,500	1,814,858	5,433,505
Investment income	256,431	2,054	-	2,054	258,485	105,833	7,821	-	7,821	113,654
Other income	3,665	-	-	-	3,665	10,695	-	-	-	10,695
Net assets released from restrictions (Note 10)	1,552,748	(1,552,748)	-	(1,552,748)	-	2,154,301	(2,154,301)	-	(2,154,301)	-
Total support and revenue	55,646,746	609,857	-	609,857	56,256,603	70,217,518	(362,122)	30,500	(331,622)	69,885,896
Expenses:										
Program services:										
Medical in-kind and health services (Note 7)	29,991,418	-	-	-	29,991,418	44,312,138	-	-	-	44,312,138
Community and economic development	13,986,069	-	-	-	13,986,069	13,664,012	-	-	-	13,664,012
Education	4,879,808	-	-	-	4,879,808	6,805,300	-	-	-	6,805,300
Total program services	48,857,295	-	-	-	48,857,295	64,781,450	-	-	-	64,781,450
Supporting services:										
Management and general	2,652,052	-	-	-	2,652,052	2,481,915	-	-	-	2,481,915
Fundraising	1,609,931	-	-	-	1,609,931	1,411,663	-	-	-	1,411,663
Total supporting services	4,261,983	-	-	-	4,261,983	3,893,578	-	-	-	3,893,578
Total expenses	53,119,278	-	-	-	53,119,278	68,675,028	-	-	-	68,675,028
Change in net assets	2,527,468	609,857	-	609,857	3,137,325	1,542,490	(362,122)	30,500	(331,622)	1,210,868
Net assets:										
Beginning	9,704,857	1,525,643	103,703	1,629,346	11,334,203	8,162,367	1,887,765	73,203	1,960,968	10,123,335
Ending	\$ 12,232,325	\$ 2,135,500	\$ 103,703	\$ 2,239,203	\$ 14,471,528	\$ 9,704,857	\$ 1,525,643	\$ 103,703	\$ 1,629,346	\$ 11,334,203

See notes to financial statements.

American Near East Refugee Aid

Statement of Functional Expenses Year Ended May 31, 2019

	Program Services				Supporting Services				Total
	Medical in-kind and Health Services	Community and Economic Development	Education	Total Program Services	Management and General	Fundraising	Total Supporting Services		
Salaries	\$ 444,624	\$ 1,979,962	\$ 755,740	\$ 3,180,326	\$ 1,141,028	\$ 572,235	\$ 1,713,263	\$ 4,893,589	
Fringe benefits	229,349	1,151,522	289,906	1,670,777	526,586	226,594	753,180	2,423,957	
Total salaries and fringe benefits	673,973	3,131,484	1,045,646	4,851,103	1,667,614	798,829	2,466,443	7,317,546	
Grants-in-kind (Note 7)	28,162,998	61,520	368,604	28,593,122	3,166	-	3,166	28,596,288	
Grants	838,297	9,697,156	3,008,957	13,544,410	-	-	-	13,544,410	
Occupancy	51,137	309,128	105,235	465,500	264,825	30	264,855	730,355	
Professional services	7,386	161,188	32,266	200,840	324,936	373,372	698,308	899,148	
Travel	14,980	59,925	69,591	144,496	81,469	117,817	199,286	343,782	
Office supplies and equipment	7,738	53,191	14,694	75,623	29,891	14,766	44,657	120,280	
Vehicle expense	38,537	164,891	20,127	223,555	609	2	611	224,166	
Printing and lettershop	4,300	30,799	26,430	61,529	21,599	84,897	106,496	168,025	
Telephone and communications	14,804	56,370	24,526	95,700	28,974	18,812	47,786	143,486	
Postage and shipping	271	11,185	398	11,854	26,716	43,456	70,172	82,026	
Technical assistance	4,199	182,577	109,314	296,090	700	2,892	3,592	299,682	
Repairs and maintenance	1,506	6,149	6,803	14,458	7,825	-	7,825	22,283	
Conferences and memberships	3,335	8,812	5,428	17,575	32,499	29,287	61,786	79,361	
Banking fees	2,198	11,775	6,872	20,845	84,383	36,714	121,097	141,942	
In-kind shipping and storage	154,932	2,597	5,087	162,616	-	-	-	162,616	
Advertising and marketing	151	1,578	520	2,249	8,188	84,857	93,045	95,294	
Risk management	-	-	-	-	39,058	-	39,058	39,058	
Board and committee meetings	-	-	-	-	2,123	4,200	6,323	6,323	
Miscellaneous	1,451	1,664	4,977	8,092	6,600	-	6,600	14,692	
Total expenses before depreciation	29,982,193	13,951,989	4,855,475	48,789,657	2,631,175	1,609,931	4,241,106	53,030,763	
Depreciation	9,225	34,080	24,333	67,638	20,877	-	20,877	88,515	
Total expenses before allocations	29,991,418	13,986,069	4,879,808	48,857,295	2,652,052	1,609,931	4,261,983	53,119,278	
Allocation of indirect costs	320,929	1,317,872	449,703	2,088,504	(2,616,088)	527,584	(2,088,504)	-	
Total expenses after allocations	\$ 30,312,347	\$ 15,303,941	\$ 5,329,511	\$ 50,945,799	\$ 35,964	\$ 2,137,515	\$ 2,173,479	\$ 53,119,278	

See notes to financial statements.

American Near East Refugee Aid

Statement of Functional Expenses Year Ended May 31, 2018

	Program Services				Supporting Services				Total
	Medical in-kind and Health Services	Community and Economic Development	Education	Total Program Services	Management and General	Fundraising	Total Supporting Services		
Salaries	\$ 368,130	\$ 2,100,041	\$ 759,587	\$ 3,227,758	\$ 1,031,858	\$ 461,126	\$ 1,492,984	\$ 4,720,742	
Fringe benefits	195,284	1,047,550	371,041	1,613,875	460,111	180,432	640,543	2,254,418	
Total salaries and fringe benefits	563,414	3,147,591	1,130,628	4,841,633	1,491,969	641,558	2,133,527	6,975,160	
Grants-in-kind (Note 7)	42,973,252	95,127	252,349	43,320,728	26,336	500	26,836	43,347,564	
Grants	534,985	9,477,254	4,222,488	14,234,727	-	-	-	14,234,727	
Occupancy	39,308	267,164	139,374	445,846	247,328	400	247,728	693,574	
Professional services	5,802	42,877	31,077	79,756	400,774	447,823	848,597	928,353	
Travel	10,516	47,020	51,519	109,055	61,514	122,723	184,237	293,292	
Office supplies and equipment	5,857	38,477	24,960	69,294	27,001	4,534	31,535	100,829	
Vehicle expense	36,215	200,705	38,500	275,420	-	-	-	275,420	
Printing and lettershop	4,299	20,714	9,973	34,986	20,849	78,369	99,218	134,204	
Telephone and communications	14,121	70,683	28,562	113,366	27,980	394	28,374	141,740	
Postage and shipping	260	1,395	1,507	3,162	13,710	20,844	34,554	37,716	
Technical assistance	35,286	190,237	827,279	1,052,802	600	1,368	1,968	1,054,770	
Repairs and maintenance	714	2,378	4,515	7,607	7,419	-	7,419	15,026	
Conferences and memberships	3,667	16,559	2,155	22,381	29,404	29,977	59,381	81,762	
Banking fees	2,024	9,446	8,613	20,083	35,966	31,013	66,979	87,062	
In-kind shipping and storage	76,265	1,141	8,321	85,727	-	-	-	85,727	
Advertising and marketing	46	1,800	281	2,127	6,296	28,191	34,487	36,614	
Risk management	-	-	-	-	40,803	1,340	42,143	42,143	
Board and committee meetings	-	-	-	-	5,367	-	5,367	5,367	
Miscellaneous	-	-	-	-	17,544	2,629	20,173	20,173	
Total expenses before depreciation	44,306,031	13,630,568	6,782,101	64,718,700	2,460,860	1,411,663	3,872,523	68,591,223	
Depreciation	6,107	33,444	23,199	62,750	21,055	-	21,055	83,805	
Total expenses before allocation	44,312,138	13,664,012	6,805,300	64,781,450	2,481,915	1,411,663	3,893,578	68,675,028	
Allocation of indirect costs	246,792	1,251,895	479,009	1,977,696	(2,432,230)	454,534	(1,977,696)	-	
Total expenses after allocation	\$ 44,558,930	\$ 14,915,907	\$ 7,284,309	\$ 66,759,146	\$ 49,685	\$ 1,866,197	\$ 1,915,882	\$ 68,675,028	

See notes to financial statements.

American Near East Refugee Aid

Statements of Cash Flows
Years Ended May 31, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Receipts from grants	\$ 21,887,460	\$ 21,181,693
Receipts from donations	5,388,001	5,161,441
Interest and dividends received	258,485	99,817
Miscellaneous payments	(141,798)	(20,325)
Payments for personnel costs	(9,229,662)	(6,702,233)
Payments for other support costs	(3,181,952)	(3,124,254)
Payments for program costs	(13,746,810)	(15,272,078)
Net cash provided by operating activities	1,233,724	1,324,061
Cash flows from in investing activities:		
Purchases of property and equipment	(92,061)	(27,109)
Net cash purchases of investment transactions	(1,477)	(1,285)
Net cash used in investing activities	(93,538)	(28,394)
Net increase in cash and cash equivalents	1,140,186	1,295,667
Cash and cash equivalents:		
Beginning of fiscal year	14,888,357	13,592,690
End of fiscal year (Note 2)	\$ 16,028,543	\$ 14,888,357

See notes to financial statements.

American Near East Refugee Aid

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: American Near East Refugee Aid (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, contributions and gifts-in-kind. Consistent with this purpose is Anera's support of infrastructure, agriculture, 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, Lebanon and Jordan.

Basis of accounting: The accompanying financial statements include the accounts of Anera's Washington, D.C., Jerusalem, West Bank, Gaza Lebanon and Jordan 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 (the 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 net 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 net assets: As of May 31, 2019 and 2018, board-designated net assets were \$3,215,493 and \$3,108,451, respectively. As of May 31, 2019, \$2,500,000 was designated as a reserve for emergencies and contingencies, \$250,000 was designated as a Disaster Preparedness Fund and \$465,493 was designated as a Board Endowment Fund. As of May 31, 2018, \$3,108,451 was designated in total for emergencies and contingencies.

Net assets with donor restrictions: Net assets with donor restrictions include purpose restricted net assets and net 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, 2019 and 2018, were \$7,437,301 and \$6,848,732, 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, 2019. This credit facility is renewed annually and currently expires November 30, 2019.

American Near East Refugee Aid

Notes to Financial Statements

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, 2019 and 2018, restricted cash was \$11,104,809 and \$7,261,150, 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 per depository bank. Anera holds certain of its cash and cash equivalents in U.S. financial institutions which, at times, may exceed federally-insured limits. Anera had \$2,343,892 and \$1,582,958 in foreign accounts, which are not insured as of May 31, 2019 and 2018, 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, 2019 and 2018, was \$0.

Advances to sub-recipients: Advances to sub-recipients represent funds that were provided to sub-recipients 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, such as clothing and blankets, donated by other organizations that have not been distributed at May 31, 2019 and 2018. 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 5- to 10-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 revenue: Deferred revenue consists of cash received for grant advances and contributions to support events in future periods, which 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.

American Near East Refugee Aid

Notes to Financial Statements

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 these supplies 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 Food and Drug Administration (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. 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. Two donors, International Health Partners and Americares, also use the Monthly Index of Medical Specialties (MIMS), a British publication, as the basis for 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.

American Near East Refugee Aid

Notes to Financial Statements

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

Gifts-in-kind contributions and grants-in-kind expenses (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 net realizable value.

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, 2019 and 2018, Anera paid \$6,264 and \$2,650 in unrelated business income taxes, respectively. No additional provision for income taxes was required in the accompanying financial statements.

Anera follows the 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 2015.

Foreign assets: Assets (excluding foreign cash) held in foreign countries, consisting primarily of in-kind inventory, were \$3,565,946 and \$1,409,503 as of May 31, 2019 and 2018, respectively.

Upcoming accounting pronouncement: In February 2016, the FASB issued Accounting Standards Update (ASU) 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 its financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU also clarifies the guidance used by entities other than not-for-profits to identify and account for contributions made. Where Anera is the resource recipient, the ASU is applicable to contributions received for the fiscal year beginning January 1, 2019. Where Anera is a resource provider, the ASU is effective for the fiscal year beginning January 1, 2020. Early adoption is permitted. Anera is currently evaluating the impact of the pending adoption of the new standard on its financial statements.

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Notes to Financial Statements

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

Upcoming accounting pronouncement (Continued): In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. The ASU results in the removal, modification and addition of certain disclosure requirements related to transfers between levels within the fair value hierarchy, valuation processes and unrealized gains/losses presentation for Level 3 measurements, and liquidation timing for investments held at net asset value. The changes in this ASU should generally be applied on a retrospective basis in the year that the ASU is first applied except for the changes related to Level 3 measurements which should be applied prospectively. ASU 2018-13 is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Anera is currently evaluating the impact of the pending adoption of the new standard on its financial statements.

Subsequent events: Anera evaluated subsequent events for potential required disclosure through September 6, 2019, 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 net assets, 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:

	2019	2018
Financial assets, at year-end:		
Cash and cash equivalents	\$ 16,028,543	\$ 14,888,357
Accounts receivable	222,974	93,198
Grants and contributions receivable	733,354	338,234
Total financial assets, at year-end	<u>16,984,871</u>	<u>15,319,789</u>
Less those unavailable for general expenditures within one year, due to:		
Contractual or donor-imposed restrictions:		
Deferred grant advances	(4,479,372)	(1,951,058)
Donor-imposed purpose restriction	(2,135,500)	(1,525,643)
Donor-imposed restrictions perpetual in nature	(103,703)	(103,703)
Cash or cash equivalents held in trust	(57,624)	(42,118)
Designated for specific purposes:		
Amounts set aside for board designated reserve fund,		
net of board approved appropriation	(2,500,000)	(2,858,451)
Board endowment fund	(465,493)	-
Disaster preparedness fund	(250,000)	-
Amounts set aside for end-of-service indemnity retirement benefits	(958,408)	(2,765,632)
Liability for accrued vacation	(243,960)	(344,818)
Financial assets available to meet cash needs for		
general expenditures within one year	<u>\$ 5,790,811</u>	<u>\$ 5,728,366</u>

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Notes to Financial Statements

Note 2. Liquidity (Continued)

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, board endowment and disaster preparedness funds, which for the years ended May 31, 2019 and 2018, totaled \$388,033 and \$402,522, respectively. Certain of these reserves have been established by the governing board to draw 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:

	2019	2018
International organizations	\$ 120,510	\$ 93,234
Individuals and other	612,844	245,000
Total	<u>\$ 733,354</u>	<u>\$ 338,234</u>

At May 31, 2019 and 2018, there was no allowance for doubtful accounts.

Note 4. Property and Equipment

Property and equipment at May 31 consist of the following:

	2019	2018
Vehicles	\$ 261,279	\$ 645,703
Furniture and office equipment	216,171	294,488
Computer equipment and design	250,991	189,472
Website design	67,900	67,900
Subtotal	<u>796,341</u>	<u>1,197,563</u>
Less accumulated depreciation	<u>(641,908)</u>	<u>(1,046,676)</u>
Total	<u>\$ 154,433</u>	<u>\$ 150,887</u>

Depreciation expense was \$88,515 and \$83,805 for the years ended May 31, 2019 and 2018, respectively. There was property and equipment with a net book value of \$96,561 and \$116,337 held in foreign field offices at May 31, 2019 and 2018, respectively.

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Notes to Financial Statements

Note 5. Accrued Benefits

Accrued benefits at May 31 consist of the following:

	2019	2018
Accrued severance*	\$ 873,983	\$ 2,693,539
Accrued vacation	243,960	347,656
Other benefits	84,425	69,255
Total	<u>\$ 1,202,368</u>	<u>\$ 3,110,450</u>

* 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 \$873,893 and \$2,693,539 at May 31, 2019 and 2018, respectively. Of that, \$873,893 and \$2,693,539 was funded via money market funds included with cash and cash equivalents at May 31, 2019 and 2018, respectively.

During the years ended May 31, 2019 and 2018, termination benefits of \$2,303,823 and \$38,646, respectively, were paid.

Note 6. Deferred Revenue

Deferred revenue, including grant advances and contributions received to support events in future periods, at May 31 consist of the following:

	2019	2018
International organizations	\$ 2,381,399	\$ 1,039,769
U.S. government	1,370,925	495,388
Foundations and individuals	727,048	415,901
Total	<u>\$ 4,479,372</u>	<u>\$ 1,951,058</u>

Note 7. Gifts-in-Kind Contributions

For the years ended May 31, 2019 and 2018, Anera recognized gifts-in-kind contributions of \$30,850,680 and \$43,348,377, respectively, and grants-in-kind expenses of \$28,596,288 and \$43,347,564, 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, 2019 and 2018, was \$2,984,763 and \$730,372, respectively. All inventory is located in foreign field offices.

As of May 31, 2019 and 2018, Anera had \$735,332 and \$19,485, respectively, of gifts-in-kind inventory 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.

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Notes to Financial Statements

Note 8. Pension Plan

Effective January 1, 2017 Anera converted its 401(a) plan to a 401(k) Plan. Effective December 31, 2016, Anera terminated its 403(b) plan. Anera's 401(k) plan covers substantial all of its headquarter employees. Anera contributions are made to this 401(k) plan up to the legal limits defined by the IRS. Pension plan expense amounted to \$184,625 and \$187,816 for the years ended May 31, 2019 and 2018, respectively.

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. The value of assets held and the deferred compensation liability was \$37,363 and \$58,351 at May 31, 2019 and 2018, respectively.

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.

In 2019, a suit was filed against Anera in a foreign court. In the opinion of Anera management it will not have any significant effect on the Anera's financial position or results of operations.

Note 10. Net Assets With Donor Restrictions

Changes in net assets with donor restrictions in 2019 were as follows:

	Balance May 31, 2018	Apportionments	Additions	Released From Restrictions	Balance May 31, 2019
Purpose restricted:					
Specific community or location	\$ 125,649	\$ (189,939)	\$ 72,175	\$ 1,988	\$ 9,873
Community and economic development	456,284	213,337	889,190	(321,496)	1,237,315
Education	604,329	-	733,613	(488,044)	849,898
Medical in-kind and health services	339,381	(23,398)	467,627	(745,196)	38,414
	<u>1,525,643</u>	<u>-</u>	<u>2,162,605</u>	<u>(1,552,748)</u>	<u>2,135,500</u>
Perpetual in nature:					
Specific community or location	103,703	-	-	-	103,703
	<u>103,703</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>103,703</u>
Total	<u>\$ 1,629,346</u>	<u>\$ -</u>	<u>\$ 2,162,605</u>	<u>\$ (1,552,748)</u>	<u>\$ 2,239,203</u>

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Notes to Financial Statements

Note 10. Net Assets With Donor Restrictions (Continued)

Changes in net assets with donor restrictions in 2018 were as follows:

	Balance May 31, 2017	Apportionments	Additions	Released From Restrictions	Balance May 31, 2018
Purpose restricted:					
Specific community or location	\$ 768,732	\$ (974,523)	\$ 331,440	\$ -	\$ 125,649
Community and economic development	635,573	348,134	175,617	(703,040)	456,284
Education	304,173	-	600,676	(300,520)	604,329
Medical in-kind and health services	179,287	626,389	684,446	(1,150,741)	339,381
	<u>1,887,765</u>	<u>-</u>	<u>1,792,179</u>	<u>(2,154,301)</u>	<u>1,525,643</u>
Perpetual in nature:					
Specific community or location	73,203	-	30,500	-	103,703
	<u>73,203</u>	<u>-</u>	<u>30,500</u>	<u>-</u>	<u>103,703</u>
Total	<u>\$ 1,960,968</u>	<u>\$ -</u>	<u>\$ 1,822,679</u>	<u>\$ (2,154,301)</u>	<u>\$ 1,629,346</u>

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

Note 11. Commitments

Anera entered into a lease for the headquarters office with an effective date of April 1, 2010. Effective June 1, 2019, Anera renewed the aforementioned lease through January 2031. 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, 2019, the minimum future lease payments under the long-term agreements are as follows:

Year ending May 31:	
2020	\$ 36,173
2021	222,466
2022	228,055
2023	233,752
2024	239,558
Thereafter	<u>1,568,657</u>
Total	<u>\$ 2,528,661</u>

Total rent expense for all Anera offices was \$730,355 and \$673,618 for the years ended May 31, 2019 and 2018, respectively.

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Notes to Financial Statements

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 accounting standards generally accepted in the United States of America 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, 2019.

The table below presents the balances of assets and liabilities at May 31, 2019, measured at fair value on a recurring basis by level within the hierarchy:

	Total	Level 1	Level 2
Financial assets:			
Included with cash and cash equivalents:			
Money market funds	\$ 7,347,301	\$ 7,347,301	\$ -
Included with prepaid expenses and other assets:			
Deferred compensation:			
Mutual fund:			
Diversified emerging mkts	\$ 3,742	\$ 3,742	\$ -
Large value	3,868	3,868	-
Real estate	4,065	4,065	-
Foreign large blend	3,600	3,600	-
Large blend	3,865	3,865	-
Mid-cap blend	3,633	3,633	-
Foreign large growth	3,493	3,493	-
Small growth	3,680	3,680	-
Large growth	4,014	4,014	-
Foreign large value	3,403	3,403	-
	<u>\$ 37,363</u>	<u>\$ 37,363</u>	<u>\$ -</u>
Financial liabilities:			
Included with accrued benefits:			
Deferred compensation	\$ 37,363	\$ -	\$ 37,363

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Notes to Financial Statements

Note 12. Fair Value Measurements (Continued)

The table below presents the balances of assets and liabilities at May 31, 2018, measured at fair value on a recurring basis by level within the hierarchy:

	Total	Level 1	Level 2
Financial assets:			
Included with cash and cash equivalents:			
Money market funds	\$ 6,848,732	\$ 6,848,732	\$ -
Included with prepaid expenses and other assets:			
Deferred compensation:			
Mutual fund:			
World large stock	\$ 4,098	\$ 4,098	\$ -
Diversified emerging mkts	5,822	5,822	-
Large value	9,664	9,664	-
Real estate	1,801	1,801	-
Foreign large blend	1,782	1,782	-
Mid-cap growth	4,200	4,200	-
Large blend	1,835	1,835	-
High yield bond	10,950	10,950	-
Mid-cap blend	1,862	1,862	-
Foreign large growth	1,806	1,806	-
Small growth	1,919	1,919	-
Large growth	10,871	10,871	-
Foreign large value	1,741	1,741	-
	<u>\$ 58,351</u>	<u>\$ 58,351</u>	<u>\$ -</u>
Financial liabilities:			
Included with accrued benefits:			
Deferred compensation	\$ 58,351	\$ -	\$ 58,351

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.