

ISLAMIC RELIEF-USA
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2007

**ISLAMIC RELIEF-USA
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FOR THE YEAR ENDED DECEMBER 31, 2007**

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Islamic Relief-USA

We have audited the accompanying statement of financial position of Islamic Relief – USA (the “IRUSA”), a nonprofit organization, as of December 31, 2007, and the related statements of activities, cash flows, and functional expenses for the year then ended. These financial statements are the responsibility of IRUSA’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of IRUSA as of December 31, 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with auditing standards generally accepted in the United States of America.

Quezada & Company

Pasadena, California
July 10, 2008

ISLAMIC RELIEF - USA
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2007

Assets	
Cash and cash equivalents	\$ 10,557,027
Investments	139,832
Accounts receivable	676,842
Other assets	96,225
Property and equipment, net of accumulated depreciation of \$341,258	237,267
Total Assets	\$ 11,707,193
 Liabilities and Net Assets	
Liabilities	
Accounts payable	\$ 813,284
Accrued expenses	440,647
Total Liabilities	1,253,931
 Net Assets	
Unrestricted	4,836,307
Temporarily Restricted	5,616,955
Total Net Assets	10,453,262
Total Liabilities and Net Assets	\$ 11,707,193

The accompanying notes are an integral part of these financial statements

ISLAMIC RELIEF - USA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support			
Contributions	\$ 8,339,783	\$ 11,016,997	\$ 19,356,780
Special event	372,186	-	372,186
In-kind contributions	40,882,847	-	40,882,847
Total Support	<u>49,594,816</u>	<u>11,016,997</u>	<u>60,611,813</u>
 Revenue			
Interest and dividends	2,746	-	2,746
Unrealized gain on investments	423	-	423
Other income	743	-	743
Total Revenue	<u>3,912</u>	<u>-</u>	<u>3,912</u>
 Total support and revenue	49,598,728	11,016,997	60,615,725
Net assets released from restrictions	<u>10,691,840</u>	<u>(10,691,840)</u>	<u>-</u>
 Total Support and Revenue After Net Assets Released From Restrictions	60,290,568	325,157	60,615,725
 Expenses			
Programs	57,624,179	-	57,624,179
Management and general	1,029,982	-	1,029,982
Fundraising	941,721	-	941,721
Total expenses	<u>59,595,881</u>	<u>-</u>	<u>59,595,881</u>
 Change in net assets	694,687	325,157	1,019,844
Net assets, beginning of year	<u>4,141,620</u>	<u>5,291,798</u>	<u>9,433,418</u>
Net assets, end of year	<u>\$ 4,836,307</u>	<u>\$ 5,616,955</u>	<u>\$ 10,453,262</u>

The accompanying notes are an integral part of these financial statements

ISLAMIC RELIEF - USA
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2007

Cash flows from operating activities

Change in net assets	\$ 1,019,844
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	80,593
(Decrease) in assets:	
Accounts receivable	(382,796)
Other receivables	18,000
Other assets	(76,207)
Refundable deposit	395,000
Increase in liabilities:	
Accounts payable	(1,418,535)
Accrued expenses	211,957
Refundable Advance	(500,000)
Net cash provided by operating activities	<u>(652,144)</u>

Cash flows from investing activities

Acquisition of fixed assets	(77,546)
Increase in investments	(16,844)
Net cash used in investing activities	<u>(94,390)</u>

Net increase in cash and cash equivalents (746,534)

Cash and cash equivalents, beginning of year 11,303,561

Cash and cash equivalents, end of year \$ 10,557,027

The accompanying notes are an integral part of these financial statements

ISLAMIC RELIEF - USA
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2007

	Program	Management & General	Fundraising	Total
In-Kind donations sent to relief sites	\$ 41,559,930	\$ -	\$ -	\$ 41,559,930
Contracted services	9,546,514	-	-	9,546,514
Grants	1,282,029	-	-	1,282,029
Employee leasing and related expenses	2,450,995	649,205	441,703	3,541,903
Professional fees	311,059	51,429	46,906	409,394
Travel	438,213	48,024	98,664	584,901
Printing	228,073	25,577	32,208	285,858
Special events	656,473	11,032	142,221	809,726
Postage	168,749	26,870	25,570	221,189
Bank charges and credit card fees	261,645	3,101	3,101	267,847
Accounting & legal fees	129,916	84,284	32,965	247,165
Rent	191,798	21,175	24,668	237,641
Insurance	13,122	3,476	2,365	18,962
Tax & licenses	10,285	2,724	1,853	14,862
Computer hardware and equipment	22,707	6,014	4,092	32,813
Conference & meeting	10,294	729	131	11,154
Telephone	54,269	39,063	22,647	115,979
Office expenses	3,277	10,097	14,308	27,682
Depreciation	40,297	20,148	20,148	80,593
Advertising & marketing	218,904	3,658	25,505	248,067
Miscellaneous	25,630	23,376	2,666	51,672
	<u>\$ 57,624,179</u>	<u>\$ 1,029,982</u>	<u>\$ 941,721</u>	<u>\$ 59,595,881</u>

The accompanying notes are an integral part of these financial statements

ISLAMIC RELIEF-USA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 1 - ORGANIZATION AND OPERATIONS

Islamic Relief, also known as Islamic Relief - USA (IRUSA), a 501(c) (3) was organized under the Nonprofit Public Benefit Corporation Law and Section 23701(f) of the California Revenue and Taxation Code. IRUSA provides relief and development work in underdeveloped and war torn countries. IRUSA provides food, clothing, and medicine to the needy on a worldwide basis through governmental organizations and relief agencies. IRUSA assists in the establishment and operation of training centers, schools, hospitals, clinics, and other projects that serve the refugees throughout the world. The majority programs are administered through contracted services with Islamic Relief Worldwide based in United Kingdom.

The IRUSA programs are as follows:

Emergency and Relief: The primary functions of these projects are 1) to survey and assess the needs of areas suffering from natural or a man-made disaster such as earthquakes, floods and wars, and provides immediate relief in the form of shelters, food packets and urgent medical care and 2) to distribute needed help to the homeless and the needy in the United States and abroad. IRUSA's projects include the rebuilding of homes, schools and hospitals after the immediate relief is provided.

Development Projects: The objective of the development projects is to give people the confidence to participate in their own development and to secure their own future without the need for continuing external assistance. The projects include water, sanitation, health and nutrition programs, and income generation projects.

Education Projects: These education projects provide adult literacy and language classes, school sponsorships, high school learning materials and equipment.

Orphan Assistance Project: The orphan assistance project provides healthcare, education, nutrition, income and shelter assistance to needy orphans worldwide.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations.

Basis of Presentation

The accompanying financial statements of IRUSA have been presented in accordance with the Auditing and Accounting Guide for Not-for-Profit Organizations issued by the American Institute of Certified Public Accountants.

ISLAMIC RELIEF-USA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

Income Taxes

IRUSA is exempt from federal income taxes under Section 501(c)(3) of Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

Net Asset Classification

The net assets are reported in two self-balancing groups as follows:

Unrestricted net assets include unrestricted revenue and contributions received without the donor-imposed restrictions. These net assets are available for the operation of IRUSA.

Temporarily restricted net assets include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of IRUSA and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Contributions

Contributions are recorded as revenue in the year donation is received from the donor. Donor restricted contributions are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions. Contributions received in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying financial statements.

In-kind Contributions and Donated Services

IRUSA records the value of donated goods and services when there is an objective basis available to measure their value. Donated goods and services are reflected in the accompanying statements at their Average Wholesale Price or cost of production as of the date of the receipt of the donations or the date the services were provided.

Cash and Cash Equivalents

IRUSA considers all cash on hand, cash in banks, money market accounts, and highly liquid investments with maturities of three months or less at the time of purchase to be cash and cash equivalents. Market value approximates carrying amounts.

Investments

Investments are stated at fair value. Investments acquired by gift or bequest are recorded at fair value at the date of donation.

Property and Equipment

Property and equipment are recorded at cost or at estimated fair value at the date of gift. Donations of property and equipment are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. IRUSA capitalizes all purchases of property and equipment in excess of \$1,000.

ISLAMIC RELIEF-USA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

Depreciation

Depreciation on the buildings, vehicles, furniture, fixtures and equipment is calculated using the straight-line method over the estimated useful lives of the assets ranging from 5 to 7 years. The basis of these items is IRUSA historical cost or, if donated, the fair market value at the date of donation.

Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the Statement of Activities and Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect 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 revenues and expenses, including allocations to various programs costs during the reported period. Actual results could differ from these estimates.

NOTE 3 – INVESTMENTS

Investments at December 31, 2007 consist of the following:

	Market	Cost
Marketable securities	\$ 139,832	\$ 132,399

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31, 2007:

Furniture and equipment	\$ 462,490
Leasehold improvements	116,035
Total cost	578,525
Accumulated depreciation	(341,258)
Property and equipment (net)	\$ 237,267

ISLAMIC RELIEF-USA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 5 – SUPPORT AND REVENUE

The breakdown of the category of the contribution and in-kind donations for the year ended December 31, 2007 are as follows:

Qurbani & Aqiqa Programs	\$ 1,108,151
Feed the Needy Programs	920,674
Emergency Relief Programs & Services	43,030,036
Orphan Programs	4,689,042
Zakat, & Sadaqa, & Zakat-ul-Fitr	4,999,196
International Development Programs	1,264,067
Tsunami	32,478
Pakistan Earthquake	116,481
General Operations	4,357,239
Domestic Programs	<u>98,361</u>
Total	<u><u>\$ 60,615,725</u></u>

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2007, temporarily restricted net assets consist of funds designated for the following:

Qurbani & Aqiqa Programs	\$ 215,821
Feed the Needy Programs	53,887
Emergency Relief Programs & Services	2,922,743
Orphan Programs	822,536
Zakat, & Sadaqa, & Zakat-ul-Fitr	240,732
Continued Charitable Projects	126,516
Tsunami	40,255
Education	4,889
General Operations	<u>1,189,576</u>
Total	<u><u>\$ 5,616,955</u></u>

NOTE 7 – DONATED SERVICES

Various services are performed for IRUSA by volunteers. Those donated services are not reflected in the accompanying financial statements as no objective basis is available to measure the value of such services.

NOTE 8 – RELATED PARTY TRANSACTIONS

IRUSA administers various programs worldwide through contracted services with Islamic Relief Worldwide based in United Kingdom, a related party. During 2007, IRUSA incurred \$9,546,514 expenses on contracted services for these projects through UK.

ISLAMIC RELIEF-USA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 9 - COMMITMENTS

Obligations Under Operating Lease

IRUSA moved into a new office and has entered into a new lease agreement for a period of 5 years and 2 months which commenced on June 15, 2006. The future minimum payments under this lease are as follows:

<u>Year Ending December 31,</u>	
2008	\$ 249,974
2009	189,569
2010	142,936
2011	<u>96,528</u>
	<u><u>\$ 679,007</u></u>

Rent expenses for the year ended December 31, 2006 was \$237,641.

NOTE 10 - CONCENTRATION OF CREDIT RISK

IRUSA maintains its cash balances at a financial institution located in Southern California. These accounts are insured by the Federal Deposit Insurance Corporation for up to \$100,000. These cash balances at times, may exceed the federally insured limits. IRUSA has not experienced any losses in such accounts and believes it is not exposed to any significant risk on cash and cash equivalents.