

ISLAMIC RELIEF USA
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2008

**ISLAMIC RELIEF USA
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FOR THE YEAR ENDED DECEMBER 31, 2008**

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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 ("IRUSA"), a nonprofit organization, as of December 31, 2008, 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, 2008, 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
November 25, 2009

FINANCIAL INFORMATION

ISLAMIC RELIEF - USA
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2008

Assets	
Cash and cash equivalents	\$ 12,530,185
Investments	102,065
Accounts receivable	880,867
Other assets	133,470
Land, building and equipment, net of accumulated depreciation of \$385,358	<u>4,147,759</u>
Total Assets	<u><u>\$ 17,794,346</u></u>
Liabilities and Net Assets	
Liabilities	
Accounts payable	\$ 4,174,653
Accrued expenses	<u>679,829</u>
Total Liabilities	4,854,482
Net Assets	
Unrestricted	6,453,587
Temporarily Restricted	<u>6,486,277</u>
Total Net Assets	<u>12,939,864</u>
Total Liabilities and Net Assets	<u><u>\$ 17,794,346</u></u>

The accompanying notes are an integral part of these financial statements

ISLAMIC RELIEF - USA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support			
Contributions	\$ 8,277,905	\$ 15,712,818	\$ 23,990,723
Fundraising income	138,157	-	138,157
In-kind contributions	51,904,675	-	51,904,675
Total Support	<u>60,320,737</u>	<u>15,712,818</u>	<u>76,033,555</u>
Revenue			
Interest and dividends	1,292	-	1,292
Unrealized gain/ (loss) on investments	(52,133)	-	(52,133)
Other income	1,974	-	1,974
Total Revenue	<u>(48,867)</u>	<u>-</u>	<u>(48,867)</u>
Total support and revenue	60,271,870	15,712,818	75,984,688
Net assets released from restrictions	<u>14,843,496</u>	<u>(14,843,496)</u>	<u>-</u>
Total Support and Revenue After Net Assets Released From Restrictions	75,115,366	869,322	75,984,688
Expenses			
Programs	67,577,052	-	67,577,052
Management and general	2,517,195	-	2,517,195
Fundraising	3,403,839	-	3,403,839
Total expenses	<u>73,498,086</u>	<u>-</u>	<u>73,498,086</u>
Change in net assets	1,617,280	869,322	2,486,602
Net assets, beginning of year	<u>4,836,307</u>	<u>5,616,955</u>	<u>10,453,262</u>
Net assets, end of year	<u>\$ 6,453,587</u>	<u>\$ 6,486,277</u>	<u>\$ 12,939,864</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, 2008

Cash flows from operating activities

Change in net assets	\$ 2,486,602
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	106,753
Net unrealized and realized (gain)/loss on investments	52,133
(Increase) in assets:	
Accounts receivable	(204,025)
Other assets	(37,245)
Increase in liabilities:	
Accounts payable	3,361,369
Accrued expenses	239,182
Net cash provided by operating activities	<u>6,004,769</u>

Cash flows from investing activities

Acquisition of fixed assets	(4,017,245)
Purchase of investments	(14,366)
Net cash used in investing activities	<u>(4,031,611)</u>

Net increase in cash and cash equivalents 1,973,158

Cash and cash equivalents, beginning of year 10,557,027

Cash and cash equivalents, end of year \$ 12,530,185

The accompanying notes are an integral part of these financial statements

ISLAMIC RELIEF - USA
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>Program</u>	<u>Management & General</u>	<u>Fundraising</u>	<u>Total</u>
In-Kind donations sent to relief sites	\$52,748,925	\$ -	\$ -	\$52,748,925
International grants	11,582,843	-	-	11,582,843
Dosmetic grants	544,508	-	-	544,508
Employee leasing and related expenses	1,229,052	1,172,990	1,415,661	3,817,703
Professional fees	227,458	42,436	19,124	289,018
Travel	88,756	102,064	413,609	604,429
Printing	107,211	12,566	179,674	299,451
Special events	364,431	2,799	648,784	1,016,014
Postage	166,723	24,812	56,937	248,472
Bank charges and credit card fees	293,467	-	-	293,467
Accounting & legal fees	-	599,190	-	599,190
Equipment and location rent	18,228	266,797	334,682	619,707
Insurance	959	12,744	8,383	22,086
Tax & licenses	1,000	16,832	15	17,847
Computer hardware and equipment	1,087	23,057	2,058	26,202
Professional education and training	4,632	28,561	109	33,302
Conference & meeting	100	1,600	3,544	5,244
Telecommunications	4,538	36,063	97,216	137,817
Office expenses	5,158	103,464	8,025	116,647
Depreciation	53,377	26,688	26,688	106,753
Advertising & marketing	114,325	4,467	170,345	289,137
Miscellaneous	20,274	40,065	18,985	79,324
	<u>\$ 67,577,052</u>	<u>\$ 2,517,195</u>	<u>\$ 3,403,839</u>	<u>\$ 73,498,086</u>

The accompanying notes are an integral part of these financial statements

**ISLAMIC RELIEF USA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

NOTE 1 - ORGANIZATION AND OPERATIONS

Islamic Relief USA, also known as Islamic Relief (“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 of these programs are administered through approved and monitored grants 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 urgent medical care and medicine, shelters, food, clothing and other needed assistance 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.

Millennium Development Goals: IRUSA supports the United Nations’ “Millennium Development Goals” and works on humanitarian projects that promote these goals, as follows: (1) eradicate extreme poverty and hunger; (2) achieve universal primary education; (3) promote gender equality and empower women; (4) reduce child mortality; (5) improve maternal health; (6) combat HIV/AIDS, malaria and other diseases; (7) ensure environmental sustainability; and (8) promote global partnership for development.

Ramadan Food Distribution: The Ramadan Food Distribution Program, which occurs throughout the month of Ramadan, focuses on the distribution of food packages to needy families containing food staples such as rice, beans, sugar and cooking oil, in quantities meant to last for approximately one month.

Udhiyah/Qurbani: The Udhiya/Qurbani Program is another seasonal food distribution program that focuses on providing meat to families who may otherwise not have reliable access to meat throughout the year. The typical package distributed to each family consists of 5kg of fresh meat, usually beef or lamb.

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.

Domestic Projects: Every Ramadan, Islamic Relief provides food, clothing, medical care, and social services to people living in the most poverty-stricken areas in the United States. Currently known as the ‘Day of Dignity’ and formerly known as ‘Humanitarian Day,’ this project is now in its eighth year and has benefitted thousands of Americans. Some of Islamic Relief’s other domestic projects include the

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

continuing support of the UMMA Community Clinic, toy drives for disadvantaged children, and community support programs. Working with mosques and community organizations, IRUSA also provides emergency financial assistance to families in need through its Zakah Program.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of IRUSA and its wholly-owned nonprofit subsidiary, 88 Wheeler Foundation, LLC ("LLC"). The LLC is a non-profit organization incorporated under the laws of Virginia. All significant intercompany transactions and balances have been eliminated in the consolidation.

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.

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.

**ISLAMIC RELIEF USA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

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. For pharmaceutical contributions, IRUSA used the current edition of the Red Book, which is the authoritative guide used by US Based Not-for-Profit Organization to value pharmaceutical contributions. Had IRUSA used other valuation guides or methods, the result may have differed.

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.

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.

ISLAMIC RELIEF USA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

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 - FAIR VALUE MEASUREMENTS

Financial Accounting Standards Board Statement No. 157, *Fair Value Measurements* (FASB Statement No. 157), establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB Statement No. 157 are described below:

Level 1

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

Level 2

Inputs to the valuation methodology include:

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

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

Level 3

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

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

**ISLAMIC RELIEF USA
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Following is a description of the valuation methodologies used for assets measured at fair value.

Marketable Securities: Valued at the closing price reported on the active market on which the individual securities are traded.

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

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31, 2008:

Investment at Fair Value as of December 31, 2008

	Level 1	Level 2	Level 3	Total
Marketable Securities	\$ 102,065	\$ -	\$ -	\$ 102,065
Total Investment at fair value	<u>\$ 102,065</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 102,065</u>

NOTE 4 – INVESTMENTS

Investments at December 31, 2008 consist of the following:

	Market	Cost
Marketable securities	<u>\$ 102,065</u>	<u>\$ 97,655</u>

NOTE 5 – LAND, BUILDING AND EQUIPMENT

Property and equipment consist of the following at December 31, 2008:

Land	\$ 1,303,279
Building	2,606,558
Furniture and equipment	506,920
Leasehold improvements	55,888
Work In Progress	60,472
Total cost	<u>4,533,117</u>
Accumulated depreciation	<u>(385,358)</u>
Property and equipment (net)	<u>\$ 4,147,759</u>

On August 18, 2008, IRUSA acquired 100% interest of 88 Wheeler Foundation, LLC ("LLC"), which holds a commercial building and land in Alexandria, VA. The acquisition cost of the LLC or the land and building was \$3,909,837. IRUSA is using most of the property for its headquarters and operations,

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though it may rent on a short term basis to a compatible tenant, space that is not currently needed for its use.

Depreciation Expense for the fiscal year ended December 31, 2008 was \$106,753

NOTE 6 – SUPPORT AND REVENUE

The breakdown of the category of the contribution and in-kind donations for the year ended December 31, 2008 are as follows:

Qurbani & Aqiqa Programs	\$ 1,433,921
Feed the Needy Programs	985,374
Emergency Relief Programs & Services	32,672,820
Orphan Programs	4,816,727
Zakat, & Sadaqa, & Zakat-ul-Fitr	5,210,866
International Development Programs	538,079
Palestine Program	5,660,899
Pakistan Earthquake	58,931
General Operations	24,533,020
Domestic Programs	122,917
Total	<u>\$ 76,033,555</u>

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2008, temporarily restricted net assets consist of funds designated for the following:

Africa General Donation	\$ 214,771
South Asia Flood	190,866
Bangladesh Emergency	1,096,570
Chechnya Orphan General Donation	230,935
Sadaqa Jarayah	180,702
Zakat Al Fitr	298,692
Chechnya Orphan General	169,603
Pakistan EQ Shelter	1,290,602
Palestine Family Hardship	741,432
Palestine Orphan General Donation	260,414
Other	1,811,690
Total	<u>\$ 6,486,277</u>

**ISLAMIC RELIEF USA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

NOTE 8 – 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 9 – RELATED PARTY TRANSACTIONS

IRUSA administers various programs worldwide through **grants** with Islamic Relief Worldwide (IRW) based in United Kingdom, a related party. During 2008, IRUSA incurred \$11,582,843 expenses on **grants** for these projects through IRW.

NOTE 10 - 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>	
2009	\$ 189,569
2010	142,936
2011	96,528
	<u>\$ 429,033</u>

Rent expenses for the year ended December 31, 2008 was \$237,641.

NOTE 11 - CONCENTRATION OF CREDIT RISK

The IRUSA maintains its cash balances at one financial institution located in Southern California insured by the Federal Deposit Insurance Corporation (FDIC) for up to \$100,000. FDIC deposit insurance is \$250,000 per depositor through December 31, 2013. The financial institution participates in the FDIC's Transaction Account Guarantee Program under which all non-interest bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account until December 31, 2009.