

Islamic Relief USA And Affiliate

Consolidated Financial Report
December 31, 2011

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Independent Auditor's Report

To the Board of Directors
Islamic Relief USA
Alexandria, Virginia

We have audited the accompanying consolidated balance sheet of Islamic Relief USA and Affiliate (IRUSA) as of December 31, 2011, and the related consolidated statements of activities, functional expenses and cash flows 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Islamic Relief USA and Affiliate as of December 31, 2011, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 6 to the financial statements, IRUSA changed the valuation methodology of their pharmaceutical gifts-in-kind (GIK) during the year ended December 31, 2011.

McGladrey LLP

Vienna, Virginia
August 30, 2012

Islamic Relief USA And Affiliate

Consolidated Balance Sheet

December 31, 2011

Assets

Cash	\$ 39,420,071
Accounts Receivable	523,978
Investments	259,998
Prepaid Expenses	38,723
Travel Advances And Other Assets	4,584
Property And Equipment, net	<u>4,094,013</u>
	<u>\$ 44,341,367</u>

Liabilities And Net Assets

Liabilities	
Accounts payable	\$ 950,232
Accrued liabilities	<u>12,983,163</u>
Total liabilities	<u>13,933,395</u>
Net Assets	
Unrestricted	8,867,815
Temporarily restricted	<u>21,540,157</u>
	<u>30,407,972</u>
	<u>\$ 44,341,367</u>

See Notes To Consolidated Financial Statements.

Islamic Relief USA And Affiliate

**Consolidated Statement Of Activities
Year Ended December 31, 2011**

	Unrestricted	Temporarily Restricted	Total
Support and revenue:			
Contributions	\$ 18,306,357	\$ 30,996,560	\$ 49,302,917
In-kind contributions	14,426,712	-	14,426,712
Net assets released from restriction	21,970,117	(21,970,117)	-
Total support and revenue	54,703,186	9,026,443	63,729,629
Expenses:			
Program services	36,468,003	-	36,468,003
Management and general	5,113,900	-	5,113,900
Fundraising	7,711,512	-	7,711,512
Total expenses	49,293,415	-	49,293,415
Other income:			
Foreign currency exchange gain	-	174,378	174,378
Unrealized loss on investments	(17,618)	-	(17,618)
Total other income	(17,618)	174,378	156,760
Change in net assets	5,392,153	9,200,821	14,592,974
Net assets:			
Beginning	3,475,662	12,339,336	15,814,998
Ending	\$ 8,867,815	\$ 21,540,157	\$ 30,407,972

See Notes To Consolidated Financial Statements.

Islamic Relief USA And Affiliate

**Consolidated Statement Of Functional Expenses
Year Ended December 31, 2011**

	Program Services	Management And General	Fundraising	Total
In-kind donations sent to relief sites	\$ 14,426,712	\$ -	\$ -	\$ 14,426,712
International grants	18,506,880	-	-	18,506,880
Employee leasing and related expense	625,341	2,377,977	3,823,545	6,826,863
Handling and related costs	1,694,386	-	-	1,694,386
Travel	111,191	188,232	768,121	1,067,544
Domestic grants	1,007,977	-	-	1,007,977
Venue and catering	2,100	630	829,468	832,198
Bank charges and credit card fees	-	743,675	-	743,675
Advertising and marketing	12,557	27,405	684,301	724,263
Event and sponsorship	-	-	545,975	545,975
Printing	263	20,740	451,928	472,931
Professional fees	37,700	288,084	134,523	460,307
Accounting and legal fees	-	342,471	-	342,471
Telecommunications	4,064	303,299	544	307,907
Postage	9,672	45,904	183,844	239,420
Office expenses	7,386	199,565	22,905	229,856
Depreciation	-	218,438	-	218,438
Honorarium	300	35,038	132,569	167,907
Equipment and location rent	564	15,916	87,756	104,236
Computer hardware and equipment	191	95,771	7,952	103,914
Professional education and training	15,432	57,258	3,909	76,599
Insurance	-	75,739	-	75,739
Tax and licenses	625	68,618	3,870	73,113
Conference and meeting	3,648	8,921	19,191	31,760
Other	1,014	219	11,111	12,344
	<u>\$ 36,468,003</u>	<u>\$ 5,113,900</u>	<u>\$ 7,711,512</u>	<u>\$ 49,293,415</u>

See Notes To Consolidated Financial Statements.

Islamic Relief USA And Affiliate

Consolidated Statement Of Cash Flows
Year Ended December 31, 2011

Cash Flows From Operating Activities	
Change in net assets	\$ 14,592,974
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Unrealized loss on investments	17,618
Depreciation	218,438
Changes in assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	(322,612)
Prepaid expenses	17,398
Travel advances and other assets	10,768
Increase (decrease) in:	
Accounts payable	351,881
Accrued liabilities	(3,655,842)
Net cash provided by operating activities	<u>11,230,623</u>
Cash Flows From Investing Activities	
Purchase of furniture and equipment	<u>(165,899)</u>
Net cash used in investing activities	<u>(165,899)</u>
Net increase in cash	11,064,724
Cash	
Beginning	<u>28,355,347</u>
Ending	<u>\$ 39,420,071</u>

See Notes To Consolidated Financial Statements.

Islamic Relief USA And Affiliate

Notes To Consolidated Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies

Nature of activities: Islamic Relief USA and Affiliate is comprised of two entities: Islamic Relief USA (IRUSA) and 88 Wheeler Foundation, LLC (Wheeler Foundation). 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 assistance 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 refugees throughout the world. The majority of IRUSA's programs are administered through grants with Islamic Relief Worldwide (IRW), which is based in the United Kingdom.

Wheeler Foundation is a non-profit organization incorporated under the laws of Virginia.

Islamic Relief USA's mission is to strive to alleviate suffering, hunger, illiteracy and diseases worldwide without regard to color, race, religion or creed and to provide aid in a compassionate and dignified manner; to provide rapid relief in the event of manmade or natural disasters; and to establish development projects in needy areas to help tackle poverty, illiteracy and diseases at a local level.

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 man-made disasters such as earthquakes, floods and wars, and to provide 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.

Ramadan Food Distribution – The Ramadan Food Distribution, 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 Udhiyah/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 and Training 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.

Income Generation Projects – These projects are designed to increase sources of fixed income for poor families, restore and promote the local economy, support families, and increase opportunities for success and continuous production.

Islamic Relief USA And Affiliate

Notes To Consolidated Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

Health and Nutrition Projects – These projects are designed to provide essential healthcare and medicine to poor communities using integrated health programs aimed at caring for children traumatized and injured by armed conflict and crisis, and offer medical aid and care for mothers and children in areas that lack adequate health services.

Domestic Projects – Every Ramadan, IRUSA 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 benefited thousands of Americans. Some of IRUSA’s other domestic projects include the 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.

In addition, IRUSA supports the United Nations “Millennium Development Goals” and works on humanitarian projects that promote the following goals: (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.

A summary of IRUSA’s significant accounting policies follows:

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

Basis of accounting: IRUSA prepares its financial statements on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Consequently, revenue is recognized when earned and expense is recognized when the obligation is incurred.

Basis of presentation: IRUSA follows Accounting Standards Codification (ASC) 958-10, *Not-for-Profit Entities*. Under ASC 958-205, *Not-for-Profit Entities, Presentation of Financial Statements*, IRUSA is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. At December 31, 2011, IRUSA had no permanently restricted net assets.

Financial risk: IRUSA maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. IRUSA has not experienced any losses in such accounts. IRUSA believes it is not exposed to any significant financial risk on cash.

Investments: Investments are stated at fair value. Investments acquired by gift or bequest are recorded at fair value at the date of donation. IRUSA maintains only marketable securities.

Receivables: Receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a quarterly basis. The majority of IRUSA’s receivables are comprised mainly of amounts billed on grants, which are billable when expenditures are incurred. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using 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. A receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 30 days. There was no provision for doubtful accounts at December 31, 2011.

Islamic Relief USA And Affiliate

Notes To Consolidated Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

Property and equipment: Property and equipment purchases over \$5,000 are capitalized and stated at cost. Depreciation is provided using the straight-line method over estimated useful lives of the assets based on cost. The estimated useful lives of the assets range from three to ten years for furniture and equipment and up to 40 years for building and improvements. Expenditures for major renewals and betterments that extend the useful lives of the property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

Impairment of long-lived assets: IRUSA accounts for the valuation of long-lived assets in accordance with the Codification. As required by the Non-Profit Entities topic of the Codification, *Accounting for the Impairment or Disposal of Long-Lived Assets*, it is required that long-lived assets and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

Contributed services: IRUSA received services donated by its members in carrying out IRUSA's mission. No amounts have been reflected in the financial statements for those services, since they do not meet the criteria for recognition under ASC 958-605, *Not-for-Profit Entities, Revenue Recognition*.

Contributions: Unconditional contributions are recorded as revenue at fair value in the year a donation is received from or promised by the donor. Conditional contributions are recognized when the condition has been substantially met by IRUSA. Contributions with donor imposed restrictions are reported as temporarily restricted. When the stipulated purpose has been met or time constraint met, the contribution is reported as net assets released from restriction. IRUSA has no permanently restricted contributions.

Donated materials: Donated materials for use in IRUSA's operations are recorded as contribution revenue and expense at their estimated fair value, based on published wholesale prices or independent supplier quotations. Donated materials are used exclusively for IRUSA's humanitarian assistance programs.

Functional allocation of expenses: The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. General and administrative expenses include those expenses that are not directly identifiable with any other specific functions, but that provide for the overall support and direction of IRUSA.

Foreign currency translation: The financial statements and transactions of IRUSA's foreign operations are generally maintained in the relevant local currency. Where local currencies are used, assets and liabilities are translated at current exchange rates in effect at the balance sheet date. Revenue and expenses are translated at the average exchange rate for each period. Gains and losses from foreign currency transactions are included in change in net assets.

Fair value of financial instruments: The carrying amounts of cash, prepaid expenses, travel advances and other assets, accounts payable and accrued liabilities reported in the balance sheet approximate fair value because of the short maturity of these instruments.

Use of estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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.

Islamic Relief USA And Affiliate

Notes To Consolidated Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

Income taxes: IRUSA is generally exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. In addition, IRUSA qualifies for charitable contributions deductions and has been classified as an organization that is not a private foundation. Income which is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. There was no net tax liability for unrelated business income tax at December 31, 2011.

Management has evaluated IRUSA's tax positions and has concluded that IRUSA has taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of the guidance for uncertainty in income taxes. IRUSA files tax returns in the U.S. federal jurisdictions. Generally, IRUSA is no longer subject to U.S. federal or state and local income tax examinations by tax authorities for years before 2008.

Subsequent events: IRUSA evaluated subsequent events through August 30, 2012, which is the date the financial statements were available to be issued.

Note 2. Property And Equipment

Property and equipment and accumulated depreciation consist of the following at December 31, 2011:

Asset category	Estimated Lives	Cost	Accumulated Depreciation	Net
Land	–	\$ 1,303,279	\$ -	\$ 1,303,279
Building	40 Years	2,606,558	220,511	2,386,047
Furniture and equipment	3 – 7 years	556,385	297,592	258,793
Leasehold improvements	3 – 7 years	303,671	157,777	145,894
		<u>\$ 4,769,893</u>	<u>\$ 675,880</u>	<u>\$ 4,094,013</u>

Depreciation expense for the year ended December 31, 2011, was \$218,438.

Note 3. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at December 31, 2011:

	Beginning Balance	Additions	Releases from Restrictions	Ending Balance
Emergency & Relief	\$ 6,509,531	\$ 16,838,879	\$ 11,053,406	\$ 12,295,004
Orphans	208,139	6,197,983	3,591,392	2,814,730
Udhiya/Qurbani & Feed the Needy	549,075	3,324,127	1,669,973	2,203,229
Zakat & Sadaqa	2,982,840	1,858,401	3,195,908	1,645,333
Income Generation	191,819	2,011,236	846,940	1,356,115
Development	988,321	596,269	481,790	1,102,800
Health & Nutrition	167,452	244,109	292,593	118,968
Education & Training	742,159	99,934	838,115	3,978
	<u>\$ 12,339,336</u>	<u>\$ 31,170,938</u>	<u>\$ 21,970,117</u>	<u>\$ 21,540,157</u>

Islamic Relief USA And Affiliate

Notes To Consolidated Financial Statements

Note 4. Support And Revenue

The breakdown of the category of contributions and in-kind donations for the year ended December 31, 2011, is as follows:

Emergency & Relief	\$ 18,372,059
Zakat & Sadaqa	14,734,685
Health & Nutrition	12,975,468
Income Generation	7,266,932
Orphans	6,197,983
Udhiya/Qurbani & Feed the Needy	3,324,127
Development	691,258
Education & Training	167,117
	<hr/>
	\$ 63,729,629

Note 5. Lease Commitment

IRUSA leases office spaces under non-cancelable operating leases in multiple states. In addition, IRUSA leases a vehicle under a non-cancelable operating lease. The future minimum non-cancelable lease payments under operating agreements are as follows:

Years Ending December 31,	
2012	\$ 117,545
2013	52,944
2014	54,456
2015	55,968
	<hr/>
	\$ 280,913

Rent expense for the year ended December 31, 2011, was \$147,748.

Note 6. Gifts-In-Kind

During 2011, IRUSA received gifts-in-kind totaling \$14,426,712, which consists of pharmaceutical products of \$11,879,767 and non-pharmaceutical products totaling \$2,546,945. Gifts-in-kind revenue is recognized in circumstances in which IRUSA has sufficient discretion over the use and disposition of the items to recognize a contribution in conformity with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-605-25 (Topic "Not-For-Profit Entities", Subtopic "Revenue Recognition", Section "Recognition").

Types of Gifts-In-Kind:

Pharmaceutical products include prescription and nonprescription drugs such as: general anesthetics, local anesthetics, preoperative medications, analgesics/antipyretics/anti-inflammatory/antirheumatic drugs, anthelmintics, antibiotics, antileprosy drugs, antimalarial drugs, antiherpes drugs, antimigraine drugs, anti-anemia drugs (iron), anti-coagulants, anti-anginals, antifungal drugs, topical antibiotic creams, antipruritic lotions, astringents /disinfectants / antiseptics, antacids/antiulcer drugs, antihemorrhoidal drugs, oral rehydration salts, insulins and other antidiabetic agents, water for injections, and vitamins/minerals. These drugs were distributed internationally for stocking clinics, hospitals, operating rooms, emergency rooms, and urgent care facilities to treat various ailments that affect beneficiaries of all ages.

Islamic Relief USA And Affiliate

Notes To Consolidated Financial Statements

Note 6. Gifts-In-Kind (Continued)

Non-pharmaceutical products consist of non-drug medical supplies and equipment (such as sutures, scalpels, bandages, gloves, and wheelchairs), newborn supplies, hygiene kits, bedding and blankets, orphans supplies such as children's clothing and books, toys, and school supplies. These non-pharmaceutical products were distributed to beneficiaries 1) to the needy within the United States during Islamic Relief USA's annual "Day of Dignity" and 2) internationally to those most in need, typically in areas affected by human and natural disaster.

Valuation methodology:

Pharmaceutical Products – During the year ended December 31, 2011, IRUSA changed its valuation methodology to reflect exit market pricing. In general, the value of pharmaceutical products in the amount of \$11,879,767 was determined from trade sales level data and reflects exit market pricing in the Africa and Middle East regions where the pharmaceuticals were distributed. This exit market data provides a detailed overview of unit volume and price data, and uses the wholesaler selling price for medicines shipped to IRUSA's actual beneficiaries.

This exit market pricing valuation methodology meets FASB's Accounting Standards Update (ASU) titled "Fair Value Measurement (Topic 820)" definition of Fair Value because it is the price that would be paid to sell an asset in an orderly transaction in the principal market at the measurement date under current market conditions using a directly observable valuation technique.

More specifically, Islamic Relief USA primarily uses exit market pricing data for pharmaceutical donations received from January 1 – December 31, 2011. In cases where no exit market data exists, a secondary valuation source is used. The revenue brought in by drugs valued using the secondary source amounts to less than 1% of IRUSA's total gifts-in-kind revenue and is, therefore, immaterial.

Non-Pharmaceutical Products – The value of the non-pharmaceutical products in the amount of \$2,546,945 is provided by the donor and is based on the fair market value at the time of donation.

Inventory: IRUSA reports gifts-in-kind expense when it distributes the gifts-in-kind for program use. IRUSA's policy is to distribute gifts-in-kind as promptly as possible and, therefore, there is no inventory at year end.

Note 7. Retirement Plan

IRUSA has a defined contribution 401(k) retirement plan for its employees. All full time employees who have over a year of service are eligible to participate. Each year, IRUSA matches each employee's plan contribution in an amount not exceeding 6% of that employee's annual salary.