Islamic Relief USA
And Affiliate

Consolidated Financial Report
December 31, 2010

Contents

McGladrey

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, 2010, 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 2010 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Islamic Relief USA as of December 31, 2010, 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.

McGladrey & Pullen, LLP

Vienna, Virginia
October 17, 2011

Islamic Relief USA And Affiliate

Consolidated Balance Sheet
As Of December 31, 2010

Assets		
Cash	$	28,355,347
Accounts receivable		201,366
Investments		250,715
Prepaid expenses		56,121
Travel advances and other assets		15,352
Property and equipment, net		4,173,453
	$	33,052,354

Liabilities And Net Assets		
Liabilities		
Accounts payable	$	598,351
Accrued liabilities		16,639,005
Total liabilities		17,237,356
Net Assets		
Unrestricted		3,475,662
Temporarily restricted		12,339,336
		15,814,998
	$	33,052,354

See Notes To Consolidated Financial Statements.

Islamic Relief USA And Affiliate

Consolidated Statement Of Activities
For The Year Ended December 31, 2010

	Unrestricted	Temporarily Restricted	Total
Support and revenue:			
Contributions	$ 15,194,090	$ 25,039,107	$ 40,233,197
Donated stocks	6,682	2,223	8,905
In-kind contributions	142,249,072	-	142,249,072
Net assets released from restriction	25,363,211	(25,363,211)	-
Total support and revenue	182,813,055	(321,881)	182,491,174
Expenses:			
Program services	167,924,852	-	167,924,852
Management and general	6,293,005	-	6,293,005
Fundraising	6,083,237	-	6,083,237
Total expenses	180,301,094	-	180,301,094
Other income:			
Unrealized gain on investments	19,377	-	19,377
Total other income	19,377	-	19,377
Change in net assets	2,531,338	(321,881)	2,209,457
Net assets:			
Beginning	944,324	12,661,217	13,605,541
Ending	$ 3,475,662	$ 12,339,336	$ 15,814,998

See Notes To Consolidated Financial Statements.

Islamic Relief USA And Affiliate

Consolidated Statement Of Functional Expenses
For The Year Ended December 31, 2010

	Program Services	Management And General	Fundraising	Total
In-kind donations sent to relief sites	$ 142,249,072	$ -	$ -	$ 142,249,072
International grants	21,988,765	-	-	21,988,765
Payroll expenses and benefits	367,788	2,872,203	2,560,020	5,800,011
Domestic grants	1,615,138	-	-	1,615,138
Handling and related costs	1,382,604	-	-	1,382,604
Professional fees	6,332	1,145,371	127,736	1,279,439
Fundraising expense	-	-	1,170,822	1,170,822
Travel	107,742	250,667	716,699	1,075,108
Advertising and marketing	42,000	7,286	693,982	743,268
Bank charges and credit card fees	-	576,162	-	576,162
Printing	9,289	19,178	294,412	322,879
Equipment and location rent	3,001	258,837	45,889	307,727
Office expenses	8,662	236,904	16,865	262,431
Honorarium	-	40,300	200,573	240,873
Postage	21,938	46,556	169,446	237,940
Depreciation	-	223,454	-	223,454
Telecommunications	56,507	161,547	1,312	219,366
Tax and licenses	-	184,942	11,844	196,786
Computer hardware and equipment	3,621	135,277	17,285	156,183
Professional education and training	42,164	26,635	24,017	92,816
Insurance	290	75,461	426	76,177
Conference and meeting	18,792	8,729	15,669	43,190
Miscellaneous	1,147	5,604	10,361	17,112
Catering	-	7,063	5,879	12,942
Accounting and legal fees	-	10,829	-	10,829
	$ 167,924,852	$ 6,293,005	$ 6,083,237	$ 180,301,094

See Notes To Consolidated Financial Statements.

Islamic Relief USA And Affiliate

Consolidated Statement Of Cash Flows
For The Year Ended December 31, 2010

Cash Flows From Operating Activities	
Change in net assets	$ 2,209,457
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Unrealized gain on investments	(44,758)
Donated stocks	(23,685)
Depreciation	223,454
Changes in assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	731,908
Prepaid expenses	24,120
Travel advances and other assets	190,226
Increase (decrease) in:	
Accounts payable	370,370
Accrued liabilities	3,853,015
Net cash provided by operating activities	7,534,107
Cash Flows From Investing Activities	
Purchase of furniture and equipment	(149,538)
Net cash used in investing activities	(149,538)
Net increase in cash	7,384,569
Cash	
Beginning	20,970,778
Ending	$ 28,355,347

See 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 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 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 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.

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.

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, 2010, 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 and cash equivalents.

Investments: Investments are stated at fair value. Investments acquired by gift or bequest are recorded at fair value at the date of donation. IRUSA maintain 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, 2010.

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. In the period consumed by IRUSA programs, the value of materials is reported as net assets released from restriction, and inventory is relieved as a program expense.

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.

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.

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, 2010.

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

IRUSA follows the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, IRUSA 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 has evaluated IRUSA's tax positions and has concluded that IRUSA has taken no uncertain tax positions that require disclosure. 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 2007.

Subsequent events: IRUSA evaluated subsequent events through October 17, 2011, 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, 2010:

Asset category	Estimated Lives	Cost	Accumulated Depreciation	Net
Land	-	$ 1,303,279	$ -	$ 1,303,279
Building	40 Years	2,606,557	155,347	2,451,210
Furniture and equipment	3 – 7 years	814,273	562,448	251,825
Leasehold improvements	3 – 7 years	278,390	111,251	167,139
		$ 5,002,499	$ 829,046	$ 4,173,453

Depreciation expense for the year ended December 31, 2010, was $223,454.

Note 3. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at December 31, 2010:

	Beginning Balance	Additions	Releases from Restrictions	Ending Balance
Middle East, Eurasia and Americas	$ 9,884,934	$ 4,574,114	$ 10,129,814	$ 4,329,234
Pakistan	543,864	13,232,722	10,508,234	3,268,352
Africa relief and other development	980,331	2,993,146	1,344,231	2,629,246
Asia	709,102	810,393	296,386	1,223,109
Feed the Needy	542,986	1,546,449	1,327,923	761,512
Haiti emergency	-	1,884,506	1,756,623	127,883
	$ 12,661,217	$ 25,041,330	$ 25,363,211	$ 12,339,336

Note 4. Support And Revenue

The breakdown of the category of the contribution and in-kind donations for the year ended December 31, 2010, is as follows:

Zakat, Sadaqa and Zakat-ul-fitr	$ 91,317,126
Emergency relief programs and services	81,349,706
Orphan programs	6,256,820
Udhiya/Qurbani and Feed the Needy	2,845,364
Health and nutrition	483,238
Education and training	125,457
Development	103,412
Income generation	10,051
	$ 182,491,174

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,	
2011	$ 146,992
2012	71,251
	$ 218,243

Rent expense for the year ended December 31, 2010, was $229,066.

Note 6. Related Party Transactions

IRUSA administers various programs worldwide through grants with Islamic Relief Worldwide (IRW), a related party based in the United Kingdom. During 2010, IRUSA incurred $21,849,599 in grant expenses in collaboration with IRW.

Note 7. Gifts-In-Kind

During 2010, IRUSA received gifts-in-kind totaling $142,249,072, which consists of pharmaceutical products of $139,728,142 and other products totaling $2,520,930. Pharmaceutical products include items such as medical equipment, prescription drugs, and other medical supplies for use in treating disaster victims. 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 FASB ASC 958-605-25. Accordingly, the recognition of gifts in kind revenue is limited to circumstances in which the IRUSA takes constructive possession of the gifts in kind and IRUSA is the recipient of the gift, rather than an agent or intermediary (as defined by FASB ASC). The value of the pharmaceutical products of $139,728,143 was determined based on the fair market value of the products at the time of shipment which is the same time as the time of possession of the goods. The value of the non-pharmaceutical products is based on the fair market value at the time of donation.

IRUSA obtains US 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 most advantageous market for determining the fair value of the donated prescription drugs. The FMV of prescription drugs is reported based on the Average Wholesale Price (AVW) that is in the Red Book™, a resource healthcare professionals use to find the latest pricing and package information on pharmaceuticals.

IRUSA reports gifts-in-kind expense when it distributes goods received as contributions 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.

All gifts-in-kind donations received during the year were received from three not-for-profit organizations, one of which provided 98% of the total gifts-in-kind donations.