

THE ZAKAT FOUNDATION OF AMERICA

**REPORT ON THE EXAMINATION
OF THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JUNE 30, 2011 AND 2010**

THE ZAKAT FOUNDATION OF AMERICA

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The Zakat Foundation of America

We have audited the accompanying statements of financial position of The Zakat Foundation of America (a not-for-profit organization) as of June 30, 2011 and 2010 and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of The Zakat Foundation of America's management. 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. Those standards require that we plan and perform the audits 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 audits provide 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 The Zakat Foundation of America as of June 30, 2011 and 2010 and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Knutte & Associates, P.C.

**THE ZAKAT FOUNDATION OF AMERICA
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2011 AND 2010**

	2011	2010
ASSETS		
CURRENT ASSETS		
Cash	\$ 843,721	\$ 535,705
Investment	6,000	0
Prepaid Expenses	3,609	4,383
	<hr/>	<hr/>
TOTAL CURRENT ASSETS	853,330	540,088
	<hr/>	<hr/>
FIXED ASSETS		
Building	486,903	486,903
Leasehold Improvements	262,697	80,000
Vehicle	48,072	42,072
Furniture and Equipment	33,493	31,089
	<hr/>	<hr/>
	831,165	640,064
Less -- Accumulated Depreciation	71,619	45,679
	<hr/>	<hr/>
TOTAL FIXED ASSETS	759,546	594,385
	<hr/>	<hr/>
OTHER ASSETS		
Security Deposits	6,200	6,200
	<hr/>	<hr/>
TOTAL OTHER ASSETS	6,200	6,200
	<hr/>	<hr/>
TOTAL ASSETS	\$ 1,619,076	\$ 1,140,673
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LIABILITIES AND NET ASSETS

	2011	2010
CURRENT LIABILITIES		
Accounts Payable	\$ 29,884	\$ 25,774
Notes Payable	216,454	10,781
Accrued Payroll Liabilities	2,993	1,204
TOTAL CURRENT LIABILITIES	<u>249,331</u>	<u>37,759</u>
LONG-TERM LIABILITIES		
Notes Payable	<u>0</u>	<u>216,485</u>
TOTAL LONG-TERM LIABILITIES	<u>0</u>	<u>216,485</u>
TOTAL LIABILITIES	<u>249,331</u>	<u>254,244</u>
NET ASSETS		
Unrestricted	<u>1,369,745</u>	<u>886,429</u>
TOTAL NET ASSETS	<u>1,369,745</u>	<u>886,429</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,619,076</u></u>	<u><u>\$ 1,140,673</u></u>

See Accompanying Notes To The Financial Statements.

**THE ZAKAT FOUNDATION OF AMERICA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011**

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
PUBLIC SUPPORT AND REVENUES				
Contributions	\$ 3,667,146	\$ 0	\$ 0	\$ 3,667,146
Donated Goods	262,367	0	0	262,367
Miscellaneous Income	15,020	0	0	15,020
Net Assets Released from Restrictions	0	0	0	0
TOTAL PUBLIC SUPPORT AND REVENUES	3,944,533	0	0	3,944,533
EXPENSES				
Program Services				
Emergency Aid	1,084,515	0	0	1,084,515
Seasonal Programs	715,276	0	0	715,276
Orphan Scholarship	640,852	0	0	640,852
Education	401,742	0	0	401,742
Development	247,780	0	0	247,780
Program Support	177,936	0	0	177,936
Total Program Services	3,268,101	0	0	3,268,101
Management and General Fundraising	109,363	0	0	109,363
	83,753	0	0	83,753
TOTAL EXPENSES	3,461,217	0	0	3,461,217
CHANGE IN NET ASSETS	483,316	0	0	483,316
NET ASSETS,				
BEGINNING OF YEAR	886,429	0	0	886,429
END OF YEAR	\$ 1,369,745	\$ 0	\$ 0	\$ 1,369,745

See Accompanying Notes To The Financial Statements.

**THE ZAKAT FOUNDATION OF AMERICA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010**

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
PUBLIC SUPPORT AND REVENUES				
Contributions	\$ 2,943,948	\$ 0	\$ 0	\$ 2,943,948
Donated Goods	70,373	0	0	70,373
Net Assets Released from Restrictions	1,477,188	(1,477,188)	0	0
TOTAL PUBLIC SUPPORT AND REVENUES	4,491,509	(1,477,188)	0	3,014,321
EXPENSES				
Program Services				
Development-Health Care	1,998,896	0	0	1,998,896
Emergency Aid	528,718	0	0	528,718
Education	435,425	0	0	435,425
Seasonal Programs	382,776	0	0	382,776
Orphan Sponsorship	292,239	0	0	292,239
Program Support	134,680	0	0	134,680
Development-Sadaqa Jariyah	93,872	0	0	93,872
Total Program Services	3,866,606	0	0	3,866,606
Management and General Fundraising	194,331	0	0	194,331
	92,717	0	0	92,717
TOTAL EXPENSES	4,153,654	0	0	4,153,654
CHANGE IN NET ASSETS	337,855	(1,477,188)	0	(1,139,333)
NET ASSETS,				
BEGINNING OF YEAR	548,574	1,477,188	0	2,025,762
END OF YEAR	\$ 886,429	\$ 0	\$ 0	\$ 886,429

See Accompanying Notes To The Financial Statements.

**THE ZAKAT FOUNDATION OF AMERICA
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2011**

	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
FUNCTIONAL EXPENSES				
Accounting Fees	\$ 23,217	\$ 2,732	\$ 1,366	\$ 27,315
Advertising	216,098	0	24,011	240,109
Association Dues	450	450	0	900
Automobile	5,665	667	333	6,665
Bank Fees	19,206	0	0	19,206
Banquet	4,504	155	518	5,177
Conference	5,433	0	604	6,037
Depreciation	22,049	2,594	1,297	25,940
Direct Assistance	2,081,860	0	0	2,081,860
Donation	0	0	555	555
Education and Training	5,178	609	305	6,092
Insurance	51,704	5,170	574	57,448
Interest	0	12,230	0	12,230
Legal Fees	4,810	566	283	5,659
License and Taxes	0	323	0	323
Occupancy	41,199	4,847	2,423	48,469
Office Expense	23,083	2,716	1,358	27,157
Outside Contract Services	145,392	8,077	8,077	161,546
Payroll Fees	0	537	0	537
Payroll Taxes	0	26,360	0	26,360
Penalty	0	375	0	375
Postage	134,545	7,475	7,475	149,495
Printing and Copying	59,533	3,307	3,307	66,147
Repairs and Maintenance	0	1,823	0	1,823
Salaries and Wages	335,346	18,630	18,630	372,606
Security	0	1,242	0	1,242
Subscriptions	2,037	120	240	2,397
Supplies	5,265	292	292	5,849
Telephone	13,579	799	1,598	15,976
Travel	43,472	0	7,671	51,143
Utilities	11,185	621	621	12,427
Website Maintenance	13,291	6,646	2,215	22,152
TOTAL FUNCTIONAL EXPENSES	\$ 3,268,101	\$ 109,363	\$ 83,753	\$ 3,461,217

See Accompanying Notes To The Financial Statements.

**THE ZAKAT FOUNDATION OF AMERICA
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2010**

	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
FUNCTIONAL EXPENSES				
Accounting Fees	\$ 0	\$ 19,893	\$ 1,497	\$ 21,390
Advertising	235,089	0	26,121	261,210
Automobile	5,767	0	368	6,135
Bank Fees	10,334	2,831	991	14,156
Banquet	0	0	5,210	5,210
Conference	12,512	0	521	13,033
Depreciation	0	17,014	0	17,014
Direct Assistance	2,968,742	0	0	2,968,742
Education and Training	1,338	0	0	1,338
Insurance	44,489	12,189	4,266	60,944
Interest	0	9,547	0	9,547
Legal Fees	6,370	0	480	6,850
License and Taxes	0	913	0	913
Occupancy	31,496	8,629	3,020	43,145
Office Expense	7,725	2,117	741	10,583
Outside Contract Services	114,813	31,455	11,009	157,277
Payroll Fees	0	846	0	846
Payroll Taxes	15,289	4,189	1,466	20,944
Postage	65,680	17,995	6,298	89,973
Printing and Copying	57,847	7,760	4,938	70,545
Repairs and Maintenance	0	240	18	258
Salaries and Wages	178,852	49,000	17,150	245,002
Security	766	0	58	824
Subscriptions	710	0	53	763
Supplies	0	9,003	575	9,578
Telephone	12,777	710	710	14,197
Travel	49,671	0	3,739	53,410
Utilities	10,177	0	766	10,943
Website Maintenance	36,162	0	2,722	38,884
TOTAL FUNCTIONAL EXPENSES	\$ 3,866,606	\$ 194,331	\$ 92,717	\$ 4,153,654

See Accompanying Notes To The Financial Statements.

**THE ZAKAT FOUNDATION OF AMERICA
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Donations	\$ 3,682,166	\$ 2,943,948
Paid to Suppliers and Employees	(3,160,007)	(2,568,471)
Interest Paid	(12,230)	(9,547)
Income Taxes Paid	0	0
	<u>509,929</u>	<u>365,930</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for the Purchase of Fixed Assets	(191,101)	(597,905)
	<u>(191,101)</u>	<u>(597,905)</u>
NET CASH USED IN INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the Issuance of Long-Term Debt	0	235,000
Principal Payments on Long-Term Debt	(10,812)	(7,734)
	<u>(10,812)</u>	<u>227,266</u>
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES		
	<u>(10,812)</u>	<u>227,266</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	308,016	(4,709)
CASH AND CASH EQUIVALENTS,		
BEGINNING OF YEAR	<u>535,705</u>	<u>540,414</u>
END OF YEAR	<u>\$ 843,721</u>	<u>\$ 535,705</u>

See Accompanying Notes To The Financial Statements.

**THE ZAKAT FOUNDATION OF AMERICA
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

	2011	2010
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in Net Assets	<u>\$ 483,316</u>	<u>\$ (1,139,333)</u>
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By Operating Activities:		
Depreciation	25,940	17,014
Donated Investment	(6,000)	0
Changes in Certain Assets and Liabilities:		
Pledge Receivable	0	1,477,188
Prepaid Supplies	0	22,812
Prepaid Expenses	774	(1,547)
Security Deposits	0	(1,000)
Accounts Payable	4,110	835
Accrued Payroll Liabilities	<u>1,789</u>	<u>(10,039)</u>
Total Adjustments	<u>26,613</u>	<u>1,505,263</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 509,929</u></u>	<u><u>\$ 365,930</u></u>

See Accompanying Notes To The Financial Statements.

**THE ZAKAT FOUNDATION OF AMERICA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A) Organization and Nature of Activities

The Zakat Foundation of America (“The Foundation”) was incorporated in the state of Illinois on July 24, 2001. The Foundation is involved in the relief and development for individuals and communities in various third world countries, providing development, food distribution, orphan sponsorship, education, emergency aid, and health programs as follows:

Emergency Aid - Includes programs that assist in reviving the economies of communities devastated by natural and man-made disasters.

Seasonal Programs - Includes programs providing food to needy individuals around the world for immediate and long-term sustenance, as well as two extensive seasonal food distribution programs, Ramadan and Udhiya.

Orphan Sponsorship – Includes locating and providing single-parent or orphaned children with daily care, clothing, healthcare, and education by assisting single-parents or caretaker/guardians, or by enrolling children in orphanages run by The Foundation or their partner organizations.

Education - Includes programs that address a lack of education among children and adult literacy by providing funds for materials, supplies, support and construction of schools, and provide higher education for teachers.

Development - Includes health care programs that improve individual and community health through education, immunization and other preventive measures; including operation or funding of clinics, hospitals and other health care institutions; improvement, rehabilitation and renovation of the existing health care infrastructure; and the provision of medicines, medical supplies and medical equipment to health care facilities. Includes Sadaqa Jariya programs providing for needy individuals and their communities to sustain themselves and to improve their quality of life, programs providing shelter, agricultural resources and necessary household and personal items. Also includes microcredit and other development programs.

Program Support - Includes all ancillary program services needed to maintain and enhance specific program sectors.

**THE ZAKAT FOUNDATION OF AMERICA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

**NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

B) Method of Accounting

The Foundation's accounts are maintained on the accrual basis of accounting. Grants and other contributions are reported as temporarily restricted support if they are received with stipulations that limit the use of the funding. When the restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Expenses are recorded when incurred.

The Foundation has adopted Accounting Standard Codification No. 958, "Not For Profit Entities" (ASC 958). Under ASC 958, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. Under ASC 958, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As permitted by the statement, the Foundation does not use fund accounting.

C) Accounting Policies

Cash and Cash Equivalents - For purposes of reporting cash flows, cash is defined as cash on hand, amounts held at financial institutions, and short-term highly liquid investments that are readily convertible to known amounts of cash. Investments with an original maturity of three months or less are considered short-term for these purposes.

Fixed Assets - Fixed assets are recorded at cost. Expenditures for repairs and maintenance are charged to expense as incurred, whereas renewals and betterments that extend the lives of fixed assets are capitalized. Depreciation is computed on the straight-line method over various useful lives. Depreciation expense for the years ended June 30, 2011 and 2010 amounts to \$25,940 and \$17,014, respectively.

**THE ZAKAT FOUNDATION OF AMERICA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

**NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

C) Accounting Policies (Continued)

Use of 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 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes - The Foundation is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and is classified by the Internal Revenue Service as other than a private foundation.

FASB Accounting Standard Codification (ASC) 740, Income Taxes clarifies the accounting uncertainty in income taxes recognized in an organization's financial statements. ASC 740 provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on technical merits. Income tax positions must be a more likely-than-not recognition threshold at the effective date to be recognized upon the adoption of ASC 740 and in subsequent periods. This interpretation also provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Foundation adopted ASC 740 for the fiscal year ended June 30, 2010. The adoption of ASC 740 had no impact on the Foundation's financial position or results of operations. The only tax years subject to examination by major tax jurisdictions are those within the statutory limits.

NOTE 2 - CONCENTRATION OF CREDIT RISK

The Foundation has deposits at one financial institution in excess of federally insured limits of approximately \$640,000 and \$310,000 at June 30, 2011 and 2010, respectively. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

**THE ZAKAT FOUNDATION OF AMERICA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

NOTE 3 - INVESTMENT

The Foundation's investment is stated at fair value and consists of land at June 30, 2011, as follows:

	Fair Value	Unobservable Inputs (Level 3)	Cost	Unrealized Appreciation
Land	\$ 6,000	\$ 6,000	\$ 6,000	\$ 0

FASB ASC 820-Fair Value Measurements and Disclosures, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, and Level 3 inputs have the lowest priority. The Foundation uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Foundation measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. No Level 1 or 2 inputs were available to the Foundation, therefore the investment was valued using Level 3 inputs.

Level 3 Fair Value Measurements

The fair value of land is based on the quoted price of similar assets in the inactive real estate market.

NOTE 4 - NOTES PAYABLE

Notes payable consists of the following at June 30, 2011 and 2010:

	2011	2010
\$227,000 note payable to Sacred Heart Homes, Inc. dated October 6, 2009 with an interest rate of 5.5%; payable in 24 monthly installments of \$1,855, with a final balloon payment of unpaid principal and interest due October 31, 2011. The note is secured by a building.	\$ 209,091	\$ 219,535
Subtotal Forward	<u>209,091</u>	<u>219,535</u>

**THE ZAKAT FOUNDATION OF AMERICA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

NOTE 4 - NOTES PAYABLE (CONTINUED)

	2011	2010
Subtotal Forwarded	209,091	219,535
\$8,000 note payable to Muriel Praileau dated October 6, 2009 with an interest rate of 5.5%; payable in 24 monthly installments of \$65, with a final balloon payment of unpaid principal and interest due October 31, 2011. The note is secured by a building.	7,363	7,731
Total Debt	216,454	227,266
Less: Current Portion	216,454	10,781
Total Long-Term Debt	\$ 0	\$ 216,485

Both notes were paid in full in October 2011.

NOTE 5 - NET ASSET RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors during the year ended June 30:

	2011	2010
Purpose Restriction Accomplished:		
Development-Health Care	\$ 0	\$ 1,477,188

NOTE 6 - DONATED GOODS

Donated goods are recorded at fair value on the date of receipt. The Foundation received donations of clothing and supplies to benefit refugees with a fair value of \$262,367 and \$70,373 during the years ended June 30, 2011 and 2010, respectively. The Foundation also realized a pledge of donated medical equipment with a fair value of \$1,477,188 during the year ended June 30, 2010. These amounts are included in Donated Goods Revenue and Program Service Expense in the Statements of Activities.

**THE ZAKAT FOUNDATION OF AMERICA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

NOTE 7 - LEASE COMMITMENTS

The Foundation entered into a lease for office space covering the period February 1, 2007 through February 28, 2011. The Foundation signed a one year extension through February 28, 2012. Under this lease the Foundation is obligated for minimum annual rents as well as it's pro rata share of increases in operating expenses and real estate taxes during the term. In 2010, the Foundation also began leasing additional office space in the same building on a month-to-month basis. Rent expense for the years ended June 30, 2011 and 2010 amounts to \$51,218 and \$43,145, respectively.

The minimum future lease commitment under the operating lease is as follows:

For the Year Ended June 30, 2012 \$ 31,200

NOTE 8 - CONCENTRATION OF RISK

Contributions are raised in the U.S. Major program activities funded by the Foundation occur in foreign countries torn by war, famine or natural catastrophe and are undertaken on behalf of the Foundation by local authorities and organizations. It is considered reasonably possible that operations outside the U.S. could be disrupted due to political events. This disruption could materially affect the amount of contributions raised in the U.S. or result in a loss of funds transferred overseas that were intended to operate these programs.

NOTE 9 - SUBSEQUENT EVENTS

The date to which events occurring after June 30, 2011, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosure is March 15, 2012, the date the financial statements were issued.