

Assurance

THE ZAKAT FOUNDATION OF AMERICA

Audited Financial Statements

Year Ended June 30, 2021

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**THE ZAKAT FOUNDATION OF AMERICA
AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
of The Zakat Foundation of America

We have audited the accompanying financial statements of The Zakat Foundation of America (a not-for-profit organization), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements (collectively, financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

PKF Mueller

THE ZAKAT FOUNDATION OF AMERICA
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2021

ASSETS

Cash	\$ 10,842,441
Investments	65,089
Property and equipment, net	3,190,331
Other assets	<u>15,812</u>
Total assets	<u><u>\$ 14,113,673</u></u>

LIABILITIES AND NET ASSETS

Liabilities:

Accounts payable	\$ 112,146
Accrued payroll	70,975
Accrued vacation	<u>198,705</u>
Total liabilities	381,826

Net assets:

Without donor restrictions	<u>13,731,847</u>
Total liabilities and net assets	<u><u>\$ 14,113,673</u></u>

The accompanying notes are an integral part of the financial statements.

THE ZAKAT FOUNDATION OF AMERICA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2021

Support and revenue:

Contributions	\$ 16,705,750
In-kind contributions	3,696,116
Forgiveness of Paycheck Protection Program loan	494,735
Investment return	16,596
Miscellaneous income	<u>25,065</u>
Total support and revenue	<u>20,938,262</u>

Expenses:

Program services	15,668,206
Supporting services:	
Management and general	524,469
Fundraising	<u>506,825</u>
Total expenses	<u>16,699,500</u>

Change in net assets	4,238,762
Net assets without donor restrictions, beginning of year	<u>9,493,085</u>
Net assets without donor restrictions, end of year	<u>\$ 13,731,847</u>

The accompanying notes are an integral part of the financial statements.

THE ZAKAT FOUNDATION OF AMERICA
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2021

		SUPPORTING SERVICES		
	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Accounting fees	\$ -	72,898	5,487	78,385
Advertising	403,253	5,105	102,089	510,447
Association dues	-	17,080	-	17,080
Automobile	3,331	2,120	605	6,056
Bank fees	6,650	6,650	31,030	44,330
Depreciation	-	87,707	-	87,707
Direct assistance	11,681,279	-	-	11,681,279
Education and training	535	30	30	595
Fundraising events	-	-	185,913	185,913
Insurance	204,388	8,697	4,349	217,434
Interest	-	-	366	366
Legal	55,150	52,642	17,547	125,339
Licenses and taxes	-	1,288	-	1,288
Meals and entertainment	4,893	211	158	5,262
Occupancy	86,940	23,819	8,336	119,095
Office expense	52,694	14,437	5,053	72,184
Outside contractor	169,958	1,752	3,504	175,214
Payroll fees	1,805	77	38	1,920
Payroll taxes	181,525	7,724	3,862	193,111
Postage	158,738	43,490	15,221	217,449
Printing and copying	79,102	13,184	39,552	131,838
Real estate taxes	6,439	1,764	617	8,820
Repairs and maintenance	-	33,298	2,506	35,804
Retirement match	32,315	1,375	688	34,378
Retirement plan fees	705	30	15	750
Salaries	2,235,933	95,146	47,573	2,378,652
Security	11,142	-	839	11,981
Subscriptions	991	-	75	1,066
Supplies	444	3,555	444	4,443
Telephone	28,128	1,563	1,563	31,254
Travel	35,721	2,030	2,841	40,592
Utilities	34,567	1,964	2,750	39,281
Vehicle lease expense	5,947	1,629	570	8,146
Website maintenance	185,633	23,204	23,204	232,041
Total expenses	<u>\$ 15,668,206</u>	<u>524,469</u>	<u>506,825</u>	<u>16,699,500</u>

The accompanying notes are an integral part of the financial statements.

THE ZAKAT FOUNDATION OF AMERICA
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2021

Cash provided by (applied to) operating activities:

Change in net assets	\$ 4,238,762
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	87,707
Net realized and unrealized gains on investments	(16,596)
Forgiveness of Paycheck Protection Program loan	(494,735)
Changes in:	
Other assets	36
Accounts payable	112,146
Accrued payroll	10,358
Accrued vacation	<u>70,380</u>
Net cash provided by operating activities	4,008,058

Cash applied to investing activities:

Purchases of property and equipment	<u>(1,299,802)</u>
Net increase in cash	2,708,256
Cash, beginning of year	<u>8,134,185</u>
Cash, end of year	<u><u>\$ 10,842,441</u></u>

Noncash financing transaction:

Forgiveness of Paycheck Protection Program loan	<u><u>\$ 494,735</u></u>
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The accompanying notes are an integral part of the financial statements.

THE ZAKAT FOUNDATION OF AMERICA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

NOTE 1 - NATURE OF OPERATIONS

The Zakat Foundation of America (Foundation) is a not-for-profit corporation. Its mission is to foster charitable giving to alleviate poverty through the immediate needs of affected communities and establishing long-term development projects that ensure sustainable economic growth and water and food security. The Foundation accomplishes this mission by bringing immediate relief during and after disasters, building and supporting schools, orphanages, and health clinics, delivering vocational training and childhood education, and providing seasonal food distribution, including fresh meat, each through the support of community-based initiatives, and also other clothing necessary in severe winter and preventive/protective items during a pandemic such as COVID-19.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Foundation considers all highly liquid instruments with an original maturity of three months or less to be cash equivalents. There were no cash equivalents as of June 30, 2021.

Concentration of Credit Risk

The Foundation maintains bank accounts at financial institutions in Illinois. The bank balances, at times, may exceed federally insured limits. The Foundation has not experienced any losses on these accounts.

Investments

Investments are reported at fair value in the statement of financial position. Investment income or loss (including realized and unrealized gains and losses, interest, and dividends) is included in the statement of activities as increases or decreases in net assets without donor restrictions unless the income or loss is restricted by donor or law.

THE ZAKAT FOUNDATION OF AMERICA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Property and Equipment

Property and equipment have been recorded at cost if purchased or at fair value at time of donation if received as a gift. The Foundation capitalizes property and equipment over \$1,000 that have a useful life of more than one year. Depreciation of property and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed as incurred. The useful lives of property and equipment for purposes of computing depreciation are as follows:

Buildings and improvements	7 - 39 years
Furniture and equipment	5 - 7 years
Vehicles	5 years

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor-imposed restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Foundation reports contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Change in Accounting Principles – Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which supersedes the revenue recognition requirements in Accounting Standards Codification 605, *Revenue Recognition*. ASU No. 2014-09 provides for a single five-step model to be applied to all revenue contracts with customers. ASU No. 2014-09 also requires additional financial statement disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments. For the year ended June 30, 2021, the Foundation adopted ASU No. 2014-09 and has adjusted the presentation in these financial statements accordingly. ASU No. 2014-09 has been applied using the full retrospective method to all periods presented and resulted in no changes to previously reported net assets as there were no significant changes to the way the Foundation recognizes revenue. For the year ended June 30, 2021, there were no revenue streams subject to ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*.

THE ZAKAT FOUNDATION OF AMERICA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Revenue and Revenue Recognition

Promises to Give

The Foundation recognizes contributions when cash, securities or other assets, an unconditional promise to give, or a notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. There were no conditional contributions as of June 30, 2021.

Donated Services and In-Kind Contributions

Volunteers contribute significant amounts of time to the Foundation's program services, administration, fundraising, and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by accounting principles generally accepted in the United States of America. Contributed goods are recorded at fair value at the date of donation. The Foundation recognizes contributed services at their fair value if the services have value to the Foundation and require specialized skills, are provided by individuals possessing those skills, and would have been purchased if not provided by contributors (see Note 7).

Functional Expenses

The costs of program and supporting service activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy, office expense, and insurance, which are allocated on a square footage basis, as well as salaries, and payroll taxes.

Advertising

Advertising costs are expensed as incurred. Advertising expense was \$510,447 for the year ended June 30, 2021.

Income Taxes

The Foundation has been determined to be exempt from income tax under Section 501(c)(3) of the Internal Revenue Code, and accordingly, no provision has been made for either federal or state income taxes.

THE ZAKAT FOUNDATION OF AMERICA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Income Taxes, Continued

The Foundation has evaluated the tax positions taken for all open tax years. Currently, the fiscal years ending June 30, 2018, 2019, and 2020 are open and subject to examination by the Internal Revenue Service; however, the Foundation is not currently under audit nor has the Foundation been contacted by this jurisdiction.

Based on the evaluation of the Foundation's tax positions, management believes all positions would be upheld under an examination; therefore, no provision for the effects of uncertain tax positions has been recorded for the year ended June 30, 2021.

Accounting Estimates

The preparation of financial statements in accordance 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, disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Change in Accounting Principles – Fair Value Measurement

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies certain disclosure requirements for reporting fair value measurements. The Foundation adopted this guidance on a retrospective basis as of July 1, 2020 and has adjusted the presentation in these financial statements accordingly. The adoption did not have a material impact on the Foundation's disclosures related to fair value measurements.

New Accounting Standard – Contributed Nonfinancial Assets

In September 2020, the FASB issued ASU No. 2020-07, *Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets (Topic 958)*. The key provisions of ASU No. 2020-07 are 1) a requirement to present contributed nonfinancial assets as a separate line item in the statement of activities and 2) disclosure of contributed nonfinancial assets disaggregated by type, which includes information about monetization and utilization, donor restrictions, and the valuation techniques used. ASU No. 2020-07 should be applied on a retrospective basis and is effective for fiscal years beginning after June 15, 2021. Early adoption is permitted. The Foundation is currently evaluating the methods of adoption allowed and the effect that adoption is expected to have on its financial position, changes in net assets, cash flows, and related disclosures.

THE ZAKAT FOUNDATION OF AMERICA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

New Accounting Standard – Leases

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The FASB also subsequently issued additional ASUs, which amend and clarify Topic 842. The most significant change in the new leasing guidance is the requirement to recognize right-of-use assets and lease liabilities for operating leases in the statement of financial position. The ASUs are effective for fiscal years beginning after December 15, 2021. Early adoption is permitted. The Foundation is currently evaluating the methods of adoption allowed and the effect that adoption is expected to have on its financial position, changes in net assets, cash flows, and related disclosures.

Management Evaluation of Going Concern

In accordance with accounting principles generally accepted in the United States of America, management performed an evaluation to determine if adverse conditions or events, considered in the aggregate, raise substantial doubt about the Foundation's ability to continue as a going concern for the one-year period from the date the financial statements were available to be issued. Management's evaluation did not identify any conditions or events that raise substantial doubt about the Foundation's ability to continue as a going concern for the period from January 4, 2022 to January 4, 2023.

Subsequent Events

Subsequent events have been evaluated through January 4, 2022, the date that the financial statements were available to be issued.

NOTE 3 - LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the date of the statement of financial position, comprise the following:

Cash	\$ 10,842,441
Investments	<u>65,089</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 10,907,530</u></u>

The Foundation's goal is to maintain available financial assets sufficient to meet its general operating expenditures, liabilities, and other obligations as they become due.

THE ZAKAT FOUNDATION OF AMERICA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

NOTE 4 - FAIR VALUE MEASUREMENTS

Accounting standards generally accepted in the United States of America establish 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 are described below:

- | | |
|---------|---|
| Level 1 | Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that management has the ability to access at the measurement date. |
| Level 2 | <p>Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly such as:</p> <ul style="list-style-type: none">• 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. <p>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.</p> |
| 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.

Following is a description of the valuation methodology used for assets measured at fair value. There have been no changes in the methodology used at June 30, 2021.

Mutual funds: Valued at the closing price as reported on the active market on which the individual securities are traded.

The method 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 management believes its valuation method is 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 ZAKAT FOUNDATION OF AMERICA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

NOTE 4 - FAIR VALUE MEASUREMENTS, CONTINUED

The Foundation's mutual funds measured at fair value on a recurring basis using quoted prices in active markets for identical assets (Level 1) at June 30, 2021 totaled \$65,089.

For the year ended June 30, 2021, there were no significant transfers into or out of Level 3.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2021 consisted of the following:

Buildings and improvements	\$ 2,904,852
Furniture and equipment	206,830
Land	518,557
Vehicles	<u>161,630</u>
Total property and equipment	3,791,869
Less accumulated depreciation	<u>(601,538)</u>
Total property and equipment, net	<u><u>\$ 3,190,331</u></u>

NOTE 6 - PAYCHECK PROTECTION PROGRAM LOAN

In April 2020, the Foundation received loan proceeds in the amount of \$494,735 under the Paycheck Protection Program (PPP). Established as part of the Coronavirus Aid, Relief and Economic Security Act (CARES Act), the PPP provides for loans to qualifying businesses in amounts up to 2.5 times the business's average monthly payroll expenses. PPP loans and accrued interest are forgivable after a "covered period" of 24 weeks as long as the borrower maintains its payroll levels and uses the loan proceeds for eligible purposes, including payroll, benefits, rent, and utilities. The forgiveness amount will be reduced if the borrower terminates employees or reduces salaries during the covered period. Any unforgiven portion of a PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for ten months after the end of the covered period.

The Foundation initially recorded a note payable and subsequently recorded forgiveness when the loan obligation was legally released. The Foundation recognized revenue on forgiveness of PPP loan of \$494,735 for the year ended June 30, 2021.

NOTE 7 - IN-KIND CONTRIBUTIONS

The Foundation received donated goods including food, supplies, masks, sanitizers, wipes and other miscellaneous items totaling \$3,696,116 during the year ended June 30, 2021. These amounts have been recognized as in-kind contribution revenue in the statement of activities and included in direct assistance expense in the statement of functional expenses.

THE ZAKAT FOUNDATION OF AMERICA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

NOTE 8 - OPERATING LEASES

The Foundation is obligated under operating leases, primarily for office space, office equipment, and vehicles which expire on various dates through September 2023.

Total rent expense under all operating leases amounted \$127,241 for the year ended June 30, 2021 and is included with occupancy and vehicle lease expense in the statement of functional expenses.

The aggregate future minimum lease commitment on these leases as of June 30, 2021 is as follows:

2022	\$ 50,782
2023	24,000
2024	<u>6,000</u>
Total	<u>\$ 80,782</u>

NOTE 9 - CONCENTRATION OF FOREIGN OPERATIONS

Contributions are raised in the United States of America. Certain program activities funded by the Foundation are delivered in foreign countries affected by civil strife, war, famine, or natural catastrophe and are undertaken on behalf of the Foundation by its local regional offices, United Nations related bodies, and/or locally licensed partner non-governmental organizations. It is considered reasonably possible that operations in one or more of these foreign countries could be disrupted due to political events within such countries. This disruption could materially affect the operation of, and amount of contributions raised for, each such program. As of June 30, 2021, the Foundation has assets outside the United States of America with a carrying value of \$463,862.

NOTE 10 - RETIREMENT PLAN

The Foundation sponsors a 401(k) defined contribution plan for eligible employees. The Foundation matches employee contributions up to 3% of eligible compensation. The Foundation made matching contributions of \$34,378 for the year ended June 30, 2021.

NOTE 11 - IMPACT OF COVID-19

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout the United States of America and the world. To date, the impact on the Foundation's operations and results has not been significant and management expects this to remain the case. Management continues to actively monitor the global situation in order to mitigate any potential future impact on the Foundation's changes in net assets and financial performance.

NOTE 12 - CONTINGENCY

The Foundation is involved in litigation which is not expected to have a material effect on the financial position or the changes in net assets of the Foundation.

THE ZAKAT FOUNDATION OF AMERICA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

NOTE 12 - CONTINGENCY, CONTINUED

The \$494,735 PPP loan and its forgiveness are subject to examination under the terms of the agreement with the Small Business Administration for a period of six years from the date the PPP loan is forgiven. The Foundation is not currently under examination nor has the Foundation been contacted.