

Assurance

● THE ZAKAT FOUNDATION OF AMERICA

AUDITED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2022

LOCAL
KNOWLEDGE,
GLOBAL
EXPERTISE

**THE ZAKAT FOUNDATION OF AMERICA
AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
of The Zakat Foundation of America

Opinion

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, 2022, 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).

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, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The Zakat Foundation of America and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The Zakat Foundation of America's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Zakat Foundation of America's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Zakat Foundation of America's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

PKF Mueller

THE ZAKAT FOUNDATION OF AMERICA
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2022

ASSETS

Cash	\$ 14,746,712
Investments	63,186
Property and equipment, net	3,552,142
Other assets	<u>21,797</u>
Total assets	<u><u>\$ 18,383,837</u></u>

LIABILITIES AND NET ASSETS

Liabilities:

Accounts payable	\$ 192,637
Accrued payroll	84,401
Accrued vacation	<u>224,554</u>
Total liabilities	501,592

Net assets:

Without donor restrictions	<u>17,882,245</u>
Total liabilities and net assets	<u><u>\$ 18,383,837</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, 2022

Support and revenue:

Contributions	\$ 18,929,527
In-kind contributions	266,438
Investment loss	(1,903)
Miscellaneous income	<u>11,044</u>
Total support and revenue	<u>19,205,106</u>

Expenses:

Program services	13,659,681
Supporting services:	
Management and general	673,419
Fundraising	<u>721,608</u>
Total expenses	<u>15,054,708</u>
Change in net assets	4,150,398
Net assets without donor restrictions, beginning of year	<u>13,731,847</u>
Net assets without donor restrictions, end of year	<u><u>\$ 17,882,245</u></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, 2022

		SUPPORTING SERVICES		
	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Accounting fees	\$ -	73,463	5,529	78,992
Advertising	257,670	3,261	65,233	326,164
Association dues	-	34,485	-	34,485
Automobile	5,014	3,191	912	9,117
Bank fees	3,690	3,690	17,217	24,597
Conferences and meetings	46,911	-	1,955	48,866
Credit card processing fees	42,384	42,384	197,790	282,558
Depreciation	-	105,470	-	105,470
Direct assistance	9,300,585	-	-	9,300,585
Education and training	11,107	617	617	12,341
Fundraising events	-	-	177,106	177,106
Insurance	251,236	10,691	5,345	267,272
Interest	-	-	247	247
Legal	59,930	57,206	19,069	136,205
Licenses and taxes	-	8,716	-	8,716
Meals and entertainment	13,188	567	425	14,180
Miscellaneous	847	6,780	847	8,474
Occupancy	118,272	32,403	11,341	162,016
Office expense	72,712	19,921	6,972	99,605
Outside contractor	428,549	4,418	8,836	441,803
Payroll fees	1,857	79	40	1,976
Payroll taxes	184,042	7,832	3,916	195,790
Postage	74,466	20,401	7,140	102,007
Printing and copying	166,107	27,685	83,054	276,846
Real estate taxes	31,371	8,595	3,008	42,974
Repairs and maintenance	-	36,507	2,748	39,255
Retirement benefits	37,000	1,575	787	39,362
Retirement plan fees	705	30	15	750
Salaries	2,119,542	118,583	58,725	2,296,850
Security	11,775	-	886	12,661
Subscriptions	881	-	66	947
Supplies	772	6,178	772	7,722
Telephone	50,956	2,831	2,831	56,618
Travel	99,381	5,647	7,905	112,933
Utilities	67,673	3,845	5,383	76,901
Vehicle lease	8,297	2,273	796	11,366
Website management	192,761	24,095	24,095	240,951
Total expenses	<u>\$ 13,659,681</u>	<u>673,419</u>	<u>721,608</u>	<u>15,054,708</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, 2022

Cash provided (used) by operating activities:

Change in net assets	\$ 4,150,398
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	105,470
Loss on disposal of property and equipment	7,425
Net realized and unrealized loss on investments	3,451
Changes in:	
Other assets	(5,985)
Accounts payable	80,491
Accrued payroll	13,426
Accrued vacation	<u>25,849</u>
Net cash provided by operating activities	<u>4,380,525</u>

Cash provided (used) by investing activities:

Purchases of investments	(1,548)
Purchases of property and equipment	<u>(474,706)</u>
Net cash used by investing activities	<u>(476,254)</u>

Net increase in cash	3,904,271
Cash, beginning of year	<u>10,842,441</u>
Cash, end of year	<u><u>\$ 14,746,712</u></u>

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

THE ZAKAT FOUNDATION OF AMERICA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

NOTE 1 - NATURE OF OPERATIONS

The Zakat Foundation of America (Foundation) is a not-for-profit organization. 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, providing seasonal food distribution, including fresh meat, through the support of community-based initiatives, and by providing clothing 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 (U.S. GAAP).

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, 2022.

Concentration of Credit Risk

The Foundation maintains its cash in bank deposits which, at times, may exceed federally insured limits. The Foundation believes it is not exposed to any significant credit risk on cash.

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 reported net of external and direct internal investment expenses and 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, 2022

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Property and Equipment

Property and equipment have been recorded at cost if purchased or at fair value at the 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	3 - 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.

Support 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, 2022.

THE ZAKAT FOUNDATION OF AMERICA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Change in Accounting Principles – Contributed Nonfinancial Assets

In September 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2020-07, Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets. The ASU improves financial reporting by providing new presentation and disclosure requirements, including presenting contributed nonfinancial assets (in-kind contributions) as a separate line item in the statement of activities apart from contributions of cash and other financial assets. The ASU also requires additional qualitative and quantitative disclosures about the nature, amount, restrictions, and policies surrounding the contributed nonfinancial assets. For the year ended June 30, 2022, the Foundation adopted the ASU on a retrospective basis and has adjusted the presentation in these financial statements accordingly.

In-Kind Contributions

The Foundation receives in-kind contributions of time and services from members of the community and volunteers related to program and fundraising activities. Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Foundation.

The Foundation recognizes in-kind contribution revenue in an amount approximating the estimated fair value at the time of the donation. The Foundation's policy related to in-kind contributions is to utilize the assets given to carry out the mission of the Foundation. If an asset is provided that does not allow the Foundation to utilize it in its normal course of business, the asset will be sold at its fair market value as determined by appraisal or specialist depending on the type of asset.

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 insurance, occupancy, office expense, telephone, and utilities, which are allocated on a square footage basis, as well as salaries, payroll taxes, retirement benefits, and website management, which are allocated on the basis of estimates of time and effort.

Advertising

Advertising costs are expensed as incurred. Advertising expense was \$326,164 for the year ended June 30, 2022.

THE ZAKAT FOUNDATION OF AMERICA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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 Foundation has evaluated the tax positions taken for all open tax years. Currently, the returns for the prior three fiscal years 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, 2022.

Accounting Estimates

The preparation of financial statements in accordance with U.S. GAAP 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.

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 U.S. GAAP, 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 November 14, 2022 to November 14, 2023.

Subsequent Events

Subsequent events have been evaluated through November 14, 2022, the date that the financial statements were available to be issued.

THE ZAKAT FOUNDATION OF AMERICA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

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 June 30, 2022 consist of the following:

Financial assets at year-end:

Cash	\$ 14,746,712
Investments	<u>63,186</u>

Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 14,809,898</u>
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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.

NOTE 4 - FAIR VALUE MEASUREMENTS

U.S. GAAP establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy 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.

THE ZAKAT FOUNDATION OF AMERICA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

NOTE 4 - FAIR VALUE MEASUREMENTS, CONTINUED

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, 2022.

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 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, 2022 totaled \$63,186.

For the year ended June 30, 2022, there were no significant transfers into or out of Level 3.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2022 consisted of the following:

Buildings and improvements	\$ 3,234,459
Furniture and equipment	117,003
Land	663,657
Vehicles	<u>71,066</u>
Total property and equipment	4,086,185
Less accumulated depreciation	<u>(534,043)</u>
Property and equipment, net	<u><u>\$ 3,552,142</u></u>

NOTE 6 - IN-KIND CONTRIBUTIONS

The Foundation received the following in-kind contributions for the year ended June 30, 2022:

Food	\$ 218,132
Health and educational supplies, and clothing	<u>48,306</u>
Total in-kind contributions	<u><u>\$ 266,438</u></u>

The Foundation received packages of food to distribute to needy families. Based on current market rates for these items, the Foundation would have paid \$218,132 for the year ended June 30, 2022.

THE ZAKAT FOUNDATION OF AMERICA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

NOTE 6 - IN-KIND CONTRIBUTIONS, CONTINUED

The Foundation received health and educational supplies, and clothing to distribute to needy families. Based on current market rates for these items, the Foundation would have paid \$48,306 for the year ended June 30, 2022.

All in-kind contributions received by the Foundation for the year ended June 30, 2022 were without donor restrictions and were able to be used by the Foundation as determined by the board of directors and management.

NOTE 7 - OPERATING LEASES

The Foundation is obligated under operating leases, primarily for office space, office equipment, and vehicles which expire on various dates through May 2025.

Total rent expense under all operating leases amounted to \$173,382 for the year ended June 30, 2022 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, 2022 is as follows:

2023	\$ 191,087
2024	126,569
2025	<u>58,054</u>
Total	<u>\$ 375,710</u>

NOTE 8 - CONCENTRATION OF FOREIGN ACTIVITY

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 activity 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, 2022, the Foundation had assets outside the United States of America with a carrying value of \$990,572.

NOTE 9 - RETIREMENT PLAN

The Foundation provides a 401(k) defined contribution plan for eligible employees. The Foundation expenses contributions to the plan as incurred. The Foundation made contributions to the plan of \$39,362 for the year ended June 30, 2022.

THE ZAKAT FOUNDATION OF AMERICA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

NOTE 10 - 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 in certain parts of 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 11 - 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.

In April 2020, the Foundation received loan proceeds in the amount of \$494,735 under the Paycheck Protection Program (PPP). The PPP loan was forgiven by the Small Business Administration in May 2021. The 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 loan is forgiven. The Foundation is not currently under examination nor has the Foundation been contacted.