THE INTERFAITH ALLIANCE FOUNDATION AND AFFILIATE

AUDITED CONSOLIDATED
FINANCIAL STATEMENTS

DECEMBER 31, 2011

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
The Interfaith Alliance Foundation and Affiliate
Washington, D.C.

We have audited the accompanying consolidated statement of financial position of The Interfaith Alliance Foundation and Affiliate (collectively, the Organization) as of December 31, 2011, and the related consolidated statements of activities and change in net assets (deficit), cash flows, and functional expenses for the year then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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.

As described in Note 8 to the consolidated financial statements, the Organization's net assets (deficit) as of December 31, 2010 has been restated for errors in the application of accounting principles.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Interfaith Alliance Foundation and Affiliate as of December 31, 2011, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

We have also audited the adjustments described in Note 8 that were applied to restate the 2010 consolidated financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

BDO USA, LLP

June 21, 2013

THE INTERFAITH ALLIANCE FOUNDATION AND AFFILIATE

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2011

ASSETS

Current assets		
Cash and cash equivalents	$	126,515
Certificate of deposit		50,530
Contributions and other accounts receivable		161,095
Prepaid expenses		10,110
Total current assets		348,250
Property and equipment, net		3,134
Security deposits		10,000
Total assets	$	361,384

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable and accrued expenses	$	186,059
Deferred rent		9,380
Total current liabilities		195,439
Deferred rent		14,117
Total liabilities		209,556
Commitments and contingencies		
Net assets		
Unrestricted net assets		58,495
Temporarily restricted net assets		93,333
Total net assets		151,828
Total liabilities and net assets	$	361,384

The accompanying notes are an integral part of these consolidated financial statements.

THE INTERFAITH ALLIANCE FOUNDATION AND AFFILIATE

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS (DEFICIT)

YEAR ENDED DECEMBER 31, 2011

	Unrestricted	Temporarily Restricted	Total
Revenue and support			
Direct mail contributions	$ 831,147	$ 0	$ 831,147
Foundation grants	212,111	105,000	317,111
Other contributions and bequests	396,081	0	396,081
Events	76,706	0	76,706
List rental income	29,997	0	29,997
Other income	9,902	0	9,902
Net assets released from restriction	215,240	(215,240)	0
Total revenue and support	1,771,184	(110,240)	1,660,944
Expenses			
Program services			
Education, research and civil discourse	823,893	0	823,893
Grassroots organizing, religious outreach and issue advocacy	224,151	0	224,151
Total program services	1,048,044	0	1,048,044
Supporting services			
Management and general	203,118	0	203,118
Fundraising	324,862	0	324,862
Total supporting services	527,980	0	527,980
Total expenses	1,576,024	0	1,576,024
Change in net assets (deficit)	195,160	(110,240)	84,920
Net (deficit) assets, beginning of the year, as restated	(136,665)	203,573	66,908
Net assets, end of the year	$ 58,495	$ 93,333	$ 151,828

The accompanying notes are an integral part of these consolidated financial statements.

THE INTERFAITH ALLIANCE FOUNDATION AND AFFILIATE

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2011

Cash flows from operating activities:	
Change in net assets (deficit)	$ 84,920
Adjustments to reconcile changes in net assets (deficit) to net cash provided by operating activities:	
Depreciation and amortization	7,361
Interest earned on certificate of deposit	(357)
Changes in operating assets and liabilities:	
Contributions and other accounts receivable	(3,741)
Prepaid expenses	17,761
Accounts payable and accrued expenses	(48,227)
Deferred rent	(4,824)
Total adjustments	(32,027)
Net cash provided by operating activities	52,893
Net increase in cash and cash equivalents	52,893
Cash and cash equivalents, beginning of the year	73,622
Cash and cash equivalents, end of the year	$ 126,515

The accompanying notes are an integral part of these consolidated financial statements.

THE INTERFAITH ALLIANCE FOUNDATION AND AFFILIATE

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2011

	Education, Research and Civil Discourse	Grassroots Organizing, Religious Outreach and Issue Advocacy	Management and General	Fundraising	Total
Salaries, payroll taxes and benefits	$ 300,757	$ 123,081	$ 173,385	$ 107,376	$ 704,599
Professional services	195,765	38,198	7,729	78,366	320,058
Direct mail	224,943	0	0	57,329	282,272
Occupancy	56,759	20,912	9,108	9,749	96,528
Conferences, conventions and events	(114)	19,958	0	54,510	74,354
Equipment rental and maintenance	21,655	8,016	3,971	4,012	37,654
Travel	10,388	7,872	1,777	9,730	29,767
Telephone and communications	8,957	3,427	4,116	2,204	18,704
Depreciation and amortization	3,495	1,415	1,188	1,263	7,361
Other	1,288	1,272	1,844	323	4,727
Total expenses	$ 823,893	$ 224,151	$ 203,118	$ 324,862	$ 1,576,024

The accompanying notes are an integral part of these consolidated financial statements.

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Interfaith Alliance is a nonpartisan, grassroots organization that celebrates religious freedom by championing individual rights, promoting policies that protect both religion and democracy, and uniting diverse voices to challenge extremism. Interfaith Alliance has 185,000 members across the country made up of 75 faith traditions as well as those of no faith tradition. Interfaith Alliance is comprised of The Interfaith Alliance Foundation (TIAF), a tax-exempt organization under section 501(c)(3) of the Internal Revenue Code (IRC), and The Interfaith Alliance (TIA), a tax-exempt organization under section 501(c)(4) of the IRC.

The significant accounting policies followed by Interfaith Alliance are described below.

Principles of consolidation

The consolidated financial statements include the accounts of TIAF and TIA (collectively, the Organization) due to the presence of common control and economic interest. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of estimates

The preparation of consolidated 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 consolidated financial statements. Such estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results may differ from estimates under different assumptions or conditions.

Revenue recognition

Contributions and grants are reported as revenue in the year in which payments are received and/or unconditional promises are made. Contributions and grants are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted support. When a donor 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 accompanying consolidated statement of activities and change in net assets (deficit) as net assets released from restrictions. Contributions with donor-stipulated restrictions which are met within the same reporting period are reported as unrestricted. Wills are recorded as bequest revenue when the probate courts declare the wills valid and the proceeds are measurable.

Registration fees for conferences and sponsorships thereof are recognized as revenue in the period the related events are held. Other revenues are recognized when earned.

Cash equivalents

The Organization considers all highly liquid instruments with original maturities of three months or less to be cash equivalents.

Certificate of deposit

The certificate of deposit is recorded at cost, which approximates fair value.

Allowance for doubtful accounts

The Organization provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information, and existing economic conditions. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer. As of December 31, 2011, all amounts are due within one year and are deemed to be fully collectible.

Property and equipment

Property and equipment is stated at cost. The Organization capitalizes property and equipment with a useful life of more than one year and the cost is equal of exceeds $500. When property and equipment is retired, or otherwise disposed of, the cost and accumulated depreciation and amortization is removed from the accounts and any resulting gain or loss is included in the results of operations for the respective period. Depreciation and amortization of property and equipment is computed using the straight-line method over the estimated useful lives of the assets of three to ten years.

Net asset classification

The Organization classifies its net assets into three categories: unrestricted, temporarily restricted, or permanently restricted. All contributions and other inflows of assets are considered to be available for unrestricted use unless specifically restricted by the donor. Unrestricted net assets, including internally designated amounts, are available for the general operations of the Organization.

Temporarily restricted net assets are contributions with temporary, donor-imposed time and/or program restrictions. Temporarily restricted net assets are reported in the statements of activities and change in net deficit as net assets released from restrictions when the time restrictions expire or the funds are used for their restricted purpose.

Permanently restricted net assets are inflows of net assets with donor-imposed stipulations that the resources must be maintained permanently. There were no permanently restricted net assets as of December 31, 2011.

Income taxes

TIAF and TIA are generally exempt from federal and state income taxes on any net income derived from activities related to their exempt purposes under Section 501(c)(3) and 501(c)(4), respectively, of the Internal Revenue Code. TIAF and TIA are taxed on any net income derived from unrelated business activities. For the year ended December 31, 2011, no provision for income taxes is recorded as TIAF and TIA had no significant unrelated business income.

In accordance with authoritative guidance issued by the Financial Accounting Standards Board (the FASB), the Organization recognizes tax liabilities when, despite the management's belief that tax return positions are supportable, the Organization believes that certain positions may not be fully sustained upon review by tax authorities. Benefits from tax positions are measured at the largest amount of benefit that is greater than 50% likely of being realized upon settlement. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences impact income tax expense in the period in which such determination is made. Interest and penalties, if any, related to accrued liabilities for potential tax assessments are included in income tax expense. With few exceptions, the Organization is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years ended December 31, 2008 and prior. Management has evaluated the Organization's tax positions and has concluded that the Organization has taken no material uncertain tax positions that require adjustment to the consolidated financial statements to comply with the provisions of this guidance.

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying consolidated statement of activities and change in net assets (deficit). Salaries are allocated between fundraising, management and general, or the appropriate program based on the actual or estimated time employees spend on each function. The remaining costs are specifically allocated whenever practical, or are allocated based on management's best estimate.

Concentrations of credit risk

The Organization's assets that are exposed to credit risk consist primarily of cash and cash equivalents, certificate of deposit, and contributions and other accounts receivable. Cash and cash equivalents balances and the certificate of deposit are maintained at high-quality financial institutions and the Organization believes the credit risk related to these cash and cash equivalents balances and certificate of deposit is minimal. Contributions and grants receivable consist mainly of amounts due from individuals and other not-for-profit organizations, all of which were collected subsequent to year-end. List rental receivable consists of an amount due from a commercial entity that was collected subsequent to year-end. Historically, the Organization has not experienced significant losses related to contributions and other accounts receivable and, therefore, believes the credit risk related to these receivables is minimal.

Subsequent events

The Organization has evaluated its December 31, 2011 consolidated financial statements for subsequent events through June 21, 2013, the date the consolidated financial statements were available to be issued. The Organization is not aware of any subsequent events which would require recognition or disclosure in the consolidated financial statements.

NOTE 2 - CONTRIBUTIONS AND OTHER ACCOUNTS RECEIVABLE

Contributions and other accounts receivable consist of the following at December 31, 2011:

Contributions and grants	$ 107,137
Grants	43,541
List rental	10,417
	$ 161,095

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31, 2011:

Office furniture and equipment	$ 106,409
Communications equipment	35,624
Computer equipment	28,631
	170,664
Less: accumulated depreciation and amortization	(167,530)
	$ 3,134

NOTE 4 - RETIREMENT PLAN

403(b) plan

The Organization maintains a defined contribution 403(b) profit sharing plan (the 403(b) Plan) for all employees with at least six months of service and who are over 18 years of age. Participants may make voluntary contributions up to the maximum amount allowable by law. The Organization contributes matching contributions equal to 100% of the employee deferral contributions up to 5%. The Organization recorded contributions to the 403(b) Plan of $13,534 for the year ended December 31, 2011.

457 plan

Under the terms of a Section 457 deferred compensation plan (the 457 Plan), the Organization is obligated for payments to a certain key employee and his beneficiaries. The Organization recorded contributions to the 457 Plan of $15,000 for the year ended December 31, 2011.

NOTE 5 - TEMPORARILY RESTRICTED NET ASSETS

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

Purpose restrictions - LEADD project	$ 93,333

NOTE 6 - ALLOCATION OF JOINT COSTS

The Organization conducts direct mail campaigns, which include appeals for contributions and program components. The Organization allocates the expenses incurred for direct mailing pieces that include a request for financial support among the functional expenses to which the mailing pieces relate. This allocation is based upon percentages of material in each mailing related to the particular services as determined by content analysis. Total costs for the mailing pieces that requested financial support and served program functions were allocated as follows for the year ended December 31, 2011:

Education, research and civil discourse	$ 224,943
Fundraising	57,329
	$ 282,272

NOTE 7 - COMMITMENTS

TIA and TIAF were jointly liable on a non-cancelable operating lease agreement for its former office space, which expired on July 31, 2010. In November 2006, TIA and TIAF entered into an additional office space lease in an effort to reduce operating costs. This lease commenced in April 2008 and was scheduled to expire in 2017. However, in an effort to reduce costs further, the landlord agreed to amend the lease, effective January 1, 2009, relocating the Organization to a different floor within the building, and changed the lease termination date from December 31, 2017 to December 31, 2013.

The following is a schedule by year of the approximate future minimum lease payments required under the above operating lease, which has a non-cancelable term in excess of one year as of December 31, 2011:

Years ending December 31,	
2012	$ 118,000
2013	123,000
	$ 241,000

In accordance with authoritative guidance issued by the FASB, the Organization is recognizing the total cost of its office leases ratably over the respective lease periods. The difference between rent paid and that expensed is reflected as deferred rent in the accompanying consolidated statement of financial position.

Total rent expense under operating leases was $103,960 for the year ended December 31, 2011.

NOTE 8 - RESTATEMENT

The Organization's net deficit at December 31, 2010, as previously reported, has been adjusted to correct cut-off errors made in 2010 in the recording of contributions receivable and accounts payable. Had the errors not been made, revenue for the year ended December 31, 2011 would have been increased by $50,000 and expenses would have been reduced by $42,150. As a result, the Organization's unrestricted net deficit as of December 31, 2010 has been decreased by $42,150 and the Organization's temporarily restricted net assets as of December 31, 2010 has been increased by $50,000.