AUDITED CONSOLIDATED
FINANCIAL STATEMENTS

THE INTERFAITH ALLIANCE FOUNDATION AND AFFILIATE

DECEMBER 31, 2010

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CONTENTS

INDEPENDENT AUDITOR'S REPORT

To the 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, 2010 and the related consolidated statements of activities and change in net assets (deficit), of cash flows, and of 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 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, 2010, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 9 to the consolidated financial statements, unrestricted net deficit as of December 31, 2009 has been restated for errors in the application of accounting principles.

Argy, Wiltse & Robinson, P.C.

McLean, Virginia
January 12, 2012

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THE INTERFAITH ALLIANCE FOUNDATION AND AFFILIATE

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2010

ASSETS

Current assets	
Cash and cash equivalents	$ 73,622
Certificate of deposit	50,173
Contributions and other accounts receivable	107,354
Prepaid expenses	27,871
Total current assets	259,020
Property and equipment, net	10,495
Security deposits	10,000
Total assets	$ 279,515

LIABILITIES AND NET ASSETS (DEFICIT)

Current liabilities	
Accounts payable and accrued expenses	$ 276,436
Deferred rent	4,825
Total current liabilities	281,261
Deferred rent	23,496
Total liabilities	304,757
Commitments and contingencies	
Net assets (deficit)	
Unrestricted net deficit	(178,815)
Temporarily restricted net assets	153,573
Total net assets (deficit)	(25,242)
Total liabilities and net assets (deficit)	$ 279,515

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, 2010

	Unrestricted	Temporarily Restricted	Total
Revenue and support			
Direct mail contributions	$ 1,044,768	$ 0	$ 1,044,768
Foundation grants	0	285,305	285,305
Other contributions and bequests	278,458	0	278,458
Events	176,361	0	176,361
List rental income	63,369	0	63,369
Other income	103,660	0	103,660
Net assets released from restriction	131,732	(131,732)	0
Total revenue and support	1,798,348	153,573	1,951,921
Expenses			
Program services			
Education, research and civil discourse	742,535	0	742,535
Grassroots organizing, religious outreach and issue advocacy	187,950	0	187,950
Total program services	930,485	0	930,485
Supporting services			
Management and general	362,794	0	362,794
Fundraising	460,339	0	460,339
Total supporting services	823,133	0	823,133
Total expenses	1,753,618	0	1,753,618
Change in net assets (deficit)	44,730	153,573	198,303
Net deficit, beginning of year, as restated	(223,545)	0	(223,545)
Net assets (deficit), end of year	$ (178,815)	$ 153,573	$ (25,242)

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, 2010

Cash flows from operating activities:	
Change in net assets (deficit)	$ 198,303
Adjustments to reconcile changes in net assets (deficit) to net cash used in operating activities:	
Depreciation and amortization	15,135
Loss on disposal of property and equipment	1,595
Changes in operating assets and liabilities:	
Contributions and other accounts receivable	59,985
Prepaid expenses	(13,463)
Accounts payable and accrued expenses	(281,997)
Deferred rent	17,733
Total adjustments	(201,012)
Net cash used in operating activities	(2,709)
Net cash used in investing activities:	
Decrease in certificate of deposit	2,120
Purchase of property and equipment	(3,670)
Net cash used in investing activities	(1,550)
Net decrease in cash and cash equivalents	(4,259)
Cash and cash equivalents, beginning of the year, as restated	77,881
Cash and cash equivalents, end of the year	$ 73,622

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, 2010

	Education, Research and Civil Discourse	Grassroots Organizing, Religious Outreach and Issue Advocacy	Management and General	Fundraising	Total
Salaries, payroll taxes and benefits	$ 245,333	$ 106,668	$ 140,492	$ 107,598	$ 600,091
Direct mail	259,975	0	0	202,524	462,499
Professional services	123,432	19,322	64,419	35,930	243,103
Occupancy	60,972	25,913	127,755	25,913	240,553
Conferences and conventions	4,184	17,349	279	61,976	83,788
Travel	17,318	7,426	5,135	13,962	43,841
Equipment rental and maintenance	15,447	5,981	9,121	5,981	36,530
Telephone and communications	8,740	2,270	5,045	3,299	19,354
Depreciation and amortization	6,070	2,569	3,928	2,568	15,135
Other	1,064	452	6,620	588	8,724
Total expenses	$ 742,535	$ 187,950	$ 362,794	$ 460,339	$ 1,753,618

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.

During 2010, Interfaith Alliance worked to counter Islamophobia by elevating the voices of people of faith who support religious freedom for all. It sought to move the discussion about same-gender marriage from one based on religion to one based on the U.S. Constitution though public forums and quiet conversations. Interfaith Alliance sought to identify problems and advance solutions related to religious freedom in the military though private discussions with military officials and public forums. Working in coalition with other partners, Interfaith Alliance was able to help move the White House Office of Faith Based and Community Partnerships more in line with the U.S. Constitution, though there is still work to be done. During the 2010 election cycle, Interfaith Alliance continued to educate candidates and houses of worship on how to engage with each other while respecting appropriate ethical and legal boundaries. The LEADD high school program continued to flourish, educating dozens of students about the First Amendment to the U.S. Constitution and religious freedom. In addition, Interfaith Alliance presented the Walter Cronkite Faith & Freedom Award to Rachel Maddow and Rev. Joan Brown Campbell.

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.

Contributions receivable

Contributions receivable primarily represent amounts due from corporations and individuals. 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. All amounts are due within one year and are deemed to be fully collectible.

Property and equipment

Property and equipment is stated at cost. Expenditures for major additions and improvements are capitalized and minor replacements, maintenance, and repairs are charged to expense as incurred. When property and equipment is retired, or otherwise disposed of, the cost and accumulated depreciation 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, 2010.

Income taxes

TIAF and TIA are generally exempt from federal and state income taxes under Section 501(c)(3) and 501(c)(4), respectively, of the Internal Revenue Code on any net income derived from activities related to their exempt purposes. TIAF and TIA are taxed on any net income derived from unrelated business activities. For the year ended December 31, 2010, no provision for income taxes is recorded as TIAF and TIA had no 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, 2006 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 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 receivable consist mainly of amounts due from individuals and other not-for-profit organizations, all of which were collected subsequent to year-end. Historically, the Organization has not experienced significant losses related to contributions receivable and, therefore, believes that the credit risk related to these receivables is minimal.

Subsequent events

The Organization has evaluated its December 31, 2010 consolidated financial statements for subsequent events through January 12, 2012, 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 - OPERATIONS

As of December 31, 2010, the Organization has a net deficit of $25,242. The President and the Organization's Board of Directors have been and are taking this deficit seriously. Senior management and board members are continuing a three-year plan aimed at helping the Organization deliver its much-needed programs, while ensuring financial sustainability into the future. Together, management and the Executive Committee have developed and are implementing a financial strategy to address this situation. During 2010, the Organization implemented additional cost cutting measures after projecting the smallest annual budget the Organization has adopted in the last decade. Lowering costs while giving priority to repaying existing debt have moved the Organization toward greater financial stability. During 2011, the Organization launched a planned giving program. In 2012, the Organization will buttress that with an increased focus on major donors. A new planned-giving program has brought the Organization modest though greater than usual income, and should yield higher income in future years. At the end of 2010, the Organization has extinguished approximately $1 million of debt incurred during the economic downturn of 2008-2009. Management expects to extinguish all but $33,000 of prior year indebtedness by December 31, 2011, and expects its revised development program to raise between $500,000 and $1 million dollars of additional income as soon it is launched in early 2012.

NOTE 3 - CONTRIBUTIONS AND OTHER ACCOUNTS RECEIVABLE

Contributions and other accounts receivable consist of the following at December 31, 2010:

Contributions and grants	$ 87,591
List rental	13,771
Other	5,992
	$ 107,354

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31, 2010:

Office furniture and equipment	$ 105,451
Communications equipment	35,624
Computer equipment	28,631
	169,706
Less: accumulated depreciation and amortization	(159,211)
	$ 10,495

NOTE 5 - 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 $23,752 for the year ended December 31, 2010.

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, 2010.

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

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

Purpose restrictions:	
LGBT project	$ 80,269
LEADD project	10,804
Time restrictions	62,500
	$ 153,573

NOTE 7 - 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, 2010:

Education, research and civil discourse	$ 259,975
Fundraising	51,349
	$ 311,324

NOTE 8 - 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.

In February 2007, the Organization entered into a sublease with a third party to occupy the remainder of its original lease. This sublease commenced on May 15, 2007, and expired on July 31, 2010.

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, 2010:

Years ending December 31,	
2011	$ 114,000
2012	118,000
2013	123,000
Total minimum payments	$ 355,000

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 $240,553 for the year ended December 31, 2010. Total sublease income, which is included in other income in the accompanying consolidated statement of activities and change in net assets (deficit), was $102,300 for the year ended December 31, 2010.

NOTE 9 - RESTATEMENT

The unrestricted net deficit at December 31, 2009, as previously reported, has been adjusted to correct errors made in 2009 related to the method of revenue recognition for contributions collected by third party service providers as well as for bequest contributions; inaccurate vendor payable balances; improperly reconciled bank accounts; the absence of accruals for prepaid expenses; and inaccurate accruals for certain accrued expenses. Had the error not been made, the change in net assets (deficit) for the year ended December 31, 2009 would have been increased by $378,857. In addition, cash and cash equivalents at December 31, 2009, as previously reported, was decreased by $39,655 as a result of this restatement.