

**Advocates International, Inc.****Financial Statements****For the Year Ended December 31, 1998****(With Summarized Financial Information for the Year Ended December 31, 1997)****With Independent Auditors' Report**

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## INDEPENDENT AUDITORS' REPORT

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TO THE BOARD OF DIRECTORS  
ADVOCATES INTERNATIONAL, INC.  
Fairfax, Virginia

We have audited the accompanying statement of financial position of ADVOCATES INTERNATIONAL, INC. (the "Organization") as of December 31, 1998, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ADVOCATES INTERNATIONAL, INC. as of December 31, 1998, and the change in its net assets and cash flows for the year then ended in conformity with generally accepted accounting principles.

*Hoffman Morrison & Fitzgerald, P.C.*

McLean, Virginia  
July 30, 1999

**Advocates International, Inc.**  
**Statement of Financial Position**  
**December 31, 1998**  
**(With Summarized Financial Information for December 31, 1997)**

	<u>1998</u>	<u>1997</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash	\$ 1,048	\$ 12,589
Prepaid expenses and other assets	<u>1,243</u>	<u>7,168</u>
Total current assets	2,291	19,757
<b>EQUIPMENT, at cost</b>	40,532	40,532
Less: accumulated depreciation	<u>(33,938)</u>	<u>(25,572)</u>
Net equipment	<u>6,594</u>	<u>14,960</u>
	\$ <u><u>8,885</u></u>	\$ <u><u>34,717</u></u>
<b>LIABILITIES AND NET ASSETS (DEFICIT)</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ <u>17,667</u>	\$ <u>29,121</u>
NOTE PAYABLE - board member	<u>15,000</u>	<u>20,000</u>
Total liabilities	32,667	49,121
<b>NET ASSETS (DEFICIT):</b>		
Unrestricted	(23,782)	(15,379)
Temporarily restricted	<u>-</u>	<u>975</u>
Total net assets (deficit)	<u>(23,782)</u>	<u>(14,404)</u>
	\$ <u><u>8,885</u></u>	\$ <u><u>34,717</u></u>

**Advocates International, Inc.****Statement of Activities****For the Year Ended December 31, 1998****(With Summarized Financial Information for the Year Ended December 31, 1997)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>1998 Total</u>	<u>1997 Total</u>
<b>SUPPORT AND REVENUE:</b>				
Contributions	\$ 251,680	\$ 87,623	\$ 339,303	\$ 233,245
Grants	85,000	-	85,000	123,000
Other income	615	-	615	6,057
Forgiveness of debt	5,000	-	5,000	20,000
Donated services	167,200	-	167,200	-
Net assets released from restrictions	88,598	(88,598)	-	-
Total support and revenue	<u>598,093</u>	<u>(975)</u>	<u>597,118</u>	<u>382,302</u>
<b>EXPENSES:</b>				
Programs	539,127	-	539,127	314,600
General and administrative	35,498	-	35,498	39,526
Fundraising	31,871	-	31,871	41,407
Total expenses	<u>606,496</u>	<u>-</u>	<u>606,496</u>	<u>395,533</u>
CHANGE IN NET ASSETS	(8,403)	(975)	(9,378)	(13,231)
NET ASSETS (DEFICIT), BEGINNING OF YEAR	<u>(15,379)</u>	<u>975</u>	<u>(14,404)</u>	<u>(1,173)</u>
NET ASSETS (DEFICIT), END OF YEAR	<u>\$ (23,782)</u>	<u>\$ -</u>	<u>\$ (23,782)</u>	<u>\$ (14,404)</u>

*Saved on  
disk***Advocates International, Inc.****Statement of Functional Expenses****For the Year Ended December 31, 1998****(With Summarized Financial Information for the Year Ended December 31, 1997)**

	Programs	General and Admin- istrative	Fund- raising	1998 Total	1997 Total
Salaries & employee benefits	\$ 150,676	\$ 17,170	\$ 11,719	\$ 179,565	\$ 188,657
Bank Charges	-	1,147	-	1,147	700
Conferences	13,843	-	365	14,208	1,591
Depreciation	6,991	806	569	8,366	8,107
Dues and fees	2,075	207	153	2,435	2,672
Educational resources	18,587	-	-	18,587	-
Interest expense	-	1,600	-	1,600	800
International support	222,366	-	-	222,366	31,400
Meals and entertainment	3,810	325	126	4,261	7,724
Miscellaneous	1,214	1,332	98	2,644	5,365
Office	14,708	4,764	2,150	21,622	2,695
Payroll taxes	8,243	1,143	1,817	11,203	14,675
Postage and shipping	10,940	133	5,151	16,224	13,565
Printing	10,000	208	3,868	14,076	22,025
Professional fees	4,705	1,055	3,045	8,805	12,603
Program donations	8,187	-	-	8,187	9,611
Public relations	703	-	153	856	881
Rent	15,000	1,775	1,225	18,000	22,500
Repairs and maintenance	173	2,318	39	2,530	2,028
Telephone	5,544	973	722	7,239	9,368
Travel	40,426	428	556	41,410	37,117
Utilities	936	114	115	1,165	1,449
	<u>\$ 539,127</u>	<u>\$ 35,498</u>	<u>\$ 31,871</u>	<u>\$ 606,496</u>	<u>\$ 395,533</u>

**Advocates International, Inc.**

**Statement of Cash Flows**

**For the Year Ended December 31, 1998**

**(With Summarized Financial Information for the Year Ended December 31, 1997)**

	<b>1998</b>	<b>1997</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from contributors, grantors and others	\$ 430,843	\$ 375,507
Cash paid to suppliers, employees and grant recipients	(440,784)	(390,958)
Interest paid	(1,600)	(800)
Net cash used in operating activities	(11,541)	(16,251)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Payments for purchase of equipment	-	(1,760)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from note payable to board member	-	20,000
<b>NET CHANGE IN CASH</b>	(11,541)	1,989
<b>CASH, BEGINNING OF YEAR</b>	12,589	10,600
<b>CASH, END OF YEAR</b>	\$ 1,048	\$ 12,589
<b>RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH USED BY OPERATING ACTIVITIES:</b>		
Change in net assets	\$ (9,378)	\$ (13,231)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation expense	8,366	8,107
Forgiveness of debt	(5,000)	(20,000)
Changes in assets and liabilities affecting operations:		
Prepaid expenses and other assets	5,925	(4,332)
Accounts payable and accrued expenses	(11,454)	13,205
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	\$ (11,541)	\$ (16,251)

## Advocates International, Inc.

### Notes to Financial Statements

December 31, 1998

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#### A. ORGANIZATION

Advocates International, Inc. (the "Organization") is a not-for-profit organization incorporated in the Commonwealth of Virginia on December 29, 1992. The purpose of the Organization is to promote religious liberty, justice and reconciliation through an international network of attorneys and skilled laypersons, focused primarily in ten countries. National conferences help to build this network and related national judicial systems. The Organization works with other international and missions organizations to analyze and solve problems, and gives presentations in the United States, to promote its mission.

#### B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of accounting** - The financial statements of the Organization have been prepared on the accrual basis of accounting. Under this basis, revenue is recognized when earned and expenses are recognized as incurred.

**Use of estimates and assumptions** - Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

**Financial statement presentation** - The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. As of December 31, 1998, the Organization had no temporarily or permanently restricted net assets.

**Contributions** - Grants and contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any restrictions. The Organization reports gifts of cash and other assets as temporarily restricted support 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, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restrictions.

## Advocates International, Inc.

### Notes to Financial Statements

December 31, 1998

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#### B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Contributed services** - Donated services are a significant and integral part of the efforts of the Organization and are primarily provided by various legal services in the United States and in other countries. Officers and directors of the Organization in developing and managing programs also provide donated services. Management estimates the fair market value of these services based on the average market value for the services rendered. Contributed services were \$167,200 for the year ended December 31, 1998.

**Equipment** - Equipment is stated at cost and is depreciated using the straight-line method over an estimated useful life of five years.

**Functional allocation of expenses** - The Organization's expenses have been summarized on a functional basis in the statement of activity. Accordingly, certain costs have been allocated among the areas benefited.

**Income taxes** - The Organization is a Section 501(c)(3) organization exempt from income tax under Section 501(a) of the Internal Revenue Code and applicable income tax regulations of the Commonwealth of Virginia.

**Summarized financial information** - The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 1997 from which the summarized information was derived.

#### C. PROGRAMS

The Organization's major program activities for 1998 include:

- Convened first International Convocation with 51 participants from 26 nations.
- Consulted Members of Congress on the International Religious Freedom Act of 1998 and the Freedom from Religious Persecution act of 1998.
- Provided books and other sources on religion, law, and culture to the Institute for American Studies, China Academy of Social Sciences and Tshinghua University Law School.

**Advocates International, Inc.****Notes to Financial Statements****December 31, 1998**

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**C. PROGRAMS (Continued)**

- Co-sponsored first-ever religious tolerance conference in Mongolia with key leaders from Parliament, Mongolia State University, and the Mongolian religious community.
- Co-hosted a visit to Washington, DC by a 14-member Albanian student delegation, winners of the first mock trial competition in Albania.
- Facilitated a visit to South Africa by noted U.S. pro-life scholar and advocated to help prepare for a major Supreme Court pro-life case.
- Meetings in Tirana, Albania with legal scholars, parliamentarians and others concerning the proposed Constitution, freedom of conscience and related matters.
- Meetings in Sofia, Bulgaria with the Rule of Law Institute, Members of Parliament, Director of Religious Affairs, and others concerning religious freedom and related matters.
- Co-sponsored church leadership seminar on Christian mediation and reconciliation in Zambia.
- Meetings in South Africa with leaders of the Christian Lawyers Association to discuss joint efforts in Africa and the pro-life challenges facing South Africa.
- Meetings in Zambia with leaders of the Christian Lawyers Foundation.
- Meetings with Religious Affairs Bureau Director in Beijing, China, regarding religious liberty.
- Co-hosted visit by President of Minister of Justice of Albania to National Prayer Breakfast.

**D. SIGNIFICANT CONCENTRATIONS**

A significant concentration of support and revenue exists in the top six contributors. The top six donors contributed \$126,700 and \$163,450, which represented 30% and 44% of total support and revenue for the years ended 1998 and 1997, respectively.

**Advocates International, Inc.****Notes to Financial Statements****December 31, 1998**

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**E. TEMPORARILY RESTRICTED NET ASSETS**

Net assets released from donor restriction by incurring expenses satisfying the restricted purposes, or by occurrence of other events specified by donors, are as follows for the year ended December 31, 1998:

International Convocation	\$85,473
South Africa	1,250
Other	<u>1,875</u>
	<u>\$88,598</u>

**F. RELATED PARTIES**

The Organization has an unsecured note payable to a Board member, dated January 1997, for \$20,000, due on or before January 14, 2002. Interest is due in six-month installments at 8%. As of December 31, 1998, \$5,000 of that note has been forgiven.

The Organization leases office space in Fairfax, Virginia, from a company in which the Organization's President is an owner. The lease began on January 1, 1998 and ends December 31, 1998, from then continuing month to month. Rent expense for 1998 was \$18,000.