



# *Moran & Company P.C.*

*Certified Public Accountants & Business Consultants*

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## **Independent Auditor's Report**

### **To the Board of Directors of Advocates International, Inc:**

We have audited the accompanying Statement of Financial Position of **Advocates International, Inc.** as of December 31, 2003, and the related Statements of Activities and Cash Flows for the year then ended. The Summarized Financial Information for the prior year was audited by another auditor. Those auditors expressed an unqualified opinion on those financial statements in their report dated July 25, 2003. 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 U.S. 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, 2003 and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule of Functional Expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on it.

*Moran & Company, PC*

Moran & Company CPA  
June 28, 2004

**Advocates International, Inc.**  
**Statement of Financial Position**  
**December 31, 2003**  
(With Summarized Financial Information at December 31, 2002)

	2003	2002
<b>Assets</b>		
<b>Current Assets:</b>		
Cash	\$ 12,453	\$ 15,475
Grants Receivable	15,000	20,000
Donor Receivables	4,000	1,295
Inventory-Program Supplies	20,701	25,879
Prepaid Expenses	2,391	4,760
Total Current Assets	54,545	67,409
<b>Property and Equipment:</b>		
Real Property	21,471	21,471
Equipment	63,847	58,338
Accumulated Depreciation	(51,988)	(42,514)
Net Property and Equipment	33,330	37,295
<b>Other Assets:</b>		
Intangibles, Net of Accumulated Amortization	161,505	185,879
Total Other Assets	161,505	185,879
<b>Total Assets</b>	<b>\$ 249,380</b>	<b>\$ 290,583</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities:</b>		
Accounts Payable and Accrued Expenses	\$ 7,647	\$ 29,068
Due to Care For Children	0	75,000
Line of Credit	50,000	37,099
Total Current Liabilities	57,647	141,167
<b>Total Liabilities</b>	57,647	141,167
<b>Net Assets</b>		
Unrestricted	191,733	129,416
Temporarily Restricted	0	20,000
Total Net Assets	191,733	149,416
<b>Total Liabilities and Net Assets</b>	<b>\$ 249,380</b>	<b>\$ 290,583</b>

See Accountants' Report and Notes to Financial Statements

**Advocates International, Inc.**  
**Statement of Activities**  
**For the Year Ended December 31, 2003**  
**(With Summarized Financial Information for the Year Ended December 31, 2002)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2003 Total</u>	<u>2002 Total</u>
Support and Revenue:				
Contributions	\$ 574,942	\$ -	\$ 574,942	\$ 593,054
Grants	140,000	-	140,000	211,000
Donated Services	174,648	-	174,648	489,190
Donated Overseas Expenses	105,880	-	105,880	326,685
Other Income	14,748	-	14,748	29,233
Net Assets Released from Restrictions	20,000	(20,000)	-	-
Total Support and Revenue	<u>1,030,218</u>	<u>(20,000)</u>	<u>1,010,218</u>	<u>1,649,162</u>
Expenses:				
Program	827,233	-	827,233	1,362,440
General and Administrative	89,056	-	89,056	65,851
Fundraising	51,612	-	51,612	56,423
Total Expenses	<u>967,901</u>	<u>-</u>	<u>967,901</u>	<u>1,484,714</u>
Change in Net Assets from Operations	62,317	(20,000)	42,317	164,448
Net Assets (Deficit), Beginning of Year	<u>129,416</u>	<u>20,000</u>	<u>149,416</u>	<u>(15,032)</u>
Net Assets (Deficit), End of Year	<u>\$ 191,733</u>	<u>\$ -</u>	<u>\$ 191,733</u>	<u>\$ 149,416</u>

See Accountants' Report and Notes to Financial Statements

**Advocates International, Inc.**  
**Schedule of Functional Expenses**  
**For the Year Ended December 31, 2003**  
(With Summarized Financial Information for the Year Ended December 31, 2002)

	Program	General & Administrative	Fundraising	2003 Total	2002 Total
Bank Charges	\$ -	\$ 3,889	\$ -	\$ 3,889	\$ 2,834
Conferences	193,003	-	-	193,003	437,737
Depreciation and Amortization	48,433	1,046	511	49,990	20,103
Dues and Fees	989	670	45	1,704	2,011
Educational Resources	-	-	-	-	5,000
Interest	-	3,679	-	3,679	2,509
International Support	241,568	-	-	241,568	342,938
Meals and Entertainment	3,912	1,882	416	6,210	8,177
Miscellaneous	1,474	2,863	4,767	9,104	18,893
Office	16,579	12,677	816	30,072	39,807
Payroll Taxes	12,178	3,071	1,559	16,808	19,207
Pension	14,318	1,875	-	16,193	12,067
Postage and Shipping	6,794	2,049	6,445	15,288	20,779
Printing	11,854	1,014	4,606	17,474	17,399
Professional Fees	3,562	15,929	733	20,224	9,692
Program Donations	1,736	-	-	1,736	4,606
Property Taxes	-	309	-	309	2,223
Rent	28,400	10,696	4,300	43,396	36,990
Repairs and Maintenance	-	1,212	-	1,212	3,155
Salaries and Employee Benefits	194,789	24,684	25,551	245,024	321,342
Telephone	6,184	788	740	7,712	9,745
Travel	39,612	492	892	40,996	145,080
Utilities	1,848	231	231	2,310	2,420
<b>Total Functional Expenses</b>	<b>\$827,233</b>	<b>\$ 89,056</b>	<b>\$ 51,612</b>	<b>\$ 967,901</b>	<b>\$ 1,484,714</b>

See Accountants' Report and Notes to Financial Statements

**Advocates International, Inc.**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2003**  
**(With Summarized Financial Information for the Year Ended December 31, 2002)**

	2003	2002
Cash flows from operating activities		
Change in Net Assets	\$ 42,317	\$ 164,448
Adjustments to reconcile net income to net cash provided by operating activities:		
(Increase) Decrease in other current assets	2,473	23,671
(Increase) Decrease in other assets	0	(196,107)
(Increase) decrease in grants receivable	5,000	(5,000)
(Increase) decrease in prepaid expenses	2,369	(1,513)
Increase (decrease) in accounts payable	(21,421)	(74,663)
Increase (decrease) in accrued expenses	(75,000)	75,000
Depreciation and amortization	49,993	20,103
Total adjustments	<u>(36,586)</u>	<u>(158,509)</u>
Net cash provided (used) by operating activities	<u>5,731</u>	<u>5,939</u>
Cash flow from investing activities:		
Cash payments for the purchase of property	<u>(21,654)</u>	<u>(5,393)</u>
Net cash provided (used) by investing activities	<u>(21,654)</u>	<u>(5,393)</u>
Cash flow from financing activities:		
Net borrowings on line of credit	<u>12,901</u>	<u>(7,681)</u>
Net cash provided (used) by financing activities	<u>12,901</u>	<u>(7,681)</u>
Net increase (decrease) in cash and equivalents	<u>(3,022)</u>	<u>(7,135)</u>
Cash and equivalents, beginning of year	<u>15,475</u>	<u>22,610</u>
Cash and equivalents, end of year	<u><u>\$ 12,453</u></u>	<u><u>\$ 15,475</u></u>

Interest Paid, Included in Change in Net Assets: \$3,679

**Advocates International, Inc.**  
**Notes to Financial Statements**  
**December 31, 2003**

**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 globally promote religious liberty, justice and reconciliation through an international network of attorneys and skilled laypersons. Regional and national conferences, held in the United States of America, and various other countries, 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 of America, and other countries, 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 when incurred.

**Use of estimates and assumptions** – Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of 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, 2003 the Organization had no temporarily or permanently restricted net assets.

**Contributions** – Grants and contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted, 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 assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restrictions.

**Donated Services** – Donated services are a significant part of the efforts of the Organization and are primarily related to legal services and speaking fees in the United States of America and in other countries. In addition, officers and directors of the Organization provide donated services in addition to their normal duties as officers and directors. Management estimates the fair market value of these services based on the average market value for the services rendered. Contributed services totaled \$174,648 for the year ended December 31, 2003.

**Donated Overseas Expenses** – Donated services and various expenses related to the regional conferences paid by various individuals on behalf of the Organization are a significant part of the efforts of the Organization. Total donated goods and overseas expenses totaled \$105,880 for the year ended December 31, 2003.

**Cash** – Cash consists of a checking account with Bank of America and petty cash.

**Program supplies** – The inventory of program supplies consists of educational books, videos and printed information distributed at no cost as a part of the program activities. Inventory is valued at the lower of cost or market. Cost is determined on a first-in, first-out basis.

**Advocates International, Inc.**  
**Notes to Financial Statements**  
**December 31, 2003**

**Property and equipment** – The Organization capitalizes expenditures exceeding \$500. Property and equipment is stated at cost and is depreciated using the straight-line method over an estimated useful life of three to five years for equipment and forty years for property.

**Intangible assets** – Intangible assets consisted of video production costs as of December 31, 2003. Video production costs are amortized over five years using the straight-line method. For the year ended December 31, 2003, amortization expense totaled \$40,519.

**Income Taxes** – The Internal Revenue Service has recognized the Organization as 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 asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2003 from which the summarized information was derived.

**Inventory** – Inventory consists of program supplies. Items are recorded at cost.

**C. GRANTS AND DONOR RECEIVABLES**

Grants receivable consist of a \$15,000 grant from one Foundation for general operations of the Organization. The allowance for bad debt on grant and donor receivables was determined by management to be zero.

**D. CONCENTRATIONS**

A significant concentration of support and revenue exists in the top five contributors. The top five donors contributed \$121,816, which represented 21.2% of total contributions support and revenue for the year ended 2003.

**E. RELATED PARTIES**

The Organization leases office space, with an annual lease term, in Fairfax, Virginia, from a company which is owned in part by the Organization's President. The lease term is yearly. Rent expense was \$49,396 for 2003.

**F. LINE OF CREDIT**

The Organization has secured a line of credit from Bank of America in the amount of \$50,000 with the President of the Organization and his spouse as sole guarantors for the line of credit. As of December 31, 2003, the balance drawn on the line of credit was \$50,000. The line of credit is due on demand and bears interest at the rate of prime plus 2%.

**G. PENSION PLAN**

The Organization contributes to a SEP/IRA plan for substantially all full-time employees. Contributions range from 7.5% to 10% of compensation. Approximately \$16,193 was contributed during the plan year.

**Advocates International, Inc.**  
**Notes to Financial Statements**  
**December 31, 2003**

**H. PROPERTY AND EQUIPMENT**

Property, equipment and other assets are summarized by major classifications as follows:

	Cost	Accumulated Depreciation	Net Book Value
Real Property	21,471	(1,775)	19,696
Equipment	63,847	(50,213)	13,634
Total	85,318	(51,988)	33,330

	Cost	Accumulated Amortization	Net Book Value
Intangibles	212,252	(50,747)	161,505
Total	212,252	(50,747)	161,505