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Independent Auditor's Report

For Advocates International, Inc.

For the year ending December 31, 2004

August 22, 2005

Advocates International, Inc.
Statement of Financial Position
At December 31, 2004 and 2003

	2004	2003
Assets		
Current Assets:		
Cash	\$ 3,972	\$ 12,453
Grants Receivable	15,000	15,000
Donor Receivables	12,552	4,000
Inventory-Program Supplies	24,637	20,701
Prepaid Expenses	2,824	2,391
Total Current Assets	58,985	54,545
Property and Equipment:		
Real Property	21,471	21,471
Equipment	66,883	63,847
Accumulated Depreciation	(59,000)	(51,988)
Net Property and Equipment	29,354	33,330
Other Assets:		
Intangibles, Net of Accumulated Amortization	148,536	161,505
Total Other Assets	148,536	161,505
Total Assets	\$ 236,875	\$ 249,380
Liabilities and Net Assets		
Current Liabilities:		
Accounts Payable and Accrued Expenses	\$ 11,007	\$ 7,647
Line of Credit	49,000	50,000
Total Current Liabilities	60,007	57,647
Total Liabilities	60,007	57,647
Net Assets		
Unrestricted Net Assets	173,868	191,733
Permanently Restricted Net Assets	3,000	0
Total Net Assets	176,868	191,733
Total Liabilities and Net Assets	\$ 236,875	\$ 249,380

See Accountants' Report and Notes to Financial Statements

Advocates International, Inc.
Statement of Activities
For the Years Ended December 31, 2004 and 2003

	Unrestricted	Permanently Restricted	2004 Total
Support and Revenue:			
Contributions	\$ 713,905	\$ 3,000	\$ 716,905
Grants	140,000	-	140,000
Donated Services	1,046,451	-	1,046,451
Overseas Gifts in Kind	85,481	-	85,481
Convocation Fees	45,165	-	45,165
Other Income	7,024	-	7,024
Net Assets Released from Restrictions	-	-	-
Total Support and Revenue	2,038,026	3,000	2,041,026
Expenses:			
Program	1,899,887	-	1,899,887
General and Administrative	118,566	-	118,566
Fundraising	37,438	-	37,438
Total Expenses	2,055,891	-	2,055,891
Change in Net Assets from Operations	(17,865)	3,000	(14,865)
Net Assets, Beginning of Year	191,733	-	191,733
Net Assets, End of Year	\$ 173,868	\$ 3,000	\$ 176,868

See Accountants' Report and Notes to Financial Statements

Advocates International, Inc.
Statement of Activities
For the Years Ended December 31, 2004 and 2003

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2003 Total</u>
Support and Revenue:			
Contributions	\$ 574,942	\$ -	\$ 574,942
Grants	140,000	-	140,000
Donated Services	174,648	-	174,648
Overseas Gifts in Kind	105,880	-	105,880
Convocation Fees	-	-	-
Other Income	14,748	-	14,748
Net Assets Released from Restrictions	20,000	(20,000)	-
Total Support and Revenue	1,030,218	(20,000)	1,010,218
Expenses:			
Program	827,233	-	827,233
General and Administrative	89,056	-	89,056
Fundraising	51,612	-	51,612
Total Expenses	967,901	-	967,901
Change in Net Assets from Operations	62,317	(20,000)	42,317
Net Assets, Beginning of Year	129,416	20,000	149,416
Net Assets, End of Year	\$ 191,733	\$ -	\$ 191,733

See Accountants' Report and Notes to Financial Statements

Advocates International, Inc.
Schedule of Functional Expenses
For the Years Ended December 31, 2004 and 2003

Functional Expenses	Program	General & Administrative	Fundraising	2004 Total
Bank Charges	\$ -	\$ 2,440	\$ -	\$ 2,440
Conferences	290,119	-	-	290,119
Depreciation and Amortization	52,042	1,736	128	53,906
Donated Services	1,046,451	-	-	1,046,451
Overseas Gifts in Kind	85,481	-	-	85,481
Dues and Fees	625	785	45	1,455
Interest	-	2,922	-	2,922
International Support	132,516	-	-	132,516
Meals and Entertainment	2,451	1,326	129	3,906
Miscellaneous	-	13,081	371	13,452
Office Expense	12,042	18,837	-	30,879
Payroll Taxes	11,587	1,707	1,207	14,501
Pension Expense	3,659	1,897	846	6,402
Postage and Shipping	8,130	3,710	10,311	22,151
Printing and Photocopy	19,281	1,008	1,692	21,981
Professional Fees	5,940	10,599	783	17,322
Program Donations	3,788	-	-	3,788
Property Taxes	-	834	-	834
Rent Expense	34,400	11,541	4,300	50,241
Repairs and Maintenance	-	235	-	235
Salaries and Employee Benefits	174,165	44,711	16,673	235,549
Telephone	5,995	768	722	7,485
Travel	9,363	198	-	9,561
Utilities	1,852	231	231	2,314
Total Functional Expenses	\$ 1,899,887	\$ 118,566	\$ 37,438	\$ 2,055,891

See Accountants' Report and Notes to Financial Statements

Advocates International, Inc.
Schedule of Functional Expenses
For the Years Ended December 31, 2004 and 2003

Functional Expenses	Program	General & Administrative	Fundraising	2003 Total
Bank Charges	\$ -	\$ 3,889	\$ -	\$ 3,889
Conferences	193,003	-	-	193,003
Depreciation and Amortization	48,433	1,046	511	49,990
Donated Services	-	-	-	-
Overseas Gifts in Kind	-	-	-	-
Dues and Fees	989	670	45	1,704
Interest	-	3,679	-	3,679
International Support	241,568	-	-	241,568
Meals and Entertainment	3,912	1,882	416	6,210
Miscellaneous	1,474	2,863	4,767	9,104
Office Expense	16,579	12,677	816	30,072
Payroll Taxes	12,178	3,071	1,559	16,808
Pension Expense	14,318	1,875	-	16,193
Postage and Shipping	6,794	2,049	6,445	15,288
Printing and Photocopy	11,854	1,014	4,606	17,474
Professional Fees	3,562	15,929	733	20,224
Program Donations	1,736	-	-	1,736
Property Taxes	-	309	-	309
Rent Expense	28,400	10,696	4,300	43,396
Repairs and Maintenance	-	1,212	-	1,212
Salaries and Employee Benefits	194,789	24,684	25,551	245,024
Telephone	6,184	788	740	7,712
Travel	39,612	492	892	40,996
Utilities	1,848	231	231	2,310
Total Functional Expenses	\$827,233	\$ 89,056	\$ 51,612	\$ 967,901

Advocates International, Inc.
Statement of Cash Flows
For the Years Ended December 31, 2004 and 2003

	2004	2003
Cash flows from operating activities		
Change in Net Assets	\$ (14,865)	\$ 42,317
Adjustments to reconcile net income to net cash provided by operating activities:		
(Increase) Decrease in other current assets	(8,552)	2,473
(Increase) decrease in grants receivable	0	5,000
(Increase) decrease in prepaid expenses	(433)	2,369
Increase (decrease) in accounts payable	9,733	(21,421)
Increase (decrease) in accrued expenses	(6,373)	(75,000)
Depreciation and amortization	53,906	49,993
(Increase) decrease in inventories	(3,936)	0
Total adjustments	44,345	(36,586)
Net cash provided (used) by operating activities	29,480	5,731
Cash flow from investing activities:		
Cash payments for the purchase of property	(36,961)	(21,654)
Net cash provided (used) by investing activities	(36,961)	(21,654)
Cash flow from financing activities:		
Net borrowings on line of credit	(1,000)	12,901
Net cash provided (used) by financing activities	(1,000)	12,901
Net increase (decrease) in cash and equivalents	(8,481)	(3,022)
Cash and equivalents, beginning of year	12,453	15,475
Cash and equivalents, end of year	\$ 3,972	\$ 12,453

Interest Paid, Included in Change in Net Assets for 2004: \$2,922

Interest Paid, Included in Change in Net Assets for 2003: \$3,679

Advocates International, Inc.
Notes to the Financial Statements
December 31, 2004 and 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, 2004 the Organization had \$3,000 of permanently restricted net assets and no temporarily 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 \$1,046,451 for the year ended December 31, 2004 and \$174,648 for the year ended December 31, 2003.

Donated goods and 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 \$85,481 and \$105,880 for the years ended December 31, 2004 and 2003, respectively.

Cash and cash equivalents – For purposes of the statement of cash flows, the Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Advocates International, Inc.
Notes to the Financial Statements
December 31, 2004 and 2003

Program supplies – 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 of market. Cost is determined on a first-in, first-out basis.

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. Depreciation and Amortization Expense for 2004 and 2003 was \$53,906 and \$49,990, respectively.

Intangible assets – Intangible assets consisted of videos as of December 31, 2004. Video costs are amortized over three years using the straight-line method. For the year ended December 31, 2004, amortization expense totaled \$45,649. For the year ended December 31, 2003, amortization expense totaled \$40,519. The useful life of the video will be assessed annually for impairment.

Functional allocation of expenses – The Organization's expenses have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the areas benefited.

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.

C. GRANTS AND DONOR RECEIVABLES

Grants receivable at December 31, 2004 and 2003 consisted of a \$15,000 grant from one Foundation for general operations of the Organization. All grants and donor receivables are due in less than one year from year end. Due to past experience and the nature of the donations management feels there is no need to take an allowance against these receivables.

D. CONCENTRATIONS

A significant concentration of support and revenue exists in the top five contributors. The top five donors contributed \$221,721, which represented 31% of total support and revenue contributions for the year ended December 31, 2004. The top five donors contributed \$121,816, which represented 21% of total support and revenue contributions for the year ended December 31, 2003.

E. RESTRICTED NET ASSETS

At December 31, 2004, permanently restricted net assets were comprised of one \$3,000 contribution that is restricted for contribution to another charitable organization.

Temporarily Restricted 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, 2003:

Convocation and religious liberty	\$20,000
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At December 31, 2003, there were no restricted net assets.

F. RELATED PARTIES

The Organization leases office space, with an annual lease term, in Fairfax, Virginia, from a company which the Organization's President owns. The lease term is yearly. Rent expense was \$43,000 and \$43,396 for 2004 and 2003 respectively.

Advocates International, Inc.
Notes to the Financial Statements
December 31, 2004 and 2003

G. LINE OF CREDIT

The Organization has secured a line of credit from a local bank 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, 2004 and 2003, the balance drawn on the line of credit was \$49,000 and \$50,000, respectively. The line of credit is due on demand and bears interest at the rate of prime plus 2%. Interest expense for 2004 and 2003 was \$2,922 and \$3,679, respectively.

H. PENSION PLAN

The Organization contributes to a SEP/IRA plan for all employees who work a minimum of 32 hours per week on a regularly scheduled basis. Contributions range from 7.5% to 10% of compensation. Pension expense for the years ended December 31, 2004 and 2003 were \$6,402 and \$14,318, respectively.