



# 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. (a nonprofit organization) as of December 31, 2007 and 2006, and the related statements of activities, functional expenses, and cash flows for the years 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 audits.

We conducted our audits 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 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 audits 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, 2007 and 2006 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Moran & Company P.C.*

Moran & Company, PC  
Manassas, VA  
April 22, 2008

**Advocates International, Inc.**  
**Statement of Financial Position**  
**At December 31, 2007 and 2006**

	2007	2006
<b>Assets</b>		
Current Assets:		
Cash	\$ 52,122	\$ 49,001
Grants Receivable	15,000	28,725
Donor Receivables	131,100	14,345
Loan Receivable	13,875	-
Inventory-Program Supplies	11,434	13,363
Prepaid Expenses	2,200	6,739
Total Current Assets	225,731	112,173
Property and Equipment:		
Real Property	30,175	30,175
Equipment	23,259	21,694
Accumulated Depreciation	(25,617)	(20,639)
Net Property and Equipment	27,817	31,230
Other Assets:		
Intangibles, Net of Accumulated Amortization	1,946	41,208
Security Deposits Receivable	2,412	2,412
Total Other Assets	4,358	43,620
Total Assets	\$ 257,906	\$ 187,023
<b>Liabilities and Net Assets</b>		
Current Liabilities:		
Accounts Payable and Accrued Expenses	\$ 5,562	\$ 13,203
Compensated Absences Payable	4,004	8,293
Deferred Rent	3,294	-
Line of Credit	(900)	-
Total Current Liabilities	11,960	21,496
Total Liabilities	11,960	21,496
Net Assets		
Unrestricted Net Assets	121,946	147,887
Temporarily Restricted	124,000	17,640
Total Net Assets	245,946	165,527
Total Liabilities and Net Assets	\$ 257,906	\$ 187,023

See Accountants' Report and Notes to Financial Statements

**Advocates International, Inc.**  
**Statement of Activities**  
**For the Year Ended December 31, 2007**

	Unrestricted	Temporarily Restricted	Permanently Restricted	2007 Total
Support and Revenue:				
Contributions	\$ 669,196	\$ 124,000	\$ -	\$ 793,196
Grants	95,000	-	-	95,000
Donated Services	1,861,615	-	-	1,861,615
Gifts in Kind	418,255	-	-	418,255
Other Income	5,690	-	-	5,690
Total Support and Revenue	<u>3,049,756</u>	<u>124,000</u>	<u>-</u>	<u>3,173,756</u>
Expenses:				
Program	2,923,087	-	-	2,923,087
General and Administrative	131,241	-	-	131,241
Fundraising	41,653	-	-	41,653
Total Expenses	<u>3,095,981</u>	<u>-</u>	<u>-</u>	<u>3,095,981</u>
Change in Net Assets from Operations	(46,225)	124,000	-	77,775
Prior Period Adjustment	2,644	-	-	2,644
Net Assets, Beginning of Year	147,887	17,640	-	165,527
Net Assets Released from Restrictions	17,640	(17,640)	-	-
Net Assets, End of Year	<u>\$ 121,946</u>	<u>\$ 124,000</u>	<u>\$ -</u>	<u>\$ 245,946</u>

**Advocates International, Inc.**  
**Statement of Activities**  
**For the Year Ended December 31, 2006**

	Unrestricted	Temporarily Restricted	Permanently Restricted	2006 Total
<b>Support and Revenue:</b>				
Contributions	\$ 614,391	\$ 35,283	\$ -	\$ 649,674
Grants	64,800	-	-	64,800
Donated Services	1,471,879	-	-	1,471,879
Gifts in Kind	234,058	-	-	234,058
Convocation Fees	-	-	-	-
Other Income	8,143	-	-	8,143
Net Assets Released from Restrictions	20,000	(20,000)	-	-
<b>Total Support and Revenue</b>	<b>2,413,271</b>	<b>15,283</b>	<b>-</b>	<b>2,428,554</b>
<b>Expenses:</b>				
Program	2,274,811	37,529	-	2,312,340
General and Administrative	119,654	-	-	119,654
Fundraising	37,400	-	-	37,400
<b>Total Expenses</b>	<b>2,431,865</b>	<b>37,529</b>	<b>-</b>	<b>2,469,394</b>
<b>Change in Net Assets from Operations</b>	<b>(18,594)</b>	<b>(22,246)</b>	<b>-</b>	<b>(40,840)</b>
Prior Period Adjustment	-	-	-	-
<b>Net Assets, Beginning of Year</b>	<b>166,481</b>	<b>39,886</b>	<b>-</b>	<b>206,367</b>
<b>Net Assets, End of Year</b>	<b>\$ 147,887</b>	<b>\$ 17,640</b>	<b>\$ -</b>	<b>\$ 165,527</b>

See Accountants' Report and Notes to Financial Statements

**Advocates International, Inc.**  
**Schedule of Functional Expenses**  
**For the Year Ended December 31, 2007**

Functional Expenses	Program	General & Administrative	Fundraising	2007 Total
Advertising and Public Relations	\$ -	\$ -	\$ 4,837	\$ 4,837
Bank Charges	-	6,078	-	6,078
Conferences	35,253	2,614	1,418	39,285
Depreciation and Amortization	43,105	876	258	44,239
Donated Services	1,861,615	-	-	1,861,615
Gifts in Kind	418,255	-	-	418,255
Dues and Fees	-	756	-	756
Interest	-	2,229	-	2,229
International Support	183,720	-	-	183,720
Meals and Entertainment	5,572	2,126	243	7,941
Miscellaneous	3,129	1,218	2	4,349
Office Expense	43,671	23,057	191	66,919
Payroll Taxes	11,596	4,213	1,223	17,032
Pension Expense	13,539	2,437	1,391	17,367
Postage and Shipping	7,185	6,604	136	13,925
Printing and Photocopy	4,057	7,519	835	12,411
Professional Fees	10,000	8,011	9,000	27,011
Program Donations	15,398	-	-	15,398
Property Taxes	-	1,503	-	1,503
Rent Expense	30,121	4,126	3,765	38,012
Salaries and Employee Benefits	179,152	51,626	18,185	248,963
Telephone	2,811	4,656	169	7,636
Travel	54,908	1,187	-	56,095
Other	-	405	-	405
<b>Total Functional Expenses</b>	<b>\$ 2,923,087</b>	<b>\$ 131,241</b>	<b>\$ 41,653</b>	<b>\$ 3,095,981</b>

See Accountants' Report and Notes to Financial Statements

**Advocates International, Inc.**  
**Schedule of Functional Expenses**  
**For the Year Ended December 31, 2006**

Functional Expenses	Program	General & Administrative	Fundraising	2006 Total
Advertising and Public Relations	\$ -	\$ -	\$ 2,680	\$ 2,680
Bank Charges	-	6,281	-	6,281
Conferences	2,205	-	-	2,205
Depreciation and Amortization	58,880	1,044	334	60,258
Donated Services	1,471,879	-	-	1,471,879
Gifts in Kind	234,058	-	-	234,058
Dues and Fees	456	685	-	1,141
Interest	-	1,377	-	1,377
International Support	191,475	-	-	191,475
Meals and Entertainment	5,052	1,308	105	6,465
Miscellaneous	-	1,893	40	1,933
Office Expense	19,214	16,063	151	35,428
Payroll Taxes	13,301	3,421	1,247	17,969
Pension Expense	12,900	1,925	1,175	16,000
Postage and Shipping	14,156	5,285	7,427	26,868
Printing and Photocopy	299	5,779	-	6,078
Professional Fees	216	12,343	-	12,559
Program Donations	85	-	-	85
Property Taxes	-	295	-	295
Rent Expense	33,416	5,877	3,802	43,095
Salaries and Employee Benefits	209,914	50,469	20,284	280,667
Telephone	1,636	5,564	155	7,355
Travel	43,198	45	-	43,243
Utilities	-	-	-	-
<b>Total Functional Expenses</b>	<b>\$ 2,312,340</b>	<b>\$ 119,654</b>	<b>\$ 37,400</b>	<b>\$ 2,469,394</b>

**Advocates International, Inc.**  
**Statement of Cash Flows**  
**For the Years Ended December 31, 2007 and 2006**

	2007	2006
Cash flows from operating activities		
Change in Net Assets	\$ 77,775	\$ (40,840)
Adjustments to reconcile net income to net cash provided by operating activities:		
(Increase) Decrease in other current assets	(13,875)	0
(Increase) decrease in grants receivable	(103,030)	(23,070)
(Increase) decrease in prepaid expenses	4,539	(803)
Increase (decrease) in accounts payable	(7,641)	(14,313)
Depreciation and amortization	44,240	60,258
(Increase) decrease in inventories	1,929	6,637
Increase in prior period adjustment	2,644	0
Increase (decrease) in compensated absences	(4,289)	8,293
Increase (decrease) in other current liabilities	2,394	0
Total adjustments	(73,089)	37,002
Net cash provided (used) by operating activities	4,686	(3,838)
Cash flow from investing activities:		
Cash payments for the purchase of property	(1,565)	(1,000)
Net cash provided (used) by investing activities	(1,565)	(1,000)
Cash flow from financing activities:		
Net cash provided (used) by financing activities	0	0
Net increase (decrease) in cash and equivalents	3,121	(4,838)
Cash and equivalents, beginning of year	49,001	53,839
Cash and equivalents, end of year	\$ 52,122	\$ 49,001

Interest Paid, Included in Change in Net Assets for 2007: \$2,229

Interest Paid, Included in Change in Net Assets for 2006: \$1,377

**Advocates International, Inc.**  
**Notes to the Financial Statements**  
**December 31, 2007 and 2006**

**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, 2007 and 2006 the Organization had \$124,000 and \$17,640, respectively, of temporarily restricted net assets and no 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. For the year ended December 31, 2007, Advocates International informally linked about 30,000 lawyers, law students, judges and law professors in approximately 135 countries. Many of these lawyers provide pro bono legal services. Donated services were estimated at \$1,861,615 for the year ended December 31, 2007 and \$1,471,879 for the year ended December 31, 2006.

**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. Donated goods and overseas expenses totaled \$418,255 and \$234,258 respectively for the years ended December 31, 2007 and 2006.



**Advocates International, Inc.**  
**Notes to the Financial Statements**  
**December 31, 2007 and 2006**

**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.

**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 or 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 real property. The Organization owns an apartment in Ulan Bator, Mongolia that is used by the Rule of Law Institute of Mongolia.

As of December 31, 2007 and 2006, these assets were valued at \$53,434 and \$51,869, respectively. As of December 31, 2007, Depreciation Expense for 2007 and 2006 were \$4,978 and \$6,324, respectively.

**Intangible assets** – Intangible assets consists of videos and website development costs. Video costs are amortized over three years using the straight-line method; website development costs are amortized over three or five years using the straight-line method. The useful life of the video will be assessed annually for impairment.

As of December 31, 2007 and 2006, these assets were valued at \$246,702 and \$246,702, respectively. These assets are amortized over three years using the straight-line method. For the years ended December 31, 2007 and 2006, amortization expense and accumulated amortization were \$39,262 and \$53,934, and \$244,756 and \$205,494, respectively.

**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.

**Joint Fundraising Costs** – As of December 31 2007 and 2006, the Organization has no joint costs related to fundraising activities.

**C. GRANTS AND DONOR RECEIVABLES**

Grants and donor receivables consisted of \$15,000 in grants receivable and \$131,100 in donor receivables at December 31, 2007. Grants and donor receivables consisted of a \$28,725 grant receivable and \$14,345 donor receivable at December 31, 2006. 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**

For the years ended December 31, 2007 and 2006 there were no contributors who made contributions that were greater than 10% of the total support and revenue contributions for the year.

**Advocates International, Inc.**  
**Notes to the Financial Statements**  
**December 31, 2007 and 2006**

**E. RESTRICTED NET ASSETS**

At December 31, 2007, there was \$124,000 temporarily restricted assets and no permanently restricted net assets.

At December 31, 2006, temporarily restricted net assets were comprised of a combination of grants and donations with 17,640 remaining. During the year, \$20,000 in temporarily restricted assets were released from restrictions and expensed accordingly. Temporarily restricted contributions equaled \$35,283 while expenses were \$37,529. There were no permanently restricted net assets at December 31, 2006.

**F. RELATED PARTIES**

The Organization also leases office space in Sofia, Bulgaria from a company that the Organization's President owns. The lease terms are month-to-month with no long-term commitment. The annual rent is \$6,000 for the Bulgaria office space.

Rent expense was \$44,012 and \$43,095 for 2007 and 2006, respectively. Included in the 2007 amount is \$937 for deferred rent.

**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, 2007 and 2006, there have not been any draws on the line of credit. The line of credit is due on demand and bears interest at the rate of prime plus 2%.

**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, 2007 and 2006 were \$17,367 and \$16,000, respectively.

**I. INVENTORY**

Inventory on hand on December 31, 2007 and 2006 is composed of finished goods comprised of promotional items for the organization valued at cost at \$11,434 and \$13,363, respectively.

**Advocates International, Inc.**  
**Notes to the Financial Statements**  
**December 31, 2007 and 2006**

**J. LEASES:**

On September 1, 2005, the Organization entered into a lease agreement for office space at its current location. The term of the lease started on September 1, 2005 and shall continue for a period of five years and two months unless sooner terminated or extended. Total amount of leased space for warehouse and office use is approximately 1,755 square feet. Base rent of the new facility is \$2,926 per month for the first year with annual increases of 3% based on previous year's base rent through the fifth year. Future minimum base lease payments under this lease are as follows:

<u>Year</u>	<u>Total</u>
2008	37,464
2009	38,558
2010	<u>32,930</u>
Total	<u><u>\$ 98,952</u></u>

**L. PRIOR PERIOD ADJUSTMENT**

There is a \$2,644 prior period adjustment on the Statement of Activities for the year ended December 31, 2007. The adjustment was needed to reflect deferred rent for GAAP purposes for 2006 and prior. There is no prior period adjustment for the year ending December 31, 2006.