



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, 2008 and 2007, 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 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, 2008 and 2007 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, PC

Moran & Company, PC
Manassas, VA
August 7, 2009

Advocates International, Inc.
Statement of Financial Position
At December 31, 2008 and 2007

	2008	2007
Assets		
Current Assets:		
Cash	\$ 42,242	\$ 52,122
Grants Receivable	-	15,000
Donor Receivables	82,700	131,100
Loan Receivable	12,375	13,875
Prepaid Expenses	-	2,200
Total Current Assets	137,317	214,297
Property and Equipment:		
Real Property	30,175	30,175
Equipment	27,192	23,259
Accumulated Depreciation	(31,003)	(25,617)
Net Property and Equipment	26,364	27,817
Other Assets:		
Intangibles, Net of Accumulated Amortization	-	1,946
Security Deposits Receivable	2,412	2,412
Total Other Assets	2,412	4,358
Total Assets	\$ 166,093	\$ 246,472
Liabilities and Net Assets		
Current Liabilities:		
Accounts Payable and Accrued Expenses	\$ 27,304	\$ 5,562
Convocation Payable	198,000	-
Compensated Absences Payable	7,018	4,004
Deferred Rent	3,140	3,294
Line of Credit	1,038	(900)
Total Current Liabilities	236,500	11,960
Total Liabilities	236,500	11,960
Net Assets		
Unrestricted Net Assets	(70,407)	110,512
Temporarily Restricted	-	124,000
Total Net Assets	(70,407)	234,512
Total Liabilities and Net Assets	\$ 166,093	\$ 246,472

See Accountants' Report and Notes to Financial Statements

Advocates International, Inc.
Statement of Activities
For the Year Ended December 31, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	2008 Total
Support and Revenue:				
Contributions	\$ 1,109,737	\$ 250	\$ -	\$ 1,109,987
Grants	8,000	-	-	8,000
Donated Services	482,000	-	-	482,000
Gifts in Kind	19,738	-	-	19,738
Convocation Gifts	-	6,000	-	6,000
Convocation Fees	200,934	-	-	200,934
Other Income	3,385	-	-	3,385
Total Support and Revenue	1,823,794	6,250	-	1,830,044
Expenses:				
Program	1,963,023	-	-	1,963,023
General and Administrative	132,074	-	-	132,074
Fundraising	62,734	-	-	62,734
Total Expenses	2,157,831	-	-	2,157,831
Change in Net Assets from Operations	(334,037)	6,250	-	(327,787)
Prior Period Adjustment	11,434	-	-	11,434
Net Assets, Beginning of Year	121,946	124,000	-	245,946
Net Assets Released from Restrictions	130,250	(130,250)	-	-
Net Assets, End of Year	\$ (70,407)	\$ (0)	\$ -	\$ (70,407)

See Accountants' Report and Notes to Financial Statements

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2007 Total</u>
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	2,934,521	-	-	2,934,521
General and Administrative	131,241	-	-	131,241
Fundraising	41,653	-	-	41,653
Total Expenses	<u>3,107,415</u>	<u>-</u>	<u>-</u>	<u>3,107,415</u>
Change in Net Assets from Operations	(57,659)	124,000	-	66,341
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>\$ 110,512</u>	<u>\$ 124,000</u>	<u>\$ -</u>	<u>\$ 234,512</u>

See Accountants' Report and Notes to Financial Statements

Advocates International, Inc.
Schedule of Functional Expenses
For the Year Ended December 31, 2008

Functional Expenses	Program	General & Administrative	Fundraising	2008 Total
Advertising and Public Relations	\$ -	\$ -	\$ 17,604	\$ 17,604
Bank Charges	-	8,438	-	8,438
Casual Labor	-	4,227	1,106	5,333
Conferences	3,544	443	443	4,430
Convocation	830,586	-	-	830,586
Depreciation and Amortization	5,866	734	734	7,334
Donated Services	482,000	-	-	482,000
Gifts in Kind	14,701	-	-	14,701
Dues and Fees	2,671	334	334	3,339
Interest	-	3,090	-	3,090
Law of Life Project	66,744	-	-	66,744
Licenses & Fees	-	5,730	-	5,730
International Support	194,299	-	-	194,299
Meals and Entertainment	6,271	784	784	7,839
Miscellaneous	2,000	-	1,256	3,256
Office Expense	13,211	22,367	922	36,500
Payroll Taxes	11,905	4,899	1,384	18,188
PRM Project	12,841	-	-	12,841
Pension Expense	7,234	904	904	9,042
Postage and Shipping	10,344	1,293	1,293	12,930
Printing and Photocopy	10,858	1,357	1,357	13,572
Professional Fees	45,282	5,660	5,660	56,602
Program Donations	4,000	-	-	4,000
Rent Expense	34,334	4,292	4,292	42,918
Repairs & Maintenance	-	1,588	-	1,588
Salaries and Employee Benefits	175,304	61,663	20,777	257,744
Telephone	8,302	1,038	1,038	10,378
Travel	20,726	2,587	2,587	25,900
Other	-	646	259	905
Total Functional Expenses	\$ 1,963,023	\$ 132,074	\$ 62,734	\$ 2,157,831

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	55,105	23,057	191	78,353
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
Total Functional Expenses	\$ 2,934,521	\$ 131,241	\$ 41,653	\$ 3,107,415

Advocates International, Inc.
Statement of Cash Flows
For the Years Ended December 31, 2008 and 2007

	2008	2007
Cash flows from operating activities		
Change in Net Assets	\$ (327,787)	\$ 77,775
Adjustments to reconcile net income to net cash provided by operating activities:		
(Increase) Decrease in other current assets	1,500	(13,875)
(Increase) decrease in grants receivable	63,038	(103,030)
(Increase) decrease in prepaid expenses	2,200	4,539
Increase (decrease) in accounts payable	231,538	(7,641)
Depreciation and amortization	7,332	44,240
(Increase) decrease in inventories	0	1,929
Increase (decrease) in prior period adjustment	11,434	2,644
Increase (decrease) in compensated absences	3,014	(4,289)
Increase (decrease) in other current liabilities	(154)	2,394
Total adjustments	<u>319,902</u>	<u>(73,089)</u>
Net cash provided (used) by operating activities	(7,885)	4,686
Cash flow from investing activities:		
Cash payments for the purchase of property	(3,933)	(1,565)
Net cash provided (used) by investing activities	<u>(3,933)</u>	<u>(1,565)</u>
Cash flow from financing activities:		
Net borrowings on line of credit	1,938	0
Net cash provided (used) by financing activities	<u>1,938</u>	<u>0</u>
Net increase (decrease) in cash and equivalents	(9,880)	3,121
Cash and equivalents, beginning of year	52,122	49,001
Cash and equivalents, end of year	<u>\$ 42,242</u>	<u>\$ 52,122</u>

Interest Paid, Included in Change in Net Assets for 2008: \$3,090

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

Advocates International, Inc.
Notes to the Financial Statements
December 31, 2008 and 2007

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, 2008 and 2007 the Organization had \$0 and \$124,000, 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. The global network now informally links over 30,000 lawyers in 150+ nations. Tracking the pro bono donated services by lawyers globally with only a very small staff to do the tracking is no longer feasible. The only Donated Services reported in 2008 were those of the Board of Directors and some US-based volunteers. 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 provided pro bono legal services. Donated services were estimated at \$482,000 for the year ended December 31, 2008 and \$1,861,615 for the year ended December 31, 2007.

Advocates International, Inc.
Notes to the Financial Statements
December 31, 2008 and 2007

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 \$14,701 and \$418,255 respectively for the years ended December 31, 2008 and 2007.

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, 2008 and 2007, these assets were valued at \$57,367 and \$53,434, respectively. As of December 31, 2008, Depreciation Expense for 2008 and 2007 was \$5,386 and \$4,978, 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, 2008 and 2007, these assets were valued at \$246,702. These assets are amortized over three years using the straight-line method. For the years ended December 31, 2008 and 2007, amortization expense was \$1,946 and \$39,262, respectively while accumulated amortization was \$246,702 and \$244,756, 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 2008 and 20067 the Organization has no joint costs related to fundraising activities.

C. GRANTS AND DONOR RECEIVABLES

Grants and donor receivables consisted of \$0 in grants receivable and \$82,700 in donor receivables at December 31, 2008. Grants and donor receivables consisted of \$15,000 in grants receivable and \$131,100 in donor receivables at December 31, 2007. All grants and donor receivables are generally due in less than one year from year-end. Due to past experience management feels there is no need to take an allowance against these receivables.

Advocates International, Inc.
Notes to the Financial Statements
December 31, 2008 and 2007

D. CONCENTRATIONS

For the years ended December 31, 2008 and 2007 there were no contributors who made contributions that were greater than 10% of the total support and revenue contributions for the year.

E. RESTRICTED NET ASSETS

At December 31, 2008 and 2007 there were \$0 and \$124,000 temporarily restricted assets, respectively, and no permanently restricted net assets.

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.

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, 2008 the balance due was \$1,038. As of December 31, 2007, there were no 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, 2008 and 2007 were \$9,043 and \$17,367, respectively.

I. RENT EXPENSE

Rent expense was \$48,918 and \$44,012 for 2008 and 2007, respectively. Included in the 2008 and 2007 amounts are \$154 and \$937, respectively, for deferred rent.

K. 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:

Year	Total
2009	38,558
2010	32,930
Total	<u>\$ 71,488</u>

Advocates International, Inc.
Notes to the Financial Statements
December 31, 2008 and 2007

L. PRIOR PERIOD ADJUSTMENT

There was a prior period adjustment for \$11,434, for the year ended December 31, 2008. The adjustment was for a reclassification of inventory that should have been an expense.

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.