



# 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, 2006 and 2005, and the related Statements of Activities 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 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, 2006 and 2005 and the changes in its net assets and its cash flows for the years 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, PC  
May 24, 2007

**Advocates International, Inc.**  
**Statement of Financial Position**  
**At December 31, 2006 and 2005**

	2006	2005
<b>Assets</b>		
<b>Current Assets:</b>		
Cash	\$ 49,001	\$ 53,839
Grants Receivable	28,725	15,000
Donor Receivables	14,345	5,000
Inventory-Program Supplies	13,363	20,000
Prepaid Expenses	6,739	5,936
Total Current Assets	<u>112,173</u>	<u>99,775</u>
<b>Property and Equipment:</b>		
Real Property	30,175	30,175
Equipment	21,694	20,694
Accumulated Depreciation	<u>(20,639)</u>	<u>(14,315)</u>
Net Property and Equipment	31,230	36,554
<b>Other Assets:</b>		
Intangibles, Net of Accumulated Amortization	41,208	95,142
Security Deposits Receivable	<u>2,412</u>	<u>2,412</u>
Total Other Assets	<u>43,620</u>	<u>97,554</u>
<b>Total Assets</b>	<b><u>\$ 187,023</u></b>	<b><u>\$ 233,883</u></b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities:</b>		
Accounts Payable and Accrued Expenses	\$ 13,203	\$ 27,516
Compensated Absences Payable	<u>8,293</u>	<u>0</u>
Total Current Liabilities	<u>21,496</u>	<u>27,516</u>
<b>Total Liabilities</b>	<b>21,496</b>	<b>27,516</b>
<b>Net Assets</b>		
Unrestricted Net Assets	147,887	166,481
Temporarily Restricted	<u>17,640</u>	<u>39,886</u>
Total Net Assets	<u>165,527</u>	<u>206,367</u>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 187,023</u></b>	<b><u>\$ 233,883</u></b>

**See Accountants' Report and Notes to Financial Statements**

**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.**  
**Statement of Activities**  
**For the Year Ended December 31, 2005**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2005 Total</u>
<b>Support and Revenue:</b>				
Contributions	\$ 623,260	\$ -	\$ 15,893	\$ 639,153
Grants	40,000	128,000	10,000	178,000
Donated Services	1,130,689	-	-	1,130,689
Gifts in Kind	116,251	-	-	116,251
Convocation Fees	-	-	-	-
Other Income	-	-	-	-
Net Assets Released from Restrictions	-	-	-	-
Total Support and Revenue	<u>1,910,200</u>	<u>128,000</u>	<u>25,893</u>	<u>2,064,093</u>
<b>Expenses:</b>				
Program	1,732,418	88,114	28,893	1,849,425
General and Administrative	124,064	-	-	124,064
Fundraising	44,058	-	-	44,058
Total Expenses	<u>1,900,540</u>	<u>88,114</u>	<u>28,893</u>	<u>2,017,547</u>
Change in Net Assets from Operations	9,660	39,886	(3,000)	46,546
Prior Period Adjustment	(17,047)	-	-	(17,047)
Net Assets, Beginning of Year	<u>173,868</u>	<u>-</u>	<u>3,000</u>	<u>176,868</u>
Net Assets, End of Year	<u>\$ 166,481</u>	<u>\$ 39,886</u>	<u>\$ -</u>	<u>\$ 206,367</u>

**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>

See Accountants' Report and Notes to Financial Statements

**Advocates International, Inc.**  
**Schedule of Functional Expenses**  
**For the Year Ended December 31, 2005**

Functional Expenses	Program	General & Administrative	Fundraising	2005 Total
Advertising and Public Relations	\$ -	\$ -	\$ 1,095	\$ 1,095
Bank Charges	-	4,507	-	4,507
Conferences	1,042	8,625	-	9,667
Depreciation and Amortization	59,167	348	123	59,638
Donated Services	1,130,689	-	-	1,130,689
Overseas Gifts in Kind	116,251	-	-	116,251
Dues and Fees	1,472	730	-	2,202
Interest	-	4,400	-	4,400
International Support	205,164	-	-	205,164
Meals and Entertainment	4,589	1,792	461	6,842
Miscellaneous	4,000	4,384	854	9,238
Office Expense	12,604	17,422	(837)	29,189
Payroll Taxes	11,630	3,275	1,234	16,139
Pension Expense	20,087	5,440	2,804	28,331
Postage and Shipping	10,588	3,645	10,066	24,299
Printing and Photocopy	1,949	5,347	2,460	9,756
Professional Fees	4,502	10,440	780	15,722
Program Donations	1,225	-	0	1,225
Property Taxes	-	697	-	697
Rent Expense	32,528	6,441	4,066	43,035
Salaries and Employee Benefits	187,320	41,667	20,208	249,195
Telephone	6,504	3,461	588	10,553
Travel	36,867	1,287	-	38,154
Utilities	1,247	156	156	1,559
<b>Total Functional Expenses</b>	<b>\$ 1,849,425</b>	<b>\$ 124,064</b>	<b>\$ 44,058</b>	<b>\$ 2,017,547</b>

See Accountants' Report and Notes to Financial Statements

**Advocates International, Inc.**  
**Statement of Cash Flows**  
**For the Years Ended December 31, 2006 and 2005**

	2006	2005
Cash flows from operating activities		
Change in Net Assets	\$ (40,840)	\$ 52,711
Adjustments to reconcile net income to net cash provided by operating activities:		
(Increase) Decrease in other current assets	0	(3,112)
(Increase) decrease in grants receivable	(23,070)	7,552
(Increase) decrease in prepaid expenses	(803)	0
Increase (decrease) in accounts payable	(14,313)	10,344
Depreciation and amortization	60,258	54,898
(Increase) decrease in inventories	6,637	4,637
(Increase) decrease in other assets	0	(2,412)
Increase (decrease) in compensated absences	8,293	0
Total adjustments	<u>37,002</u>	<u>71,907</u>
Net cash provided (used) by operating activities	<u>(3,838)</u>	<u>124,618</u>
Cash flow from investing activities:		
Cash payments for the purchase of property	(1,000)	(8,704)
Net cash provided (used) by investing activities	<u>(1,000)</u>	<u>(8,704)</u>
Cash flow from financing activities:		
Prior Period Adjustments	0	(17,047)
Principal payments on long-term debt	0	(49,000)
Net cash provided (used) by financing activities	<u>0</u>	<u>(66,047)</u>
Net increase (decrease) in cash and equivalents	<u>(4,838)</u>	<u>49,867</u>
Cash and equivalents, beginning of year	53,839	3,972
Cash and equivalents, end of year	<u>\$ 49,001</u>	<u>\$ 53,839</u>

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

Interest Paid, Included in Change in Net Assets for 2005: \$4,400

**Advocates International, Inc.**  
**Notes to the Financial Statements**  
**December 31, 2006 and 2005**

**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, 2006 and 2005 the Organization had \$17,640 and \$39,885, respectively, of temporarily restricted net assets and no permanently restricted net asset.

**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, 2006, 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 \$1,471,879 for the year ended December 31, 2006 and \$1,130,689 for the year ended December 31, 2005.

**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 \$234,058 and \$116,251 respectively for the years ended December 31, 2006 and 2005.



**Advocates International, Inc.**  
**Notes to the Financial Statements**  
**December 31, 2006 and 2005**

**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, 2006 and 2005, these assets were valued at \$51,869 and \$50,869, respectively. As of December 31, 2006, Depreciation Expense for 2006 and 2005 were \$6,324 and \$5,719, 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, 2006 and 2005, 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, 2006 and 2005, amortization expense and accumulated amortization were \$53,934 and \$53,919, and \$205,494 and \$151,560, 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.

**C. GRANTS AND DONOR RECEIVABLES**

Grants and donor receivables consisted of \$28,725 in grants receivable and \$14,345 in donor receivables at December 31, 2006. Grants and donor receivables consisted of a \$15,000 grant receivable and \$5,000 donor receivable at December 31, 2005. 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 year ended December 31, 2006 there were no contributors who made contributions that were greater than 10% of the total support and revenue contributions for the year.

One donor contributed \$100,000 to the Organization that represented 12% of total support and revenue contributions for the year ended December 31, 2005.

**Advocates International, Inc.**  
**Notes to the Financial Statements**  
**December 31, 2006 and 2005**

**E. 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.

At December 31, 2005, temporarily restricted net assets were comprised of three grants with \$39,885 remaining. There were no permanently restricted net assets at December 31, 2005.

**F. RELATED PARTIES**

From January 1, 2005 through September 30, 2005, the Organization leased office space from a company that the Organization's President owns. The lease was terminated on September 30, 2005. The amount of lease payments to the President's company for 2005 was \$38,250. 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 \$43,095 and \$44,250 for 2006 and 2005, respectively.

**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, 2006 and 2005, 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, 2006 and 2005 were \$16,000 and \$28,331, respectively.

**I. INVENTORY**

Inventory on hand on December 31, 2006 and 2005 is composed of finished goods comprised of promotional items for the organization valued at cost at \$13,363 and \$20,000, respectively.

**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:

**Advocates International, Inc.**  
**Notes to the Financial Statements**  
**December 31, 2006 and 2005**

<u>Year</u>	<u>Total</u>
2007	\$ 36,350
2008	37,464
2209	38,558
2010	<u>32,930</u>
Total	<u><u>\$ 145,302</u></u>

**K. PROPERTY DISPOSALS**

During 2005, the Organization relocated to a new office and as a result disposed of or donated a number of older assets having a cost of \$53,660 and accumulated depreciation of \$50,405. The disposal resulted in a net loss of \$3,256.

**L. PRIOR PERIOD ADJUSTMENT**

There is a \$17,047 prior period adjustment on the Statement of Activities for the year ended December 31, 2005. The adjustment was needed to reflect an expense that should be attributed to 2004 activities. There is no prior period adjustment for the year ending December 31, 2006.

