

HMF

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CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

**ADVOCATES
INTERNATIONAL, INC.**

Financial Statements with Additional Information
For the Year Ended December 31, 1997
(With Summarized Financial Information
For December 31, 1996)
With Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS
ADVOCATES INTERNATIONAL, INC.
Fairfax, Virginia

We have audited the accompanying statement of financial position of ADVOCATES INTERNATIONAL, INC. (the "Organization") as of December 31, 1997, and the related statements of activities and cash flows for the year 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 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, 1997, and the change in its net assets and cash flows for the year then ended in conformity with 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 accompanying 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 been subjected to the auditing procedures applied in the audit of the basic financial statements mentioned above and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hoffman Morrison & Fitzgerald, P.C.

McLean, Virginia
July 16, 1998

ADVOCATES INTERNATIONAL, INC.

Statement of Financial Position

December 31, 1997

(With Summarized Financial Information for December 31, 1996)

	<u>1997</u>	<u>1996</u>
ASSETS		
CURRENT ASSETS:		
Cash	\$ 12,589	\$ 10,600
Prepaid expenses and other assets	7,168	2,836
Total current assets	<u>19,757</u>	<u>13,436</u>
EQUIPMENT, at cost	40,532	38,772
Less: accumulated depreciation	<u>(25,572)</u>	<u>(17,465)</u>
Total equipment, net	<u>14,960</u>	<u>21,307</u>
	<u>\$ 34,717</u>	<u>\$ 34,743</u>
LIABILITIES AND NET ASSETS (DEFICIT)		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 29,121	\$ 15,916
LONG TERM LIABILITY:		
Note payable to board member	<u>20,000</u>	<u>20,000</u>
Total liabilities	49,121	35,916
COMMITMENTS		
NET ASSETS (DEFICIT):		
Unrestricted	(15,379)	(1,423)
Temporarily restricted	975	250
Total net assets (deficit)	<u>(14,404)</u>	<u>(1,173)</u>
	<u>\$ 34,717</u>	<u>\$ 34,743</u>

The accompanying notes are an integral part of these financial statements.

ADVOCATES INTERNATIONAL, INC.

Statement of Activities

For the Year Ended December 31, 1997

(With Summarized Financial Information for December 31, 1996)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>1997 Total</u>	<u>1996 Total</u>
SUPPORT AND REVENUE:				
Contributions	\$ 178,218	\$ 55,027	\$ 233,245	\$ 270,377
Grants	123,000		123,000	47,500
Other income	6,057		6,057	12,237
Forgiveness of debt	20,000		20,000	3,225
Net assets released from restrictions	54,302	(54,302)	-	-
Total support and revenue	<u>381,577</u>	<u>725</u>	<u>382,302</u>	<u>333,339</u>
EXPENSES:				
Programs	314,600	-	314,600	232,468
Fundraising	41,407	-	41,407	38,101
General and administrative	39,526	-	39,526	39,853
Rental property	-	-	-	29,799
Total expenses	<u>395,533</u>	<u>-</u>	<u>395,533</u>	<u>340,221</u>
CHANGE IN NET ASSETS	(13,956)	725	(13,231)	(6,882)
NET ASSETS (DEFICIT), BEGINNING OF YEAR	<u>(1,423)</u>	<u>250</u>	<u>(1,173)</u>	<u>5,709</u>
NET ASSETS (DEFICIT), END OF YEAR	<u>\$ (15,379)</u>	<u>\$ 975</u>	<u>\$ (14,404)</u>	<u>\$ (1,173)</u>

ADVOCATES INTERNATIONAL, INC.

Statement of Cash Flows

For the Year Ended December 31, 1997

(With Summarized Financial Information for December 31, 1996)

	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from contributors and grantors	\$ 356,245	\$ 317,877
Cash received from other sources	19,262	12,237
Cash paid to suppliers, employees and grant recipients	(390,958)	(352,250)
Cash paid for interest	(800)	(8,415)
Net cash used in operating activities	<u>(16,251)</u>	<u>(30,551)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of rental property	-	112,000
Payments for purchase of equipment	(1,760)	(976)
Net cash provided by (used in) investing activities	<u>(1,760)</u>	<u>111,024</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Curtailement of mortgage note payable	-	(92,115)
Proceeds from note payable to board member	20,000	20,000
Repayments of loan from board member	-	(2,000)
Net cash provided by (used in) financing activities	<u>20,000</u>	<u>(74,115)</u>
NET INCREASE IN CASH	1,989	6,358
CASH, BEGINNING OF YEAR	10,600	4,242
CASH, END OF YEAR	\$ <u>12,589</u>	\$ <u>10,600</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH USED BY OPERATING ACTIVITIES:		
Change in net assets	\$ (13,231)	\$ (6,882)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation expense	8,107	7,657
Forgiveness of debt	(20,000)	(3,225)
Loss on sale of property	-	8,000
Decrease in prepaid expenses and other assets	(4,332)	(2,836)
Increase in accounts payable and accrued expenses	<u>13,205</u>	<u>(33,265)</u>
NET CASH USED BY OPERATING ACTIVITIES	\$ <u>(16,251)</u>	\$ <u>(30,551)</u>

ADVOCATES INTERNATIONAL, INC.

Notes to Financial Statements
December 31, 1997

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 promote religious liberty, justice and reconciliation through an international network of attorneys and skilled laypersons, focused primarily in ten countries. National conferences 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, 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 as incurred.

Use of estimates and assumptions - Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent 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, 1997, the Organization had no permanently restricted net assets.

Contributions - Grants and contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any restrictions.

Temporarily restricted - 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 net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restrictions.

ADVOCATES INTERNATIONAL, INC.

Notes to Financial Statements

December 31, 1997

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributed services - Donated services are a significant and integral part of the efforts of the Organization and are primarily provided by various legal services in the United States and in other countries. Officers and directors of the Organization, in developing and managing programs, also provide donated services. The estimated fair market value of donated services, net of actual payments made, if any, is not recorded in the accompanying financial statements, because the majority of the donated services were performed by Board members of the Organization. Management estimates the value of these services in at approximately \$211,000 for the year ended December 31, 1997.

Equipment - Equipment is stated at cost and is depreciated using the straight-line method over an estimated useful life of five years.

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

Income taxes - The Organization is 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 net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 1996 from which the summarized information was derived.

Reclassifications - Certain reclassifications were made to the accompanying 1996 summarized financial statements to conform with the 1997 presentation.

C. PROGRAMS

The Organization's major program activities for 1997 include:

- Employed the former Chief Justice of Albania for six months to help draft concepts for their new Constitution.
- Responded to a U.S. State Department request to fly to Tirana, Albania to correct a seriously flawed Human Rights Report on religious liberty issues.
- Met with Albanian President and Prime Minister concerning new constitution.

ADVOCATES INTERNATIONAL, INC.**Notes to Financial Statements****December 31, 1997****C. PROGRAMS (continued)**

- Sponsored Bulgarian Christian human rights lawyer to attend Christian Legal Society conference in U.S.
- Conducted law seminar at a major law school in China.
- Met with leaders of the Chinese Academy of Social Sciences and the Institute of American Studies concerning the role of law and religion in society. Began to help build their library.
- Served as host for delegation from the Chinese Religious Affairs Bureau (RAB) on its visit to Washington, D.C. Successfully obtained written clarification of "normal religious activities" and the issue of "home meetings" from the RAB.
- Testified before State Department Advisory Committee on Religious Freedom Abroad concerning persecution on China and effective responses.
- Conducted judicial training seminar in Mongolia.
- Hosted delegation from Mongolian supreme court and parliament to Washington, D.C. including seminar at The Federal Judicial Center and meetings with U.S. Supreme Court. Provided delegation with Mongolian Bibles and other spiritual material.
- Consultation on Persecution of Christians in Nigeria.
- Consultation on Rights of Religious Minorities in Sri Lanka.
- Participated in Conference in Slovenia on Reconciliation in the Balkans.
- Member, Executive Committee, International Day of Prayer for the Persecuted Church.
- Secured U.N. Consultative Status for World Evangelical Fellowship.

D. SIGNIFICANT CONCENTRATIONS

Financial instruments, which potentially subject the Organization to concentrations of credit risk, consist primarily of cash. The cash balances are insured by the Federal Deposit Insurance Corporation up to \$100,000. There were no uninsured cash balances at December 31, 1997.

Approximately \$58,000 or 15% of total revenue was received from one donor in 1997.

E. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at December 31, 1997:

Russia	\$ 207
South Africa	768
	<u>975</u>

ADVOCATES INTERNATIONAL, INC.

Notes to Financial Statements

December 31, 1997

E. TEMPORARILY RESTRICTED NET ASSETS (Continued)

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, 1997:

Albania	\$ 2,970
Russia	2,443
South Africa	1,834
Staff support	<u>47,055</u>
	<u>\$54,302</u>

F. RELATED PARTIES

The Organization has an unsecured note payable to a Board member, dated January 1997, for \$20,000, due on or before January 14, 2002. Interest is due in six-month installments at 8%.

The Organization leases office space in Fairfax, Virginia, from a company in which the Organization's President is an owner. The lease began on January 1, 1998 and ends December 31, 1998. Future minimum lease payments under the lease are \$18,000 for 1998. Rent payments for 1997 were \$22,500 including \$4,500 relating to 1996.

ADDITIONAL INFORMATION

ADVOCATES INTERNATIONAL, INC.
Schedule of Functional Expenses
For the Year Ended December 31, 1997
(With Summarized Financial Information for December 31, 1996)

	Programs	Fund- raising	General and Admin- istrative	1997 Total	1996 Total
Salaries & employee benefits	\$ 149,767	\$ 15,640	\$ 23,250	\$ 188,657	\$ 195,474
Conferences	1,591	-	-	1,591	2,020
Depreciation	6,210	827	1,070	8,107	7,657
Dues and fees	2,405	100	167	2,672	2,050
Interest expense	800	-	-	800	8,415
Meals and entertainment	6,725	175	824	7,724	2,873
Miscellaneous	1,722	1,456	2,887	6,065	3,727
Office	1,262	527	906	2,695	2,202
Payroll taxes	11,588	956	2,131	14,675	14,178
Postage and shipping	7,455	5,862	248	13,565	9,657
Printing	17,357	4,601	67	22,025	12,896
Professional fees	2,943	6,365	3,295	12,603	5,618
Program donations	41,011	-	-	41,011	6,149
Public relations	881	-	-	881	544
Rent	18,350	1,857	2,293	22,500	18,000
Rental property expenses	-	-	-	-	19,625
Repairs and maintenance	1,252	280	496	2,028	1,988
Telephone	6,559	1,183	1,626	9,368	9,244
Travel	35,736	1,377	4	37,117	17,280
Utilities	986	201	262	1,449	624
	<u>\$ 314,600</u>	<u>\$ 41,407</u>	<u>\$ 39,526</u>	<u>\$ 395,533</u>	<u>\$ 340,221</u>