

# International Justice Mission

Financial Report  
December 31, 2005

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# McGladrey & Pullen

## Independent Auditor's Report

To the Board of Directors  
International Justice Mission  
Arlington, Virginia

We have audited the accompanying balance sheet of International Justice Mission (the Organization) as of December 31, 2005, and the related statements of activities, functional expenses, 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. The prior year's summarized comparative information has been derived from 2004 financial statements. The financial statements of the Organization for the year ended December 31, 2004, were audited by other auditors whose report, dated March 11, 2005, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 2005 financial statements referred to above present fairly, in all material respects, the financial position of International Justice Mission as of December 31, 2005, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 3, 2006, on our consideration of the Organization's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Alexandria, Virginia  
March 3, 2006

International Justice Mission

Balance Sheet

December 31, 2005

(With Comparative Totals For 2004)

<b>Assets</b>	<b>2005</b>	<b>2004</b>
Cash and cash equivalents	\$ 3,362,895	\$ 2,129,139
Short-term investments	39,443	15,448
Receivables	266,831	309,976
Promises to give	474,000	45,000
Prepaid expenses and other assets	217,106	107,379
Property and equipment, net	933,605	678,740
	<u>\$ 5,293,880</u>	<u>\$ 3,285,682</u>

**Liabilities And Net Assets**

Accounts payable and accrued expenses	\$ 318,000	\$ 356,374
Refundable advances	185,000	28,879
	<u>503,000</u>	<u>385,253</u>

Commitments and Contingencies (Notes 5, 6 and 8)

Net Assets

Unrestricted	3,735,528	2,533,530
Temporarily restricted	1,055,352	366,899
	<u>4,790,880</u>	<u>2,900,429</u>
	<u>\$ 5,293,880</u>	<u>\$ 3,285,682</u>

See Notes To Financial Statements.

International Justice Mission

Statement Of Activities

Year Ended December 31, 2005

(With Comparative Totals For 2004)

	2005			2004
	Unrestricted	Temporarily Restricted	Total	
<b>Support and Revenue</b>				
Contributions and grants	\$ 7,884,343	\$ 3,051,366	\$ 10,935,709	\$ 7,573,459
Other income	329,981	-	329,981	263,580
Investment income	34,332	-	34,332	8,062
Net assets released from restrictions	2,362,913	(2,362,913)	-	-
<b>Total support and revenue</b>	<b>10,611,569</b>	<b>688,453</b>	<b>\$ 11,300,022</b>	<b>7,845,101</b>
<b>Expenses</b>				
Program services:				
Case work	5,452,099	-	5,452,099	3,790,367
Education	894,001	-	894,001	665,871
Prayer ministry	431,072	-	431,072	110,713
<b>Total program services</b>	<b>6,777,172</b>	<b>-</b>	<b>6,777,172</b>	<b>4,566,951</b>
Supporting services:				
Board expense	95,465	-	95,465	54,240
Fund development	1,561,212	-	1,561,212	1,064,366
General and administrative	975,722	-	975,722	979,382
<b>Total supporting services</b>	<b>2,632,399</b>	<b>-</b>	<b>2,632,399</b>	<b>2,097,988</b>
<b>Total expenses</b>	<b>9,409,571</b>	<b>-</b>	<b>9,409,571</b>	<b>6,664,939</b>
<b>Change in net assets</b>	<b>1,201,998</b>	<b>688,453</b>	<b>1,890,451</b>	<b>1,180,162</b>
<b>Net Assets</b>				
Beginning	2,533,530	366,899	2,900,429	1,720,267
Ending	<b>\$ 3,735,528</b>	<b>\$ 1,055,352</b>	<b>\$ 4,790,880</b>	<b>\$ 2,900,429</b>

See Notes To Financial Statements.

International Justice Mission

Statement Of Functional Expenses  
 Year Ended December 31, 2005  
 (With Comparative Totals For 2004)

	Program Services				Supporting Services				2005 Total	2004 Total
	Case Work	Education	Prayer Ministry	Total Program Services	Board Expense	Fund Development	General and Administrative	Total Supporting Services		
Auto	\$ 89,968	\$ -	\$ -	\$ 89,968	\$ -	\$ 71	\$ -	\$ 71	\$ 90,039	\$ 35,489
Conference registration	2,853	3,557	-	6,410	-	1,097	1,865	2,962	9,372	2,171
Depreciation	165,881	17,313	2,317	185,511	1,461	48,652	33,738	83,851	269,362	186,306
Dues, subscriptions and fees	23,401	4,105	170	27,676	25	14,145	9,717	23,887	51,563	25,685
Expensed software	7,081	6,748	-	13,829	-	7,074	3,109	10,183	24,012	4,813
Gifts and entertainment	32,193	5,779	3,973	41,945	1,551	13,398	2,881	17,830	59,775	33,792
Good Samaritan Expense	1,839	-	-	1,839	-	700	-	700	2,539	-
Honorarium fees	27	-	3,250	3,277	-	3,650	-	3,650	6,927	3,665
Insurance	30,696	3,882	-	34,578	-	7,600	7,626	15,226	49,804	49,610
Interest and fees	6,316	327	47	6,690	-	33,308	10,129	43,437	50,127	28,046
Internship expense	36,987	18	-	37,005	-	-	108	108	37,113	337
Marketing	3,360	9,456	-	12,816	-	4,008	-	4,008	16,824	1,270
Miscellaneous expense	6,836	61	30	6,927	-	26,104	153	26,257	33,184	46,238
Occupancy	256,447	49,553	310	306,310	-	58,432	94,379	152,811	459,121	386,535
Office expense	316,493	18,574	4,560	339,627	586	20,607	32,956	54,149	393,776	260,027
Photographic	9,794	8,424	20	18,238	-	3,634	38	3,672	21,910	24,741
Postage and shipping	27,448	18,592	1,622	47,662	587	69,225	5,728	75,540	123,202	109,673
Printing	9,189	56,766	7,201	73,156	22	109,972	3,431	113,425	186,581	165,293
Professional services	90,555	3,020	-	93,575	3,000	7,713	37,647	48,360	141,935	109,706
Recruiting	17,546	3,160	-	20,706	-	5,442	4,204	9,646	30,352	67,409
Rental of equipment	4,796	536	57,533	62,865	12,788	229,169	-	241,957	304,822	128,211
Repairs and maintenance	93,581	613	-	94,194	-	6,849	1,482	8,331	102,525	37,460
Salaries and employee benefits	2,252,449	528,040	332,650	3,113,139	48,183	674,215	653,428	1,375,826	4,488,965	3,167,984
Services provided by contract	986,143	34,175	4,655	1,024,973	6,138	74,695	38,386	119,219	1,144,192	841,785
Taxes	46,187	8,380	1,004	55,571	936	10,135	4,373	15,444	71,015	28,358
Telephone/communications	161,041	8,519	108	169,668	1,506	13,402	13,503	28,411	198,079	129,952
Training/education	104,759	3,429	1,564	109,752	-	2,737	4,362	7,099	116,851	102,949
Travel	610,865	98,231	10,058	719,154	18,682	112,410	12,300	143,392	862,546	655,128
Victim aftercare expense	55,340	112	-	55,452	-	147	-	147	55,599	27,839
Website expense	2,028	2,631	-	4,659	-	2,621	179	2,800	7,459	4,467
	<u>\$ 5,452,099</u>	<u>\$ 894,001</u>	<u>\$ 431,072</u>	<u>\$ 6,777,172</u>	<u>\$ 95,465</u>	<u>\$ 1,561,212</u>	<u>\$ 975,722</u>	<u>\$ 2,632,399</u>	<u>\$ 9,409,571</u>	<u>\$ 6,664,939</u>

See Notes To Financial Statements.

International Justice Mission

Statement Of Cash Flows

Year Ended December 31, 2005

(With Comparative Totals For 2004)

	2005	2004
Cash Flows from Operating Activities		
Change in net assets	\$ 1,890,451	\$ 1,180,162
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	269,362	186,306
Noncash contributions	(325,210)	(233,183)
Net realized and unrealized gains on short-term investments	3,188	541
Loss on disposal of property and equipment	3,206	11,170
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables	43,145	(243,881)
Promises to give	(429,000)	167,500
Prepaid expenses and other assets	(109,727)	(58,560)
Increase (decrease) in:		
Accounts payable and accrued expenses	(38,374)	123,006
Refundable advances	156,121	(21,121)
<b>Net cash provided by operating activities</b>	<b>1,463,162</b>	<b>1,111,940</b>
Cash Flows from Investing Activities		
Proceeds from sale of short-term investments	298,027	246,598
Proceeds from sale of equipment	29,177	-
Purchase of property and equipment	(556,610)	(437,371)
<b>Net cash (used in) investing activities</b>	<b>(229,406)</b>	<b>(190,773)</b>
Cash Flows from Financing Activities		
Payments on capital lease obligation	-	(10,342)
<b>Net increase in cash and cash equivalents</b>	<b>1,233,756</b>	<b>910,825</b>
Cash and Cash Equivalents		
Beginning	2,129,139	1,218,314
Ending	<b>\$ 3,362,895</b>	<b>\$ 2,129,139</b>
Supplemental Schedule of Noncash Investing Activities		
Donated securities	<b>\$ 325,210</b>	<b>\$ 233,183</b>
Supplemental Disclosure of Cash Flow Information		
Cash payment for expatriate taxes	<b>\$ 71,015</b>	<b>\$ 28,358</b>

See Notes To Financial Statements.

## International Justice Mission

### Notes To Financial Statements

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#### Note 1. Nature Of Activities And Significant Accounting Policies

Nature of activities: International Justice Mission (the Organization) is a not-for-profit organization founded on May 19, 1994, in the state of Virginia. The Organization is a Christian agency that seeks to advance the Scriptural mandate to help people who are suffering injustice and oppression. The primary activities of the Organization are to document human rights abuses abroad, to educate the Christian church and the general public about such abuses and the need for the church to respond and to mobilize intervention on behalf of the victims of these abuses.

A summary of the Organization's significant accounting policies follows:

Basis of accounting: The accompanying financial statements are presented in accordance with the accrual basis of accounting, whereby support and revenue is recognized when earned and expenses are recognized when incurred.

Basis of presentation: The financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Organization has no permanently restricted net assets at December 31, 2005.

Cash and cash equivalents: For purposes of reporting cash flows, the Organization considers all investments purchased with a maturity of three months or less to be cash equivalents.

Due to the nature of the Organization, the Organization uses investments with a maturity of less than three months. The Organization has operations in many countries and many transactions have been performed using cash. In addition, the field offices receive cash in advance for their operations.

Restricted cash: Cash and cash equivalents at December 31, 2005, includes a certificate of deposit in the amount of \$45,915, restricted as security under a letter of credit with a local bank.

Financial risk: The Organization maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant financial risk on cash.

Foreign currency translation: Revenues and expenses of the Organization's foreign operations are translated at weighted average exchanges rates for the period.

Receivables: Receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history, and current economic conditions. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. There is no provision for doubtful accounts at December 31, 2005.

Promises to give: Unconditional promises to give are recognized as revenue or gains in the period acknowledged. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give are carried at fair value less an estimate made for doubtful promises based on a review of all outstanding promises on a monthly basis. Management determines the allowance for doubtful promises by using the historical experience applied to an aging of promises. Promises are written off when deemed uncollectible. There was no provision for doubtful promises, based on management's evaluation of the collection of promises, at December 31, 2005. All promises to give at December 31, 2005, are collectible within one year.

## International Justice Mission

### Notes To Financial Statements

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#### Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

Property and equipment: Property and equipment purchases are capitalized and depreciated on a straight-line basis over their estimated lives. The Organization capitalizes all property and equipment purchased with a cost of \$1,000 or more.

Valuation of long-lived assets: The Organization accounts for the valuation of long-lived assets under Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS No. 144 requires that long-lived assets and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the assets to future undiscounted net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

Support and revenue: Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted revenue is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a 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 reported in the statement of activities as net assets released from restrictions.

The Organization receives grants from federal agencies and others for various purposes. Grant awards not yet received are accrued to the extent unreimbursed expenses have been incurred for the purposes specified by an approved grant. The Organization defers grant revenues received under approved awards to the extent they exceed expenses incurred for the purposes specified under the grant restrictions. These funds are reported as refundable advances.

Donated services: Contributions of services are recognized in the financial statements as in-kind contributions if the services enhance or create nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically be purchased if not provided by donation. These services are recorded at their estimated fair values at the date of donation and are recognized in the financial statements as contributions. Donated services for the year ended December 31, 2005, was \$5,645.

Expense allocation: Program and supporting services have been presented on a functional basis in the statement of activities and changes in net assets. Certain overhead costs have been allocated among the programs, management and general, and fund-raising.

The Organization complies with FASB 117 which requires that revenue and expenses from fund raising events be reported gross; therefore, fund raising expenses are reported gross and are not offset directly against ticket revenues. Ticket revenues totaled \$169,295 in 2005 which technically, although not netted for financial statements purposes, offset the costs of the fundraising banquet expenses.

Foreign currency transactions: Foreign currency transactions are recorded in U.S. dollars at the exchange rates in effect at the date of the transactions. Gains and losses are recognized in the statement of activities.

## International Justice Mission

### Notes To Financial Statements

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#### Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

Income taxes: The Organization is generally exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for charitable contribution deductions and has been classified as an organization that is not a private foundation. Income, which is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. The Organization did not have any net unrelated business income for the year ended December 31, 2005.

Estimates: The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Prior year 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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2004, from which the summarized information was derived.

Reclassifications: Certain amounts in the 2004 financial statements have been reclassified to conform to the presentation in the 2005 statements with no effect on the previously reported change in net assets.

#### Note 2. Receivables

Receivables at December 31, 2005, consist of the following:

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Grant receivables	\$ 201,650
Overseas travel advances	65,181
	<u>\$ 266,831</u>

#### Note 3. Property And Equipment

Property and equipment and accumulated depreciation at December 31, 2005, and depreciation expense for the year ended December 31, 2005, are as follows:

	Estimated Lives	Cost	Accumulated Depreciation	Net	Depreciation
Equipment	5 years	\$ 1,061,976	\$ 450,195	\$ 611,781	\$ 176,523
Automobiles	7 years	279,640	118,546	161,094	46,482
Software	3 years	182,339	77,298	105,041	30,309
Furniture and fixtures	5 - 10 years	96,546	40,928	55,689	16,048
		<u>\$ 1,620,501</u>	<u>\$ 686,967</u>	<u>\$ 933,605</u>	<u>\$ 269,362</u>

## International Justice Mission

### Notes To Financial Statements

#### Note 4. Temporarily Restricted Net Assets

Temporarily restricted net assets include donor restricted and other funds, which are only available for program activities. Temporarily restricted net assets were released from restrictions during the year ended December 31, 2005, due to the purpose restriction being accomplished.

Temporarily restricted net assets at December 31, 2005, are available for the following programs:

	Balance December 31, 2004	Additions	Releases	Balance December 31, 2005
Time restricted				
Promises to give	\$ -	\$ 139,000	\$ -	\$ 139,000
Program restricted				
Casework*	262,842	1,876,154	(1,493,100)	645,896
Aftercare	-	227,212	(52,598)	174,614
Justice Advocates	79,057	-	(26,079)	52,978
Training	25,000	75,000	(57,245)	42,755
Good Samaritan Fund	-	1,028	(919)	109
Tsunami	-	107,059	(107,059)	-
Fund Development	-	300	(300)	-
Prayer	-	64,423	(64,423)	-
Investigations	-	511,190	(511,190)	-
Executive	-	25,000	(25,000)	-
HR	-	25,000	(25,000)	-
	<u>\$ 366,899</u>	<u>\$ 3,051,366</u>	<u>\$ (2,362,913)</u>	<u>\$ 1,055,352</u>

\* Includes time restricted amounts

#### Note 5. Line Of Credit

The Organization has a \$900,000 line of credit that expires on August 31, 2006. The line of credit accrues interest at at the bank's prime lending rate plus 1.0% and is secured by all assets of the Organization. The bank also requires that the Organization maintain liquid assets of at least \$1,350,000 and a debt to equity ratio of no more than 40% and comply with certain other administrative covenants. There was no outstanding balance on the line at December 31, 2005.

#### Note 6. Commitments

The Organization leases office space for its headquarters under a lease that expires on December 31, 2008. Under the terms of the lease, the Organization is required to pay monthly rental payments of approximately \$24,000. The lease also requires the Organization to maintain a letter of credit in favor of the landlord, secured by a certificate of deposit. At December 31, 2005, the required letter of credit was approximately \$46,000.

The Organization has also entered into other leases for office space in Cambodia, Uganda, Zambia, India, Thailand, Kenya, and the Philippines. The lease terms expire at various times ending June 2008. The leases require the tenant to make monthly rental payments ranging from approximately \$350 to \$1,000 for the term of the leases.

## International Justice Mission

### Notes To Financial Statements

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#### Note 6. Commitments (Continued)

Future minimum rental payments applicable to these operating leases, at December 31, 2005, are as follows:

Years ending December 31,	
2006	\$ 339,883
2007	316,661
2008	319,367
	<u>\$ 975,911</u>

Rent expense applicable to these operating leases for the year ended December 31, 2005, was \$384,065.

Hotel contract: The Organization has entered into a contract for hotel rooms and convention space in 2006. In the event of cancellation, the Organization is required to pay various costs of the hotel rooms and convention spaces as stipulated in the contract, the amounts of which are dependent upon the date of the cancellation.

#### Note 7. Retirement Plan

The Organization maintains a defined contribution pension plan (the "Plan") under Section 403(b)(7) of the Internal Revenue Code. All full-time employees are eligible to participate in the Plan after one year of employment. The Organization makes discretionary contributions to the Plan for the benefit of eligible employees in amounts equal to 8% of base salary. Contributions for new employees are accrued from the date of full-time employment and will be made following the first anniversary date of full-time employment. Employees who are terminated prior to the first anniversary date forfeit all rights to these benefits. The Organization contributed \$250,768 to the Plan during the year ended December 31, 2005.

#### Note 8. Contingencies

Federal awards: The Organization participates in a number of federally assisted grant programs which are subject to financial and compliance audits by the federal government or its representatives. As such, there exists a contingent liability for potential questioned costs that may result from such an audit. Management does not anticipate any significant adjustments as a result of such an audit.

The Organization has operations in many countries throughout the world, many of which have politically and economically volatile environments and whose governments are still in development stages. As a result, the Organization may have financial risks associated with these operations including such matters as the assessment of local taxes. No assessments of any such amounts have been received and, accordingly, no provision for such liabilities, if any, that might result from these operations have been made in the accompanying financial statements.