

International Justice Mission

Financial Report
December 31, 2006

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McGladrey & Pullen

Certified Public Accountants

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, 2006, 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 2005 financial statements. The financial statements of the Organization for the year ended December 31, 2005, were audited by us and in our report dated March 3, 2006, we 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 2006 financial statements referred to above present fairly, in all material respects, the financial position of International Justice Mission as of December 31, 2006, 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 13, 2007, 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.

McGladrey & Pullen, LLP

Alexandria, Virginia
March 13, 2007

International Justice Mission

Balance Sheet

December 31, 2006

(With Comparative Totals For 2005)

| Assets | 2006 | 2005 |
|-----------------------------------|---------------------|---------------------|
| Cash and cash equivalents | \$ 2,485,376 | \$ 2,410,905 |
| Investments | 907,937 | 991,433 |
| Receivables | 385,793 | 266,831 |
| Promises to give | 70,000 | 474,000 |
| Prepaid expenses and other assets | 598,795 | 217,106 |
| Property and equipment, net | 1,213,011 | 933,605 |
| | <u>\$ 5,660,912</u> | <u>\$ 5,293,880</u> |

Liabilities And Net Assets

| | | |
|---------------------------------------|------------------|----------------|
| Liabilities | | |
| Accounts payable and accrued expenses | \$ 587,781 | \$ 318,000 |
| Refundable advances | 712,735 | 185,000 |
| Deferred rent | 298,846 | - |
| | <u>1,599,362</u> | <u>503,000</u> |

Commitments and Contingencies (Notes 5, 8 and 9)

Net Assets

| | | |
|------------------------|---------------------|---------------------|
| Unrestricted | 3,212,413 | 3,735,528 |
| Temporarily restricted | 849,137 | 1,055,352 |
| | <u>4,061,550</u> | <u>4,790,880</u> |
| | <u>\$ 5,660,912</u> | <u>\$ 5,293,880</u> |

See Notes To Financial Statements.

International Justice Mission

Statement Of Activities

Year Ended December 31, 2006

(With Comparative Totals For 2005)

| | 2006 | | | 2005 |
|---------------------------------------|-------------------|------------------------|-------------------|-------------------|
| | Unrestricted | Temporarily Restricted | Total | |
| Support and Revenue | | | | |
| Contributions and grants | \$ 10,175,073 | \$ 2,341,598 | \$ 12,516,671 | \$ 10,935,709 |
| Other income | 521,628 | - | 521,628 | 329,981 |
| Investment income | 111,447 | - | 111,447 | 34,332 |
| Net assets released from restrictions | 2,547,813 | (2,547,813) | - | - |
| Total support and revenue | 13,355,961 | (206,215) | 13,149,746 | 11,300,022 |
| Expenses | | | | |
| Program services: | | | | |
| Case work | 8,236,598 | - | 8,236,598 | 5,452,099 |
| Education | 1,288,858 | - | 1,288,858 | 894,001 |
| Prayer ministry | 653,939 | - | 653,939 | 431,072 |
| Total program services | 10,179,395 | - | 10,179,395 | 6,777,172 |
| Supporting services: | | | | |
| Board expense | 79,086 | - | 79,086 | 95,465 |
| Fund development | 2,222,966 | - | 2,222,966 | 1,561,212 |
| General and administrative | 1,397,629 | - | 1,397,629 | 975,722 |
| Total supporting services | 3,699,681 | - | 3,699,681 | 2,632,399 |
| Total expenses | 13,879,076 | - | 13,879,076 | 9,409,571 |
| Change in net assets | (523,115) | (206,215) | (729,330) | 1,890,451 |
| Net Assets | | | | |
| Beginning | 3,735,528 | 1,055,352 | 4,790,880 | 2,900,429 |
| Ending | \$ 3,212,413 | \$ 849,137 | \$ 4,061,550 | \$ 4,790,880 |

See Notes To Financial Statements.

International Justice Mission

Statement Of Functional Expenses
 Year Ended December 31, 2006
 (With Comparative Totals For 2005)

| | Program Services | | | | Supporting Services | | | | 2006 Total | 2005 Total |
|--------------------------------|---------------------|---------------------|--------------------|---------------------------|---------------------|---------------------|-------------------------------|------------------------------|----------------------|---------------------|
| | Case Work | Education | Prayer Ministry | Total Program Services | Board Expense | Fund Development | General and Administrative | Total Supporting Services | | |
| Auto | \$ 111,538 | \$ - | \$ - | \$ 111,538 | \$ - | \$ - | \$ 31 | \$ 31 | \$ 111,569 | \$ 90,039 |
| Conference registration | 3,919 | 7,469 | 89 | 11,477 | - | 1,857 | 500 | 2,357 | 13,834 | 9,372 |
| Depreciation | 220,207 | 15,314 | 1,756 | 237,277 | 657 | 38,757 | 24,580 | 63,994 | 301,271 | 269,362 |
| Dues, subscriptions and fees | 40,240 | 9,299 | 241 | 49,780 | 50 | 14,781 | 12,892 | 27,723 | 77,503 | 51,563 |
| Expensed software | 2,208 | 764 | - | 2,972 | - | 716 | 1,927 | 2,643 | 5,615 | 24,012 |
| Gifts and entertainment | 46,782 | 12,910 | 14,315 | 74,007 | 1,362 | 13,770 | 3,955 | 19,087 | 93,094 | 59,775 |
| Good Samaritan expense | 2,110 | - | - | 2,110 | - | - | 1,000 | 1,000 | 3,110 | 2,539 |
| Honorarium fees | 1,107 | 500 | 2,300 | 3,907 | - | 6,100 | - | 6,100 | 10,007 | 6,927 |
| Insurance | 42,423 | 4,318 | 1,180 | 47,921 | - | 5,870 | 7,129 | 12,999 | 60,920 | 49,804 |
| Interest and fees | 11,084 | 505 | 11 | 11,600 | - | 66,784 | 11,850 | 78,634 | 90,234 | 50,127 |
| Internship expense | 88,114 | 822 | - | 88,936 | - | 123 | 135 | 258 | 89,194 | 37,113 |
| Marketing | 12,130 | 6,312 | - | 18,442 | - | 4,011 | 8 | 4,019 | 22,461 | 16,824 |
| Miscellaneous expense | 15,140 | 60,100 | 115 | 75,355 | 18 | 21,038 | 182 | 21,238 | 96,593 | 33,184 |
| Occupancy | 404,622 | 118,559 | 69 | 523,250 | - | 126,665 | 188,763 | 315,428 | 838,678 | 459,121 |
| Office expense | 285,470 | 17,957 | 3,599 | 307,026 | 1,798 | 19,344 | 22,993 | 44,135 | 351,161 | 393,776 |
| Photographic | 6,170 | 8,076 | 1,663 | 15,909 | - | 5,097 | 460 | 5,557 | 21,466 | 21,910 |
| Postage and shipping | 51,021 | 21,998 | 3,262 | 76,281 | 1,298 | 88,156 | 7,176 | 96,630 | 172,911 | 123,202 |
| Printing | 11,242 | 65,688 | 6,805 | 83,735 | 353 | 171,262 | 7,059 | 178,674 | 262,409 | 186,581 |
| Professional services | 155,568 | 18,851 | - | 174,419 | 22 | 5,682 | 36,149 | 41,853 | 216,272 | 141,935 |
| Recruiting | 42,941 | 3,880 | - | 46,821 | - | 7,939 | 7,839 | 15,778 | 62,599 | 30,352 |
| Rental of equipment | 10,176 | 2,798 | 55,655 | 68,629 | 15,887 | 481,862 | 793 | 498,542 | 567,171 | 304,822 |
| Repairs and maintenance | 58,633 | 565 | - | 59,198 | - | 514 | 3,192 | 3,706 | 62,904 | 102,525 |
| Salaries and employee benefits | 3,601,580 | 737,069 | 513,023 | 4,851,672 | 37,181 | 948,170 | 949,896 | 1,935,247 | 6,786,919 | 4,488,965 |
| Services provided by contract | 1,593,787 | 30,655 | 7,129 | 1,631,571 | - | 38,939 | 45,766 | 84,705 | 1,716,276 | 1,144,192 |
| Taxes | 18,809 | 7,427 | 557 | 26,793 | 432 | 8,183 | 5,195 | 13,810 | 40,603 | 71,015 |
| Telephone/communications | 204,993 | 9,667 | 686 | 215,346 | 871 | 13,995 | 10,822 | 25,688 | 241,034 | 198,079 |
| Training/education | 131,979 | 3,850 | 69 | 135,898 | - | 6,275 | 23,729 | 30,004 | 165,902 | 116,851 |
| Travel | 897,057 | 121,552 | 41,415 | 1,060,024 | 19,157 | 125,566 | 23,608 | 168,331 | 1,228,355 | 862,546 |
| Victim aftercare expense | 164,254 | - | - | 164,254 | - | - | - | - | 164,254 | 55,599 |
| Website expense | 1,294 | 1,953 | - | 3,247 | - | 1,510 | - | 1,510 | 4,757 | 7,459 |
| | <u>\$ 8,236,598</u> | <u>\$ 1,288,858</u> | <u>\$ 653,939</u> | <u>\$ 10,179,395</u> | <u>\$ 79,086</u> | <u>\$ 2,222,966</u> | <u>\$ 1,397,629</u> | <u>\$ 3,699,681</u> | <u>\$ 13,879,076</u> | <u>\$ 9,409,571</u> |

See Notes To Financial Statements.

International Justice Mission

Statement Of Cash Flows

Year Ended December 31, 2006

(With Comparative Totals For 2005)

| | 2006 | 2005 |
|--|-----------------|--------------------|
| Cash Flows From Operating Activities | | |
| Change in net assets | \$ (729,330) | \$ 1,890,451 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 301,271 | 269,362 |
| Noncash contributions | (403,011) | (325,210) |
| Net realized and unrealized gains on investments | (17,524) | 3,188 |
| Loss on disposal of property and equipment | 4,928 | 3,206 |
| Deferred rent | 298,846 | - |
| Changes in assets and liabilities: | | |
| (Increase) decrease in: | | |
| Receivables | (118,962) | 43,145 |
| Promises to give | 404,000 | (429,000) |
| Prepaid expenses and other assets | (381,689) | (109,727) |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | 269,781 | (38,374) |
| Refundable advances | 527,735 | 156,121 |
| Net cash provided by operating activities | 156,045 | 1,463,162 |
| Cash Flows From Investing Activities | | |
| Proceeds from sale of investments | 2,054,434 | 298,027 |
| Purchases of investments | (1,550,403) | (951,990) |
| Proceeds from sale of equipment | - | 29,177 |
| Purchase of property and equipment | (585,605) | (556,610) |
| Net cash (used in) investing activities | (81,574) | (1,181,396) |
| Net increase in cash and cash equivalents | 74,471 | 281,766 |
| Cash And Cash Equivalents | | |
| Beginning | 2,410,905 | 2,129,139 |
| Ending | \$ 2,485,376 | \$ 2,410,905 |
| Supplemental Schedule Of Noncash Investing Activities | | |
| Donated securities | \$ 403,011 | \$ 325,210 |
| Supplemental Disclosure Of Cash Flow Information | | |
| Cash payment for expatriate taxes | \$ 301,387 | \$ 71,015 |

See Notes To Financial Statements.

International Justice Mission

Notes To Financial Statements

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, 2006.

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. All cash and investments, regardless of maturity, held by an investment advisor, are considered investments.

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.

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.

Restricted cash: Cash and cash equivalents at December 31, 2006, includes certificates of deposit in the amount of \$262,261, which are restricted as security under two letters of credit with a local bank.

Investments: Investments consist of certificates of deposit, equity securities, and money market funds and are reflected at fair market value. To adjust the carrying value of these investments, the change in fair market value is included as a component of investment income on the statement of activities.

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, 2006.

International Justice Mission

Notes To Financial Statements

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

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, 2006. All promises to give at December 31, 2006, are collectible within one year.

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, 2006, were \$10,521.

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.

International Justice Mission

Notes To Financial Statements

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

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 \$323,619 in 2006 which, technically, although not netted for financial statements purposes, offset the costs of the fundraising banquet expenses.

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

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.

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, 2006.

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, 2005, from which the summarized information was derived.

Reclassifications: Certain amounts in the 2005 financial statements have been reclassified to conform to the presentation in the 2006 statements with no effect on the previously reported change in net assets.

Note 2. Investments

Investments at December 31, 2006, consist of the following:

| | |
|------------------------------|-------------------|
| Certificates of deposit | \$ 800,000 |
| Money market funds | 97,498 |
| Marketable equity securities | 10,439 |
| | <u>\$ 907,937</u> |

Investment income for the year ended December 31, 2006, consists of the following:

| | |
|---|-------------------|
| Interest and dividends | \$ 93,923 |
| Realized and unrealized loss on investments | 17,524 |
| | <u>\$ 111,447</u> |

International Justice Mission

Notes To Financial Statements

Note 3. Receivables

Receivables at December 31, 2006, consist of the following:

| | |
|---------------------------|-------------------|
| Grant receivables | \$ 122,190 |
| Advances to field offices | 228,922 |
| Advances for travel | 34,681 |
| | <u>\$ 385,793</u> |

Note 4. Property And Equipment

Property and equipment and accumulated depreciation at December 31, 2006, and depreciation expense for the year ended December 31, 2006, are as follows:

| | Estimated Lives | Cost | Accumulated Depreciation | Net | Depreciation |
|------------------------|--------------------|---------------------|-----------------------------|---------------------|-------------------|
| Equipment | 5 years | \$ 1,454,611 | \$ 606,529 | \$ 848,082 | \$ 169,258 |
| Automobiles | 7 years | 413,982 | 195,222 | 218,760 | 76,676 |
| Software | 3 years | 213,011 | 112,308 | 100,703 | 35,010 |
| Furniture and fixtures | 5 - 10 years | 106,721 | 61,255 | 45,466 | 20,327 |
| | | <u>\$ 2,188,325</u> | <u>\$ 975,314</u> | <u>\$ 1,213,011</u> | <u>\$ 301,271</u> |

Note 5. Line Of Credit

The Organization has a \$1,400,000 line of credit that expires on September 30, 2007. The line of credit accrues interest 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, 2006.

Note 6. 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 \$381,342 to the Plan during the year ended December 31, 2006.

International Justice Mission

Notes To Financial Statements

Note 7. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2006, are restricted for the following and were released from restrictions for the year ended December 31, 2006 as follows:

Temporarily restricted net assets at December 31, 2006, are available for the following programs:

| | Balance December 31, 2005 | Additions | Releases | Balance December 31, 2006 |
|---------------------|------------------------------|---------------------|-----------------------|------------------------------|
| Time restricted | | | | |
| Promises to give | \$ 139,000 | \$ - | \$ (139,000) | \$ - |
| Program restricted | | | | |
| Casework* | 645,896 | 1,959,126 | (2,022,471) | 582,551 |
| Aftercare | 174,614 | 231,138 | (171,499) | 234,253 |
| Training | 42,756 | - | (25,985) | 16,771 |
| Justice Advocates | 52,978 | - | (39,624) | 13,354 |
| Good Samaritan Fund | 108 | 5,209 | (3,110) | 2,207 |
| Fund Development | - | 50,000 | (50,000) | - |
| Prayer | - | 30,000 | (30,000) | - |
| Interventions | - | 1,190 | (1,190) | - |
| Investigations | - | 42,685 | (42,685) | - |
| Education | - | 22,175 | (22,175) | - |
| Communications | - | 75 | (75) | - |
| | <u>\$ 1,055,352</u> | <u>\$ 2,341,598</u> | <u>\$ (2,547,813)</u> | <u>\$ 849,137</u> |

* Includes time restricted amounts

Note 8. 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 \$25,000. 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, 2006, the required letter of credit was approximately \$44,000.

In October 2006, the Organization entered into a new lease for an office space which ends in March 2022. The rent start date will be the later to occur of April 1, 2007 or the date on which the Landlord shall have substantially completed the construction improvements. During the first twelve months starting the rent start date, the Organization is required to make monthly rental payments of approximately \$71,000 and will be increased by 3% annually. The lease agreement also includes a rent concession which is included in the basis for the calculation of a deferred rent amount. The benefit of this rent concession is being allocated over the term of the lease. 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, 2006, the required letter of credit was approximately \$212,000.

International Justice Mission

Notes To Financial Statements

Note 8. Commitments (Continued)

The Organization has also entered into other leases for office space in Cambodia, Uganda, Zambia, Thailand, Kenya, the Philippines, and other locations in Southeast Asia. The lease terms expire at various times ending in 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.

Future minimum rental payments applicable to these operating leases, at December 31, 2006, are as follows:

| Years Ending December 31, | |
|---------------------------|----------------------|
| 2007 | \$ 1,034,862 |
| 2008 | 1,243,328 |
| 2009 | 946,597 |
| 2010 | 957,403 |
| 2011 | 990,321 |
| 2012 - 2022 | 11,580,420 |
| | <u>\$ 16,752,931</u> |

Rent expense applicable to these operating leases for the year ended December 31, 2006, was \$736,292.

Hotel contract: The Organization has entered into a contract for hotel rooms and convention space in 2007. 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 9. 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.

Note 10. Related Parties

The Organization has two international affiliates – International Justice Mission-UK (IJM-UK) and International Justice Mission-Canada (IJM-Canada). The Organization provided funding for start-up operations for IJM-UK of \$50,000 for the year ended December 31, 2006. The Organization also incurs certain legal costs for trademark application research relating to these affiliates. There were no related party balances with these affiliates as of December 31, 2006.