



To the Board of Directors of
Advocates International, Inc.

I have audited the accompanying Statement of Financial Position of Advocates International, Inc. (a nonprofit organization) as of December 31, 2012 and 2011, 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. My responsibility is to express an opinion on these financial statements based on our audits.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Advocates International, Inc. as of December 31, 2012 and 2011, 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.

My audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules of Functional Expenses are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Morrow, PC
Manassas, VA
March 22, 2013

Advocates International, Inc.
Statement of Financial Position
At December 31, 2012 and 2011

	2012	2011
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 114,943	\$ 30,438
Inventory	2,044	2,044
Grants Receivable	-	19,000
Prepaid Expenses	14,031	8,417
Total Current Assets	<u>131,018</u>	<u>59,899</u>
Property and Equipment		
Real Property	25,850	25,850
Equipment	20,665	20,665
Accumulated Depreciation	<u>(28,015)</u>	<u>(25,014)</u>
Net Property and Equipment	<u>18,500</u>	<u>21,501</u>
Total Assets	<u>\$ 149,518</u>	<u>\$ 81,400</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts Payable and Accrued Expenses	\$ 6,340	\$ 16,876
Compensated Absences Payable	815	787
Deferred Support	5,475	-
Total Current Liabilities	<u>12,630</u>	<u>17,663</u>
Total Liabilities	12,630	17,663
Net Assets		
Unrestricted Net Assets	125,068	63,737
Temporarily Restricted Net Assets	<u>11,820</u>	<u>-</u>
Total Net Assets	<u>136,888</u>	<u>63,737</u>
Total Liabilities and Net Assets	<u>\$ 149,518</u>	<u>\$ 81,400</u>

See Accountant's Report and Notes to Financial Statements

Advocates International, Inc.
Statement of Activities
For the Year Ended December 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues, Gains and Other Support			
Contributions	\$ 363,194	\$ 11,820	\$ 375,014
Convocation Fees	1,800	-	1,800
Other Income	4,193	-	4,193
Total Revenues, Gains and Other Support	<u>369,187</u>	<u>11,820</u>	<u>381,007</u>
Expenses			
Program	262,825	-	262,825
Supporting Services			
General and Administrative	2,353	-	2,353
Fundraising	23,678	-	23,678
Total Expenses	<u>288,856</u>	<u>-</u>	<u>288,856</u>
Changes in Net Assets from Operations	80,331	11,820	92,151
Prior Period Adjustment	(19,000)	-	(19,000)
Net Assets, Beginning of Year	<u>63,737</u>	<u>-</u>	<u>63,737</u>
Net Assets, End of Year	<u>\$ 125,068</u>	<u>\$ 11,820</u>	<u>\$ 136,888</u>

See Accountant's Report and Notes to Financial Statements

Advocates International, Inc.
Statement of Activities
For the Year Ended December 31, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues, Gains and Other Support			
Contributions	\$ 440,820	\$ -	\$ 440,820
Grants	25,950	-	25,950
Other Income	2,755	-	2,755
Total Revenues, Gains and Other Support	<u>469,525</u>	<u>-</u>	<u>469,525</u>
Expenses			
Program	323,541	-	323,541
Supporting Services			
General and Administrative	27,249	-	27,249
Fundraising	35,632	-	35,632
Total Expenses	<u>386,422</u>	<u>-</u>	<u>386,422</u>
Changes in Net Assets from Operations	83,103	-	83,103
Net Assets, Beginning of Year	<u>(19,366)</u>	<u>-</u>	<u>(19,366)</u>
Net Assets, End of Year	<u>\$ 63,737</u>	<u>\$ -</u>	<u>\$ 63,737</u>

See Accountant's Report and Notes to Financial Statements

Advocates International, Inc.
Schedule of Functional Expenses
For the Year Ended December 31, 2012

	Program	General and Administrative	Fundraising	Total
Functional Expenses				
Advertising and Public Relations	\$ 1,226	\$ -	\$ 243	\$ 1,469
Conferences	400	-	108	508
Depreciation and Amortization	-	3,001	-	3,001
Dues and Fees	1,450	-	50	1,500
Interest	-	282	-	282
Licenses and Fees	-	-	1,369	1,369
International Support	28,913	-	-	28,913
Meals and Entertainment	159	-	17	176
Miscellaneous	975	11	-	986
Office Expense	702	23,101	2,162	25,965
Payroll Taxes	10,147	328	551	11,026
Pension Expense	1,272	2,120	848	4,240
Postage and Shipping	-	273	6,632	6,905
Printing and Photocopy	-	688	-	688
Professional Fees	2,023	4,525	-	6,548
Rent Expense	-	25,200	-	25,200
Salaries and Employee Benefits	131,064	16,561	7,121	154,746
Telephone	144	2,915	-	3,059
Travel	11,648	-	627	12,275
Allocation of General and Administrative Expenses	72,702	(76,652)	3,950	-
Total Functional Expenses	\$ 262,825	\$ 2,353	\$ 23,678	\$ 288,856

See Accountant's Report and Notes to Financial Statements

Advocates International, Inc.
Schedule of Functional Expenses
For the Year Ended December 31, 2011

	Program	General and Administrative	Fundraising	Total
Functional Expenses				
Bank Charges	\$ -	\$ 828	\$ -	\$ 828
Conferences	-	140	412	552
Depreciation and Amortization	-	2,988	-	2,988
Dues and Fees	2,251	433	83	2,767
Interest	-	1,135	-	1,135
Law of Life Project	3,674	-	-	3,674
Licenses and Fees	-	55	2,525	2,580
International Support	48,709	-	-	48,709
Meals and Entertainment	170	-	84	254
Miscellaneous	773	43	-	816
Office Expense	35	24,342	3,825	28,202
Payroll Taxes	11,565	2,803	761	15,129
Pension Expense	2,456	4,094	1,638	8,188
Postage and Shipping	48	2,557	5,970	8,575
Printing and Photocopy	260	1,120	35	1,415
Professional Fees	-	11,780	1,456	13,236
Rent Expense	-	24,600	-	24,600
Repairs and Maintenance	-	249	-	249
Salaries and Employee Benefits	142,324	57,722	9,205	209,251
Telephone	229	3,284	573	4,086
Travel	6,942	30	2,216	9,188
Allocation of General and Administrative Expenses	104,105	(110,954)	6,849	-
Total Functional Expenses	\$ 323,541	\$ 27,249	\$ 35,632	\$ 386,422

See Accountant's Report and Notes to Financial Statements

Advocates International, Inc.
Statement of Cash Flows
For the Years December 31, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Changes in Net Assets	\$ 92,151	\$ 83,103
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and Amortization	3,001	2,988
(Increase) Decrease in other current assets	-	8,751
(Increase) Decrease in grants receivable	19,000	(12,710)
(Increase) Decrease in prepaid expenses	(5,614)	(8,417)
Increase (Decrease) in accounts payable	(10,536)	(34,745)
Increase (Decrease) in compensated absences	28	(1,414)
Increase (Decrease) in other current liabilities	5,475	-
Total Adjustments	<u>11,354</u>	<u>(45,547)</u>
Net Cash Provided (Used) by Operating Activities	103,505	37,556
Cash Flows from Investing Activities		
Cash Payments for Purchase of Property	<u>-</u>	<u>(1,791)</u>
Net Cash Provided (Used) by Investing Activities	-	(1,791)
Cash Flows from Financing Activities		
Prior Period Adjustment	(19,000)	-
Net borrowings on Line of Credit, Notes	<u>-</u>	<u>(44,900)</u>
Net Cash Provided (Used) by Financing Activities	(19,000)	(44,900)
Net Increase (Decrease) in Cash and Equivalents	84,505	(9,135)
Cash and Equivalents, Beginning of Year	<u>30,438</u>	<u>39,573</u>
Cash and Equivalents, End of Year	<u>\$ 114,943</u>	<u>\$ 30,438</u>
Interest Paid, Included in Change in Net Assets	\$ 282	\$ 1,135

See Accountant's Report and Notes to Financial Statements

Advocates International, Inc.
Notes to the Financial Statements
December 31, 2012 and 2011

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 freedom, human rights, justice, sanctity of life, protecting the family, peace & reconciliation and the rule of law 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, 2012 and 2011 the Organization had \$11,820 and \$0 temporarily restricted net assets, respectively.

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.

Allowances for Doubtful Accounts – Due to the nature and type of receivables management believes all receivables at December 31, 2012 are collectible, except for those described in the Prior Period Adjustment Note; therefore no allowances have been taken.

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 of 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.

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. There were no donated goods and overseas expenses for the years ended December 31, 2012 and 2011.

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.

Advocates International, Inc.
Notes to the Financial Statements
December 31, 2012 and 2011

Inventory – 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 with a useful life of greater than one year that exceed \$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, 2012 and 2011, these assets were valued at \$46,515 and \$46,515, respectively. Depreciation expense for 2012 and 2011 was \$3,001 and \$2,988, respectively.

Intangible Assets – Intangible Assets consisted 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 a straight-line method. The useful life of the videos will be assessed annually for impairment.

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 Receivable consisted of \$0 and \$19,000 at December 31, 2012 and 2011, respectively. All grants receivable 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.

D. RELATED PARTIES

The Organization leases office space in Sofia, Bulgaria from a company that the Organization's late President owned. The lease terms are month-to-month with no long term commitment. The annual rent for year end December 31, 2012 and 2011 was \$0 and \$0, respectively, for the Bulgaria office space.

The Organization also leases its office space in Fairfax, VA from a company that the Organization's late President owned. The lease terms are month-to-month at a rate of \$2,100 per month.

E. LINE OF CREDIT

The Organization has secured a line of credit from a local bank in the amount of \$50,000 with the late President of the Organization and his spouse as sole guarantors for the line of credit. As of December 31, 2012 and 2011 the balance due was \$0 and \$0, respectively. The line of credit is due on demand and bears interest at a rate of prime plus 2%.

F. PENSION PLAN

The Organization contributes to a SEP/IRA plan for all employees who work a minimum of 32 hours per week on a regular basis. Contributions ranged from 0% to 11% of compensation. Pension expenses for the years ended December 31, 2012 and 2011 were \$4,240 and \$8,188, respectively.

Advocates International, Inc.
Notes to the Financial Statements
December 31, 2012 and 2011

G. RENT EXPENSE

Rent Expense was \$25,200 and \$24,600 for 2012 and 2011, respectively.

H. LEASES

The Organization leases office space in Sofia, Bulgaria from a company that the Organization's late President owned. The lease terms are month-to-month with no long term commitment. The annual rent for year end December 31, 2012 and 2011 was \$0 and \$0, respectively, for the Bulgaria office space.

On April 16, 2010, the Organization renegotiated the November 1, 2009 lease agreement for office space at 9691-D Main Street, Fairfax, VA 25425. The term of the lease was for one year unless sooner terminated or extended. The total amount of office space leased in Fairfax, VA was 1,000 square feet. Base rent was \$2,500 per month. The lease was subsequently agreed to be reduced to \$1,900 per month. On April 1, 2011, the monthly rent increases to \$2,100 per month through the end of 2011 and is month to month thereafter.

I. CONCENTRATIONS

For the year ended December 31, 2012 37.4% of all grants and contributions was received from 2.6% of contributors, with 12% coming from top two contributors.

For the year ended December 31, 2011 13.4% of all grants and contributions was received from two donors. Grants Receivable is made up of contributions receivable from one donor.

J. PRIOR PERIOD ADJUSTMENT

The prior period adjustment of \$19,000 was a grant for a program that originated with the Organization. This program was moved to another Organization when an employee left this Organization end of 2011. The program went with the former employee during 2012. The grant was no longer receivable. Since it originated in 2011 it has been identified as a prior period adjustment.

K. SUBSEQUENT EVENTS

The following subsequent events were evaluated through March 22, 2013, which is the date the financial statements were available to be issued.