



MESSENGER INTERNATIONAL, INC.  
AND SUBSIDIARY

Consolidated Financial Statements  
With Independent Auditors' Report

June 30, 2018 and 2017

# MESSENGER INTERNATIONAL, INC. AND SUBSIDIARY

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Messenger International, Inc.  
and Subsidiary  
Palmer Lake, Colorado

We have audited the accompanying consolidated financial statements of Messenger International, Inc. and Subsidiary, which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors  
Messenger International, Inc.  
and Subsidiary  
Palmer Lake, Colorado

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Messenger International, Inc. and Subsidiary as of June 30, 2018 and 2017, and the changes in their net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Prior Period Adjustment***

As discussed in note 11 to the financial statements, the entity has identified adjustments pertaining to amounts previously reported in prior year financial statements. Accordingly, the 2017 consolidated financial statements now presented here have been restated to correct these errors. Our opinion is not modified with respect to these matters.

*Capin Crouse LLP*

Colorado Springs, Colorado  
November 29, 2018

# MESSENGER INTERNATIONAL, INC. AND SUBSIDIARY

## Consolidated Statements of Financial Position

|  | June 30,            |                     |
|--|---------------------|---------------------|
|  | 2018                | 2017, restated      |
| <b>ASSETS:</b>                             |                     |                     |
| Cash and cash equivalents                  | \$ 4,281,777        | \$ 3,699,242        |
| Accounts and contributions receivable, net | 551,400             | 491,097             |
| Inventory, net                             | 532,198             | 323,971             |
| Deposits and other assets                  | 320,690             | 315,885             |
| Assets held for deferred compensation      | 224,659             | 120,232             |
| Product development costs, net             | 176,995             | 243,304             |
| Property and equipment, net                | 1,046,063           | 1,015,148           |
| <b>Total Assets</b>                        | <b>\$ 7,133,782</b> | <b>\$ 6,208,879</b> |
| <b>LIABILITIES AND NET ASSETS:</b>         |                     |                     |
| <b>Liabilities:</b>                        |                     |                     |
| Accounts payable                           | \$ 607,009          | \$ 327,763          |
| Accrued expenses and other liabilities     | 139,986             | 117,264             |
| Deferred revenue                           | 615,151             | 589,613             |
| Deferred compensation liability            | 224,659             | 120,232             |
|  | 1,586,805           | 1,154,872           |
| <b>Net assets:</b>                         |                     |                     |
| <b>Unrestricted:</b>                       |                     |                     |
| Operating                                  | 2,859,159           | 2,847,405           |
| Equity in property and equipment           | 1,046,063           | 1,015,148           |
|  | 3,905,222           | 3,862,553           |
| Temporarily restricted                     | 1,641,755           | 1,191,454           |
|  | 5,546,977           | 5,054,007           |
| <b>Total Liabilities and Net Assets</b>    | <b>\$ 7,133,782</b> | <b>\$ 6,208,879</b> |

See notes to consolidated financial statements

# MESSENGER INTERNATIONAL, INC. AND SUBSIDIARY

## Consolidated Statements of Activities

|                                    | Year Ended June 30, |                           |                     |                     |                           |                     |
|------------------------------------|---------------------|---------------------------|---------------------|---------------------|---------------------------|---------------------|
|                                    | 2018                |                           |                     | 2017, restated      |                           |                     |
|                                    | Unrestricted        | Temporarily<br>Restricted | Total               | Unrestricted        | Temporarily<br>Restricted | Total               |
| <b>SUPPORT AND REVENUE:</b>        |                     |                           |                     |                     |                           |                     |
| Ministry resource sales            | \$ 3,042,907        | \$ -                      | \$ 3,042,907        | \$ 3,290,248        | \$ -                      | \$ 3,290,248        |
| Contributions                      | 1,574,529           | 2,434,455                 | 4,008,984           | 1,355,307           | 2,031,031                 | 3,386,338           |
| Honorariums                        | 764,464             | -                         | 764,464             | 730,282             | -                         | 730,282             |
| Special events:                    |                     |                           |                     |                     |                           |                     |
| Revenue                            | 665,225             | -                         | 665,225             | 628,812             | -                         | 628,812             |
| Costs of direct benefits to donors | (471,033)           | -                         | (471,033)           | (441,795)           | -                         | (441,795)           |
| Net special events income          | 194,192             | -                         | 194,192             | 187,017             | -                         | 187,017             |
| Royalty income                     | 166,405             | -                         | 166,405             | 153,436             | -                         | 153,436             |
| Interest income and other          | 123,649             | -                         | 123,649             | 4,772               | -                         | 4,772               |
| <b>Total Support and Revenue</b>   | <b>5,866,146</b>    | <b>2,434,455</b>          | <b>8,300,601</b>    | <b>5,721,062</b>    | <b>2,031,031</b>          | <b>7,752,093</b>    |
| <b>NET ASSETS RELEASED:</b>        |                     |                           |                     |                     |                           |                     |
| Purpose restrictions               | 1,984,154           | (1,984,154)               | -                   | 1,914,497           | (1,914,497)               | -                   |
| <b>EXPENSES:</b>                   |                     |                           |                     |                     |                           |                     |
| Program services:                  |                     |                           |                     |                     |                           |                     |
| Ministry resource distribution     | 3,448,692           | -                         | 3,448,692           | 2,901,474           | -                         | 2,901,474           |
| International resource outreach    | 1,497,731           | -                         | 1,497,731           | 1,410,935           | -                         | 1,410,935           |
| Public speaking                    | 680,696             | -                         | 680,696             | 735,924             | -                         | 735,924             |
| Cost of ministry resources         | 681,958             | -                         | 681,958             | 726,495             | -                         | 726,495             |
| Mission and outreach work          | 162,798             | -                         | 162,798             | 153,156             | -                         | 153,156             |
| Human trafficking outreach         | 37,422              | -                         | 37,422              | 99,414              | -                         | 99,414              |
| Television and radio outreach      | 65,213              | -                         | 65,213              | 60,510              | -                         | 60,510              |
|                                    | 6,574,510           | -                         | 6,574,510           | 6,087,908           | -                         | 6,087,908           |
| Supporting activities:             |                     |                           |                     |                     |                           |                     |
| General and administrative         | 849,024             | -                         | 849,024             | 778,640             | -                         | 778,640             |
| Fund-raising                       | 384,097             | -                         | 384,097             | 322,597             | -                         | 322,597             |
|                                    | 1,233,121           | -                         | 1,233,121           | 1,101,237           | -                         | 1,101,237           |
| <b>Total Expenses</b>              | <b>7,807,631</b>    | <b>-</b>                  | <b>7,807,631</b>    | <b>7,189,145</b>    | <b>-</b>                  | <b>7,189,145</b>    |
| Change in Net Assets               | 42,669              | 450,301                   | 492,970             | 446,414             | 116,534                   | 562,948             |
| Net Assets, Beginning of Year      | 3,862,553           | 1,191,454                 | 5,054,007           | 3,416,139           | 1,074,920                 | 4,491,059           |
| Net Assets, End of Year            | <b>\$ 3,905,222</b> | <b>\$ 1,641,755</b>       | <b>\$ 5,546,977</b> | <b>\$ 3,862,553</b> | <b>\$ 1,191,454</b>       | <b>\$ 5,054,007</b> |

See notes to consolidated financial statements

# MESSENGER INTERNATIONAL, INC. AND SUBSIDIARY

## Consolidated Statements of Cash Flows

|  | Year Ended June 30, |                |
|--|---------------------|----------------|
|  | 2018                | 2017, restated |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                     |                |
| Change in net assets   | \$ 492,970          | \$ 562,948     |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities: |                     |                |
| Depreciation and amortization  | 311,404             | 180,233        |
| Loss on sale of property and equipment   | -                   | 1,049          |
| Change in operating assets and liabilities:  |                     |                |
| Accounts and contributions receivable  | (60,303)            | (102,698)      |
| Inventory  | (208,227)           | 101,255        |
| Deposits and other assets  | (4,805)             | (107,863)      |
| Assets held for deferred compensation  | (104,427)           | (97,867)       |
| Accounts payable   | 279,246             | (78,190)       |
| Accrued expenses and other liabilities   | 22,722              | 21,955         |
| Deferred revenue   | 25,538              | 25,670         |
| Deferred compensation liability  | 104,427             | 97,867         |
| Net Cash Provided by Operating Activities  | 858,545             | 604,359        |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                     |                |
| Proceeds from sale of property and equipment   | -                   | 3,550          |
| Purchases of property and equipment  | (105,919)           | (85,255)       |
| Payments for product development costs   | (170,091)           | (200,596)      |
| Net Cash Used by Investing Activities  | (276,010)           | (282,301)      |
| Change in Cash and Cash Equivalents  | 582,535             | 322,058        |
| Cash and Cash Equivalents, Beginning of Year   | 3,699,242           | 3,377,184      |
| Cash and Cash Equivalents, End of Year   | \$ 4,281,777        | \$ 3,699,242   |

See notes to consolidated financial statements

# MESSENGER INTERNATIONAL, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017 (restated)

1. NATURE OF ORGANIZATION:

Messenger International, Inc. and Subsidiary (Messenger International, Inc.) is a not-for-profit organization that exists to develop uncompromising followers of Christ who transform the world.

**Teach: to instruct, edify, train, or demonstrate.**

Messenger International, Inc. always has and always will be committed to the teaching of life-transforming truth. People are transformed through the power of God's Word, so it is Messenger International, Inc.'s aim to further equip individuals, churches, and leaders through God-inspired teaching.

**So we tell others about Christ, warning everyone and teaching everyone with all the wisdom God has given us.** Colossians 1:28

**Reach: to touch, connect, stretch, or get a message to.**

Messenger International, Inc. has a dedicated global focus to make these messages available to pastors and leaders regardless of location or financial position. Messenger International, Inc. supports this work through the translation and distribution of resources in over 90 languages and through the broadcast, The Messenger, which reaches over 180 nations.

**Afterward Jesus himself sent them out from east to west with the sacred and unfailing message of salvation that gives eternal life.** Mark 16:8

**Rescue: to save, free, release, liberate, and restore.**

The Church is His hands and feet to a lost and hurting world. Poverty and the tyranny of human trafficking have imprisoned multiple millions. Messenger International, Inc. is committed to rescue, restoration, and empowerment both near and far.

**The LORD replies, "I have seen violence done to the helpless, and I have heard the groans of the poor. Now I will rise up to rescue them, as they have longed for me to do."** Psalm 12:5

Messenger International, Inc. has been granted a tax exemption under section 501(c)(3) of the Internal Revenue Code and comparable state law. Messenger International, Inc. is not a private foundation under section 509(a) of the Internal Revenue Code.

The accompanying consolidated financial statements include the accounts of Messenger International, Inc. and Messenger Air, LLC. All significant intercompany accounts and transactions have been eliminated in consolidation. Messenger International, Inc. owns 100% of Messenger Air, LLC. Throughout the consolidated financial statements, these two entities are collectively referred to as Messenger International, Inc.



# MESSENGER INTERNATIONAL, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017 (restated)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Messenger International, Inc. maintains its accounts and prepares its consolidated financial statements on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of any contingent assets and liabilities at the date of the consolidated financial statements, and the reported revenues and expenses during the reporting period. Actual results could differ from the estimates. The significant accounting policies followed are described below to enhance the usefulness of the consolidated financial statements to the reader.

#### CASH AND CASH EQUIVALENTS

Cash and cash equivalents include checking, savings, and money market accounts. These accounts may at times exceed federally insured limits, which was approximately \$3,600,000 and \$3,200,000 as of June 30, 2018 and 2017, respectively. Messenger International, Inc. has not experienced any losses on such accounts and believes it is not exposed to any significant credit risk.

#### ACCOUNTS RECEIVABLE

Accounts receivable are stated at the amount billed to customers. Messenger International, Inc. records an allowance for doubtful accounts, which is based on a review of outstanding receivables, historical collection information, and existing economic conditions. The allowance for doubtful accounts as of June 30, 2018 and 2017, was \$0 and \$44,081, respectively. Accounts receivable are ordinarily due 30, 60, or 90 days after the issuance of the invoice. For accounts that are unpaid after the due date, Messenger International, Inc. has the option to charge interest at 1% per month. Accounts receivable past due for more than 120 days are considered delinquent. Interest continues to accrue on delinquent accounts until the account is past due more than one year, at which time interest accrual ceases and does not resume until the account is no longer classified as delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer.

#### INVENTORY

Inventory consists of books, curriculums, and other media applications. Inventory is stated at the lower of cost or net realizable value, using the average cost method (this method approximates the first-in, first-out methodology), or, if donated, at fair value at the date of the gift. Inventory is shown net of a reserve for slow moving inventory of \$68,739 and \$78,613 at June 30, 2018 and 2017, respectively.

# MESSENGER INTERNATIONAL, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017 (restated)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

#### DEPOSITS AND OTHER ASSETS

Deposits and other assets result primarily from preparations for the Messenger Cup event held in July directly after fiscal year end. Purchases related to the event on the company credit cards were approximately \$226,000 and \$0 and are recorded in deposits and other assets and accounts payable as of June 30, 2018 and 2017, respectively.

#### ASSETS HELD FOR DEFERRED COMPENSATION

Assets held for deferred compensation fully consist of the cash surrender value of life insurance policies, which are measured at contract value. The value of this asset is based on Messenger International, Inc.'s share of the cash surrender value of the respective life insurance policies as represented by the insurance company.

#### PRODUCT DEVELOPMENT COSTS

Product development costs are amortized over the estimated period during which the related income is expected to be earned (2 years). Accumulated amortization has been recorded at \$1,121,642 and \$885,242 at June 30, 2018 and 2017, respectively.

#### PROPERTY AND EQUIPMENT

Property and equipment are capitalized at cost or, if donated, at fair value at the date of the gift. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets which range from 3 to 39 years. Purchases of long-lived assets in excess of \$2,000 with a useful life in excess of one year are capitalized, and lesser amounts are charged to expense as incurred.

#### DEFERRED REVENUE

Deferred revenue consists of registration fees for the annual Messenger Cup and is recognized when earned. The Messenger Cup occurs in July of each year and therefore is fully recognized as revenue the month subsequent to year end.

#### NET ASSETS

The consolidated financial statements report amounts by class of net assets as follows:

*Unrestricted net assets* are those currently available to support Messenger International, Inc.'s operations and those resources invested in property and equipment.

*Temporarily restricted net assets* are comprised of donor-restricted contributions for the support of Messenger International, Inc. projects.

# MESSENGER INTERNATIONAL, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017 (restated)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

#### SUPPORT AND REVENUE

Ministry resource sales consist of sales of books, curriculum, and other resources sold by Messenger International, Inc., and are recorded when earned which is when the resource is shipped to the customer. Any amounts received prior to shipment of the resource are recorded as deferred revenue. Honorariums are received for speaking done by staff members, and are recorded as revenue once the speaking engagement has occurred. Royalty income consists of royalties received from ministry resource sales and is recognized when earned.

Contributions are recorded when made, which may be when cash and other assets are received or when unconditionally promised. Gifts of cash and other assets are reported as restricted support if they are received with donor stipulations that limit the use of the donated amounts. When a donor restriction expires, that is, when a stipulated purpose restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. Donated materials, professional services, and other noncash gifts are recorded at their estimated fair value at the date of donation.

#### FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the program services and supporting activities benefited.

Total expenses on the consolidated statements of activities are as follows:

|                                    | Year Ended June 30, |                     |
|------------------------------------|---------------------|---------------------|
|                                    | 2018                | 2017, restated      |
| Program services                   | \$ 6,574,510        | \$ 6,087,908        |
| Costs of direct benefits to donors | 471,033             | 441,795             |
| Management and general             | 849,024             | 778,640             |
| Fundraising                        | 384,097             | 322,597             |
|                                    | <u>\$ 8,278,664</u> | <u>\$ 7,630,940</u> |

# MESSENGER INTERNATIONAL, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017 (restated)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

#### JOINT COSTS

Messenger International, Inc. hosts events and other information activities throughout the year that result in joint cost. Joint costs are incurred when requests for contributions and program service activities are conducted simultaneously. Management and general functions may also concurrently occur. Messenger International, Inc. allocates joint costs 65% program services, 15% management and general, and 20% fundraising. Total joint costs consist of the following:

|                        | Year Ended June 30, |                  |
|------------------------|---------------------|------------------|
|                        | 2018                | 2017, restated   |
| Program services       | \$ 36,706           | \$ 22,571        |
| Management and general | 6,300               | 2,966            |
| Fundraising            | 10,930              | 8,819            |
|                        | <u>\$ 53,936</u>    | <u>\$ 34,356</u> |

### 3. ACCOUNTS AND CONTRIBUTIONS RECEIVABLE:

Accounts and contributions receivable, net consist of:

|                                 | June 30,          |                   |
|---------------------------------|-------------------|-------------------|
|                                 | 2018              | 2017, restated    |
| Accounts receivable             | \$ 330,786        | \$ 363,659        |
| Contributions receivable        | 220,614           | 171,519           |
|                                 | <u>551,400</u>    | <u>535,178</u>    |
| Allowance for doubtful accounts | -                 | (44,081)          |
|                                 | <u>\$ 551,400</u> | <u>\$ 491,097</u> |

Contributions receivable consist of pledges received during the Messenger Cup. Management believes all amounts to be fully collectible. All receivables are to be collected within one year; therefore, no discount has been recorded.

# MESSENGER INTERNATIONAL, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017 (restated)

### 4. INVENTORY:

Inventory, net consists of:

|  | June 30,          |                   |
|--|-------------------|-------------------|
|  | 2018              | 2017, restated    |
| Books and workbooks                      | \$ 251,156        | \$ 124,478        |
| Curriculum                               | 133,954           | 164,819           |
| Miscellaneous                            | 97,588            | 70,377            |
| Gift-in-kind inventory                   | 69,256            | 18,191            |
| Electronic media                         | 48,983            | 24,719            |
|  | <u>600,937</u>    | <u>402,584</u>    |
| Less allowance for slow moving inventory | <u>(68,739)</u>   | <u>(78,613)</u>   |
|  | <u>\$ 532,198</u> | <u>\$ 323,971</u> |

### 5. PROPERTY AND EQUIPMENT—NET:

Property and equipment—net consist of:

|  | June 30,            |                     |
|--|---------------------|---------------------|
|  | 2018                | 2017, restated      |
| Land   | \$ 246,710          | \$ 246,710          |
| Buildings and improvements                     | 1,375,025           | 1,368,459           |
| Furniture and equipment                        | 486,820             | 465,189             |
| Software                                       | 483,696             | 468,927             |
|  | <u>2,592,251</u>    | <u>2,549,285</u>    |
| Less accumulated depreciation and amortization | <u>(1,546,188)</u>  | <u>(1,534,137)</u>  |
|  | <u>\$ 1,046,063</u> | <u>\$ 1,015,148</u> |

Depreciation expense of \$75,004 and \$63,090 has been charged to the consolidated statements of activities for the years ended June 30, 2018 and 2017, respectively.

# MESSENGER INTERNATIONAL, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017 (restated)

### 6. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets consist of:

|                                  | June 30,            |                     |
|----------------------------------|---------------------|---------------------|
|                                  | 2018                | 2017, restated      |
| Books for the World              | \$ 1,251,810        | \$ 796,845          |
| Travel Funds                     | 350,927             | 312,242             |
| Rescue (formerly Pearl Alliance) | 39,018              | 82,367              |
|                                  | <u>\$ 1,641,755</u> | <u>\$ 1,191,454</u> |

### 7. GROSS MARGIN ON MINISTRY RESOURCE SALES:

|                            | June 30,            |                     |
|----------------------------|---------------------|---------------------|
|                            | 2018                | 2017, restated      |
| Ministry resource sales    | \$ 3,042,907        | \$ 3,290,248        |
| Cost of ministry resources | <u>(681,958)</u>    | <u>(726,495)</u>    |
| Gross margin               | <u>\$ 2,360,949</u> | <u>\$ 2,563,753</u> |

Cost of ministry resources represents the actual cost incurred for product and materials recorded as ministry resource sales when sold to constituents. Ministry resource distribution expenses are costs incurred related to goods and services in developing and distributing life-transforming messages.

# MESSENGER INTERNATIONAL, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017 (restated)

### 8. RELATED PARTY TRANSACTIONS:

Messenger International, Inc. is related to Messenger International United Kingdom through common board members. Messenger International, Inc. is related to TEACH Global LLC and FLAG LLC through common members.

Related party ministry resource sales consist of sales to Messenger International United Kingdom of \$18,795 and \$11,424 for the years ended June 30, 2018 and 2017, respectively.

Related party accounts receivable consist of amounts due from Messenger International United Kingdom of \$91,754 and \$63,959 for the years ended June 30, 2018 and 2017, respectively.

Related party accounts payable consist of amounts due TEACH Global LLC of \$160,472 and \$82,590 for the years ended June 30, 2018 and 2017, respectively.

Related party accounts payable consist of amounts due FLAG LLC of \$2,171 and \$4,885 for the years ended June 30, 2018 and 2017, respectively.

### 9. RETIREMENT PLAN:

Messenger International, Inc. sponsors a 401(k) profit sharing plan (the Plan) covering all employees who have completed one year of service (1,000 hours) and are at least 21 years of age. Messenger International Inc. provides a contribution of 3% of compensation for each eligible employee in the Plan. Messenger International, Inc. may also elect to make a profit-sharing contribution, at the discretion of the board of directors. Participant interest is fully vested after six years of employment on the elective profit sharing contribution and immediately vested on all other contributions. Total contributions were \$54,483 and \$51,272 for the years ended June 30, 2018 and 2017, respectively.

### 10. OPERATING LEASES:

As part of its exempt activities, Messenger International, Inc. has incurred certain obligations and commitments relating to warehouse storage, internet services, and office equipment. Total lease expense for the years ended June 30, 2018 and 2017 was \$68,319 and \$61,971, respectively. Future minimum payments are as follows:

| <u>Year Ending June 30,</u> |             |
|-----------------------------|-------------|
| 2019                        | \$ 24,485   |
| 2020                        | 13,155      |
| 2021                        | 5,545       |
|                             | <hr/>       |
|                             | \$ 43,185   |
|                             | <hr/> <hr/> |

# MESSENGER INTERNATIONAL, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017 (restated)

### 11. PRIOR PERIOD ADJUSTMENT:

During the current year, management determined that certain amounts previously reported as temporarily restricted contributions and releases should have been reported as special event income and direct benefit expenses. As a result, the 2017 consolidated financial statements have been restated to properly reflect these amounts. The impact of this restatement on the consolidated financial statements is as follows:

|  | As Previously<br>Stated | Prior Period<br>Adjustment | As Restated  |
|--|-------------------------|----------------------------|--------------|
| Consolidated statement of financial position as of June 30, 2017:      |                         |                            |              |
| Unrestricted operating net assets                                      | \$ 2,660,388            | \$ 187,017                 | \$ 2,847,405 |
| Temporarily restricted net assets                                      | \$ 1,378,471            | \$ (187,017)               | \$ 1,191,454 |
| Consolidated statement of activities for the year ended June 30, 2017: |                         |                            |              |
| Temporarily restricted contributions                                   | \$ 2,659,843            | \$ (628,812)               | \$ 2,031,031 |
| Special event income   | \$ -                    | \$ 628,812                 | \$ 628,812   |
| Direct benefit expense   | \$ -                    | \$ 441,795                 | \$ 441,795   |
| Net assets released: purpose restrictions                              | \$ 2,356,292            | \$ (441,795)               | \$ 1,914,497 |
| Ministry resource distribution   | \$ 2,909,657            | \$ (8,183)                 | \$ 2,901,474 |
| International resource outreach  | \$ 1,687,775            | \$ (276,840)               | \$ 1,410,935 |
| Public speaking  | \$ 740,774              | \$ (4,850)                 | \$ 735,924   |
| General and administrative   | \$ 780,352              | \$ (1,712)                 | \$ 778,640   |
| Fund-raising   | \$ 472,807              | \$ (150,210)               | \$ 322,597   |
| Unrestricted net assets, end of year                                   | \$ 3,675,536            | \$ 187,017                 | \$ 3,862,553 |
| Temporarily restricted net assets, end of year                         | \$ 1,378,471            | \$ (187,017)               | \$ 1,191,454 |

### 12. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through November 29, 2018, which represents the date the consolidated financial statements were available to be issued. Subsequent events after that date have not been evaluated.