



**MESSENGER INTERNATIONAL, INC.
AND SUBSIDIARY**

CONSOLIDATED FINANCIAL STATEMENTS
With Independent Auditors' Report

June 30, 2016 and 2015

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, 2016 and 2015, 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, 2016 and 2015, 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.

Capin Crouse LLP

Colorado Springs, Colorado
September 7, 2016

MESSENGER INTERNATIONAL, INC. AND SUBSIDIARY

Consolidated Statements of Financial Position

	June 30,	
	2016	2015
ASSETS:		
Cash and cash equivalents	\$ 3,377,184	\$ 2,515,140
Accounts and contributions receivable, net	388,399	383,605
Inventory, net	425,226	594,894
Deposits and other assets	208,022	231,434
Assets held for deferred compensation	22,365	-
Product development costs, net	159,851	170,888
Property and equipment, net	997,582	1,092,702
	\$ 5,578,629	\$ 4,988,663
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable	\$ 405,953	\$ 327,806
Accrued expenses and other liabilities	95,309	83,271
Deferred revenue	563,943	594,529
Deferred compensation liability	22,365	-
	1,087,570	1,005,606
Net assets:		
Unrestricted:		
Operating	2,418,557	2,126,133
Equity in property and equipment	997,582	1,092,702
	3,416,139	3,218,835
Temporarily restricted	1,074,920	764,222
	4,491,059	3,983,057
	\$ 5,578,629	\$ 4,988,663
Total Liabilities and Net Assets	\$ 5,578,629	\$ 4,988,663

See notes to consolidated financial statements

MESSENGER INTERNATIONAL, INC. AND SUBSIDIARY

Consolidated Statements of Activities

	Year Ended June 30,					
	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE:						
Ministry resource sales	\$ 3,021,686	\$ -	\$ 3,021,686	\$ 2,377,620	\$ -	\$ 2,377,620
Contributions	1,222,017	2,293,075	3,515,092	1,041,383	2,188,972	3,230,355
Honorariums	935,544	-	935,544	681,372	-	681,372
Royalty income	149,057	-	149,057	154,131	-	154,131
Gain on sale of property and equipment	-	-	-	670	-	670
Interest income and other	10,047	-	10,047	4,516	-	4,516
Total Support and Revenue	5,338,351	2,293,075	7,631,426	4,259,692	2,188,972	6,448,664
NET ASSETS RELEASED:						
Purpose restrictions	1,982,377	(1,982,377)	-	1,802,687	(1,802,687)	-
EXPENSES:						
Program services:						
Ministry resource distribution	2,522,065	-	2,522,065	2,078,180	-	2,078,180
Public speaking	849,845	-	849,845	669,182	-	669,182
International resource outreach	1,432,980	-	1,432,980	1,244,847	-	1,244,847
Cost of ministry resources	657,674	-	657,674	664,814	-	664,814
Human trafficking outreach	151,600	-	151,600	190,460	-	190,460
Mission and outreach work	248,724	-	248,724	117,195	-	117,195
Television and radio outreach	70,930	-	70,930	67,549	-	67,549
	5,933,818	-	5,933,818	5,032,227	-	5,032,227
Supporting activities:						
General and administrative	725,692	-	725,692	651,769	-	651,769
Fund-raising	463,914	-	463,914	426,985	-	426,985
	1,189,606	-	1,189,606	1,078,754	-	1,078,754
Total Expenses	7,123,424	-	7,123,424	6,110,981	-	6,110,981
Change in Net Assets	197,304	310,698	508,002	(48,602)	386,285	337,683
Net Assets, Beginning of Year	3,218,835	764,222	3,983,057	3,267,437	377,937	3,645,374
Net Assets, End of Year	\$ 3,416,139	\$ 1,074,920	\$ 4,491,059	\$ 3,218,835	\$ 764,222	\$ 3,983,057

See notes to consolidated financial statements

MESSENGER INTERNATIONAL, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

	Year Ended June 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 508,002	\$ 337,683
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	236,534	251,404
Loss on sale of property and equipment	-	(670)
Change in operating assets and liabilities:		
Accounts and contributions receivable	(4,794)	(24,395)
Inventory	169,668	62,139
Deposits and other assets	23,412	(149,928)
Assets held for deferred compensation	(22,365)	-
Accounts payable	78,147	203,870
Accrued expenses and other liabilities	12,038	(2,094)
Deferred revenue	(30,586)	(30,369)
Deferred compensation liability	22,365	-
Net Cash Provided by Operating Activities	992,421	647,640
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of property and equipment	-	670
Purchases of property and equipment	(27,610)	(68,402)
Payments for product development costs	(102,767)	(94,828)
Net Cash Used by Investing Activities	(130,377)	(162,560)
Change in Cash and Cash Equivalents	862,044	485,080
Cash and Cash Equivalents, Beginning of Year	2,515,140	2,030,060
Cash and Cash Equivalents, End of Year	\$ 3,377,184	\$ 2,515,140

See notes to consolidated financial statements

MESSENGER INTERNATIONAL, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

1. NATURE OF ORGANIZATION:

Messenger International, Inc. is a not-for-profit organization that exists to help individuals, families, churches, and nations realize and experience the transforming power of God's Word. This realization will result in lives empowered, communities transformed, and a dynamic response to the injustices plaguing our 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, 2016 and 2015

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. 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, 2016 and 2015, was \$44,081. 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 market, 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 \$114,717 and \$163,352 at June 30, 2016 and 2015, 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 using Level 2 inputs of the fair value hierarchy established under the Fair Value Measurements topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). The fair 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.

MESSENGER INTERNATIONAL, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

PRODUCT DEVELOPMENT COSTS

Product development costs are amortized over the estimated period during which the related income is expected to be earned (2-5 years). Accumulated amortization has been recorded at \$768,099 and \$654,296 at June 30, 2016 and 2015, 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 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.

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. Royalty income consists of royalties received from ministry resource sales and is recognized when earned. Honorariums are received for speaking done by staff members, and are recorded as revenue once the speaking engagement has occurred.

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.

MESSENGER INTERNATIONAL, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

FUNCTIONAL ALLOCATION OF EXPENSES

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

UNCERTAIN TAX POSITIONS

The consolidated financial statement effects of a tax position taken or expected to be taken are recognized in the consolidated financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. Interest and penalties, if any, are included in expenses in the statements of activities. As of June 30, 2016, Messenger International Inc. had no uncertain tax positions that qualify for recognition or disclosure in the consolidated financial statements.

Messenger International Inc. is generally no longer subject to U.S. federal and state income tax examinations by tax authorities for years before 2013.

RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform with the current year presentation.

3. ACCOUNTS AND CONTRIBUTIONS RECEIVABLE:

Accounts and contributions receivable, net consist of:

	June 30,	
	2016	2015
Accounts receivable	\$ 402,740	\$ 404,560
Contributions receivable	29,740	23,126
	<u>432,480</u>	<u>427,686</u>
Allowance for doubtful accounts	(44,081)	(44,081)
	<u>\$ 388,399</u>	<u>\$ 383,605</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, 2016 and 2015

4. INVENTORY:

Inventory—net consists of:

	June 30,	
	2016	2015
Curriculum	\$ 202,928	\$ 312,394
Books and workbooks	206,866	285,532
Electronic media	28,109	47,566
Gift-in-kind inventory	4,271	3,249
Miscellaneous	97,769	109,505
	<u>539,943</u>	<u>758,246</u>
Less allowance for slow moving inventory	<u>(114,717)</u>	<u>(163,352)</u>
	<u>\$ 425,226</u>	<u>\$ 594,894</u>

5. PROPERTY AND EQUIPMENT—NET:

Property and equipment—net consist of:

	June 30,	
	2016	2015
Land	\$ 246,710	\$ 246,710
Buildings and improvements	1,320,611	1,320,887
Furniture and equipment	512,239	574,629
Software	463,767	463,767
	<u>2,543,327</u>	<u>2,605,993</u>
Less accumulated depreciation and amortization	<u>(1,545,745)</u>	<u>(1,513,291)</u>
	<u>\$ 997,582</u>	<u>\$ 1,092,702</u>

Depreciation expense of \$122,730 and \$136,137 has been charged to the consolidated statements of activities for the years ended June 30, 2016 and 2015, respectively.

MESSENGER INTERNATIONAL, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

6. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets consist of:

	June 30,	
	2016	2015
Books for the World	\$ 670,182	\$ 451,211
Travel Funds	299,722	211,275
Rescue (formerly Pearl Alliance)	105,016	101,736
	<u>\$ 1,074,920</u>	<u>\$ 764,222</u>

7. GROSS MARGIN ON MINISTRY RESOURCE SALES:

	June 30,	
	2016	2015
Ministry resource sales	\$ 3,021,686	\$ 2,377,620
Cost of ministry resources	(657,674)	(664,814)
Gross margin	<u>\$ 2,364,012</u>	<u>\$ 1,712,806</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.

8. RELATED PARTY TRANSACTIONS:

During the years ended June 30, 2016 and 2015, Messenger International Inc. received payments from Messenger International United Kingdom, a foreign related organization for which the Chief Operating Officer, International Director, and Controller at Messenger International Inc. serve on the board of directors. Additionally, during the year ended June 30, 2015, two of the board members of Messenger International Australia also served on the board at Messenger International, Inc. This relationship did not exist during the year ended June 30, 2016 and therefore the resource sales and accounts receivable for the year then ended are not reflected in this footnote.

MESSENGER INTERNATIONAL, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

8. RELATED PARTY TRANSACTIONS, continued:

Related party ministry resource sales consist of:

	Year ended June 30,	
	2016	2015
Messenger International United Kingdom	\$ 19,666	\$ 19,373
Messenger International Australia	-	19,829
	<u>\$ 19,666</u>	<u>\$ 39,202</u>

Related party accounts receivable consist of:

	June 30,	
	2016	2015
Messenger International United Kingdom	\$ 62,419	\$ 94,736
Messenger International Australia	-	93,919
	<u>\$ 62,419</u>	<u>\$ 188,655</u>

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 \$48,883 and \$42,559 for the years ended June 30, 2016 and 2015, respectively.

10. OPERATING LEASES:

As part of its exempt activities, Messenger International Inc. has incurred certain obligations and commitments relating to warehouse storage and office equipment. Total lease expense for the years ended June 30, 2016 and 2015 was \$84,318 and \$94,165, respectively. Future minimum payments are as follows:

<u>Year Ending June 30,</u>	
2017	\$ 30,984
2018	6,001
	<u>\$ 36,985</u>

11. SUBSEQUENT EVENTS:

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