



**MESSENGER INTERNATIONAL, INC.
AND SUBSIDIARY**

Consolidated Financial Statements
With Independent Auditors' Report

December 31, 2020

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 statement of financial position as of December 31, 2020, and the related consolidated statement of activities, functional expenses, and cash flows for the eighteen-month period then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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 December 31, 2020, and the changes in their net assets and cash flows for the eighteen-month period then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 14 to the consolidated financial statements, Messenger International, Inc. and Subsidiary identified adjustments pertaining to the beginning balance of net assets with and without donor restrictions. Accordingly, the net asset classifications were restated as of the beginning of the period to correct these errors. Our opinion is not modified with respect to this matter.

Capin Crouse LLP

Colorado Springs, Colorado
April 12, 2021

MESSENGER INTERNATIONAL, INC. AND SUBSIDIARY

Consolidated Statement of Financial Position

December 31, 2020

ASSETS:

Cash and cash equivalents	\$ 4,050,653
Accounts and contributions receivable, net	1,243,231
Inventory, net	263,780
Prepays and other assets	93,609
Assets held for deferred compensation	429,692
Product development costs, net	1,548,935
Property and equipment, net	966,949

Total Assets \$ 8,596,849

LIABILITIES AND NET ASSETS:

Liabilities:

Accounts payable	\$ 135,467
Accrued expenses and other liabilities	192,616
Deferred compensation liability	429,692

757,775

Net assets:

Without donor restrictions	5,173,010
With donor restrictions	2,666,064

7,839,074

Total Liabilities and Net Assets \$ 8,596,849

See notes to consolidated financial statements

MESSENGER INTERNATIONAL, INC. AND SUBSIDIARY

Consolidated Statement of Activities

Eighteen-Month Period Ended December 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE:			
Ministry resource sales	\$ 3,797,211	\$ -	\$ 3,797,211
Contributions	4,181,726	6,513,317	10,695,043
Honorariums	738,674	-	738,674
Special events:			
Revenue	1,410,506	-	1,410,506
Costs of direct benefits to donors	(1,347,585)	-	(1,347,585)
Net special events income	62,921	-	62,921
Royalty income	224,772	-	224,772
Interest income and other	44,639	-	44,639
Bad debt losses	-	(364,303)	(364,303)
Total Support and Revenue	9,049,943	6,149,014	15,198,957
NET ASSETS RELEASED:			
Purpose restrictions	4,835,694	(4,835,694)	-
EXPENSES:			
Program services	9,737,270	-	9,737,270
Support activities:			
General and administrative	1,637,399	-	1,637,399
Fund-raising	940,713	-	940,713
	2,578,112	-	2,578,112
Total Expenses	12,315,382	-	12,315,382
Change in Net Assets	1,570,255	1,313,320	2,883,575
Net Assets, Beginning of Period, as Previously Stated	3,265,626	1,689,873	4,955,499
Prior Period Adjustment	337,129	(337,129)	-
Net Assets, Beginning of Period, as Restated	3,602,755	1,352,744	4,955,499
Net Assets, End of Period	\$ 5,173,010	\$ 2,666,064	\$ 7,839,074

See notes to consolidated financial statements

MESSENGER INTERNATIONAL, INC. AND SUBSIDIARY

Consolidated Statement of Functional Expenses

Eighteen-Month Period Ended December 31, 2020

	Program Services	Supporting Activities:			Total
		General and Administrative	Fund-raising	Cost of Direct Benefits to Donors	
Salaries and wages	\$ 3,017,756	\$ 578,267	\$ 420,781	\$ -	\$ 4,016,804
Foreign translation expenses	2,933,397	-	-	-	2,933,397
Office and occupancy	818,396	148,592	109,931	-	1,076,919
Cost of goods sold	846,874	-	-	-	846,874
Employee benefits	489,577	88,890	65,763	-	644,230
Advertising expenses	96,548	452,429	22,874	-	571,851
Professional fees	285,479	150,556	5,972	-	442,007
Shipping and postage	291,215	-	-	-	291,215
Depreciation and amortization	216,763	39,356	29,117	-	285,236
Conferences and events	-	-	260,696	-	260,696
Grants to other organizations	224,151	-	-	-	224,151
Payroll taxes	164,252	29,822	22,063	-	216,137
Travel and transportation	171,808	-	-	-	171,808
Bad debt expense	-	144,734	-	-	144,734
Other expense	107,583	4,753	3,516	-	115,852
Royalties expense	73,471	-	-	-	73,471
	9,737,270	1,637,399	940,713	-	12,315,382
Special event expenses				1,347,585	1,347,585
	\$ 9,737,270	\$ 1,637,399	\$ 940,713	\$ 1,347,585	\$ 12,315,382

See notes to consolidated financial statements

MESSENGER INTERNATIONAL, INC. AND SUBSIDIARY

Consolidated Statement of Cash Flows

Eighteen-Month Period Ended December 31, 2020

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ 2,883,575
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Depreciation and amortization	285,236
Paycheck Protection Program loan forgiveness	(542,859)
Change in operating assets and liabilities:	
Accounts and contributions receivable	(730,328)
Inventory	213,135
Prepays and other assets	180,239
Accounts payable	(458,505)
Accrued expenses and other liabilities	75,661
Deferred revenue	(682,997)
Net Cash Provided by Operating Activities	<u>1,223,157</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchases of property and equipment	(82,894)
Purchases for product development costs	(1,448,291)
Net Cash Used by Investing Activities	<u>(1,531,185)</u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from Paycheck Protection Program loan	542,859
Net Cash Provided by Financing Activities	<u>542,859</u>

Change in Cash and Cash Equivalents 234,831

Cash and Cash Equivalents, Beginning of Period 3,815,822

Cash and Cash Equivalents, End of Period \$ 4,050,653

SUPPLEMENTAL DISCLOSURE:

Change in deferred compensation assets and liabilities \$ 104,947

Addition to product development costs through accounts payable \$ 70,179

Forgiveness of Paycheck Protection Program loan \$ 542,859

See notes to consolidated financial statements

MESSENGER INTERNATIONAL, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2020

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.

Billions of people across the globe still do not have access to discipleship resources in their own language. As a result, people are living and dying without hearing the Good News, and even those who do hear the Gospel often find themselves without resources that help them connect the dots and grow spiritually.

That is why we have made it our mission to use multiple mediums to provide discipleship resources to every person—regardless of where they live, what language they speak, or what their financial position looks like. To this end, we now have discipleship resources in over 100 languages and 200 nations. All of these materials can be accessed, at no cost, through MessengerX.com.

We believe that when people discover and personalize the Good News, they will become Messengers in their own right, sharing God's story of redemption and reconciliation through their everyday lives and reaching whatever world God has placed them in.

"Go there and make disciples of all nations, baptizing them in the name of the Father and of the Son and of the Holy Spirit, teaching them to observe all that I have commanded you." Matthew 28:19-20 ESV

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. 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.

MESSENGER INTERNATIONAL, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of checking, savings, and money market accounts. As of December 31, 2020, Messenger International, Inc. has cash and cash equivalents on deposit with financial institutions that exceed the federally insured (FDIC) balance by approximately \$3,100,000. Messenger International, Inc. has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

ACCOUNTS AND CONTRIBUTIONS RECEIVABLE, NET

Accounts and contributions receivable, net 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 December 31, 2020 was \$481,210. 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, NET

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 \$238,407 at December 31, 2020.

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.

MESSENGER INTERNATIONAL, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

PRODUCT DEVELOPMENT COSTS, NET

Product development costs are amortized over the estimated period during which the related income is expected to be earned (2 years). Accumulated amortization as of December 31, 2020 totaled \$1,436,975.

PROPERTY AND EQUIPMENT, NET

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.

NET ASSETS

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

Net assets without donor restrictions are those currently available to support Messenger International, Inc.'s operations and those resources invested in property and equipment.

Net assets with donor restrictions are comprised of donor-restricted contributions for the support of Messenger International, Inc. projects.

SUPPORT AND REVENUE

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, net assets with donor restrictions are reclassified to net assets without donor restrictions 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

December 31, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

Revenue Recognition

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.

Messenger International, Inc. has revenue from a special event in which registration fees are earned. Registration fee payments are collected prior to the event and are initially recorded as deferred revenue. The revenue is recognized upon the fulfillment of the performance obligation, when the special event occurs. Messenger International, Inc. earned approximately \$1,400,000 of special event revenue during the eighteen-month period ended December 31, 2020. This amount is reduced by the costs of direct benefits to donors of approximately \$1,350,000 on the consolidated statement of activities.

FUNCTIONAL ALLOCATION OF EXPENSES

The consolidated financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of Messenger International, Inc. The expenses that are allocated include depreciation, occupancy, and maintenance which are allocated based on usage of property and equipment. Costs of other categories were allocated on estimates of time and effort.

JOINT COSTS

Messenger International, Inc. hosts events and other information activities throughout the eighteen-month period 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. Total joint costs for the eighteen-month period ended at December 31, 2020 totaled:

Program services	\$ 53,294
General and administrative	8,402
Fund-raising	<u>97,084</u>
	<u><u>\$ 158,780</u></u>

MESSENGER INTERNATIONAL, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

In 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*. Messenger International, Inc. adopted the provisions of this new standard during the eighteen-month period ended December 31, 2020. This new standard applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition. Adoption of this standard had no effect on change in net assets or net assets in total.

In 2018, FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Messenger International, Inc. adopted the provisions of this new standard during the eighteen-month period ended December 31, 2020. This new standard provides guidance on determining whether transactions should be accounted for as an exchange transaction or a contribution and whether a contribution should be recorded as conditional or unconditional. Adoption of this standard had no effect on change in net assets or net assets in total.

3. RISKS AND UNCERTAINTIES:

Messenger International, Inc.'s operations may be affected by the recent and ongoing outbreak of the coronavirus disease 2019 (COVID-19) which was declared a pandemic by the World Health Organization in March 2020. The ultimate disruption which may be caused by the outbreak is uncertain; however, it may result in a material adverse impact on Messenger International, Inc.'s financial position, operations, and cash flows. Possible effects may include, but are not limited to, disruption to Messenger International, Inc.'s contribution revenue, absenteeism in workforce, and a decline in value of assets held. The financial impact cannot be estimated at this time.

MESSENGER INTERNATIONAL, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2020

4. LIQUIDITY AND FUNDS AVAILABLE:

The following table reflects Messenger International, Inc.'s financial assets as of December 31, 2020, reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year, assets held for others, or because the board of directors has set aside the funds for specific contingency reserves and projects. These board designations could be drawn upon if the board approves that action.

Financial assets:	
Cash and cash equivalents	\$ 4,050,653
Accounts and contributions receivable, net	1,243,231
Assets held for deferred compensation	429,692
Financial assets, at period-end	<u>5,723,576</u>
Financial assets not available to be used for general expenditures in one year:	
Net assets with donor restrictions to be expended greater than one year	(400,000)
Assets held for deferred compensation	<u>(429,692)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 4,893,884</u></u>

Messenger International, Inc. structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Management monitors cash flows closely through monthly reviews and leadership team meetings.

5. ACCOUNTS AND CONTRIBUTIONS RECEIVABLE:

Accounts and contributions receivable, net as of December 31, 2020 consist of:

Accounts receivable	\$ 1,372,729
Contributions receivable	351,712
	<u>1,724,441</u>
Allowance for doubtful accounts	<u>(481,210)</u>
	<u><u>\$ 1,243,231</u></u>

Contributions receivable consist of pledges received during the Messenger Cup. Management has written off all pledges that believed to be uncollectible. 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

December 31, 2020

6. INVENTORY:

Inventory, net as of December 31, 2020 consists of:

Books and workbooks	\$ 345,095
Electronic media	93,352
Miscellaneous	40,236
Curriculum	23,504
	<hr/>
	502,187
Less allowance for slow moving inventory	(238,407)
	<hr/>
	\$ 263,780

7. PROPERTY AND EQUIPMENT, NET:

Property and equipment, net as of December 31, 2020 consist of:

Land	\$ 246,710
Buildings and improvements	1,424,103
Furniture and equipment	575,077
Software	483,696
	<hr/>
	2,729,586
Less accumulated depreciation and amortization	(1,762,637)
	<hr/>
	\$ 966,949

8. NET ASSETS WITH DONOR RESTRICTIONS:

Net assets with donor restrictions as of December 31, 2020 consist of:

Books for the world	\$ 1,997,977
Travel funds	576,073
Rescue (formerly Pearl Alliance)	82,014
Special designation	10,000
	<hr/>
	\$ 2,666,064

MESSENGER INTERNATIONAL, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2020

9. GROSS MARGIN ON MINISTRY RESOURCE SALES:

Gross margin on ministry resource sales as of December 31, 2020 consist of:

Ministry resource sales	\$ 3,797,211
Cost of ministry resources	<u>(848,215)</u>
Gross margin	<u><u>\$ 2,948,996</u></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.

10. RELATED PARTY TRANSACTIONS:

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

Messenger International, Inc. paid TEACH Global LLC \$140,932 during the eighteen-month period ended.

Messenger International, Inc. paid FLAG LLC \$9,065 during the eighteen-month period ended.

11. 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 \$93,692 for the eighteen-month period ended December 31, 2020.

12. 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 eighteen-month period ended December 31, 2020 was \$165,429. Future minimum payments are as follows:

<u>Year Ending December 31,</u>	
2021	\$ 44,575
2022	12,323
2023	<u>183</u>
	<u><u>\$ 57,081</u></u>

MESSENGER INTERNATIONAL, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2020

13. PAYCHECK PROTECTION PROGRAM LOAN:

In April 2020, due to the coronavirus pandemic, Messenger International, Inc. obtained a Paycheck Protection Program (PPP) loan in the amount of \$542,859. The loan is fully forgivable provided Messenger International, Inc. meets certain spending and employment thresholds. Messenger International, Inc. received notification by the Small Business Administration of full forgiveness during the year ended December 31, 2020. The PPP loan proceeds are included within contributions and grant income with donor restrictions on the statement of activities.

14. PRIOR PERIOD ADJUSTMENT:

During the eighteen-month ended December 31, 2020, management determined that releases of net assets with purpose restrictions were understated. As a result, the net assets with donor restrictions as of the beginning of the period were overstated and net assets without donor restrictions as of the beginning of the period understated. Management restated these amounts as follows:

	<u>As Previously Stated</u>	<u>Prior Period Adjustment</u>	<u>As Restated</u>
Consolidated Statement of Activities:			
Net Assets Without Donor Restrictions, Beginning of Period	\$ 3,265,626	\$ 337,129	\$ 3,602,755
Net Assets with Donor Restrictions, Beginning of Period	\$ 1,689,873	\$ (337,129)	\$ 1,352,744
Change in Net Assets Without Donor Restrictions for the Year Ended June 30, 2019	\$ (639,596)	\$ 273,730	\$ (365,866)
Change in Net Assets with Donor Restrictions for the Year Ended June 30, 2019	\$ 48,118	\$ (273,730)	\$ (225,612)

15. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through April 12, 2021, which represents the date the consolidated financial statements were available to be issued. Subsequent events after that date have not been evaluated.