



**MENTORS  
INTERNATIONAL**

**Independent Auditors' Report  
and  
Financial Statements for the Years Ended**

**June 30, 2018 and 2017**

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of  
Mentors International  
Draper, Utah

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Mentors International (Mentors) (a nonprofit corporation) which comprise the statements of financial position as of June 30, 2018 and 2017 and the related statements of activities and change in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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



### **Basis for Qualified Opinion**

As discussed in Note 1 to the financial statements, Mentors has formed partner organizations in foreign countries. In our opinion, each of these foreign entities is controlled by Mentors and accounting principles generally accepted in the United States of America would require these foreign partner organizations to be accounted for as consolidated subsidiaries in the accompanying financial statements. Management has elected to not include the financial statements of these foreign partner organizations in these financial statements. Since the financial statements of these foreign entities have not been consolidated in the accompanying financial statements, we were unable to perform or apply sufficient audit procedures with respect to the valuation and recoverability of the various notes receivable due from these foreign partner organizations as of June 30, 2018 and 2017, as discussed in Note 4.

### **Qualified Opinion**

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Mentors International as of June 30, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Stayer Bates, P.C.*

Stayer Bates, P.C.  
Salt Lake City, Utah  
October 26, 2018

**MENTORS INTERNATIONAL**  
Statements of Financial Position  
June 30, 2018 and 2017

	<u>2018</u>			<u>2017</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b><u>ASSETS</u></b>						
<b>CURRENT ASSETS</b>						
Cash and cash equivalents	\$ 231,633	\$ 222,529	\$ 454,162	\$ 331,671	\$ 145,891	\$ 477,562
Due from foreign affiliates	13,844	-	13,844	25,634	-	25,634
Notes receivable - foreign partner affiliates, current portion	170,675	-	170,675	214,620	-	214,620
Prepaid expenses and other current assets	11,719	-	11,719	23,143	-	23,143
Total Current Assets	<u>427,871</u>	<u>222,529</u>	<u>650,400</u>	<u>595,068</u>	<u>145,891</u>	<u>740,959</u>
<b>PROPERTY AND EQUIPMENT</b>						
Office furnishings and equipment	20,103	-	20,103	21,413	-	21,413
Leasehold improvements	11,426	-	11,426	11,426	-	11,426
Software	4,786	-	4,786	4,786	-	4,786
Less: accumulated depreciation and amortization	<u>(35,883)</u>	<u>-</u>	<u>(35,883)</u>	<u>(36,263)</u>	<u>-</u>	<u>(36,263)</u>
Total Property and Equipment	<u>432</u>	<u>-</u>	<u>432</u>	<u>1,362</u>	<u>-</u>	<u>1,362</u>
<b>OTHER ASSETS</b>						
Notes receivable - foreign partner affiliates	-	-	-	100,272	-	100,272
Other assets	<u>3,385</u>	<u>-</u>	<u>3,385</u>	<u>3,385</u>	<u>-</u>	<u>3,385</u>
Total Other Assets	<u>3,385</u>	<u>-</u>	<u>3,385</u>	<u>103,657</u>	<u>-</u>	<u>103,657</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 431,688</u></u>	<u><u>\$ 222,529</u></u>	<u><u>\$ 654,217</u></u>	<u><u>\$ 700,087</u></u>	<u><u>\$ 145,891</u></u>	<u><u>\$ 845,978</u></u>

The accompanying notes are an integral part of these financial statements.

**MENTORS INTERNATIONAL**  
Statements of Financial Position (Continued)  
June 30, 2018 and 2017

	<u>2018</u>			<u>2017</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>						
<b>CURRENT LIABILITIES</b>						
Accounts payable and accrued expenses	\$ 28,232	\$ -	\$ 28,232	\$ 25,631	\$ -	\$ 25,631
Accrued interest, current portion	53,167	-	53,167	5,251	-	5,251
Notes payable, current portion	190,000	-	190,000	264,545	-	264,545
Total Current Liabilities	<u>271,399</u>	<u>-</u>	<u>271,399</u>	<u>295,427</u>	<u>-</u>	<u>295,427</u>
<b>LONG-TERM LIABILITIES</b>						
Accrued interest	-	-	-	101,553	-	101,553
Notes payable	-	-	-	190,000	-	190,000
Total Long-Term Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>291,553</u>	<u>-</u>	<u>291,553</u>
<b>TOTAL LIABILITIES</b>	<u>271,399</u>	<u>-</u>	<u>271,399</u>	<u>586,980</u>	<u>-</u>	<u>586,980</u>
<b>NET ASSETS</b>						
Unrestricted	160,289	-	160,289	113,107	-	113,107
Temporarily restricted	-	222,529	222,529	-	145,891	145,891
Total Net Assets	<u>160,289</u>	<u>222,529</u>	<u>382,818</u>	<u>113,107</u>	<u>145,891</u>	<u>258,998</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 431,688</u>	<u>\$ 222,529</u>	<u>\$ 654,217</u>	<u>\$ 700,087</u>	<u>\$ 145,891</u>	<u>\$ 845,978</u>

The accompanying notes are an integral part of these financial statements.

**MENTORS INTERNATIONAL**  
Statements of Activities and Change in Net Assets  
For the Years Ended June 30, 2018 and 2017

	<u>2018</u>			<u>2017</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Revenues and Support from Operations</b>						
<b>Public Support:</b>						
Contributions	\$ 409,878	\$ 878,538	\$ 1,288,416	\$ 998,550	\$ 522,580	\$ 1,521,130
In-kind donations	-	-	-	6,664	-	6,664
Special events	375,435	-	375,435	224,923	-	224,923
Less: direct costs of special events	(86,073)	-	(86,073)	(70,060)	-	(70,060)
Total Public Support	<u>699,240</u>	<u>878,538</u>	<u>1,577,778</u>	<u>1,160,077</u>	<u>522,580</u>	<u>1,682,657</u>
<b>Revenue:</b>						
Affiliate fees, interest, and other revenue	<u>88,197</u>	<u>-</u>	<u>88,197</u>	<u>88,645</u>	<u>-</u>	<u>88,645</u>
Total Revenue	<u>88,197</u>	<u>-</u>	<u>88,197</u>	<u>88,645</u>	<u>-</u>	<u>88,645</u>
Temporarily restricted funds released from restriction	<u>801,900</u>	<u>(801,900)</u>	<u>-</u>	<u>425,643</u>	<u>(425,643)</u>	<u>-</u>
<b>Total Revenues and Support from Operations</b>	<u>1,589,337</u>	<u>76,638</u>	<u>1,665,975</u>	<u>1,674,365</u>	<u>96,937</u>	<u>1,771,302</u>
<b>Operating Expenses</b>						
<b>Program Services</b>	<u>1,383,648</u>	<u>-</u>	<u>1,383,648</u>	<u>1,413,922</u>	<u>-</u>	<u>1,413,922</u>
<b>Supporting Services:</b>						
Fundraising costs	8,133	-	8,133	12,874	-	12,874
General and administrative	150,538	-	150,538	117,097	-	117,097
Total Supporting Services	<u>158,671</u>	<u>-</u>	<u>158,671</u>	<u>129,971</u>	<u>-</u>	<u>129,971</u>
<b>Total Operating Expenses</b>	<u>1,542,319</u>	<u>-</u>	<u>1,542,319</u>	<u>1,543,893</u>	<u>-</u>	<u>1,543,893</u>
<b>Other Income (Expense)</b>						
Unrealized loss on securities	-	-	-	(30,299)	-	(30,299)
Realized gain on securities	164	-	164	132	-	132
<b>Total Other Income (Expense)</b>	<u>164</u>	<u>-</u>	<u>164</u>	<u>(30,167)</u>	<u>-</u>	<u>(30,167)</u>
<b>Change in Net Assets</b>	47,182	76,638	123,820	100,305	96,937	197,242
<b>Net Assets at Beginning of Year</b>	<u>113,107</u>	<u>145,891</u>	<u>258,998</u>	<u>12,802</u>	<u>48,954</u>	<u>61,756</u>
<b>Net Assets at End of Year</b>	<u>\$ 160,289</u>	<u>\$ 222,529</u>	<u>\$ 382,818</u>	<u>\$ 113,107</u>	<u>\$ 145,891</u>	<u>\$ 258,998</u>

The accompanying notes are an integral part of these financial statements.

**MENTORS INTERNATIONAL**  
Statement of Functional Expenses  
For the Year Ended June 30, 2018

	Program Services	Fundraising Costs	General and Administrative	Total Expenses
Operational grants to foreign partner affiliates	\$ 799,818	\$ -	\$ -	\$ 799,818
Bad debt expense	24,326	-	-	24,326
Salaries and related costs	373,229	3,932	123,564	500,725
Bank fees	11,719	-	165	11,884
Board expenses	-	-	606	606
Dues and subscriptions	225	-	-	225
Information technology	14,912	251	25	15,188
Insurance	1,475	-	3,239	4,714
Interest expense	19,842	-	-	19,842
Office supplies	928	-	2,533	3,461
Printing	5,628	2,663	-	8,291
Professional services	47,320	75	14,942	62,337
Public relations	8,022	15	1,021	9,058
Office rent	46,513	1,037	2,503	50,053
Telephone and internet	4,693	96	255	5,044
Travel	24,836	64	755	25,655
Training	162	-	-	162
<b>Total Functional Expenses before Depreciation</b>	<b>1,383,648</b>	<b>8,133</b>	<b>149,608</b>	<b>1,541,389</b>
Depreciation	-	-	930	930
<b>Total Functional Expenses</b>	<b>\$ 1,383,648</b>	<b>\$ 8,133</b>	<b>\$ 150,538</b>	<b>\$ 1,542,319</b>

The accompanying notes are an integral part of these financial statements.



**MENTORS INTERNATIONAL**  
Statement of Functional Expenses  
For the Year Ended June 30, 2017

	Program Services	Fundraising Costs	General and Administrative	Total Expenses
Operational grants to foreign partner affiliates	\$ 704,419	\$ -	\$ -	\$ 704,419
Bad debt expense	27,316	-	-	27,316
Salaries and related costs	477,904	6,804	84,282	568,990
Bank fees	11,476	216	1,459	13,151
Board expenses	-	-	1,537	1,537
Dues and subscriptions	-	-	525	525
Information technology	23,161	-	2,500	25,661
Insurance	-	-	4,678	4,678
Interest expense	47,722	-	-	47,722
Office supplies	1,662	29	551	2,242
Maintenance and repair	-	-	11	11
Printing	10,271	2,126	431	12,828
Professional services	24,907	-	14,004	38,911
Public relations	4,988	2,290	17	7,295
Office rent	48,887	533	2,762	52,182
Telephone and internet	4,553	82	249	4,884
Travel	26,656	794	2,350	29,800
<b>Total Functional Expenses before Depreciation</b>	<b>1,413,922</b>	<b>12,874</b>	<b>115,356</b>	<b>1,542,152</b>
Depreciation	-	-	1,741	1,741
<b>Total Functional Expenses</b>	<b>\$ 1,413,922</b>	<b>\$ 12,874</b>	<b>\$ 117,097</b>	<b>\$ 1,543,893</b>

The accompanying notes are an integral part of these financial statements.

**MENTORS INTERNATIONAL**  
 Statements of Cash Flows  
 For the Years Ended June 30, 2018 and 2017

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 123,820	\$ 197,242
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Bad debt expense	24,326	27,316
Donated investment securities	-	30,299
Depreciation	930	1,741
Changes in assets and liabilities:		
Increase in foreign affiliate fees receivable	(12,536)	(21,858)
(Increase) decrease in prepaid expenses and other assets	11,424	(16,651)
Decrease in accounts payable and accrued expenses	(51,036)	(34,715)
Net Cash Provided by Operating Activities	96,928	183,374
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Payments received on notes receivable, foreign partner affiliates	144,217	230,742
Purchases of property and equipment	-	(689)
Net Cash Provided by Investing Activities	144,217	230,053
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payments on notes payable	(264,545)	(209,842)
Net Cash Used by Financing Activities	(264,545)	(209,842)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(23,400)	203,585
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	477,562	273,977
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	\$ 454,162	\$ 477,562
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Cash Payments For:		
Interest	\$ 73,479	\$ 74,856

The accompanying notes are an integral part of these financial statements.

**MENTORS INTERNATIONAL**  
Notes to the Financial Statements  
June 30, 2018 and 2017

**NOTE 1 - ORGANIZATION AND DESCRIPTION OF OPERATIONS**

Mentors International (“Mentors”) is a non-profit corporation organized in the State of Missouri. During October 2011, Mentors’ name was changed from “Enterprise Mentors International” to “Mentors International”.

Mentors’ mission is to empower the world’s poor to grow in self-reliance through personal and business mentoring and access to financial services. Its vision is a world where all people have the choice to be free from extreme poverty. Many organizations provide micro-loans and training to the poor. Mentors is different in that it understands how much mentoring and business training, partnered with a micro-loan, can forever change the lives of families living in poverty. Mentors provides hope and a pathway towards greater self-reliance. By providing a mentor, help, and encouragement, these worthy entrepreneurs grow in self-confidence and are able to work themselves out of poverty with dignity and respect. Caring leaders and mentors are selected locally who develop a one-on-one relationship with each client, respectfully helping their clients model and acquire essential character traits, and focusing resources (loans, training, and people) on localized business opportunities.

Although not consolidated in the accompanying financial statements as of and for the years ended June 30, 2018 and 2017, Mentors has formed its own partner organizations in the following countries:

<u>Country</u>	<u>Name of Organization</u>
Philippines	Mentors Philippines Microfinance Foundation, Inc.
Guatemala	Fundación Mentors Guatemala
Peru	Asociación Civil Mentors Perú
Honduras	Mentors Honduras, S.R.L.
Ghana	Mentors Ghana Limited

Mentors provides all of the start-up support, training, funding and loan capital to these foreign partner organizations. Accordingly, accounting principles generally accepted in the United States of America would require that the financial statements of each of these foreign partner entities be consolidated with the financial statements of Mentors. Management has, however, elected not to consolidate the financial statements of these foreign partner entities in the accompanying financial statements as of June 30, 2018 and 2017 and for the years then ended. Therefore, intercompany advances and loans to these foreign entities are being shown as “Notes receivable – foreign partner affiliates” in the accompanying balance sheets.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This summary of significant accounting policies of Mentors is presented to assist in understanding Mentor’s financial statements which conform to U.S. generally accepted accounting principles. The financial statements and notes are representations of Mentor’s management, which is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements. The following policies are considered to be significant:

**MENTORS INTERNATIONAL**  
Notes to the Financial Statements  
June 30, 2018 and 2017

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Basis of Accounting

Mentor's financial statements are prepared using the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America as applicable to Not-for-Profit organizations. Mentors has elected a June 30 year-end.

Mentors has adopted the provisions of Accounting Standards Codification 958, *Not-For-Profit Entities* (ASC 958), Accounting Standards Codification 720-25, *Contributions Made* (ASC 720-25), and Accounting Standards Codification 225-45-6, *Classification of Revenues, Expenses, Gains, and Losses* (ASC 225-45-6). Under these ASC's, Mentors is required to report and record its financial position, activities and contributions received under three classes; permanently restricted, temporarily restricted and unrestricted. These classes are determined by the donor's restrictions for the use of the funds or the lack thereof. When a donor's restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets and are shown in the statement of activities as net assets released from restriction. Temporary restrictions expire when a time restriction is met, or the purpose of the restricted funds has been accomplished.

Mentors has no assets that are permanently restricted as of June 30, 2018 and 2017. Temporarily restricted net assets and unrestricted net assets are defined as follows:

*Temporarily Restricted Net Assets*

Net assets subject to donor-imposed stipulations that may or will be met by actions of the organization and/or the passage of time. Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of unrestricted net assets. As of June 30, 2018 and 2017, temporarily restricted net assets, totaling \$222,529 and \$145,891, respectively, consisted of donor-imposed restrictions on contributions made to Mentors where the donors have either specifically required the funds to be granted to specific foreign partner organizations, or for other specific purposes not yet fulfilled.

*Unrestricted Net Assets*

Net assets not subject to donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law.

Expirations of temporary restrictions on net assets, i.e., the donor-stipulated purposes have been fulfilled and/or the stipulated time period has elapsed, are reported as reclassifications between the applicable classes of net assets.

**MENTORS INTERNATIONAL**  
Notes to the Financial Statements  
June 30, 2018 and 2017

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Cash and Cash Equivalents

Mentors considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents, unless held for reinvestment as part of the investment portfolio, pledged to secure loan agreements or otherwise encumbered. The carrying amount approximates fair value because of the short maturity of those instruments.

Income Taxes

Mentors is a non-profit corporation whose revenue is derived from contributions and other fundraising activities and is not subject to federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Mentors files a Form 990 tax return.

As of June 30, 2018 and for the year then ended, Mentors has not engaged in any activity which management considers to be activity that could result in a loss of their 501(c)(3) designation. In addition, management does not consider any of the activity of Mentors to be considered unrelated business income that could result in income tax. For the years ended June 30, 2018 and 2017, there was no tax interest or penalties reflected in the statement of activities or in the statement of financial position. Mentors is no longer subject to U.S. federal, state, and local income tax examinations by taxing authorities for years before 2014.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Repairs and maintenance are expensed as incurred, whereas major improvements are capitalized. If donated, property and equipment is recorded at the approximate fair value on the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, ranging as follows:

Office furnishings and equipment	3 to 7 years
Leasehold improvements	3 years
Software	3 to 5 years

Depreciation expense on property and equipment for the years ended June 30, 2018 and 2017 was \$930 and \$1,741, respectively.

Impairment of Long-Lived Assets

Mentors reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Mentors evaluates the recoverability of long-lived assets by measuring the carrying amounts of the assets against the estimated undiscounted cash flows associated with these assets. At the time such evaluation indicates that the future undiscounted cash flows of certain long-lived assets are not sufficient to recover the assets' carrying value, the assets are adjusted to their fair value (based upon discounted cash flows). No impairment losses were recognized for the years ended June 30, 2018 and 2017, respectively.

**MENTORS INTERNATIONAL**  
Notes to the Financial Statements  
June 30, 2018 and 2017

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses, including functional allocations, during the reporting period. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances in making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. While actual results could differ from those estimates, management believes that the estimates are reasonable.

Key estimates made in the accompanying financial statements include, among others, allowances for doubtful fees receivable and notes receivable, the economic useful lives and recovery of long-lived assets, and amounts and valuation of donated goods and services.

Concentrations of Credit Risk

*Cash and Cash Equivalents*

Mentors maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation ("FDIC") up to certain limits. Mentors has not experienced any losses in such accounts or lack of access to its cash, and believes it is not exposed to significant risk of loss with respect to cash. However, no assurance can be provided that access to Mentor's cash will not be impacted by adverse economic conditions in the financial markets.

At June 30, 2018 and 2017, Mentors had in its bank accounts \$198,997 and \$221,502 in excess of the FDIC insured limits.

*Foreign Operations*

The majority of Mentors' unconsolidated partner affiliates' operations are carried out in foreign countries. The foreign entities are regulated and subject to the administrative directives, rules, and regulations of the local and national governmental authorities of each region. Such administrative directives, rules, and regulations are subject to change by the same governmental authorities, and such changes may occur with little or no notice and could have a detrimental impact on Mentors, principally as it relates to the collectability of the notes receivable due from each of these foreign entities.

**MENTORS INTERNATIONAL**  
Notes to the Financial Statements  
June 30, 2018 and 2017

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Functional Allocation of Expenses

Mentors performs three functions: program, fundraising, and general and administrative. Definitions of these functions are as follows:

Program – Activities performed by Mentors and its foreign partner affiliates that fulfill Mentors' key purposes and programs in the micro-lending operation, including public education and affiliate support.

Fundraising – Activities performed by Mentors to generate funds and/or resources to support its programs and operations.

General and Administrative – All costs that are not identifiable with program or fundraising activities, but are indispensable to the conduct of such programs and activities and to Mentors' existence. This includes expenses for the overall direction of Mentors, business management, general recordkeeping, budgeting, financial reporting, and activities relating to these functions such as salaries, rent, supplies, equipment, and other general overhead.

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statements of Functional Expenses in accordance with ASC Subtopic 958-720, *Accounting for Costs of Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include Fundraising*. Whenever practicable, expenses are assigned to functional categories on an item-by-item basis. Certain expenses that could not be identified with a particular function have been allocated across functions based upon an analysis of personnel time spent in each of those functions, or other relevant factors. These expenses are subject to systematic review and allocation.

Revenue Recognition

The basis of revenue recognition for each of the revenue producing sources included in contributions, special event revenue, and affiliate fees and interest revenue is as follows:

*Contributions*

Contributions are generally recorded only upon receipt, unless evidence or an unconditional promise to give has been received. Unconditional promises to give (pledges) that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give (pledges) that are expected to be collected in future years are recorded at the present value of estimated future cash flows. Conditional promises to give are not included as support until such time as the conditions are substantially met. All contributions are considered available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. However, if a restriction is fulfilled in the same time period in which the contribution is received, it is reported as unrestricted support.

Legally enforceable intentions to give are recorded similarly to unconditional promises to give. Intentions to give which are not legally enforceable are recorded when the funds are received.

**MENTORS INTERNATIONAL**  
Notes to the Financial Statements  
June 30, 2018 and 2017

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Revenue Recognition (Continued)

*Contributions (Continued)*

Donated investments are reflected as contributions at their market values at the date of receipt. Dividend and interest income and gains and losses on investments are reflected in current unrestricted activities unless temporarily or permanently restricted, either by law or explicit donor stipulation, in which case they would be reported in either temporarily or permanently restricted activities. During the years ended June 30, 2018 and 2017, the value of donated investments was \$10,239 and \$4,993, respectively.

Mentors also recognizes contribution revenue for donated property, equipment and materials in the period received at the property's fair value. If donated assets have questionable or uncertain value and no alternative use that adds value to the assets, Mentors does not recognize them in the financial statements. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, Mentors reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. During the year ended June 30, 2018 and 2017, the value of contributed goods was \$-0- and \$6,664, respectively.

Also, Mentors occasionally receives donations or contributions through services performed. The fair value of the donated services are recognized in the financial statements if the services either (a) create or enhance a nonfinancial asset or (b) require specialized skills, are provided by entities or persons possessing those skills, and would need to be purchased if they were not donated. Services that do not meet either of the preceding criteria are not recognized. Donated services are recorded at their fair value. Mentors recorded no donations or contributions through services rendered during the years ended June 30, 2018 and 2017, respectively.

In addition, no amounts have been reflected in the financial statements for donated volunteer services, which do not satisfy the criteria for recognition under GAAP; however, a substantial number of volunteers have donated significant amounts of time to Mentors' programs.

*Special Event Revenue*

Special event revenue is recognized in the period when the activity leading to that revenue is performed. Funds received to cover expenses for special event revenue is deferred until the event is held.



**MENTORS INTERNATIONAL**  
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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Revenue Recognition (Continued)

*Affiliate Fees and Interest Revenue*

Mentors charges each of its foreign partner affiliates a monthly affiliation fee based upon that entities' monthly gross profits. These fees represent payments for the support provided by Mentors in obtaining donations and providing training. As described in Note 3, if in any given calendar month, 8.0% of the foreign partner affiliates' gross profits, as defined in the agreement, exceeds the amount of interest to be accrued on the notes receivable in such calendar month, then the foreign partner affiliate shall pay this increased amount to Mentors, as an affiliate fee, in lieu of the interest payment.

Investments

Mentors accounts for its investments in marketable securities in accordance with ASC 958-320, *Investments – Debt and Equity Securities*. Under ASC 958-320, investments in marketable securities with readily determinable fair values and all investments in debt securities are recorded at their fair value in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

Mentors holds an investment in the stock of a privately-held company which was contributed to Mentors from a donor in a prior year. During the year ended June 30, 2017, based on information that Mentor's management received from the privately-held company's management regarding its current operations, management impaired the full value of this investment, totaling \$30,299, and currently does not anticipate receiving any return on this investment at the present time.

Advertising Expense

Advertising and promotion expenses are expenses that are incurred by Mentors in an effort to market and promote its brand. These costs are expensed as incurred.

Fair Value of Financial Instruments

Mentors has adopted the provisions of ASC 820, *Fair Value Measurements and Disclosure* (ASC 820). ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value measurements. ASC 820 establishes a hierarchy that prioritizes fair value measurements based on the types of inputs used for the various valuation techniques.

Mentors determines fair value based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The carrying value of financial instruments including cash, foreign affiliate fees receivable, and accounts payable approximate fair value due to the short-term nature of these instruments. The carrying amounts reported for notes receivable and notes payable approximate fair values because the instruments bear interest at rates that are consistent with other instruments of similar risks and characteristics. Fair value estimates are made at a specific point in time, based on relevant market information.

**MENTORS INTERNATIONAL**  
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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Fair Value of Financial Instruments (Continued)

ASC Topic 820, Fair Value Measurements and Disclosures, requires fair value measurements be classified and disclosed in one of the following three categories:

*Level 1:* Financial instruments with unadjusted, quoted prices listed on an active market exchange.

*Level 2:* Financial instruments lacking unadjusted, quoted prices from active market exchanges, including over-the-counter traded financial instruments. The prices for the financial instruments are determined using prices for recently traded financial instruments with similar underlying terms as well as directly or indirectly observable inputs, such as interest rates and yield curves that are observable at commonly quoted intervals.

*Level 3:* Financial instruments that are not actively traded on a market exchange. This category includes situations where there is little, if any, market activity for the financial instrument. The prices are determined using significant unobservable inputs or valuation techniques.

The following is a reconciliation of Level 3 assets for which unobservable inputs were used to determine fair value:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
	June 30,	
	2018	2017
Balance, beginning of year	\$ -	\$ 30,299
Realized gains/(losses)	-	-
Unrealized gains/(losses) relating to instruments still held at the reporting date	-	(30,299)
Donations received	-	-
Balance, end of year	\$ -	\$ -

Foreign Affiliate Fees Receivable

Net affiliate fees due from the various foreign partner organizations totaling \$13,844 and \$25,634 as of June 30, 2018 and 2017, respectively. These affiliate fees are shown net of an allowance for doubtful accounts of \$9,778 and \$8,843 as of June 30, 2018 and 2017, respectively.

**MENTORS INTERNATIONAL**  
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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue From Contracts with Customers* (Topic 606), to supersede nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity is expected to be entitled for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing U.S. GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each performance obligation. In August 2015, the FASB issued ASU 2015-14, *Revenue From Contracts with Customers* (Topic 606), to defer the effective date of ASU 2014-09 by 1 year. Accordingly, ASU 2014-09 will now be effective for Mentor's year ending June 30, 2020. The adoption of ASU 2014-09 must be made using either of two methods: (a) retrospective to each prior reporting period presented with the option to elect certain practical expedients as defined with ASU 2014-09; or (b) retrospective with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application and providing certain additional disclosures as defined in ASU 2014-09. Mentors has not yet selected a transition method and is currently evaluating the impact of the pending adoption of ASU 2014-09 and ASU 2015-14 on its financial statements.

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, *Leases*, which requires an entity to recognize the rights and obligations resulting from leases as lease assets and lease liabilities on the balance sheet, including leases previously recorded and classified as operating leases. Pursuant to this new guidance, a lessee should recognize in the balance sheet a liability to make lease payments (lease liability) and a right-of-use asset (lease asset) representing its right to use the underlying asset for the lease term, initially measured at the present value of the lease payments. This new standard is effective for Mentors for the year ended June 30, 2021, with early application permitted, using a modified retrospective approach. Mentors is currently evaluating the impact of the pending adoption of ASU 2016-02 on its financial statements.

**MENTORS INTERNATIONAL**  
Notes to the Financial Statements  
June 30, 2018 and 2017

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Recent Accounting Pronouncements (Continued)

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, which changes the way all not-for-profits (NFPs) classify net assets and prepare financial statements. Adoption of FASB ASU 2106-14 will result in significant changes to financial reporting and disclosure for NFPs. Some of the more significant changes will be the change of net asset classifications from three classes (unrestricted, temporarily restricted, and permanently restricted) to two (net assets without donor restrictions and net assets with donor restrictions); reporting expenses classified by function and nature will be required in the statement of activities rather than optional; and additional disclosure of quantitative and qualitative information about liquidity will be required. The new standard is effective for annual financial statements issued for years beginning after December 15, 2017, with early adoption permitted, using a modified retroactive approach. Mentors is currently evaluating the impact of the pending adoption of ASU 2016-14 on its financial statements.

**NOTE 3 - NOTES RECEIVABLE--FOREIGN PARTNER AFFILIATES**

Mentors has made significant grants and loans to its foreign partner affiliates in the Philippines, Guatemala, Peru, Honduras, and Ghana.

Beginning in April 2011, Mentors obtained funds from various individuals pursuant to signed promissory notes payable (see Note 5), which funds were specifically to be re-loaned out to the various foreign partner affiliate entities to be used in the micro-loan (micro-enterprise) program that each foreign partner affiliate is engaged in, including training and mentoring impoverished individuals. Consequently, Mentors has loaned funds to these foreign partner affiliates pursuant to various signed, line-of-credit promissory notes up to certain limits. Mentors has also entered into a security agreement with each entity, granting Mentors a security interest in the property of the foreign partner affiliate. Any advances made to the foreign partner affiliates are subject to an interest rate of 5.0% per annum until paid.

Alternatively, however, if in any given calendar month, 8.0% of the foreign partner affiliates' gross profits, as defined in the agreement, exceeds the amount of interest to be accrued in such calendar month, then the foreign partner affiliate shall pay this increased amount to Mentors in lieu of the interest payment. This payment shall be defined as affiliate fee revenue rather than interest income. For the years ended June 30, 2018 and 2017, affiliate fee revenue (in lieu of interest income) was \$86,480 and \$87,366, respectively.

Amounts outstanding pursuant to these promissory notes receivable mature on the five-year anniversary of the date of the promissory note (for previous advances made prior to the signing of the promissory note), or the five-year anniversary of the additional advance date.

**MENTORS INTERNATIONAL**  
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**NOTE 3 - NOTES RECEIVABLE--FOREIGN PARTNER AFFILIATES (Continued)**

Prior to the year ended June 30, 2012, Mentors had recorded these notes receivable, including any accrued interest, net of an allowance for non-collections. Effective July 1, 2011, management of Mentors elected to treat any previously recorded notes receivable, including any accrued interest to that date, as an operational grant to these foreign partner affiliates since Mentors no longer expects to pursue collection of these previously outstanding amounts. However, Mentors fully expects to collect on any advances made subsequent to the signing of the promissory notes during early 2011, thus any advances made since April 2011 are being recorded as notes receivable rather than an operational grant. Mentors retains the right and ability to pursue collection on these previous amounts, if they desire, but currently does not expect to.

The following chart summarizes the activity on these notes receivable, by individual foreign entity, during the years ended June 30, 2018 and 2017:

	<u>Philippines</u>	<u>Guatemala</u>	<u>Peru</u>	<u>Honduras</u>	<u>Total</u>
Balance, July 1, 2016	\$ 346,234	\$ 100,000	\$ 50,000	\$ 49,400	\$ 545,634
Payments applied	<u>(157,804)</u>	<u>(35,000)</u>	<u>(21,963)</u>	<u>(15,975)</u>	<u>(230,742)</u>
Balance, June 30, 2017	188,430	65,000	28,037	33,425	314,892
Payments applied	<u>(70,673)</u>	<u>(32,544)</u>	<u>(20,000)</u>	<u>(21,000)</u>	<u>(144,217)</u>
Balance June 30, 2018	<u>\$ 117,757</u>	<u>\$ 32,456</u>	<u>\$ 8,037</u>	<u>\$ 12,425</u>	<u>\$ 170,675</u>

Future maturities of the resulting notes receivable as of June 30, 2018 is as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 170,675
Thereafter	<u>-</u>
Total	<u>\$ 170,675</u>

**NOTE 4 - RELATED PARTY TRANSACTIONS**

Mentors receives significant contributions from members of its Board of Directors. Contributions from members of the Board of Directors were \$115,844 and \$47,680 for the years ended June 30, 2018 and 2017, respectively.

**MENTORS INTERNATIONAL**  
Notes to the Financial Statements  
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**NOTE 5 - NOTES PAYABLE AND ACCRUED INTEREST**

At June 30, 2018 and 2017, Mentors had notes payable due to various individuals and entities totaling \$190,000 and \$446,000, respectively. Each of the notes bears interest at 8.0% per annum. 50% of all interest accrued annually on the principal balance of each note is payable on a quarterly basis beginning three (3) months from the date of the note. Payment on the remaining 50% of all interest accrued annually is deferred until the maturity date. In addition, 50% of the principal is due on the fifth (5<sup>th</sup>) annual anniversary of the date of the note, and the remaining 50% of the principal is due on the sixth (6<sup>th</sup>) annual anniversary of the date of the note. Accrued interest on the notes payable at June 30, 2018 and 2017 was \$53,167 and \$106,804, respectively.

During October and November 2015, certain note holders with notes totaling \$926,209 entered into amended note agreements. Pursuant to these amended agreements, 50% of the principal which was due on the fifth (5<sup>th</sup>) annual anniversary of the date of the note was extended to the sixth (6<sup>th</sup>) anniversary date of the note, and the remaining 50% of the principal which was due on the sixth (6<sup>th</sup>) annual anniversary of the date of the note was extended to the seventh (7<sup>th</sup>) anniversary date of the note. Also, payment of the remaining 50% of interest accrued annually was extended by one (1) year to the new maturity date.

Mentors also had a note payable to a bank as of June 30, 2018 and 2017 of \$-0- and \$8,545, respectively. This bank note bore interest at 6.5% per annum and was unsecured. Mentors was to pay this note in full immediately upon demand by the bank. If no demand was made, Mentors was to make monthly principal and interest payments of \$1,094 until the note matured on February 5, 2018. Mentors was required to maintain a debt service coverage ratio of at least 1.20 on an annual basis.

Future maturities of these various notes payable and accrued interest as of June 30, 2018 are as follows:

<u>Year Ending June 30,</u>	<u>Notes Payable</u>	<u>Accrued Interest</u>
2019	\$ 190,000	\$ 53,167
Thereafter	-	-
Total	<u>\$ 190,000</u>	<u>\$ 53,167</u>

**NOTE 6 - RETIREMENT PLAN**

Mentors' employees participate in a defined-contribution employee benefit plan incorporating provisions of Section 401(k) of the Internal Revenue Code. Employees who have at least one year of service are eligible to participate. Mentors matches 100% of eligible employee contributions up to an employee's contribution of 3% of their compensation, and matches 50% of eligible employee contributions up to an employee's additional contribution of 2% of compensation. Matching contributions by Mentors during the years ended June 30, 2018 and 2017 totaled \$6,725 and \$10,631, respectively.

**MENTORS INTERNATIONAL**  
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**NOTE 7 - COMMITMENTS AND CONTINGENCIES**

Lease Commitments

Mentors leases its Draper, Utah administrative offices from a third party under an operating lease expiring in December 2021. For the years ended June 30, 2018 and 2017, rent expense totaled \$50,053 and \$52,181, respectively. Minimum future lease payments under this lease commitment are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 34,162
2020	34,674
2021	35,715
2022	18,121
Thereafter	<u>-</u>
Total	<u>\$ 122,672</u>

Other Commitments

During April 2018, the Company entered into a twenty-four (24) month agreement (superceded an agreement entered into during October 2016) with a business development company to provide Mentors with growth strategy, business and funding development, and relationship strategy services (the “agreement”). For these services, Mentors agreed to pay a monthly fee of \$10,000 during the term of the agreement. However, only \$1,500 of the \$10,000 monthly fee is payable in cash; \$4,500 is deferred until Mentors is in a stronger financial position (totaling \$13,500 as of June 30, 2018), and the remaining \$4,000 per month is designated as a “deferred and contingent professional fee” payable only when new development funds are received by Mentors from new partners and alliances generated through the business development company. Mentors has also agreed to pay the company a “performance-based incentive compensation” fee (non-additive) if Mentors enters into a strategic funding development arrangement with certain companies as defined in the agreement during a five (5) year period. This fee is determined based upon an agreed-upon schedule, beginning at 5.0% of the development funds received. The agreement can be extended if agreed-upon by Mentors. Mentors has also agreed to reimburse the development company for its reasonable direct costs for travel, accommodations, business entertainment, marketing and promotional costs, and similar costs incurred. As no funds had been received by Mentors prior to June 30, 2018 pursuant to this agreement, the \$4,000 per month “deferred and contingent professional fee” has not been accrued or paid as of June 30, 2018. Accrual of this fee will be recorded in the future as the development funds are received by Mentors and the “performance-based incentive compensation” fee is earned by the business development company.

**MENTORS INTERNATIONAL**  
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**NOTE 8 - ALLOCATION OF JOINT COSTS**

During the years ended June 30, 2018 and 2017, Mentors incurred joint costs of \$676,351 and \$691,372, respectively, for activities that included fundraising appeals. These joint costs were allocated as follows:

	June 30,	
	<u>2018</u>	<u>2017</u>
Program Services	\$ 525,153	\$ 586,397
General and Administrative	143,065	92,101
Fundraising	<u>8,133</u>	<u>12,874</u>
Total	<u>\$ 676,351</u>	<u>\$ 691,372</u>

**NOTE 9 - SUBSEQUENT EVENTS**

For purposes of these financial statements and all disclosures, subsequent events were evaluated through October 26, 2018, which is the date the financial statements were available to be issued, and management noted no material subsequent events that would require disclosure in or adjustment to these financial statements as of June 30, 2018.