Mentors International

Independent Auditor’s Report and
Financial Statements

June 30, 2019

Mentors International

June 30, 2019

Contents

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Independent Auditor's Report

Board of Directors and Management
Mentors International
Draper, Utah

We have audited the accompanying financial statements of Mentors International (the Organization) which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses and cash flows for the year 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 audit. We conducted our audit 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 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 auditor's 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 audit opinion.

Board of Directors and Management
Mentors International

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mentors International as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As described in Note 2 to the financial statements, during the year ended June 30, 2019, the Organization adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

BKD, LLP

Salt Lake City, Utah
January 27, 2020

Mentors International

Statement of Financial Position

June 30, 2019

Assets

Current Assets		
Cash	$	801,276
Due from foreign affiliates, net		27,128
Inventory		21,504
Prepaid expenses and other current assets		9,469
Total current assets		859,377
Property and Equipment		
Office furnishings and equipment		22,746
Leasehold improvements		11,426
Software		4,786
Accumulated depreciation and amortization		(35,552)
Total property and equipment		3,406
Other Assets		
Other assets		3,385
Total other assets		3,385
Total assets	$	866,168

Liabilities and Net Assets

Current Liabilities		
Accounts payable and accrued expenses	$	61,442
Total current liabilities		61,442
Net Assets		
Net assets without donor restrictions		409,794
Net assets with donor restrictions		394,932
Total net assets		804,726
Total liabilities and net assets	$	866,168

Mentors International

Statement of Activities

Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and Public Support			
Public Support			
Contributions	$ 944,007	$ 321,737	$ 1,265,744
Special events	306,092	-	306,092
Less: direct costs of special events	(55,595)	-	(55,595)
Total public support	1,194,504	321,737	1,516,241
Revenue			
Sales, net	67,716	-	67,716
Affiliate fees and other revenue	67,042	-	67,042
Total revenue	134,758	-	134,758
Net assets released from restriction	149,334	(149,334)	-
Total revenues and public support	1,478,596	172,403	1,650,999
Expenses			
Program Services	1,060,723	-	1,060,723
Supporting Services			
Fundraising costs	14,422	-	14,422
General and administrative	153,946	-	153,946
Total supporting services	168,368	-	168,368
Total expenses	1,229,091	-	1,229,091
Change in Net Assets	249,505	172,403	421,908
Net Assets, Beginning of Year	160,289	222,529	382,818
Net Assets, End of Year	$ 409,794	$ 394,932	$ 804,726

Mentors International

Statement of Functional Expenses

Year Ended June 30, 2019

	Program Services	Supporting Services: Fundraising Costs	Supporting Services: General and Administrative	Total Expenses
Grants to foreign partner affiliates	$ 416,249	$ -	$ -	$ 416,249
Bad debt expense	28,309	-	366	28,675
Salaries and related costs	408,746	4,729	119,729	533,204
Bank fees	11,936	-	214	12,150
Board expenses	-	-	2,961	2,961
Dues and subscriptions	265	-	75	340
Information technology	13,757	-	726	14,483
Insurance	-	-	4,710	4,710
Interest expense	1,758	-	-	1,758
Office supplies	2,632	-	2,867	5,499
Maintenance and repair	-	-	60	60
Printing	615	6,828	728	8,171
Professional services	59,986	92	15,993	76,071
Public relations	17,014	75	763	17,852
Office rent	48,351	1,077	1,931	51,359
Telephone and internet	5,152	108	406	5,666
Travel	45,825	1,513	962	48,300
Training	128	-	-	128
Total functional expenses before depreciation	1,060,723	14,422	152,491	1,227,636
Depreciation	-	-	1,455	1,455
Total functional expenses	$ 1,060,723	$ 14,422	$ 153,946	$ 1,229,091

Mentors International

Statement of Cash Flows

June 30, 2019

Operating Activities		
Change in net assets	$	421,908
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Bad debt expense		28,675
Depreciation		1,455
Changes in assets and liabilities:		
Increase in foreign affiliate fees receivable		(41,959)
Increase in inventory		(21,504)
Decrease in prepaid expenses and other assets		2,250
Decrease in accounts payable and accrued expenses		(19,957)
Net cash provided by operating activities		370,867
Investing Activities		
Payments received on notes receivable, foreign partner affiliates		170,675
Purchases of property and equipment		(4,428)
Net cash provided by investing activities		166,247
Financing Activities		
Payments on notes payable		(190,000)
Net cash used by financing activities		(190,000)
Increase in Cash		347,114
Cash, Beginning of Year		454,162
Cash, End of Year	$	801,276
Supplemental Cash Flow Information		
Interest paid	$	54,925

Mentors International
Notes to Financial Statements
June 30, 2019

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Mentors International (the "Organization") is a non-profit corporation organized in the State of Missouri. During October 2011, the Organization's name was changed from "Enterprise Mentors International" to "Mentors International".

The Organization's 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. The Organization 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. The Organization 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.

Various partner organizations have been formed in other countries to assist the Organization in its efforts:

Country	Name of Organization
Philippines	Mentors Philippines Microfinance Foundation, Inc.
Guatemala	Fundación Mentors Guatemala
Dominican Republic	Mentors Republica Dominicana
Peru	Asociación Civil Mentors Perú
Honduras	Mentors Honduras, S.R.L.
Ghana	Mentors Ghana FNGO

The Organization provides start-up support, training, funding and loan capital to these foreign partner organizations. However, the Organization has determined that it does not control the majority voting interest in these foreign partner organization's board of directors. Accordingly, the financial statements of these foreign partner organizations have not been included or consolidated with the financial statements of the Organization, included herein.

Foreign Operations

The majority of the Organization's 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 the Organization.

Mentors International
Notes to Financial Statements
June 30, 2019

Basis of Accounting

The financial statements of the Organization are prepared using the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America. The Organization has elected a June 30 year-end.

Use of Estimates

The preparation of 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 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. Actual results could differ from those estimates. 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, the economic useful lives and recovery of long-lived assets, functional allocation of joint costs, and amounts and valuation of donated goods and services.

Cash

The Organization considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2019, the Organization did not hold cash equivalents. At June 30, 2019, the Organization's cash accounts exceeded federally insured limits by approximately $550,000.

Foreign Affiliate Fees Receivable

Net affiliate fees due from the various foreign partner organizations totaled $27,128 as of June 30, 2019. These affiliate fees are shown net of an allowance for doubtful accounts of $15,943 as of June 30, 2019.

Inventories

Inventories consist of jewelry accessories made by Mentors' in-country entrepreneurs. Inventories are stated at the lower of cost or net realizable value. Costs of inventory are determined using the weighted-average-cost method.

Property and Equipment

Property and equipment acquisitions are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization is charged to expense on the straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are amortized over the shorter of the lease term or respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Office furniture and equipment	3 to 7 years
Leasehold improvement	3 years
Software	3 to 5 years

Long-Lived Asset Impairment

The Organization evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset are less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the year ended June 30, 2019.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor restrictions.

Net assets without donor restrictions are available for use in general operations and not subject to donor or certain grantor restrictions.

Net assets with donor restrictions are subject to donor or certain grantor restrictions. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. The Organization’s net assets with donor restrictions at June 30, 2019 totaling $394,932 consisted of donations 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, as follows:

Operational grants to foreign affiliates	$	278,911
Further the mission of the US entity		116,021
Total	$	394,932

Revenue Recognition

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

<u>Contributions</u>

Contributions are provided to the Organization either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value recorded for each contribution is recognized as follows:

Nature of the Gift	Value Recognized
Conditional gifts, with or without restriction	
Gifts that depend on the Organization overcoming a donor imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, *i.e.* the donor imposed barrier is met
Unconditional gifts, with or without restriction	
Received at date of gift – cash and other assets	Fair value
Received at date of gift – property, equipment and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment and other long-lived assets are reported when those assets are placed in service.

Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as revenue with donor restrictions and then released from restriction.

Conditional contributions and investment income having donor stipulations which are satisfied in the period the gift is received and the investment income is earned are recorded as revenue with donor restrictions and then released from restriction.

<u>Special Event Revenue</u>

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.

Sales

The Organization integrated a program called Pearl with a Purpose (PWP) to create a pipeline for empowering those whom the Organization is mentoring in the jewelry making arena. The pipeline connects jewelry makers from partnered countries to venues in the United States where the jewelry can be sold. Revenue is recognized when control of the promised goods is transferred to the customers, in an amount that reflects the consideration that it expects to be entitled to in the exchange for the goods.

Affiliate Fees

The Organization 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 the Organization in obtaining donations and providing training.

Concentration of Support

The Organization receives donations from several organizations, foundations, and individuals. Occasionally, some of these donations are material in nature. In addition, the Organization holds an annual fundraising event which generates a significant amount of donations. If the Organization decided to discontinue the annual fundraising event in a given year, it could have an adverse material effect on the Organization's operations.

Income Taxes

As a non-profit organization, the Organization claims exemption from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and State law. In addition, the Organization has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code. The Organization files a Form 990 tax return.

During the year ended June 30, 2019, the Organization has not engaged in any activity which management considers to be activity that could result in a loss of their 501(c)(3) IRS designation. In addition, during the year ended June 30, 2019, the Organization had no unrelated business income as defined by Section 512(a)(1) of the Code. If taxing authorities were to determine that any tax, interest, or penalties were due, such amounts would be reported as general and administrative expenses in the year assessed.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses present the natural classification detail of expenses by function. Certain costs have been allocated among the program, management and general and fundraising categories based on either the square footage of the space used, an analysis of personnel time spent, or other relevant factors for programs and supporting services.

Note 2: Change in Accounting Principle

During the year ended June 30, 2019, the Organization adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* A summary of the changes is as follows:

Statement of Financial Position

The statement of financial position distinguishes between two new classes of net assets – those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets – unrestricted, temporarily restricted and permanently restricted.

Statement of Activities

Expenses are reported by both nature and function in one location.

Investment income is shown net of external and any direct internal investment expenses. Disclosure of the expenses netted against investment income is no longer required.

Notes to the Financial Statements

Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one-year from the date of the statement of financial position.

This change has no impact on previously reported total change in net assets.

Note 3: Notes Receivable – Foreign Partner Affiliates

The Organization has made significant grants and loans to its foreign partner affiliates in the Philippines, Guatemala, Peru, Honduras, Ghana, Nepal, and the Dominican Republic.

The Organization has loaned funds to these foreign partner affiliates pursuant to various signed, line-of-credit promissory notes up to certain limits. The Organization has also entered into a security agreement with each entity, granting the Organization 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, 4.0% 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 the Organization in lieu of the interest payment. This payment shall be defined as affiliate fee revenue rather than interest income. For the year ended June 30, 2019, affiliate fee revenue (in lieu of interest income) was $64,556.

At June 30, 2019, there were not any outstanding balances owed to the Organization from these foreign partner affiliates pursuant to these promissory notes.

Note 4: Liquidity and Availability

The Organization manages its cash available to meet general expenditures following these guiding principles:

- Operating within a prudent range of financial soundness and stability
- Maintaining adequate liquid assets to fund near-term operating needs
- Maintaining sufficient reserves to provide reasonable assurance that long-term grant commitments that support mission fulfillment will continue to be met, ensuring the sustainability of the Organization

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of June 30, 2019, comprise of the following:

Total financial assets available for use within 12 months	$	858,877
Financial assets available to meet cash needs for general expenditures within one year	$	858,877

The Organization receives contributions by donors and considers contributions for programs which are ongoing, major and central to its annual operations to be available to meet cash needs for general and program expenditures.

Note 5: Commitments and Contingencies

Lease Commitments

The Organization leases its Draper, Utah administrative offices from a third party under an operating lease expiring in December 2021. For the year ended June 30, 2019, rent expense totaled $51,359. Minimum future lease payments under this lease commitment are as follows:

Year Ending June 30,		
2020	$	34,674
2021		35,715
2022		18,121
Total	$	88,510

Mentors International
Notes to Financial Statements
June 30, 2019

Other Commitments

During May 2019, the Organization entered into an amended agreement (super-ceded agreements entered into during October 2016 and April 2018) with a business development company to provide the Organization with growth strategy, business and funding development, and relationship strategy services (the "agreement"). For these services, the Organization agreed to pay a 10% commission on all development funds received by the Organization after May 31, 2019, until a total of $1,575,000 of developments funds are received. After that amount, the commission percentage decreases to 6%. In the event that the total development funds received exceeds $10,000,000, then the Organization shall pay an additional 2% commission. If over $20,000,000, the Organization shall pay an additional 2% commission on the development funds received. No amounts were owed to the business development company pursuant to this agreement as of June 30, 2019.

Note 6: Allocation of Joint Costs

The Organization conducted activities that included requests for contributions, as well as program and management and general components. Those activities included program services, general and administrative, and fundraising. The costs of conducting those activities included a total of $740,623 in 2019 of joint costs, which are not specifically attributable to particular components of the activities. These joint costs were allocated as follows:

Program Services	$ 585,689
General and Administrative	140,512
Fundraising	14,422
Total	$ 740,623

Note 7: Related Party Transactions

The Organization receives significant contributions from members of its Board of Directors. Contributions from members of the Board of Directors were $177,500 for the year ended June 30, 2019.

Note 8: Retirement Plan

The Organization's 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. For a portion of the year, the Organization matched 100% of eligible employee contributions up to an employee's contribution of 3% of their compensation and matched 50% of eligible employee contributions up to an employee's additional contribution of 2% of compensation. Pursuant to an amendment made during the year, the Organization now matches 100% of eligible employee contributions up to an employee's contribution of 4% or their compensation. Matching contributions during the year ended June 30, 2019 totaled approximately $6,760.

Note 9: Subsequent Events

Subsequent events have been evaluated through January 27, 2020, which is the date the financial statements were available to be issued. Subsequent to June 30, 2019, the following significant events occurred:

- On September 3, 2019, the Organization's Board of Directors approved a merger agreement whereby Mentors International will merge with another not-for-profit entity called Lifting Generations. The new merger will operate under the Mentors International tax ID number. Name and branding will be determined at a later date. The Organization will continue to operate the Mentors International and Lifting Generation brands separately until appropriate branding has been determined. Lifting Generations provides educational courses to help impoverished individuals become self-reliant offering courses in English, mentoring, leadership, graphic design, sales and customer service, and certification on MS Office skills. The operations of the two entities are expected to be combined during fiscal year 2020. At that point, the two organizations will work united to achieve their combined mission of worldwide self-reliance through mentoring, education, and access to financial solutions.

Note 10: Future Change in Accounting Principle

Revenue Recognition

The Financial Accounting Standards Board amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for nonpublic entities for annual periods beginning after December 15, 2018, and any interim periods within annual reporting periods that begin after December 15, 2019. The Organization is in the process of evaluating the effect the amendment will have on its financial statements.

Accounting for Leases

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the statements of financial position as both a right-of-use asset and a liability. The standard has two types of leases for statements of activities recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2020, and any interim periods within annual reporting periods that begin after December 15, 2021. The Organization is evaluating the effect the standard will have on the financial statements; however, the standard is not expected to have a material effect on the financial statements due to the recognition of additional assets and liabilities for operating leases.