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Overview of Engagement

The Mennonite, Inc. (the Organization) engaged Culp CPA Group to conduct an evaluation of the Organization's internal accounting processes and year-end valuation of significant accounts within the existing internal control structure. Culp CPA Group's evaluation focused on the year ended January 31, 2018, and included a combination of procedures ranging from inquiries of accounting personnel to detailed testing of significant account balances as of January 31, 2018.

This report is organized in the following manner:

- A section containing our observations based on the results of our review or detailed testing of:

    1. The year-end valuation of the unearned subscription revenue account
    2. The valuation of the year-end accounts receivable balances for subscriptions and advertising
    3. The monthly cash account reconciliations
    4. The valuation of the year-end property and equipment accounts
    5. The valuation of the year-end depreciation account
    6. The monitoring of financial information through the review of journal entries by management
    7. The fluctuations within the Organization's income and expense accounts

- A section containing a summary of Culp CPA Group's observations related to the valuation and presentation of the Organization's financial information, and the existing control structure related to the areas outlined in the previous section. This section will also contain recommendations to further enhance the information gathering and reporting process.

We appreciate the opportunity to provide The Mennonite, Inc. with our services and invite you to contact Culp CPA Group to further discuss the information contained within this report. This report is intended solely for the information and use of The Mennonite, Inc.'s Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

Process and Valuation Observations

Subscription-related Account Valuations:

Culp CPA Group continues to identify the valuation of the subscription-related accounts as the significant financial reporting area for the Organization. The balance of the unearned subscription revenue was reported to be $97,207 at January 31, 2018 ($118,772 in 2017), and the subscription revenue was reported to be $215,756 for the year then ended ($216,046 in 2017). Accordingly, Culp CPA Group performed testing of the valuation of the unearned versus earned portion of subscription revenue for a sample of individual accounts. Culp CPA Group also performed analytical analyses to determine if the overall balances of the unearned revenue and earned revenue accounts appeared consistent with those of the last twelve years. Culp CPA Group's analysis also looked at the average subscription price per subscriber and compared that average to the prior twelve years' averages.

- As a result of the change in subscription fulfillment providers from Cambey & West to Quick Fill, Culp CPA Group maintained the sample size of thirty-five subscriptions. With the thirty-five selected samples the following was performed:

  1. Obtained the original subscription request to determine that the subscription term applied to the fiscal year ended January 31, 2018.

  2. Based on the subscription period, and the applicable number of issues included in the subscription period, independently recomputed the amount of the subscription that should be classified as unearned revenue vs. earned revenue.

  3. Traced and agreed the recomputed unearned amounts of the subscription to the "Deferred Revenue Report" provided by Quick Fill.

     Results: Culp CPA Group's sample contained 4 subscriptions whose recalculated amount of deferred revenue and earned revenue was not in agreement with Quick Fill's calculation. The first two variances were due to errors in the import of information from Cambey & West into Quick Fill. Both subscriptions were 12 month subscriptions but were imported into Quick Fill as 24 month subscriptions for unknown reasons. Upon reviewing the subscription renewal forms and the individual's detailed subscription activity report, it was determined that the incorrect subscription term was provided from Cambey and West. Upon fixing the subscription term in the recalculation, the deferred and earned revenue matched with Quick Fill's calculation. The next variance was due to an unknown credit being applied to a group subscriber's account in Quick Fill for a cancelled member, that was not reflected in the "Deferred Revenue Report." Culp CPA Group again used the detailed subscription activity report to determine why and when the credit was applied, and came into agreement with Quick Fill's deferred and earned revenue amounts. The last variance was due to an subscriber who was a part of a group subscription, but renewed and paid as an individual subscriber. Quick Fill indicated that no amount had been paid but the full subscription was unearned. Utilizing the detailed subscription activity report and subscription renewal form again, Culp CPA Group determined that the amount paid was being held as an unearned individual subscription until the group subscription expired. This was set to happen in April of 2018.

Additionally, in comparing the earned and deferred income report totals for earned and deferred revenue to that of QuickBooks, Culp CPA Group notes that the QuickBooks' total deferred revenue was $1,990.36 more than the report total. This variance was not investigated by Culp CPA Group

- Culp CPA Group performed an analysis of the total unearned and earned subscription revenue at January 31, 2018 and compared the percentage of the unearned versus earned subscription revenue to those percentages for the years ended January 31, 2017, 2016, 2015, 2014, 2013, 2012, 2011, 2010, 2009, 2008, 2007 and 2006.

  Results: Culp CPA Group noted that the percentage of unearned versus earned subscription revenue for the year ended January 31, 2018 was 31% (36% in 2017) and 69% (64% in 2017), respectively. These percentages were within the ranges of 28%-36% and 64%-72% for unearned and earned subscription revenue, respectively, for the years ended January 31, 2017, 2016, 2015, 2014, 2013, 2012, 2011, 2009, 2008, 2007 and 2006. Culp CPA Group noted a 19% decrease in the unearned subscriptions revenue account from fiscal year 2017 to 2018 (2% increase from 2016 to 2017), and a 0.5% decrease in the subscription income account from fiscal year 2017 to 2018 (6% decrease from 2016 to 2017). The total subscription activity in dollars decreased by $23,485, or 7.5% from fiscal 2017 to 2018 (There was a $11,764, or 3.4% decrease from 2016 to 2017).

- Culp CPA Group performed an analysis of the average subscription price per average subscriber for the year ended January 31, 2018 and compared it to the averages computed for the years ended January 31, 2017, 2016, 2015, 2014, 2013, 2012, 2011, 2010, 2009, 2008, 2007 and 2006.

  Results: Culp CPA Group noted that the average subscription price per average subscriber was $55.44 for the year ended January 31, 2018, compared to $56.00 for the year ended January 31, 2017, and was inside the range of $44.40 to $56.00, the calculated averages for the years ended January 31, 2017, 2016, 2015, 2014, 2013, 2012, 2011, 2010, 2009, 2008, 2007 and 2006. Culp CPA Group continues to note that in all but one year, the average price per subscription has remained higher than the individual, one-year subscription price, which for fiscal year 2018 was still $46. Additionally, in all years the average price per subscription was higher than the most expensive group rate which was still $39 for fiscal year 2018. The fluctuation in the average subscription price continues to be impacted by the mix of single versus group subscriptions, as well as the mix of single versus multi-year subscriptions. The average subscription price may have been impacted by the differences between the earned and deferred income report totals for earned and deferred revenue and those of QuickBooks.

Culp CPA Group also noted that the number of average subscribers decreased from the year ended January 31, 2017 by 363, a trend that has continued since 2007, except for 2016. As mentioned in 2016's report, the average number of subscribers actually increased from the year before, and was the first time an increase had been recorded since tracking this information began in 2007. In 2016, the increase in the number of subscribers was 55.

Accounts Receivable Valuation and Aging Classifications:
The Organization's accounts receivable balance consists of two components, subscriptions and advertisements. The combined total of the accounts receivable balance at January 31, 2018 was reported to be $34,327 ($23,555 in 2017). This account was also determined to be a significant financial reporting area by Culp CPA Group; therefore, the valuation of the account balances was tested for reasonableness.

- Culp CPA Group obtained all deposits from February 1, 2018 through our on-site engagement date of March 28, 2018 and scheduled out all receipts relating to service dates through January 31, 2018 to ascertain that the values of recorded receivables at January 31, 2018 were fairly stated.

  Results: Culp CPA Group notes that for the subscriptions receivable balance, $11,623 of the total $22,113 was collected through March 28, 2018, compared to $6,385 of the $20,766 outstanding balance at January 31, 2017. The collection percentages for the years ended January 31, 2018 and 2017 were 52.6% and 30.75%, respectively.

  Culp CPA Group further notes that $11,714 of the $12,214 January 31, 2018 advertising receivable balance was collected through March 28, 2018, compared to $3,351 of the $3,887 advertising receivable balance at January 31, 2017. The collection percentages for the years ended January 31, 2018 and 2017 were 95.9% and 86.2%, respectively.

Cash Account Reconciliation:
The Organization has two primary checking accounts that it utilizes for its operations. One of the accounts, Kindred Credit Union (formerly the Mennonite Savings and Credit Union) account, is used to deposit payments from the Organization's Canadian constituents. The other account, with Everence Federal Credit Union, is used for all activities conducted within the United States of America. To determine that the receipt and usage of cash is monitored on a timely basis by the Executive Director, Culp CPA Group obtained and reviewed the monthly bank statements and reconciliations for the aforementioned bank accounts to determine if:

- Bank reconciliations were prepared on a timely basis each month

- The reconciliations were reviewed by the Executive Director as evidenced by initials or signature

- The reconciled balances at January 31, 2018 agree to the trial balance as of January 31, 2018.

  Results: Culp CPA Group noted that in each month the bank accounts had been timely reconciled. Additionally, we noted that in all months the reconciliations had been reviewed and approved by the Executive Director. The reviews were supported by either the signature or initials of the reviewer. Furthermore, it was determined by Culp CPA Group that this year's reviews were as timely as they were in the immediate past year. Culp CPA Group also noted that the reconciled balances agreed to the trial balance at January 31, 2018.

Property and Equipment Reconciliation:
The Organization has property and equipment with a net book value of $27,746 at January 31, 2018 ($28,825 at January 31, 2017). The $1,078 decrease in this balance from 2017 to 2018 is due to $8,234 in fixed asset additions and $9,312 in depreciation. Culp CPA Group obtained the Organization's depreciation schedule roll forward in order to:

- Vouch additions to the property and equipment accounts for current year acquisitions

- Vouch deletions from the property and equipment accounts for current year disposals

- Recalculate depreciation expense for current year additions

- Determine that the balances at January 31, 2018 per the detailed schedules agree to the trial balance as of January 31, 2018.

  Results: Culp CPA Group noted that the Organization made website improvements during the fiscal year ended January 31, 2018 in the amount of $5,350. This was the final addition to the website project, costing a total of $23,350. Culp CPA Group also noted that the asset's depreciation commenced in February 2017, when the website was available to be used. The Organization also purchased two computers and a laptop during the fiscal year ended January 31, 2018. Culp CPA Group noted the asset's in-service dates corresponded with the month in which the computers were purchased. Culp CPA Group recomputed the depreciation on the new website and new computers, noting agreement with the Organization's computation.

  Culp CPA Group also noted that there were seven disposals during the fiscal year ended January 31, 2018. The disposals related to the old computers, software, and monitors that were replaced during the fiscal year ended January 31, 2018. Culp CPA Group also noted that the total assets, accumulated depreciation and depreciation expense per the detailed schedules agreed to the trial balance as of January 31, 2018.

General Journal Entry Review and Approval:
The auditing profession continues to stress that one of the major fraud risk areas surrounds the ability for individuals to override the internal control structure using manual adjusting journal entries. Therefore, to continue to ensure that manual journal entries entered into the Organization's general ledger system have been reviewed and approved by someone independent of the recordkeeping process, Culp CPA Group obtained the month-end reporting packets containing the QuickBooks report of all the Organization’s general journal entries recorded each month to select a sample for further testing, and to determine that the executive director has reviewed and approved all entries on a timely basis.

Results: Culp CPA Group noted that each month's closing packet, which contains account reconciliations, journal entries, and internal financial statements were reviewed and approved by the Executive Director. Again, the reviews were timely as they were in the immediate past year. Additionally, those selected for further review had underlying documentation supporting the entry.

Income and Expense Fluctuation Analysis:
In order to determine if the revenue and expenses reported by the Organization for the fiscal year ended January 31, 2018 are comparable to those reported for the fiscal year ended January 31, 2017, Culp CPA Group performed an income and expense fluctuation analysis.

Results: As a result of this analysis and discussions with management, Culp CPA Group makes the following observations:

- The Organization posted a positive change in net assets for the second time in three years, as the organization had a positive (negative) change in net assets of $17,282, $25,682 and $(19,917) in the fiscal years ending January 31, 2018, 2017 and 2016, respectively. Prior to the negative change posted in 2016, the Organization had positive (negative) changes in net assets of: $(1,934) in 2015, $7,313 in 2014, $35,430 in 2013, $1,466 in 2012, $10,673 in 2011 and $35,298 in 2010.

- Total revenues during fiscal year ended January 31, 2018 increased by $3,784 from 2017, while total expenses in 2018 increased by $12,184 from 2017 . This caused a $8,400 negative swing in the change in net assets from 2017 to 2018.

- Subscription income was reported at $215,756 for the year ended January 31, 2018, which was $290 lower than the $216,647 reported for the year ended January 31, 2017. Subscription income has continued to decrease in every year since the year ended January

31, 2006. In that year, subscription income was $394,843. The same assumption regarding the decrease in subscription revenue for the year ended January 31, 2018 continues to be a decline in the number of persons taking the paper subscription, which has been evident by the decrease in the number of average subscribers. In 2018 the average number of subscribers decreased from 2017 by 363 subscribers.

- Advertising income for the year ended January 31, 2018 was $105,596 and has increased for the third year in a row, as management made concerted efforts to attract advertisers to the publication. The 2018 increase was $13,836 over 2017, and the 2017 increase was $16,936 over 2016. As mentioned in 2016's report, the year ended January 31, 2016 was the first time an increase in advertising income had been posted since the fiscal year ended January 31, 2010, and in that year advertising income was reported at $118,706.

- To address the decreasing subscription income, management continued its appeal to the readership to support the magazine through its direct mailing appeals and raised donations of $86,506, an increase over 2017 of $3,728.

- The year ended January 31, 2018 was the second consecutive year in which The Mennonite received grant monies. In 2018, the Organization received grant monies to fund a peace lab podcast. In 2017, the Organization received grant monies to: assist in researching the publication's content for possible racism, review the current design of the publication, and consider possible redesigning options and to off-set the cost of having interns participate in the 2017 Bi-annual Mennonite Church USA Convention. These grants were not received again in 2018. The total of the grants in the fiscal year ended January 31, 2018 was $5,000, a decrease of $14,000 from the fiscal year ended January 31, 2017.

- Cash expenses with reductions over $1,000 from 2018 included: Salaries and wages - $1,463, retirement - $1,011, children's education grants - $2,000, Canadian exchange rate - $1,581, operational travel - $1,264, test promos - $5,278, subscription management - $12,905, and bank/credit card fees - $1,445. The significant change in test promos is due to the Organization not utilizing an outside consultant to provide marketing services, and the significant change in subscription management is due to the migration of subscription management from Cambey & West to Quick Fill.

- Non-cash related costs during the year ended January 31, 2018 were depreciation, which increased by $4,344. This expense increase was due to the Organization's website being put into service in February of 2017.

Process and Valuation Observations

- Areas where costs exceeded those of fiscal year ended January 31, 2017 by over $1,000 included employee insurance - $2,070, freelance articles - $1,600, study/research/training - $4,505, content review - $4,052, board designated marketing - $2,819, donation mailing - $1,024, individual new & renewal - $2,860, Mennonite Church USA Conference - $14,203, and website maintenance - $2,579. The significant change in the Mennonite Church USA Conference expense is due to the conference being held every other year.

Summary of Observations and Recommendations

Based on the information provided to us, and the work we have performed, it appears the Organization has had another successful year in fiscal year ending January 31, 2018, with only a $290 decrease in subscription revenue compared to fiscal year ending January 31, 2017. The decreasing amount of subscription revenue continues to be offset by increasing revenues from other sources, such as advertising and donations, and decreasing expenses in marketing and subscription fulfillment services. As previously noted, advertising revenue increased by $13,836 and donations to The Mennonite increased by $3,728 from 2017 to 2018, which more than offset the decline in subscription revenues. Total revenues increased by $3,784 and total expenses increased by $12,184, resulting in a negative swing in the change in net assets of $8,400. Despite the downward swing, the Organization still maintained a positive change in net assets of $17,282 in the fiscal year ending January 31, 2018.

With the switch from Cambey & West back to Quick Fill, there were significant cost savings related to your subscription fulfillment services. For the year ended January 31, 2018 the Organization spent $2,008 in subscription fulfilment, compared to $14,912 in 2017. There were minor issues regarding the subscription terms for some subscribers in the migration from Cambey & West to Quick Fill, as noted in the Subscription-related Account Variations section, but these issues did not warrant any suggestions regarding adjustments to accounts.

It appears that internal control policies continue to be adhered to based on our observations regarding the review of monthly bank reconciliations and general journal entries.

The general ledger maintenance and internal financial reporting for the Organization continues to improve. During the fiscal year ended January 31, 2018, there were no reclassifications to accounts suggested by us.

As a result of our testing of the subsequent receipts relating to the outstanding subscription receivable balances for the years ended January 31, 2018 and 2017, Culp CPA Group notes that collections were more timely as a result of switching from Cambey & West to Quick Fill. Additionally, in prior years our testing of deferred versus earned revenue has been affected by the lack of subscription correspondence from subscribers. This situation was improved in the current year due to additional documentation available from Quick Fill and better document retention. We are pleased with the results from Quick Fill in our testing for the year ended January 31, 2018 and are optimistic that these changes will continue to affect the Mennonite in a positive fashion going forward.