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Overview of Engagement

The Mennonite, Inc. (the Organization) engaged David Culp & Co. LLP to conduct an evaluation of the Organization's internal accounting processes and year-end valuation of significant accounts within the existing internal control structure. David Culp & Co. LLP's evaluation focused on the year ended January 31, 2017, and included a combination of procedures ranging from inquiries of accounting personnel to detailed testing of significant account balances as of January 31, 2017.

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 David Culp & Co. LLP'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 David Culp & Co. LLP 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:
David Culp & Co. LLP 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 $118,772 at January 31, 2017 ($117,652 in 2016), and the subscription revenue was reported to be $216,046 for the year then ended ($230,560 in 2016). Accordingly, David Culp & Co. LLP performed testing of the valuation of the unearned versus earned portion of subscription revenue for a sample of individual accounts. David Culp & Co. LLP 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 eleven years. David Culp & Co. LLP's analysis also looked at the average subscription price per subscriber and compared that average to the prior eleven years' averages.

- As a result of the change in subscription fulfillment providers, including several months of maintaining this function in-house, David Culp & Co. LLP increased its sample size from twenty to thirty-five. 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, 2017.

  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 "Earned and Deferred Income Report" provided from an Excel spreadsheet generated by The Mennonite staff, as the conversion from the in-house subscription fulfillment to Quick Fill was too late in the year to be able to have accurate reporting out of the Quick Fill system.

  Results: David Culp & Co. LLP notes that there were no subscription forms available to review for the purposes of verifying the name of the subscriber, the period of subscription, and the date when the subscriptions were to commence. What was available for twenty-five of the sampled units were deposit reports from Cambey & West that did indicate the name of the subscriber, the date of the deposit, and the amount of the individual checks making up the deposit. The name of the subscriber was traced and agreed to the earned and deferred income report, and the amount paid was traced to the subscription rate sheet, so that the number of subscriptions could be matched with that reported in the earned and deferred income report. Within the same report, David Culp & Co. LLP utilized the reported subscription start date in order to determine if the deposit date of the checks was in close proximity with the start date of the subscription, and that the number of subscriptions reported as earned versus unearned was accurate at January 31, 2017. Using this date, and the subscription period of 12, 24 or 36 months, David Culp Co. LLP was able to determine whether or not, based on that date, if a portion of the tested subscription should be included in unearned revenue at January 31, 2017. As a result, two of the twenty-five units sampled had a total combined understatement of deferred revenue in the amount of $28.92, and because one of the samples was missing a payment of $54, the revenue was also understated in the amount of $27. Based on these known errors, David Culp & Co. LLP extrapolated an estimated understatement of deferred revenue in the amount of $4,571.53 and an estimated understatement of earned revenue in the amount of $5,966.61. The remaining ten sample units were made up of four subscriptions for which there was no information available for testing, and six subscriptions that management considers graced, or cancelled. The deferred and earned revenue totals relating to these six subscriptions was $71.67 and $88.33, respectively, and are reflected in the total of the deferred and earned revenue report used to select the sample.

Additionally, in comparing the earned and deferred income report totals for earned and deferred revenue to that of QuickBooks, David Culp & Co. LLP notes that the QuickBooks' total deferred revenue was $2,842.29 more than the report total, and that the QuickBooks' earned revenue total was $36,608.43 less than the report total. These variances were not fully investigated or reconciled by David Culp & Co. LLP. David Culp & Co. LLP does note, per the observations above, that cancelled and graced subscriptions make up a portion of the total deferred and earned revenue balances within the earned and deferred income report. Also through discussions with the executive director, formulas were created to account for multiple subscriptions per subscriber so that all the information related to such subscribers could be maintained in one line of the report. David Culp & Co. LLP further notes the analytical analysis performed on the total deferred and earned revenue at January 31, 2017, which is discussed in the next bullet point below, does not indicate that the aforementioned differences are actual in nature.

- David Culp & Co. LLP performed an analysis of the total unearned and earned subscription revenue at January 31, 2017 and compared the percentage of the unearned versus earned subscription revenue to those percentages for the year's ended January 31, 2016, 2015, 2014, 2013, 2012, 2011, 2010, 2009, 2008, 2007 and 2006.

  Results: David Culp & Co. LLP noted that the percentage of unearned versus earned subscription revenue for the year ended January 31, 2017 was 36% (34% in 2016) and 64% (66% in 2016), 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, 2016, 2015, 2014, 2013, 2012, 2011, 2009, 2008, 2007 and 2006. David Culp & Co. LLP noted a 2% increase in the unearned subscriptions revenue account from fiscal year 2016 to 2017 (7% increase from 2015 to 2016), and a 6% decrease in the subscription income account from fiscal year 2016 to 2017 (1% decrease from

2015 to 2016). The total subscription activity in dollars decreased by $11,764, or 3.4% from fiscal 2016 to 2017 (There was a $5,815, or 1.7% increase from 2015 to 2016).

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

  Results: David Culp & Co. LLP noted that the average subscription price per average subscriber was $56.00 for the year ended January 31, 2017, compared to $54.31 for the year ended January 31, 2016, and was outside the range of $44.40 to $54.31, the calculated averages for the years ended January 31, 2016, 2015, 2014, 2013, 2012, 2011, 2010, 2009, 2008, 2007 and 2006. David Culp & Co. LLP 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 2017 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 2017. 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. As mentioned in the previous bullet point, 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.

  David Culp & Co. also noted that the number of average subscribers decreased from the year ended January 31, 2016 by 404, a trend that has continued since 2007, except for last year. As mentioned in last year'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, 2017 was reported to be $23,555 ($36,039 in 2016). This account was also determined to be a significant financial reporting area by David Culp & Co. LLP; therefore, the valuation of the account balances was tested for reasonableness.

- David Culp & Co. LLP obtained all deposits from February 1, 2017 through our on-site engagement date of March 1, 2017 and scheduled out all receipts relating to service dates through January 31, 2017 to ascertain that the values of recorded receivables at January 31, 2017 were fairly stated.

  Results: David Culp & Co. LLP notes that for the subscriptions receivable balance, $6,385 of the total $20,766 was collected through March 1, 2017, compared to $6,181 of the $21,227 outstanding balance at January 31, 2016. The collection percentages for the years ended January 31, 2017 and 2016 were 30.75% and 29.12%, respectively. David Culp & Co. LLP further notes that during the subsequent receipts testing, it was determined that $1,073 of accounts receivable was missing from the subscription receivable detail report as payments on these accounts were entered as being received in January 2017, when they were not deposited until February 2017. David Culp & Co. LLP verified that the cash receipt was not within the outstanding deposits of the January 31, 2017 bank reconciliation. Therefore, the accounts receivable and deferred revenue balances were both understated by $1,073, which did not have any impact on the change in net assets for the year ended January 31, 2017.

David Culp & Co. LLP further notes that $3,351 of the $3,887 January 31, 2017 advertising receivable balance was collected through March 1, 2017, compared to $14,176 of the $14,813 advertising receivable balance at January 31, 2016. The collection percentages for the years ended January 31, 2017 and 2016 were 86.20% and 95.70%, 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, David Culp & Co. LLP 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 her initials or signature
- The reconciled balances at January 31, 2017 agree to the trial balance as of January 31, 2017.

Results: David Culp & Co. LLP 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 David Culp & Co. that this year's reviews were as timely as they were in the immediate past year. David Culp & Co. LLP also noted that the reconciled balances agreed to the trial balance at January 31, 2017.

Property and Equipment Reconciliation:
The Organization has property and equipment with a net book value of $28,605 at January 31, 2017 ($17,033 at January 31, 2016). The increase in this balance from 2016 to 2017 is primarily the result of the

expenditures for the website enhancements. David Culp & Co. LLP 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, 2017 per the detailed schedules agree to the trial balance as of January 31, 2017.

  Results: David Culp & Co. LLP noted that the Organization made website improvements during the fiscal year ended January 31, 2017 in the amount of $18,000. David Culp & Co. LLP also noted that the asset's depreciation did not commence during the year ended January 31, 2017, as the website enhancements were not completed by year-end. Therefore, there was not a depreciation expense amount for David Culp & Co. LLP to re-compute.

  David Culp & Co. LLP also noted that there was one disposal during the fiscal year ended January 31, 2017, the storage room fence, which was scrapped as a result of Mennonite Church USA's decision to move the Archives into the space that was formally utilized by The Mennonite for storage. The storage room fence was written off at a loss of $1,239. David Culp & Co. LLP also noted that the total assets, accumulated depreciation and depreciation expense per the detailed schedules agreed to the trial balance as of January 31, 2017.

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, David Culp & Co. LLP 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: David Culp & Co. LLP 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.

Process and Valuation Observations

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, 2017 are comparable to those reported for the fiscal year ended January 31, 2016, David Culp & Co. LLP performed an income and expense fluctuation analysis.

Results: As a result of this analysis and discussions with management, David Culp & Co. LLP makes the following observations:

- The Organization posted a $25,682 positive change in net assets for the first time in three years, as the immediate two preceding years posted consecutive losses in the amounts of $(19,917) and $(1,934), respectively. Prior to the losses posted in 2016 and 2015, the Organization had positive changes in net assets of: $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, 2017 increased by $28,659 from 2016; while total expenses decreased in 2017 from 2016 by $16,940. This caused a $45,599 positive swing in the change in net assets from 2016 to 2017.

- Subscription income was reported at $216,647 for the year ended January 31, 2016, which was $13,913 lower than the $230,560 reported for the year ended January 31, 2016. 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, 2017 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 2017 the average number of subscribers decreased from 2016 by 404 subscribers.

- Advertising income for the year ended January 31, 2017 was $91,760 and has increased for the second year in a row, as management made concerted efforts to attract advertisers to the publication. The 2017 increase was $16,936 over 2016, which had an increase from 2015 in the amount of $11,846. As mentioned in last year'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 $82,778, an increase over 2016 of $13,414.

Process and Valuation Observations

- The year ended January 31, 2017 was the first year in which The Mennonite 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. The total of the three grants in the fiscal year ended January 31, 2017 was $19,000.

- Other income decreased by $6,780 from 2016, primarily as a result of an Everence rebate awarded to The Organization during the fiscal year ended January 31, 2016 in the amount of $8,100.

- Cash expenses with reductions over $1,000 from 2017 included: Canadian exchange rate - $3,862, operational travel - $2,329, miscellaneous manuscripts - $1,832, publication printing - $16,333, postage and delivery - $2,050, donation mailing - $4,093, Mennonite Church USA Conference - $5,301, website maintenance - $3,660 and board travel - $1,143. The significant change in publication printing is a direct result of the change in the number of pages for the publication from 56 to 40 pages, and the decrease in persons taking the paper version of the publication.

- Non-cash related costs during the year ended January 31, 2017 were depreciation, which decreased by $1,434. This expense deduction was offset by the recognition of a $1,239 loss on the disposal of the storage cage.

- Areas where costs exceeded those of fiscal year ended January 31, 2016 by over $1,000 included salaries and wages - $10,642, employee insurance - $2,053, freelance articles - $3,279, marketing - $1,869 and promotional copies - $5,278. The significant change in salaries and wages primarily related to Hannah's position as a full-time employee, versus Anna's position as a part-time employee.

Summary of Observations and Recommendations

Based on the information provided to us, and the work we have performed, it appears the Organization has successfully increased revenue while decreasing expenses at the same time, which has resulted in a winning combination for the year ended January 31, 2017. The $13,913 decline in subscription revenue from that of fiscal year ended January 31, 2016 was more than offset by the increases in advertising revenue, donation revenue and the newly added grant income. As mentioned previously, total revenues increased by $28,659 and total expenses decreased by $16,940, resulting in a positive swing in the change in net assets of $45,599.

With the switch from Cambey & West back to Quick Fill, there should be additional cost savings related to your subscription fulfillment services. For the year ended January 31, 2017 the Organization spent $14,912 in subscription fulfilment. David Culp & Co. LLP understands that additional improvements are expected as a result of switching back to Quick Fill. These improvements relate to more timely cash deposits, receipt and retention of subscription renewal information and enhanced customer service. David Culp & Co. will focus attention during next year's engagement on the balance of the subscription receivables as of January 31, 2018.

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, 2017, there was one adjustment that we identified that should have been made related to the understatement of subscriptions receivable and deferred revenue in the amount of $1,073.

As a result of our testing of the subsequent receipts relating to the outstanding subscription receivable balances for the years ended January 31, 2017 and 2016, David Culp & Co. LLP notes that collections were not as timely as they were prior to changing to Cambey & West for subscription fulfillment. Additionally, our testing of deferred versus earned revenue has been affected by the lack of subscription correspondence from subscribers during the past two years. This situation has also resulted in David Culp & Co. LLP's inability to perform an aging test of the subscription balances. We share in management's optimism that the switch back to Quick Fill and performing subscription fulfillment in-house will improve cash flow, customer service, cost control and documentation retention.