

THE MAILBOX CLUB, INC.

Audited Financial Statements
For the Years Ended
December 31, 2017 and 2016

THE MAILBOX CLUB, INC.
Valdosta, Georgia

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
The Mailbox Club, Inc.

We have audited the accompanying financial statements of The Mailbox Club, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities 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 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Mailbox Club, Inc. as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses on pages 13 and 14 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Goldsmith Molis & Gray, PLLC

Goldsmith Molis & Gray, PLLC
Asheville, North Carolina
February 28, 2018

THE MAILBOX CLUB, INC.
Statements of Financial Position
December 31, 2017 and 2016

	2017	2016
<u>Assets</u>		
Current assets:		
Cash	\$ 1,016,792	\$ 1,229,853
Accounts receivable, net	518	72
Grants receivable	155,000	63,500
Other receivable	-	5,000
Inventory, net	30,219	33,554
Employee advances	15,711	30,354
Prepaid expenses	11,631	11,406
Total current assets	1,229,871	1,373,739
Property and equipment, net	390,671	401,225
Other assets:		
Certificates of deposit	325,867	322,437
Property held for resale	167,800	167,800
Total other assets	493,667	490,237
Total assets	\$ 2,114,209	\$ 2,265,201
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 109,411	\$ 197,774
Total current liabilities	109,411	197,774
Net assets:		
Unrestricted:		
Unrestricted	144,470	320,697
Investment in property and equipment	390,671	401,225
Total unrestricted	535,141	721,922
Temporarily restricted	1,369,657	1,245,505
Permanently restricted	100,000	100,000
Total net assets	2,004,798	2,067,427
Total liabilities and net assets	\$ 2,114,209	\$ 2,265,201

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

THE MAILBOX CLUB, INC.

Statements of Activities

For the Years Ended December 31, 2017 and 2016

	2017			2016				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public support and revenues:								
Contributions	\$ 354,576	\$ 2,690,425	\$ -	\$ 3,045,001	\$ 455,849	\$ 2,245,044	\$ -	\$ 2,700,893
Donated property	5,000	-	-	5,000	-	-	-	-
Revenue from Mail Order	55,190	23,453	-	78,643	63,956	19,906	-	83,862
Royalty income	7,943	-	-	7,943	8,934	-	-	8,934
Rental income	21,365	-	-	21,365	17,203	-	-	17,203
Interest income	5,253	-	-	5,253	4,631	-	-	4,631
Other income	2,175	-	-	2,175	3,314	-	-	3,314
Net assets released from restrictions	2,589,726	(2,589,726)	-	-	2,259,442	(2,259,442)	-	-
Total public support and revenues	<u>3,041,228</u>	<u>124,152</u>	<u>-</u>	<u>3,165,380</u>	<u>2,813,329</u>	<u>5,508</u>	<u>-</u>	<u>2,818,837</u>
Expenses:								
Program expenses:								
Mail order	346,970	-	-	346,970	354,280	-	-	354,280
International operations	2,478,010	-	-	2,478,010	2,131,503	-	-	2,131,503
Total program activities	<u>2,824,980</u>	<u>-</u>	<u>-</u>	<u>2,824,980</u>	<u>2,485,783</u>	<u>-</u>	<u>-</u>	<u>2,485,783</u>
Supporting services:								
General and administrative	101,468	-	-	101,468	97,691	-	-	97,691
Fundraising	301,561	-	-	301,561	225,384	-	-	225,384
Total supporting services	<u>403,029</u>	<u>-</u>	<u>-</u>	<u>403,029</u>	<u>323,075</u>	<u>-</u>	<u>-</u>	<u>323,075</u>
Total expenses	<u>3,228,009</u>	<u>-</u>	<u>-</u>	<u>3,228,009</u>	<u>2,808,858</u>	<u>-</u>	<u>-</u>	<u>2,808,858</u>
Change in net assets	(186,781)	124,152	-	(62,629)	4,471	5,508	-	9,979
Net assets, beginning of year	721,922	1,245,505	100,000	2,067,427	717,451	1,239,997	100,000	2,057,448
Net assets, end of year	<u>\$ 535,141</u>	<u>\$ 1,369,657</u>	<u>\$ 100,000</u>	<u>\$ 2,004,798</u>	<u>\$ 721,922</u>	<u>\$ 1,245,505</u>	<u>\$ 100,000</u>	<u>\$ 2,067,427</u>

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

THE MAILBOX CLUB, INC.
Statements of Cash Flows
For the Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ (62,629)	\$ 9,979
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	33,798	32,123
Provision for inventory reserves	(896)	3,035
Change in operating assets and liabilities:		
Accounts receivable	(446)	1,282
Grants receivable	(91,500)	26,500
Other receivable	5,000	(5,000)
Inventory	4,231	(1,048)
Employee advances	14,643	49,182
Prepaid expenses	(225)	(1,797)
Interest in assets held by others	-	9,616
Accounts payable and accrued expenses	(88,363)	196,603
Net cash provided (used) by operating activities	(186,387)	320,475
Cash flows from investing activities:		
Purchase of property and equipment	(24,869)	(29,057)
Purchase of investments	(3,430)	(153,594)
Proceeds from sale of investments	1,625	101,034
Net cash used in investing activities	(26,674)	(81,617)
Net change in cash	(213,061)	238,858
Cash, beginning of year	1,229,853	990,995
Cash, end of year	\$ 1,016,792	\$ 1,229,853

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

THE MAILBOX CLUB, INC.
Notes to the Financial Statements
For the Years Ended December 31, 2017 and 2016

Note 1 – Summary of Significant Accounting Policies

General

The Mailbox Club, Inc. (“the Organization”) is a non-profit corporation organized in the State of Georgia and approved by the Internal Revenue Service as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. The stated objective of the organization, as amended, is "to propagate the gospel of the Lord Jesus Christ and to cooperate with other Christian agencies which have the same objective." To that end, the Organization engages in publishing and distributing books, tracts, and Bible correspondence courses. Its purpose is to reach people of all ages with the Gospel, to win them to Christ, and to disciple and assist them in getting established in local Bible-believing churches.

The Organization began in 1965 with the writing and publishing of Course 1 of The Mailbox Club. Since that time, 20 more courses have been written, published and distributed worldwide. In addition to a large correspondence ministry administered from Valdosta, Georgia, there are between 300 and 400 Associate Mailbox Clubs consisting of individuals, churches, and other groups who share in the distribution and grading of the correspondence courses.

Financial Statement Presentation

The Organization has presented its financial statements in accordance with generally accepted accounting principles for not-for-profit organizations. Under this guidance, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Organization is required to present a statement of cash flows.

Contributions

Under generally accepted accounting principles for not-for-profit organizations, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Donor restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Use of Estimates

Preparation of financial statements in accordance with generally accepted accounting principles requires the Organization’s management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

THE MAILBOX CLUB, INC.
Notes to the Financial Statements
For the Years Ended December 31, 2017 and 2016

Note 1 – Summary of Significant Accounting Policies - continued

Fair Value of Financial Instruments

The Organization discloses for each class of financial instruments the methods, and when a valuation technique is used, the significant assumptions applied in determining the fair values of financial assets and liabilities. If there is a change in the valuation technique, then the Organization discloses both the change and the reasons for the change.

The Organization estimates that the fair value of all financial instruments does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying Statements of Financial Position. The estimated fair value amounts have been determined by the Organization using available market information and appropriate valuation methodologies.

The Organization's financial instruments consist primarily of cash and certificates of deposit, accounts and grants receivable, inventory, employee advances, prepaid expenses and accounts payable and other accrued expenses.

Cash and Cash Equivalents

For purposes of reporting the statement of cash flows, the Organization includes all cash investments which are not subject to withdrawal restrictions or penalties and certificates of deposit with maturity of three months or less as cash and cash equivalents.

The Organization maintains its cash in financial institutions insured by the Federal Deposit Insurance Corporation ("FDIC"). The coverage is \$250,000 for substantially all other depository accounts. Deposit accounts, at times, may exceed federally insured limits; however, the Organization has not suffered any losses as a result. There were no cash equivalents as of December 31, 2017 or 2016.

Accounts Receivable

The Organization carries its accounts receivable at cost less an allowance for doubtful accounts. On a periodic basis, the Organization evaluates its accounts receivable and establishes an allowance for doubtful accounts, based on a history of past write-offs and collections and current credit conditions. The Organization's policy is not to accrue interest on accounts receivable. Accounts are written off as uncollectible at the time management determines that collection is unlikely.

Inventory

Inventory consists of ministry-related lessons, books, and literature held for future distribution and is valued at cost using first-in, first-out method.

Due to the in-kind donation of over 12 million printed Bible lessons provided by the Revival Movement Association in Northern Ireland, the Organization's printing costs were reduced by approximately \$442,000 for the year ended December 31, 2017, which is not reflected on the statements of activities.

THE MAILBOX CLUB, INC.
Notes to the Financial Statements
For the Years Ended December 31, 2017 and 2016

Note 1 - Summary of Significant Accounting Policies - continued

Property and Equipment

Land, buildings and equipment are capitalized at cost. Purchases that exceed \$1,000 and have an expected useful life of more than one year are capitalized. Donated assets to be used in the ministry are capitalized at their fair market value on the date of the gift. Depreciation is provided on a straight-line basis over 20-33 years for buildings, 3-5 years for equipment, and 5 years for vehicles.

Expenditures for major renewals and betterments that extend the useful lives of the property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

Investments

The Organization reports its investments in accordance with generally accepted accounting principles for not-for-profit organizations. The guidance prescribes that covered investments be reported in the Statement of Financial Position at fair value with any realized or unrealized gains or losses reported in the Statement of Activities. Investment income is recognized as revenue in the period it is earned and gains and losses are recognized as changes in net assets in the accounting period in which they occur.

Income Taxes

The Organization is established as a not-for-profit entity and has been recognized as an organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

FASB ASC 740, "Accounting for Uncertainty in Income Taxes", clarifies the accounting for the recognition and measurement of uncertainties in income taxes recognized in an entity's financial statements and prescribes a threshold of more-likely-than-not for recognition of tax positions taken or expected to be taken in a tax return. The Organization's policy is to evaluate the likelihood that its uncertain tax positions will prevail upon examination based on the extent to which those positions have substantial support within the Internal Revenue Code and Regulations, Revenue Rulings, court decisions and other evidence.

As of December 31, 2017, the Organization had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

The Organization's income tax returns are subject to examination by taxing authorities for a period of three years from the date they are filed. As of December 31, 2017, years subject to examination include 2014, 2015, and 2016.

Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis and, accordingly, certain expenses have been allocated among the various programs and activities.

Advertising Costs

The Organization follows the policy of charging the costs of advertising to expense as incurred. Advertising expense was \$6,148 and \$5,966 for the years ended December 31, 2017 and 2016, respectively.

THE MAILBOX CLUB, INC.
Notes to the Financial Statements
For the Years Ended December 31, 2017 and 2016

Note 2 – Accounts Receivable

Accounts receivable consists of the following and are deemed collectible within the next twelve months:

<u>At December 31</u>	<u>2017</u>	<u>2016</u>
Accounts receivable	\$ 803	\$ 357
Less: allowance for doubtful accounts	<u>(285)</u>	<u>(285)</u>
Accounts receivable, net	<u>\$ 518</u>	<u>\$ 72</u>

Note 3 – Inventory

Inventory consists of the following:

<u>At December 31</u>	<u>2017</u>	<u>2016</u>
MO inventory	\$ 120,316	\$ 124,547
Less: reserves for obsolescence	<u>(90,097)</u>	<u>(90,993)</u>
Inventory, net	<u>\$ 30,219</u>	<u>\$ 33,554</u>

For the years ended December 31, 2017 and 2016, reserves for inventory obsolescence totaled \$(896) and \$3,035, respectively.

Note 4 – Property and Equipment

A description of property and equipment follows:

<u>At December 31</u>	<u>2017</u>	<u>2016</u>
At cost:		
Land	\$ 107,250	\$ 107,250
Building	638,270	638,270
Equipment and vehicles	<u>242,454</u>	<u>245,989</u>
	987,974	991,509
Less: accumulated depreciation	<u>(597,303)</u>	<u>(590,284)</u>
Property and equipment, net	<u>\$ 390,671</u>	<u>\$ 401,225</u>

Depreciation for the years ended December 31, 2017 and 2016 was \$33,798 and \$32,122, respectively.

THE MAILBOX CLUB, INC.
Notes to the Financial Statements
For the Years Ended December 31, 2017 and 2016

Note 5 – Property Held for Resale

The Organization held an investment of fifty percent interest in one piece of property, and twenty percent in five other pieces of property within Georgia and in North Carolina. The total value of property held for resale for the years ended December 31, 2017 and 2016 was \$167,800 and \$167,800, respectively.

Note 6 - Fair Value Measurements

The Financial Accounting Standards Board (“FASB”) issued a statement that defines fair value and establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs that are derived principally from or corroborated by observable market data

If the asset or liabilities has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurements. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2017 and 2016.

Property Held for Sale

These properties are valued at fair market value using real estate appraisals. The properties held for sale are classified within Level 2 of the valuation hierarchy.

THE MAILBOX CLUB, INC.
Notes to the Financial Statements
For the Years Ended December 31, 2017 and 2016

Note 6 - Fair Value Measurements - continued

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The Organization's Level 2 assets at fair value as of December 31, 2017 and 2016 total \$167,800 and \$167,800, respectively.

Note 7 - Endowment Investment

In 2003, the Organization received an endowment in the amount of \$100,000. The earnings from this endowment are unrestricted and available for general operations of the Organization. The endowment is recorded at fair market value. At December 31, 2017 and 2016, the balance in the endowment was \$100,000 and \$100,000, respectively.

Note 8 - Restricted Net Assets

Restricted net assets shown on the balance sheet are allocated as follows:

	<u>2017</u>	<u>2016</u>
Temporarily restricted net assets:		
Program activities	\$ 1,335,404	\$ 1,211,641
Missionary support	34,253	33,864
Total temporarily restricted net assets	<u>\$ 1,369,657</u>	<u>\$ 1,245,505</u>
Permanently restricted net assets:		
Endowment fund (see Note 7)	<u>\$ 100,000</u>	<u>\$ 100,000</u>

Note 9 - Retirement Plan

The Organization maintains a retirement plan that covers all employees. Any employee receiving \$5,000 or more in compensation during the calendar year is eligible to participate. The Organization matches employee contributions dollar for dollar, up to 3% of the employee's regular salary. Each participant is fully and immediately vested in all Plan contributions. Retirement plan contributions for the years ended December 31, 2017 and 2016 were \$12,469 and \$12,783, respectively.

THE MAILBOX CLUB, INC.
Notes to the Financial Statements
For the Years Ended December 31, 2017 and 2016

Note 10 – Concentration of Credit Risk

The Organization had two major contributors provide approximately \$925,000 or 30% of total contributions for the year ended December 31, 2017. The Organization had two major contributors provide \$893,000 or 33% of total contributions for the year ended December 31, 2016.

Note 11 – Subsequent Events

The Organization evaluated the effect that all subsequent events would have on the financial statements through February 28, 2018, which is the date the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

THE MAILBOX CLUB, INC.
Schedule of Functional Expenses
For the Year Ended December 31, 2017

	Mail Order	Int'l Operation	Total Program	General and Administrative	Fund Raising	Total Expense
Salary and support	\$ 156,466	\$ 279,088	\$ 435,554	\$ 47,741	\$ 91,997	\$ 575,292
Medical insurance	-	5,931	5,931	-	-	5,931
Payroll taxes	12,177	21,468	33,645	3,645	7,048	44,338
Retirement benefits	2,555	7,341	9,896	1,160	1,413	12,469
Program materials	66,840	1,597,863	1,664,703	-	-	1,664,703
Postage and shipping	43,563	6,658	50,221	509	14,087	64,817
Advertising	6,148	-	6,148	-	-	6,148
Office expense	4,944	16,236	21,180	13,377	42,945	77,502
Utilities	8,368	644	9,012	3,219	643	12,874
Telephone	1,752	13,684	15,436	6,872	2,749	25,057
Printing	-	-	-	-	21,143	21,143
Travel	12,793	185,963	198,756	505	28,493	227,754
Subscriptions and conferences	-	-	-	30	-	30
Contributions transmitted	108	320,883	320,991	890	-	321,881
Property insurance	4,748	5,864	10,612	1,638	2,020	14,270
Repairs and maintenance	10,447	3,655	14,102	3,654	3,132	20,888
Rental property expenses	5,115	5,115	10,230	1,279	1,279	12,788
Professional services	-	-	-	9,331	76,995	86,326
Depreciation	10,946	7,617	18,563	7,618	7,617	33,798
Totals	\$ 346,970	\$ 2,478,010	\$ 2,824,980	\$ 101,468	\$ 301,561	\$ 3,228,009

See Independent Auditors' Report.

THE MAILBOX CLUB, INC.
 Schedule of Functional Expenses
 For the Year Ended December 31, 2016

	Mail Order	Int'l Operation	Total Program	General and Administrative	Fund Raising	Total Expense
Salary and support	\$ 152,422	\$ 261,435	\$ 413,857	\$ 43,338	\$ 51,505	\$ 508,700
Medical insurance	-	5,230	5,230	-	-	5,230
Payroll taxes	11,727	20,073	31,800	3,310	3,951	39,061
Retirement benefits	3,259	7,541	10,800	1,253	730	12,783
Program materials	81,153	1,240,552	1,321,705	-	-	1,321,705
Postage and shipping	48,061	7,891	55,952	504	8,604	65,060
Advertising	4,766	-	4,766	-	1,200	5,966
Office expense	1,922	19,938	21,860	14,422	36,122	72,404
Utilities	8,429	648	9,077	3,242	648	12,967
Telephone	1,292	11,780	13,072	6,461	2,584	22,117
Printing	-	-	-	-	21,133	21,133
Travel	4,958	179,555	184,513	1,823	42,452	228,788
Subscriptions and conferences	784	-	784	170	-	954
Contributions transmitted	256	351,454	351,710	989	-	352,699
Property insurance	4,666	5,834	10,500	1,590	1,625	13,715
Repairs and maintenance	11,917	4,471	16,388	4,471	3,898	24,757
Rental property expenses	7,962	7,962	15,924	885	885	17,694
Professional services	-	-	-	8,094	42,908	51,002
Depreciation	10,706	7,139	17,845	7,139	7,139	32,123
Totals	\$ 354,280	\$ 2,131,503	\$ 2,485,783	\$ 97,691	\$ 225,384	\$ 2,808,858

See Independent Auditors' Report.