# 2015
## Financial Statements
## With
## Auditor's Letters

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# THE CALEB COMPANY

## FINANCIAL STATEMENTS

## DECEMBER 31, 2015

(With Independent Auditor's Report Thereon)

**THE CALEB COMPANY**
**FINANCIAL STATEMENTS**
**DECEMBER 31, 2015**

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PATTERSON, HARDEE & BALLENTINE, P.C.
Certified Public Accountants

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Caleb Company

We have audited the accompanying financial statements of The Caleb Company (a nonprofit organization), which comprise the statement of financial position as of December 31, 2015, 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 of 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 Caleb Company as of December 31, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Patterson Hardee & Ballentine

February 13, 2016

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**THE CALEB COMPANY**
**STATEMENT OF FINANCIAL POSITION**
**DECEMBER 31, 2015**

ASSETS

| | | |
|---|---|---|
| Current Assets: | | |
| Cash | $ 402,198 | |
| Prepaid expenses | 2,800 | |
| Inventory | 3,836 | |
| Total current assets | | $ 408,834 |
| | | |
| Property and Equipment: | | |
| Land | 225,000 | |
| Building and improvements | 478,378 | |
| Computer equipment | 42,220 | |
| Furniture, fixtures and other equipment | 17,445 | |
| Vehicles | 15,374 | |
| Construction in process | 16,911 | |
| | 795,328 | |
| Less: accumulated depreciation | (164,090) | |
| Property and equipment - net | | 631,238 |
| | | |
| Asset Whose Use is Limited: | | |
| Cash | | 4,042 |
| | | |
| Total assets | | $ 1,044,114 |

LIABILITIES AND NET ASSETS

| | | |
|---|---|---|
| Current Liabilities: | | |
| Current installments of long-term debt | $ 462,161 | |
| Accounts payable | 12,048 | |
| Due to related party | 2,250 | |
| Salaries payable | 1,563 | |
| Total current liabilities | | $ 478,022 |
| | | |
| Net Assets: | | |
| Unrestricted | 562,050 | |
| Temporarily restricted | 4,042 | |
| Total net assets | | 566,092 |
| | | |
| Total liabilities and net assets | | $ 1,044,114 |

See accompanying notes to financial statements.

**THE CALEB COMPANY**
**STATEMENT OF ACTIVITIES**
**FOR THE YEAR ENDED DECEMBER 31, 2015**

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Public Support and Revenue: | | | | |
| Public support: | | | | |
| Individual contributions | $ 753,672 | $ 24,469 | $ - | $ 778,141 |
| Ministry contributions | 141,780 | - | - | 141,780 |
| Foundation contributions | 5,254 | - | - | 5,254 |
| Loss on currency conversion | (812) | - | - | (812) |
| Net assets released from restriction | 20,427 | (20,427) | - | - |
| Total public support | 920,321 | 4,042 | - | 924,363 |
| Revenue: | | | | |
| Training income | 67,268 | - | - | 67,268 |
| Rental income | 42,844 | - | - | 42,844 |
| Retreats and tours | 13,767 | - | - | 13,767 |
| Merchandise sales | 30,172 | - | - | 30,172 |
| Other income | 1,159 | - | - | 1,159 |
| Total revenue | 155,210 | - | - | 155,210 |
| Total public support and revenue | 1,075,531 | 4,042 | - | 1,079,573 |
| Expenses: | | | | |
| Program services | 586,820 | - | - | 586,820 |
| Management and general | 122,817 | - | - | 122,817 |
| Fundraising | 51,853 | - | - | 51,853 |
| Total expenses | 761,490 | - | - | 761,490 |
| Increase (decrease) in net assets | 314,041 | 4,042 | - | 318,083 |
| Net assets - beginning of year | 248,009 | - | - | 248,009 |
| Net assets - end of year | $ 562,050 | $ 4,042 | $ - | $ 566,092 |

See accompanying notes to financial statements.

**THE CALEB COMPANY**
**STATEMENT OF FUNCTIONAL EXPENSES**
**FOR THE YEAR ENDED DECEMBER 31, 2015**

| | Program Services | Management and General | Fundraising | Total |
|---|---|---|---|---|
| Salaries and payroll taxes | $ 101,678 | $ 27,115 | $ - | $ 128,793 |
| Repairs and maintenance | 13,888 | 686 | - | 14,574 |
| Rental expense | 38,155 | - | - | 38,155 |
| Meals and entertainment | 24,987 | - | 5,846 | 30,833 |
| Merchandise expense | 19,738 | - | - | 19,738 |
| Advertising | 1,810 | - | 2,551 | 4,361 |
| Professional fees | - | 5,500 | - | 5,500 |
| Office expense | 2,612 | 17,100 | 1,663 | 21,375 |
| Tithing expense | 36,140 | - | - | 36,140 |
| Honorariums | 6,471 | - | 1,000 | 7,471 |
| Information technology | (446) | 4,069 | - | 3,623 |
| Utilities | 8,560 | 3,669 | - | 12,229 |
| Israel | 2,764 | - | - | 2,764 |
| Travel | 169,970 | 2,296 | 7,696 | 179,962 |
| Contract labor | 68,301 | 3,485 | 32,547 | 104,333 |
| Interest | 11,513 | 761 | - | 12,274 |
| Housing | 53,860 | 17,953 | - | 71,813 |
| Depreciation | - | 22,603 | - | 22,603 |
| Insurance | 12,993 | 4,389 | 550 | 17,932 |
| Property taxes | - | 3,319 | - | 3,319 |
| Telephone | 219 | 3,928 | - | 4,147 |
| Miscellaneous | 2,112 | 2,112 | - | 4,224 |
| Bank charges | 11,495 | 3,832 | - | 15,327 |
| | $ 586,820 | $ 122,817 | $ 51,853 | $ 761,490 |

See accompanying notes to financial statements.

**THE CALEB COMPANY**
**STATEMENT OF CASH FLOWS**
**FOR THE YEAR ENDED DECEMBER 31, 2015**

| | | |
|---|---|---|
| Cash Flows From Operating Activities: | | |
| Increase in net assets | | $ 318,083 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: | | |
| Depreciation | $ 22,603 | |
| Changes in: | | |
| Accounts receivable | 1,418 | |
| Prepaid expenses | 1,600 | |
| Inventory | (3,836) | |
| Asset whose use is limited | (4,042) | |
| Accounts payable | (2,231) | |
| Total adjustments | | 15,512 |
| Net cash provided by operating activities | | 333,595 |
| Cash Flows From Investing Activities: | | |
| Purchase of property and equipment | (9,510) | |
| Net cash used in investing activities | | (9,510) |
| Cash Flows From Financing Activities: | | |
| Payments on note payable | (31,725) | |
| Net cash used in financing activities | | (31,725) |
| Net increase in cash | | 292,360 |
| Cash - beginning of year | | 109,838 |
| Cash - end of year | | $ 402,198 |

Supplemental Cash Flow Information

Total interest paid for the year ended December 31, 2015, was $12,274.

See accompanying notes to financial statements.

**THE CALEB COMPANY**
**NOTES TO FINANCIAL STATEMENTS**
**DECEMBER 31, 2015**

NOTE 1 - Nature of Activities

The terms ""we", "us", or "our"" are used throughout these notes to the financial statements to identify The Caleb Company, a nonprofit organization. The Caleb Company is a prayer-centered community called to honor Israel and empower leaders to transform nations.

Dr. Don Finto founded our nonprofit ministry in 1996. We have since grown into a thriving community with facilities and staff in Nashville, Tennessee, and Jerusalem, Israel. Following Don's footsteps, Tod McDowell became director of The Caleb Company in 2010.

Our mission is to equip God's people with His heart and purpose for Israel and the nations. We fulfill this mission through three primary areas: teaching and speaking, training and equipping, and creating resources.

Overview of Caleb Company Programs:

Teaching and Speaking

We highly value ministering to the poor, the lost and the broken of the nations. We have taken teams to Israel, Jordan, Lebanon, India, and multiple nations in Africa. Outreach types vary from manual labor and service to building relationships and evangelism. In 2015, we sent several teams of alumni, staff and tour participants not only to Israel, but also to Mozambique, Finland, Kenya, South Africa, Mexico and various places throughout the United States.

We also partnered with a large community of over 200 poverty-stricken holocaust survivors in Israel, where we gave aid and shared Jesus with them. We take teams to work with African and Middle Eastern refugees in Israel, and to single mothers and new immigrants as well. We are consistently building new relationships with unbelievers in Israel and the nations – taking advantage of every opportunity we have to share Jesus.

We have spoken in dozens of conferences, training schools, churches and seminaries across the United States and around the world including these nations: Israel, Lebanon, Philippines, Ethiopia, Egypt, Kenya, Uganda, Mozambique, South Africa, South Korea, Singapore, Ukraine, Spain, Poland, Germany, Austria, Cyprus, France, Australia, New Zealand, Netherlands, Norway, Switzerland, Italy, Turkey, Brazil, Argentina, Mexico, England, and Canada.

Training and Equipping

We have conducted eight training schools along with two Ministry Schools and two Extended Internships in Nashville, Israel, and Lebanon. We have had over eighty students and interns that have become teachers, businessmen, entrepreneurs, missionaries, and served on political campaigns. We have held five intensive training seminars in Nashville. Among the over seventy participants were many significant and influential ministry and business leaders from across the nation.

Creating Resources

The resources we created that further our mission include three books, "Your People Shall Be My People," "God's Promise and the Future of Israel," and "Prepare! For the End Times Harvest". "Your People Shall Be My People" is now in sixteen languages distributed around the world. The translations are: English, German, French, Dutch, Norwegian, Icelandic, Italian, Thai, Turkish, Spanish, Portuguese, Russian, Korean, Mandarin Chinese, Farsi, and Finnish. "God's Promise and the Future of Israel" is translated into English, German, French, Dutch, and Mandarin Chinese. We also have produced training school manuals, audio and video recordings, and a study guide for the book, "Your People Shall Be My People."

NOTE 2 - Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, our net assets and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations, which may or will be met, either by our actions and/or by the passage of time. Restrictions fulfilled in the same accounting period in which the contributions are received are reported in the Statement of Activities as unrestricted.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations which require the assets to be permanently maintained. Generally, the donors of these assets permit us to use all or part of the income earned and any related investments for general or specific purposes. We had no permanently restricted net assets as of December 31, 2015.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, we consider all unrestricted cash and investment instruments purchased with a maturity of three months or less to be cash equivalents. At December 31, 2015, we had no cash equivalents.

Inventory

Inventories of books are carried at cost using the first-in, first-out method of costing.

Property and Equipment

Property and equipment are recorded at cost or, if donated, at the estimated fair market value as of the date of donation. Depreciation is provided using the straight line basis over the estimated useful lives of the respective assets. Purchases or donations of equipment over $500 are capitalized. Expenditures for repairs and maintenance are charged to expense as incurred.

Long-lived Assets

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate the related carrying amount may not be recoverable. At December 31, 2015, no assets were considered to be impaired.

Revenue

We receive contributions from the general public and grants from private organizations to fund our operations. We recognize this revenue as it is received or promised to us.

NOTE 2 - Summary of Significant Accounting Policies (continued)

Contributions Receivable

Unconditional promises to give (pledges) are recognized as contribution revenue when the donor's commitment is received. Pledges with payments due to us in future periods are recorded as increases in temporarily restricted or permanently restricted net assets at the estimated present value of future cash flows, net of an allowance for estimated uncollectible promises. Allowance is made for uncollectible contributions receivable based upon our analysis of past collection experience and other judgmental factors. As of December 31, 2015, we had no contributions receivable.

Functional Allocation of Expenses

The costs of providing program services and supporting services have been summarized on a functional basis in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Tax Status

We are a tax-exempt organization under Section 501(c) (3) of the Internal Revenue Code, and are classified as an organization that is not a private foundation as defined in Section 509(a) of the Internal Revenue Code. Therefore, no provision for federal income taxes is included in the accompanying financial statements. We do not believe there are any uncertain tax positions. Further, we do not believe that we have any unrelated business income, which would be subject to federal taxes. We are not subject to examination by U.S. federal or state taxing authorities for years before 2011.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions affecting certain reported amounts and disclosures. Actual results could differ from those estimates.

Advertising

Costs for marketing efforts typically consist of educational material for the public and are expensed as incurred.

Fair Values of Financial Instruments

The carrying values of current assets, and current liabilities approximate fair values due to the short maturities of these instruments.

The fair values of long-term debt approximate the carrying amounts and are estimated based on current rates offered to us.

NOTE 3 - Long-term Debt

In 2010, we entered into an agreement to purchase approximately 10 acres of land in Williamson County, Tennessee, for $675,000. The land included a house of approximately 4,000 square feet. The land and house are secured by a loan which bears interest initially at 2.5% annually and is subject to change monthly, but in no event will fall below 2.5% per year. Until maturity, the loan requires a minimum $2,000 monthly payment, which will be applied to the monthly interest calculation with any excess applied to principal. The note matured on June 30, 2015, with any unpaid principal due at that time. As of February 13, 2016, no formal refinancing agreement has been made and the loan was not called at June 30, 2015. We will continue making monthly payments on the loan in accordance with the lender.

NOTE 3 - Long-term Debt (Conintued)

The following is a list of future maturities:

| Year ending December 31, | |
|---|---|
| 2016 | $ 462,161 |

NOTE 4 - Lease Agreements

We lease a copier and office space under leases classified as operating leases. The office space, which is located in Israel, was rented for $31,237 in 2015. This lease agreement is in the name of a board member, See NOTE 6. Total rental expense for the year ended December 31, 2015, was $38,155.

In February 2015, we extended our lease agreement through February 2016 for an apartment in Jerusalem, Israel. Under this lease, the monthly rent is 9,785 Israeli New Shekel (ILS). At December 31, 2015, the conversion rate for the Israeli New Shekel (NIS) to U.S. dollars was 0.2563. The future lease obligation was calculated using this rate for monthly rent of $2,508.

Future minimum payments for these leases are as follows:

| Year ending December 31, | |
|---|---|
| 2016 | 6,732 |
| 2017 | 429 |
| 2018 | - |
| Total | $ 7,161 |

NOTE 5 - Concentration of Credit Risk

At December 31, 2015, we owed 80% of all payables to four vendors.

NOTE 6 - Related Party Transactions

As discussed in NOTE 4, we paid $31,237 for rent expense, on behalf of a board member, for an apartment in Jerusalem, which is used in our work in Israel.

We received $10,200 in rental income from the Executive Director in 2015 for rent of the house on The Caleb Company's property. The lease is month to month and therefore no future maturities of rent income have been disclosed. Total rental income as of December 31, 2015, was $42,844.

We pay royalties of 20% of profits to a related party for books sold by the Organization. At December 31, 2015, we owed $2,250 of royalties to a related party.

NOTE 7 - Temporarily Restricted Net Assets

The following is a summary of temporarily restricted net assets at December 31, 2015:

| | |
|---|---|
| Prayer Mountain | $ 4,042 |

NOTE 8 - Subsequent Events

We have evaluated events subsequent to the year ending December 31, 2015. As of February 13, 2016, the date the financial statements were available to be issued, no events subsequent to the Statement of Financial Position date are considered necessary to be included in the financial statements for the year ended December 31, 2015.

PATTERSON, HARDEE & BALLENTINE, P.C.
Certified Public Accountants

February 13, 2016

To the Board of Directors of
The Caleb Company

We have audited the financial statements of The Caleb Company for the year ended December 31, 2015 and have issued our report thereon dated February 19, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 7, 2016. Professional standards also require that we communicate to you the following information related to our audit.

## Significant Audit Findings

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by The Caleb Company are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2014. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

> The disclosure in Note 2 to the financial statements explaining the basis of allocation of functional expenses into their appropriate functional categories.
>
> The disclosure in Note 3 regarding the mortgage payable and the disclosure in Note 6 regarding related parties.

The financial statement disclosures are neutral, consistent, and clear.

### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule summarized uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

The following material misstatements detected as a result of audit procedures were corrected by management: accounts receivable, fixed assets, accumulated depreciation, accounts payable, accrued payroll, revenue, and expenses.

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*Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated February 13, 2016.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

<u>Other Matters</u>

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Directors of The Caleb Company and is not intended to be, and should not be, used by anyone other than these specified parties.

Patterson Hardee & Ballentine

## CALEB COMPANY
## SCHEDULE OF UNCORRECTED MISSTATEMENTS
## FOR THE YEAR ENDED DECEMBER 31, 2015

| Description (Nature) of Audit Difference (AD) | Factual (F), Judgmental (J), or Projected (P) | Cause | W/P Reference | Financial Statement Effect—Amount of Over (Under) Statement of: Total Assets | Total Liabilities | Net Assets | Revenues | Expenses | Change in Net Assets | Working Capital |
|---|---|---|---|---|---|---|---|---|---|---|
| Unrecorded deferred revenue | F | Def. revenue recorded as revenue in 2015. | O-3 | | -$2,620 | | $2,620 | | $2,620 | $2,620 |
| | | | | | | | | | $0 | |
| | | | | | | | | | $0 | |
| Total | | | | $0 | -$2,620 | $0 | $2,620 | $0 | $2,620 | $2,620 |
| Less Audit Adjustments Subsequently Booked | | | | | | | | | $0 | |
| Unadjusted AD—Current Year (Iron Curtain Method) | | | | $0 | -$2,620 | $0 | $2,620 | $0 | $2,620 | $2,620 |
| Effect of Unadjusted AD—Prior Years | | | | | | | | | $0 | |
| Combined Current and Prior Year AD (Rollover Method) | | | | $0 | -$2,620 | $0 | $2,620 | $0 | $2,620 | $2,620 |
| Financial Statement Caption Totals | | | | $1,044,114 | $478,022 | $566,092 | $1,079,573 | $761,490 | $318,083 | -$69,188 |
| Current Year AD as % of FS Captions (Iron Curtain Method) | | | | 0.00% | -0.55% | 0.00% | 0.24% | 0.00% | 0.82% | -3.79% |
| Current and Prior Year AD as % of FS Captions (Rollover Method) | | | | 0.00% | -0.55% | 0.00% | 0.24% | 0.00% | 0.82% | -3.79% |

**Qualitative Factors:** Describe qualitative factors that entered into your evaluation of whether uncorrected accumulated misstatements are material, individually or in the aggregate, in relation to specific accounts and disclosures and to the financial statements as a whole, and the reasons why.

○ do ◉ do not

**Conclusion:** Based on the results of the evaluation performed above, as well as the consideration of qualitative factors, uncorrected audit differences, individually and in the aggregate, cause the financial statements taken as a whole to be materially misstated.

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PATTERSON, HARDEE & BALLENTINE, P.C.
Certified Public Accountants

February 13, 2016

To the Board of Directors
of The Caleb Company

In planning and performing our audit of your financial statements for the year ended December 31, 2015, we noted certain matters involving current accounting issues and other matters which are presented here for your consideration.

This letter does not affect our report dated February 13, 2016, on the financial statements of The Caleb Company. We will review the status of these comments during our next engagement. Our comments and recommendations are intended to improve your understanding of current events which could affect your Organization's accounting policies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations.

**Maintain a Schedule of Property Additions**

A schedule of additions should be maintained as assets are purchased to simplify the process of capitalizing property and equipment additions at year end. The schedule should include the date the asset is acquired, a description of the asset, the vendor name, and the purchase amount. Invoices for asset acquisition and invoices for all other disbursements should be kept on file in a manner that allows retrieval of the original invoice for review and verification as needed.

**Unrelated Business Income Taxes**

We recommend consulting with an attorney regarding unrelated business income taxes related to book sales in accordance with the mission of the organization. This will provide guidance as to whether book sales are considered unrelated business income or if they are considered part of the mission of the organization.

**Keeping Track of Inventory**

During our review of inventory, we noted that inventory was not being recorded as an asset when it was purchased and COGS and Revenue when it is sold. This is a weakness that effects the financial statements. We recommend recording inventory as an asset when it is initially purchased at cost. When the inventory is sold, record the inventory in COGS and Revenue.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Organization personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

**Employee Files**

During our payroll tests, we noted that employee files were not readily available or did not contain all necessary elements. We've attached a sample checklist for employee files. We recommend preparing employee files for each employee with this checklist in the front. Dates and initials should indicate when the items is placed in the employee file.

**Private Inurement and Excess Benefit**

The Internal Revenue Service prohibits public charities from participating in private inurement and excess benefit transactions. Private inurement occurs when a donor designates their contribution to a specific individual.

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Contributions to public charities such as The Caleb Company, are to be used by the Organization for the exempt purpose stated in the original application to the Internal Revenue Service and no assets of the Organization may inure to the benefit of a private individual. Tax payers are permitted to give gifts to individuals; however, gift tax may apply and a charitable contribution deduction would not be permitted.

The Internal Revenue Service imposes severe penalties for excess benefit transactions. An excise benefit transaction is deemed to occur if the value of payments made to an individual exceeds the value of goods or services provided to the Organization. The compensation paid to employees must be based on the value of the services they provide to the Organization and not based on contribution received by the Organization.

This communication is intended solely for the information and use of management, the Board of Directors, and others within the Organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

As always, thank you for your business, and please call us with any questions!

Patterson Hardee & Ballentine

# Organization Name
## Personnel File Checklist

**Employee Name:** ______________________________

| Date | Initial | |
|---|---|---|
| | | **General Employment Documentation** |
| ______ | ______ | Employee Application |
| ______ | ______ | Employee Emergency Contact Information |
| ______ | ______ | Reference Check Information |
| ______ | ______ | Federal W-4 Form |
| ______ | ______ | Completed I-9 |
| ______ | ______ | Copy of Driver's License & Social Security Card |
| ______ | ______ | Rate of Pay Documentation ( for each raise) |
| ______ | ______ | Direct Deposit Form with Voided Check (for direct deposit employees in future) |
| ______ | ______ | Signed Acceptance of Policy and Procedures |
| ______ | ______ | Documentation of which store employee works at |
| ______ | ______ | Employee Performance Reviews |
| | | **401(k) Documentation** |
| ______ | ______ | Acceptance or Decline Form |
| ______ | ______ | Investment Allocation |
| ______ | ______ | Recalculations of Employee Contributions to the Plan |
| ______ | ______ | Support for Tax Withholdings or Benefit Payments |
| ______ | ______ | Loan Documentation as Signed by the Employee |

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PATTERSON, HARDEE & BALLENTINE, P.C.
Certified Public Accountants

February 1, 2016

To the Board of Directors
The Caleb Company

We are engaged to audit the financial statements of The Caleb Company for the year ended December 31, 2015. Professional standards require that we provide you with the following information related to our audit. We would also appreciate the opportunity to meet with you to discuss this information further since a two-way dialogue can provide valuable information for the audit process.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated January 7, 2016, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Planned Scope, Timing of the Audit, and Other

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested.

Our audit will include obtaining an understanding of the Organization and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the Organization or to acts by management or employees acting on behalf of the Organization. We will generally communicate our significant findings at the conclusion of the audit. However, some matters could be communicated sooner, particularly if significant difficulties are encountered during the audit where assistance is needed to overcome the difficulties or if the difficulties may lead to a modified opinion. We will also communicate any internal control related matters that are required to be communicated under professional standards.

We expect to begin our audit on approximately February 1, 2016 and issue our report on approximately February 19, 2016. Sarah C. Hardee CPA, is the engagement partner and is responsible for supervising the engagement and signing the report or authorizing another individual to sign it.

This information is intended solely for the use of Board of Directors and management of The Caleb Company and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Patterson Hardee & Ballentine

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