

AWANA CLUBS INTERNATIONAL AND AFFILIATES

Consolidated Financial Statements
With Independent Auditors' Report

June 30, 2019 and 2018

AWANA CLUBS INTERNATIONAL AND AFFILIATES

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Awana Clubs International
and Affiliates
Streamwood, Illinois

We have audited the accompanying consolidated financial statements of Awana Clubs International and Affiliates (ACI) which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to ACI's preparation and fair presentation of the consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors
Awana Clubs International
and Affiliates
Streamwood, Illinois

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Awana Clubs International and Affiliates as of June 30, 2019 and 2018, and the changes in its consolidated net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Awana Clubs International and Affiliates has adopted Financial Accounting Standards Board (FASB) Accounting Standard Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, as described in Note 2. Our opinion is not modified with respect to this matter.

Capin Crouse LLP

Naperville, Illinois
October 2, 2019

AWANA CLUBS INTERNATIONAL AND AFFILIATES

Consolidated Statements of Financial Position

	June 30,	
	2019	2018
ASSETS:		
Cash and cash equivalents	\$ 7,548,753	\$ 3,747,943
Investments and trust assets	2,652,436	2,829,780
Accounts receivable, net	125,511	158,795
Inventory, net	3,237,792	3,683,647
Prepaid expenses and other assets	370,961	355,614
Contributions receivable	96,231	189,108
Investment in captive insurance company	1,118,366	1,356,310
Beneficial interest in trusts	827,611	838,669
Land, buildings and equipment, net	1,273,894	3,721,786
	\$ 17,251,555	\$ 16,881,652
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable	\$ 754,930	\$ 551,853
Accrued expenses	962,086	1,509,982
Deferred revenue	459,063	510,646
Note payable	-	1,553,819
Annuities and trusts payable	170,606	176,006
	2,346,685	4,302,306
Net assets:		
Net assets without donor restrictions		
Undesignated, available for general activities	8,089,524	6,026,147
Board designated capital reserve	1,917,115	1,917,115
	10,006,639	7,943,262
Net assets with donor restrictions		
Restricted by purpose or time	4,797,481	4,535,334
Restricted in perpetuity	100,750	100,750
	4,898,231	4,636,084
	14,904,870	12,579,346
	\$ 17,251,555	\$ 16,881,652

See notes to consolidated financial statements

AWANA CLUBS INTERNATIONAL AND AFFILIATES

Consolidated Statements of Activities

	Year Ended June 30,					
	2019			2018		
	Without Donor Restriction	With Donor Restriction	Total	Without Donor Restriction	With Donor Restriction	Total
Revenues:						
Sales of ministry materials	\$ 19,325,396	\$ -	\$ 19,325,396	\$ 21,056,057	\$ -	\$ 21,056,057
Contributions	9,328,552	1,710,019	11,038,571	11,194,738	1,338,653	12,533,391
Registration and event fees	1,575,805	-	1,575,805	2,048,539	-	2,048,539
Investment income	89,535	-	89,535	183,561	-	183,561
Change in value of annuities and trusts	(18,268)	(2,925)	(21,193)	(134,277)	(3,439)	(137,716)
Gain on disposition of building	1,970,971	-	1,970,971	-	-	-
Loss on discontinued operations	(283,398)	-	(283,398)	(582,228)	-	(582,228)
Other income	55,827	-	55,827	116,313	-	116,313
Reclassifications:						
Net assets released from restrictions:						
Satisfaction of timing restrictions	100,084	(100,084)	-	199,635	(199,635)	-
Satisfaction of purpose restrictions	1,344,863	(1,344,863)	-	818,109	(818,109)	-
	33,489,367	262,147	33,751,514	34,900,447	317,470	35,217,917
Expenses:						
Program services:						
Ministry programs and support	12,144,154	-	12,144,154	13,756,170	-	13,756,170
U.S. ministry and events	8,101,986	-	8,101,986	10,442,892	-	10,442,892
International ministry and events	4,535,333	-	4,535,333	4,864,592	-	4,864,592
	24,781,473	-	24,781,473	29,063,654	-	29,063,654
Supporting activities:						
Management and general	3,619,759	-	3,619,759	4,171,206	-	4,171,206
Fundraising	3,024,758	-	3,024,758	2,518,378	-	2,518,378
	6,644,517	-	6,644,517	6,689,584	-	6,689,584
	31,425,990	-	31,425,990	35,753,238	-	35,753,238
Change in Net Assets	2,063,377	262,147	2,325,524	(852,791)	317,470	(535,321)
Net Assets, Beginning of Year	7,943,262	4,636,084	12,579,346	8,796,053	4,318,614	13,114,667
Net Assets, End of Year	\$ 10,006,639	\$ 4,898,231	\$ 14,904,870	\$ 7,943,262	\$ 4,636,084	\$ 12,579,346

See notes to consolidated financial statements

AWANA CLUBS INTERNATIONAL AND AFFILIATES

Consolidated Statement of Functional Expenses
Year Ended June 30, 2019 (with comparative totals for 2018)

	Program Services	Management and General	Fundraising	Total	2018 Total
COGS	\$ 5,588,709	\$ -	\$ -	\$ 5,588,709	\$ 6,262,553
Grants	3,220,445	-	-	3,220,445	3,833,476
Salaries and wages	8,453,570	1,645,278	1,778,112	11,876,960	13,529,551
Benefits	2,087,213	454,335	304,255	2,845,803	3,179,238
Professional fees	-	138,644	-	138,644	158,237
Contracted services (fulfillment and contract labor)	1,623,746	409,377	314,061	2,347,184	2,213,344
Advertising and promotion	400,337	9,235	76,902	486,474	501,832
Office expenses	764,290	112,452	65,313	942,055	898,111
Information technology	569,906	185,677	87,983	843,566	1,156,293
Occupancy	321,220	168,143	20,233	509,596	330,775
Travel and meals	890,958	34,782	200,326	1,126,066	1,279,508
Conferences and meetings	376,986	31,383	62,750	471,119	701,127
Interest	8,723	43,614	5,815	58,152	58,960
Depreciation	363,389	103,826	51,913	519,128	1,139,964
Insurance	62,932	277,229	37,379	377,540	416,373
Equipment	49,049	5,784	19,716	74,549	93,896
Total Expenses	\$ 24,781,473	\$ 3,619,759	\$ 3,024,758	\$ 31,425,990	\$ 35,753,238

See notes to consolidated financial statements

AWANA CLUBS INTERNATIONAL AND AFFILIATES

Consolidated Statements of Cash Flows

	Year Ended June 30,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 2,325,524	\$ (535,321)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	519,128	1,140,792
Realized and unrealized gain on investments	(68,039)	(103,059)
Reduction in equity in captive insurance company	237,944	83,902
(Gain) loss on disposition of building	(1,970,970)	582,228
Change in bequests receivable	11,058	143,011
Change in contributions receivable	92,877	199,635
Change in value of trusts	2,925	3,439
Change in value of annuities	18,268	134,277
Annuity payments	15,394	17,276
Change in:		
Accounts receivable	33,284	341,129
Inventory	445,855	523,838
Prepaid expenses and other assets	(15,347)	138,811
Accounts payable and accrued expenses	(344,819)	(337,676)
Deferred revenue	(51,583)	(86,062)
Net Cash Provided by Operating Activities	1,251,499	2,246,220
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(54,617)	(2,060,539)
Proceeds from sale of investments	300,000	1,004,685
Purchase of land, buildings and equipment	(78,413)	(477,417)
Proceeds from sale of land, building and equipment	3,978,147	-
Net Cash Provided (Used) by Investing Activities	4,145,117	(1,533,271)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Present value of new annuities	(15,567)	(142,453)
Annuity and trust payments	(20,224)	(22,088)
Other changes in annuities and trusts	(6,196)	(1,990)
Payments on note payable	(1,553,819)	(46,181)
Net Cash Used by Financing Activities	(1,595,806)	(212,712)
Change in Cash and Cash Equivalents	3,800,810	500,237
Cash and Cash Equivalents, Beginning of Year	3,747,943	3,247,706
Cash and Cash Equivalents, End of Year	\$ 7,548,753	\$ 3,747,943

See notes to consolidated financial statements

AWANA CLUBS INTERNATIONAL AND AFFILIATES

Notes to Consolidated Financial Statements
June 30, 2019 and 2018

1. NATURE OF ORGANIZATION:

Awana Clubs International and Affiliates (ACI) is a nonprofit Christian ministry classified by the Internal Revenue Service as a tax-exempt, publicly supported religious organization. Accordingly, ACI is exempt from federal and state income taxes and contributions to ACI are tax deductible within the limitations prescribed under Section 501(c)(3) of the Internal Revenue Code.

The purpose of ACI is to evangelize and disciple children and youth throughout the world to know, love and serve the Lord Jesus Christ. ACI's ministry is funded from the sale of Bible-based children and youth ministry program materials, contributions from donors, and fees from church registrations and events.

2. SIGNIFICANT ACCOUNTING POLICIES:

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements of ACI include the transactions and balances of Awana Foundation, Awana Lifeline Ministries and Youth Missions International which are/were controlled affiliated organizations of ACI. Awana Lifeline Ministries is a Colorado nonprofit organization which existed to further the purposes of ACI by reaching men, women and their children with the biblical vision of parenthood. Effective December 31, 2018, ACI rescinded all control of Awana Lifeline Ministries, which is further disclosed in note 13. Only the transactions and balances of Awana Lifeline Ministries prior to December 31, 2018, are reflected in the consolidated financial statements. Youth Missions International is a Washington nonprofit organization which provides missions opportunities for youth so that they grow in their relationship with God by serving God in various locations around the world. Effective August 31, 2018, ACI rescinded all control of Youth Missions International, which is further disclosed in Note 11. All significant intra-organization transactions and balances have been eliminated. The Awana Foundation is an Illinois Non-Profit organization established during the fiscal year as a supporting organization to further the purposes of Awana Clubs International. The Awana Foundation did not have any financial activity during the fiscal year. The consolidated financial statements do not include the transactions and balances for the affiliated international organizations, whose activities are disclosed in Note 10, because the necessary accounting criteria of control and economic interest do not exist.

BASIS OF ACCOUNTING

The consolidated financial statements of ACI have been prepared on the accrual basis of accounting. The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates. The more significant accounting policies are described below.

AWANA CLUBS INTERNATIONAL AND AFFILIATES

Notes to Consolidated Financial Statements
June 30, 2019 and 2018

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include checking, savings and money market accounts. Certificates of deposit with a maturity of three months or less when purchased are considered cash equivalents. Certain items that meet the definition of cash equivalents, but are part of a larger pool of investments, are included in investments.

ACI maintains cash balances at several financial institutions. From time to time cash accounts may exceed federally insured limits. At June 30, 2019 and 2018, ACI's cash balances exceeded federally insured limits by \$6,932,013 and \$3,246,465, respectively. ACI does not believe these funds to be at substantial risk of loss due to the lack of federal insurance coverage.

INVESTMENTS AND TRUST ASSETS

Investments and trust assets are reported at fair value as further described in Note 3. ACI reports investment income and gains and losses on investments as increases or decreases in net assets without donor restrictions, unless a donor or law temporarily or permanently restricts their use. Realized and unrealized gains and losses are included in investment income in the consolidated statements of activities.

Investment securities are exposed to various risks, such as changes in interest rates or credit ratings and market fluctuations. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is possible that the value of ACI's investments and total net assets balance could fluctuate materially.

ACCOUNTS RECEIVABLE

Accounts receivable primarily arise from the sale of children's and youth ministry materials to churches for their local programs. Included in the accounts receivable balance on the consolidated statements of financial position is an allowance for doubtful accounts of \$75,000 and \$85,000 as of June 30, 2019 and 2018, respectively. Trade accounts receivable become past due when they exceed their contractual due dates, usually 30 days from the date of sale. The allowance for doubtful accounts receivable is maintained at a level that, in management's judgment, is adequate to absorb probable losses. The amount is based upon an analysis of overall trade receivables by management. Management's evaluation of the allowance for doubtful accounts includes, but is not limited to, the historical experience of payment patterns of the churches, financial condition of the churches, other known facts and circumstances and general economic conditions. This process is based on estimates and ultimate losses may vary from current estimates. As changes in estimates occur, adjustments to the level of the allowance are recorded in the provision for doubtful accounts in the period in which they become known. ACI does not assess finance charges or other late payment fees.

AWANA CLUBS INTERNATIONAL AND AFFILIATES

Notes to Consolidated Financial Statements
June 30, 2019 and 2018

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

INVENTORY

Inventory consists of various products held for sale to churches, such as uniforms and curriculum, and are stated at the lower of weighted average cost and net realizable value. Included in the inventory balance on the consolidated statements of financial position is a reserve for obsolescence of \$825,000 and \$815,000 as of June 30, 2019 and 2018, respectively. Due to the unknown factors which may affect the obsolescence of the inventory, it is reasonably possible that the reserve for obsolescence could increase or decrease by a material amount in the near term.

PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses and other assets consist primarily of prepaid insurance expense and prepaid expenses related to service agreements.

CONTRIBUTIONS RECEIVABLE

Unconditional contributions receivable are recognized as income when made and recorded at fair value based upon estimated future cash flows. Bequests are recorded as income at the time ACI has an established right to the bequest and the proceeds are measurable. Unconditional contributions receivable that are expected to be collected within one year are recorded at net realizable value. Unconditional contributions receivable that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk adjusted interest rates applicable to the years in which the promises are expected to be received. This discount rate is based on yields of the various U.S. treasury bills corresponding to the timing of the promise to give. Amortization of the discount is included in contributions revenue in the consolidated statements of activities. At June 30, 2019, contributions receivable consists of one bequest. The agreement consists of expected annual payments of \$50,000 through 2021. The present value of these payments is estimated at \$96,231 as of June 30, 2019.

BENEFICIAL INTEREST IN TRUSTS

Charitable remainder trusts have been established naming ACI as the beneficiary. The irrevocable charitable remainder trusts, which are administered by outside trustees, provide for the payment of distributions to the donors over their lifetimes. At the time of the donors' deaths, ACI will receive the remaining assets. The present value of future benefits expected to be received by ACI is estimated using applicable mortality tables at an average discount rate of 5% and total \$827,611 and \$838,669 at June 30, 2019 and 2018, respectively. Amortization of the discount on the estimated present value of future benefits has been included in change in value of trusts in the consolidated statements of activities. Changes in beneficial interest in trusts are substantially due to changes in fair value of the underlying investments. ACI also administers irrevocable charitable trusts. These trusts provide the payment of lifetime distributions to the donor or other designated beneficiaries. The present value of the estimated future payments is calculated using an average discount rate of 5% and applicable mortality tables and is reported as trusts payable in the consolidated statements of financial position. At the death of the lifetime beneficiaries, the remaining assets are available for use by ACI.

AWANA CLUBS INTERNATIONAL AND AFFILIATES

Notes to Consolidated Financial Statements
June 30, 2019 and 2018

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

BENEFICIAL INTEREST IN TRUSTS, continued:

The present value of the remainder interest is reported as a temporarily restricted contribution in the period received and as temporarily restricted net assets until a reclassification to unrestricted net assets is made upon maturity of the trust. The resulting actuarial gain or loss is recorded as a component of the change in value of trusts in the consolidated statements of activities. Trust assets with respect to these trusts consist of nonexpendable amounts invested pursuant to ACI's trust agreements and are included in investments as further disclosed in Note 3.

LAND, BUILDINGS, EQUIPMENT AND DEPRECIATION

Expenditures for land, buildings and equipment in excess of \$2,500 are capitalized at cost. Donated assets are capitalized at their fair market value on the date of donation. Depreciation is recorded on the straight-line method over the estimated useful lives of the respective assets, ranging from 3 to 30 years. The cost of normal repairs and maintenance is charged to expense as incurred. Expenditures that increase the life of an asset are capitalized and depreciated over the estimated remaining useful life of the asset.

DEFERRED REVENUE

Income received from church registration and events fees is deferred and recognized over the periods to which the fees relate.

ANNUITY AGREEMENTS

ACI has established a gift annuity program whereby donors may contribute assets to ACI for the right to receive a fixed dollar annual return during their lifetime. A portion of the transfer is considered to be a charitable contribution for income tax purposes. The difference between the amount provided for the gift annuity and the discounted liability for future payments, determined on an actuarial basis, is recognized as contribution income at the date of the gift. Upon the death of the annuitant, income distributions cease. The actuarial liability for annuities payable is calculated annually using published mortality rate tables adopted by the Internal Revenue Service at an assumed rate of return of 5%. The resulting actuarial gain or loss is recorded as a component of the change in value of annuities in the consolidated statements of activities. Assets funding annuity agreements are included with investments.

NET ASSETS

The consolidated financial statements report amounts separately by classes of net assets:

Net assets without donor restrictions are those currently available for ministry purposes under the direction of the Board of Directors and those designated by the Board for capital reserve.

Net asset with donor restrictions, restricted by purpose or time are those contributed with donor stipulations for specific operating purposes or programs, those with time restrictions or those not currently available for use in ACI's ministries until commitments regarding their use have been fulfilled or lifetime beneficiary interests have ceased.

AWANA CLUBS INTERNATIONAL AND AFFILIATES

Notes to Consolidated Financial Statements
June 30, 2019 and 2018

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

NET ASSETS, continued:

When a purpose restriction is accomplished or when a stipulated time restriction ends, net assets with donor restrictions are released to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

Net assets with donor restrictions, restricted in perpetuity are those contributed with donor restrictions requiring they be held in perpetuity as endowments. Income from these endowments is available for unrestricted purposes. The disclosures required by the *Reporting Endowment Funds* topic of the Accounting Standards Codification have not been included in these consolidated financial statements due to immateriality.

SUPPORT AND REVENUE

Sales revenue is recognized when earned, which is when goods are shipped to customers. All other non-contribution revenues are recorded as earned. Support is recognized when contributions are made, which may be when cash is received, an unconditional promise to give is made or when ownership of donated assets is transferred.

Gifts of cash or other assets are reported as restricted contributions if they are received with donor stipulations that limit the use of the donated assets. If donor restrictions are met in the same period in which the gift is received, the contribution is reported as contributions without donor restrictions. Otherwise, when donor stipulated time and/or purpose restrictions are met or accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various program services and supporting activities of ACI have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the program services and supporting activities benefited. The supporting activities are indispensable to the conduct of the program services and to ACI's existence. All expenses are recorded when incurred in accordance with the accrual basis of accounting. The expenses allocated include salaries and benefits, depreciation and occupancy, which are allocated based on an estimate of time and effort.

SHIPPING AND HANDLING COSTS

Total costs for shipping and handling were \$1,127,978 and \$1,074,115 for the years ended June 30, 2019 and 2018, respectively. These costs are included in cost of goods sold which is a component of ministry programs and supplies expense in the consolidated statements of activities.

PROMOTION EXPENSES

Promotion costs are expensed as incurred and consist of direct mail, magazine advertisements and digital promotions. Total promotion expenses were \$486,474 and \$501,832 for the years ended June 30, 2019 and 2018, respectively.

AWANA CLUBS INTERNATIONAL AND AFFILIATES

Notes to Consolidated Financial Statements
June 30, 2019 and 2018

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

RECENTLY ADOPTED ACCOUNTING STANDARDS

In 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ACI adopted the provisions of this new standard in the year ended June 30, 2019. In addition to changes in terminology used to describe categories of net assets throughout the financial statements and the statement of functional expenses, new disclosures were added regarding liquidity and availability of resources (Note 12) and disclosures related to functional allocation of expenses were expanded (Note 2).

3. INVESTMENTS AND TRUST ASSETS:

Investments and trust assets consist of the following as of:

	June 30,	
	2019	2018
Investments:		
Mutual funds	\$ 1,509,648	\$ 1,449,496
Money market funds	1,014,615	1,261,904
Mineral interests	38,650	34,325
	2,562,913	2,745,725
Investments held in trust:		
Mutual funds	84,190	80,627
Money market funds	5,333	3,428
	89,523	84,055
Total investments and trust assets	\$ 2,652,436	\$ 2,829,780

Investment income includes:

	June 30,	
	2019	2018
Interest and dividends	\$ 47,054	\$ 80,502
Net realized and unrealized gains	42,481	103,059
	\$ 89,535	\$ 183,561

AWANA CLUBS INTERNATIONAL AND AFFILIATES

Notes to Consolidated Financial Statements
June 30, 2019 and 2018

3. INVESTMENTS AND TRUST ASSETS, continued:

ACI uses appropriate valuation techniques to determine fair value based on inputs available. When available, ACI measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available.

Assets at fair value as of June 30, 2019:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments and trust assets:				
Mutual funds	\$ 1,593,839	\$ -	\$ -	\$ 1,593,839
Money market funds	1,019,948	-	-	1,019,948
Mineral interests	-	-	38,650	38,650
	-	-	-	-
	<u>\$ 2,613,787</u>	<u>\$ -</u>	<u>\$ 38,650</u>	<u>\$ 2,652,437</u>
Beneficial interest in trusts	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 827,611</u>	<u>\$ 827,611</u>

Assets at fair value as of June 30, 2018:

	Level 1	Level 2	Level 3	Total
Investments and trust assets:				
Mutual funds	\$ 1,530,123	\$ -	\$ -	\$ 1,530,123
Money market funds	1,265,332	-	-	1,265,332
Mineral interests	-	-	34,325	34,325
	-	-	-	-
	<u>\$ 2,795,455</u>	<u>\$ -</u>	<u>\$ 34,325</u>	<u>\$ 2,829,780</u>
Beneficial interest in trusts	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 838,669</u>	<u>\$ 838,669</u>

AWANA CLUBS INTERNATIONAL AND AFFILIATES

Notes to Consolidated Financial Statements
June 30, 2019 and 2018

3. INVESTMENTS AND TRUST ASSETS, continued:

The following table provides further details of Level 3 fair value measurements:

	Beneficial Interest in Trusts	Mineral Interests	Total
Balance, July 1, 2017	\$ 981,680	\$ 26,817	\$ 1,008,497
Unrealized gains	-	7,508	7,508
Change in value of beneficial interest in trusts	<u>(50,725)</u>	<u>-</u>	<u>(50,725)</u>
Balance, June 30, 2018	838,669	34,325	965,280
Unrealized gains	-	4,325	4,325
Change in value of beneficial interest in trusts	<u>(11,058)</u>	<u>-</u>	<u>(11,058)</u>
Balance, June 30, 2019	<u>\$ 827,611</u>	<u>\$ 38,650</u>	<u>\$ 958,547</u>

The following methods and assumptions were used to estimate the fair value for each class of financial instrument measured at fair value:

Mutual funds and money market funds –The fair value is based on quoted market prices.

Mineral interests –The fair value of mineral interests is determined based on a three year average of annual production income multiplied by industry specific factors.

Beneficial interest in trusts is based on calculating the present value of future benefits expected to be received by ACI using federal discount rates and applicable mortality tables at an average discount rate of 5%.

Changes in valuation techniques: None.

4. LAND, BUILDINGS AND EQUIPMENT:

Land, buildings and equipment consist of the following as of:

	June 30,	
	2019	2018
Land	\$ 619,238	\$ 1,619,238
Buildings and improvements	8,074,843	10,097,998
Furniture and equipment	2,944,189	5,723,401
	<u>11,638,270</u>	<u>17,440,637</u>
Less accumulated depreciation	<u>(10,364,376)</u>	<u>(13,718,851)</u>
	<u>\$ 1,273,894</u>	<u>\$ 3,721,786</u>

AWANA CLUBS INTERNATIONAL AND AFFILIATES

Notes to Consolidated Financial Statements
June 30, 2019 and 2018

5. INVESTMENT IN CAPTIVE INSURANCE COMPANY:

There are currently nine unrelated nonprofit organizations that have invested in Stewardship Insurance, Ltd (SIL), formerly Stewardship Holdings, Ltd, a captive insurance company. The captive insures claims relating to workers' compensation, general liability, auto liability and sexual misconduct liability. Claim experience is identified to each participating entity, and subsequent premiums are modified based on an entity's experience. As of June 30, 2019 and 2018, ACI owns approximately 3.3% and 4.3%, respectively, of SIL and accounts for its investment using the equity method.

The investment in SIL is \$1,118,366 and \$1,356,310 as of June 30, 2019 and 2018, respectively. Summary financial information (unaudited) of SIL is as follows:

	June 30,	
	2019	2018
Total assets	\$ 63,579,274	\$ 60,184,560
Total liabilities	\$ 29,509,857	\$ 28,911,971
Results of operations	\$ 4,900,121	\$ 6,112,704

6. NOTE PAYABLE:

ACI had a \$1,600,000 loan from the Bank of America secured by a lien covering ACI real property. Beginning in August 2017, the loan had monthly principal and interest payments of \$9,704 with interest of 4.01%. ACI paid off the loan in full in May 2019.

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7. ANNUITIES AND TRUSTS PAYABLE:

Annuities and trusts payable consist of:

	June 30,	
	2019	2018
Annuities payable	\$ 149,569	\$ 159,479
Irrevocable trust obligations	21,037	16,527
	\$ 170,606	\$ 176,006
Change in value of annuities consists of:		
Interest and dividend income	\$ 5,660	\$ 4,107
Actuarial change	(13,372)	(123,648)
Matured annuitants	4,838	2,540
Annuity payments	(15,394)	(17,276)
	\$ (18,268)	\$ (134,277)
Change in value of trusts consists of:		
Interest and dividend income	\$ 1,905	\$ 1,373
Actuarial change	-	-
Payments to beneficiaries	(4,830)	(4,812)
	\$ (2,925)	\$ (3,439)

8. EMPLOYEE RETIREMENT PLAN:

ACI has a discretionary match 401(k) plan covering all eligible employees. Employer contributions of \$106,503 and \$66,119 were made in 2019 and 2018, respectively.

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9. NET ASSETS WITH DONOR RESTRICTIONS:

Net assets with donor restrictions consist of the following:

	2019	2018
Restricted by purpose		
International projects	\$ 2,361,305	\$ 2,192,607
U.S. ministry projects	1,443,883	1,247,422
Restricted by time		
Contributions receivable	96,231	189,108
Charitable remainder trusts	68,451	67,528
Beneficial interest in trusts	827,611	838,669
	\$ 4,797,481	\$ 4,535,334

Net assets restricted in perpetuity total \$100,750 at both June 30, 2019 and 2018, and consist of endowment funds for which only investment return is expendable.

10. AFFILIATED INTERNATIONAL ORGANIZATIONS:

The ACI ministry extends throughout the world to reach children and youth with the Gospel of Jesus Christ. The ministry is conducted internationally through ACI branch offices and affiliated ACI national entities. ACI provided approximately \$3,542,883 and \$3,182,000 for the support of these organizations during the years ended June 30, 2019 and 2018, respectively.

11. EXIT SUBSIDIARIES:

In August 2018, ACI unconditionally committed to rescind all control of YMI. The transfer of control was effective August 31, 2018. Net assets of \$24,841 were transferred to YMI. In December 2018, ACI unconditionally committed to rescind all control of Awana Lifeline. The transfer of control was effective December 31, 2018. Net assets of \$122,979 were transferred to Lifeline Global Ministries.

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12. LIQUIDITY AND AVAILABILITY OF RESOURCES:

The following table reflects ACI's financial assets as of June 30, 2019 and 2018, reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year, contractual or donor-imposed restrictions, or because the governing board has set aside the funds for specific contingency reserves and projects. These board designations could be drawn upon if the board approves such action.

	June 30,	
	2019	2018
Financial assets:		
Cash and cash equivalents	\$ 7,548,753	\$ 3,747,943
Investments	2,652,436	2,829,780
Contributions receivable	96,231	189,108
Financial assets, at year-end	10,297,420	6,766,831
Less those unavailable for general expenditures within one year, due to:		
Restricted by purpose or time	(4,797,481)	(4,535,334)
Board designated capital reserve	(1,917,115)	(1,917,115)
Restricted in perpetuity	(100,750)	(100,750)
	(6,815,346)	(6,553,199)
Financial assets available to meet cash needs for general expenditures within one year	\$ 3,482,074	\$ 213,632

ACI structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. As part of ACI's liquidity management, ACI invests any cash in excess of annual funding requirements in a short-term investment account. The funds are immediately available to fund operating and funding requirements.

13. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through October 2, 2019, which represents the date the consolidated financials statements were available to be issued.