

AWANA CLUBS INTERNATIONAL AND AFFILIATES

Consolidated Financial Statements
With Independent Auditors' Report

June 30, 2020 and 2019

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 which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, 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 the entity'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, 2020 and 2019, 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.

Capin Crouse LLP

Naperville, Illinois
October 2, 2020

AWANA CLUBS INTERNATIONAL AND AFFILIATES

Consolidated Statements of Financial Position

	June 30,	
	2020	2019
ASSETS:		
Cash and cash equivalents	\$ 10,329,520	\$ 7,548,753
Investments and trust assets	372,588	2,652,436
Accounts receivable, net	161,352	125,511
Inventory, net	3,793,690	3,237,792
Prepaid expenses and other assets	373,431	370,961
Contributions receivable	50,000	96,231
Investment in captive insurance company	645,844	1,118,366
Beneficial interest in trusts	782,186	827,611
Land, buildings and equipment, net	1,047,069	1,273,894
 Total Assets	 \$ 17,555,680	 \$ 17,251,555
 LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable	\$ 939,058	\$ 754,930
Accrued expenses	809,911	962,086
Deferred revenue	245,025	459,063
Note payable	2,815,850	-
Annuities and trusts payable	162,677	170,606
	4,972,521	2,346,685
Net assets:		
Net assets without donor restrictions:		
Undesignated, available for general activities	5,724,519	8,089,524
Board designated capital reserve	1,917,115	1,917,115
	7,641,634	10,006,639
Net assets with donor restrictions:		
Restricted by purpose or time	4,840,775	4,797,481
Restricted in perpetuity	100,750	100,750
	4,941,525	4,898,231
	12,583,159	14,904,870
 Total Liabilities and Net Assets	 \$ 17,555,680	 \$ 17,251,555

See notes to consolidated financial statements

AWANA CLUBS INTERNATIONAL AND AFFILIATES

Consolidated Statements of Activities

	Year Ended June 30,					
	2020			2019		
	Without Donor Restriction	With Donor Restriction	Total	Without Donor Restriction	With Donor Restriction	Total
Revenues:						
Sales of ministry materials	\$ 16,323,988	\$ -	\$ 16,323,988	\$ 19,325,396	\$ -	\$ 19,325,396
Contributions	9,108,351	1,907,825	11,016,176	9,328,552	1,710,019	11,038,571
Registration and event fees	1,236,197	-	1,236,197	1,575,805	-	1,575,805
Investment income	2,710	-	2,710	117,479	-	117,479
Change in value of annuities and trusts	(40,623)	(3,242)	(43,865)	(18,268)	(2,925)	(21,193)
Change in value of SIL equity	(316,552)	-	(316,552)	(27,944)	-	(27,944)
Gain on disposition of building	-	-	-	1,970,971	-	1,970,971
Loss on exit of subsidiaries	-	-	-	(283,398)	-	(283,398)
Other income	152,314	-	152,314	55,827	-	55,827
Reclassifications:						
Net assets released from restrictions:						
Satisfaction of timing restrictions	87,732	(87,732)	-	100,084	(100,084)	-
Satisfaction of purpose restrictions	1,773,557	(1,773,557)	-	1,344,863	(1,344,863)	-
	28,327,674	43,294	28,370,968	33,489,367	262,147	33,751,514
Expenses:						
Program services:						
Ministry programs and support	24,665,959	-	24,665,959	24,781,473	-	24,781,473
	24,665,959	-	24,665,959	24,781,473	-	24,781,473
Supporting activities:						
Management and general	3,249,860	-	3,249,860	3,619,759	-	3,619,759
Fundraising	2,776,860	-	2,776,860	3,024,758	-	3,024,758
	6,026,720	-	6,026,720	6,644,517	-	6,644,517
	30,692,679	-	30,692,679	31,425,990	-	31,425,990
Change in Net Assets	(2,365,005)	43,294	(2,321,711)	2,063,377	262,147	2,325,524
Net Assets, Beginning of Year	10,006,639	4,898,231	14,904,870	7,943,262	4,636,084	12,579,346
Net Assets, End of Year	\$ 7,641,634	\$ 4,941,525	\$ 12,583,159	\$ 10,006,639	\$ 4,898,231	\$ 14,904,870

See notes to consolidated financial statements

**AWANA CLUBS INTERNATIONAL
AND AFFILIATES**

Consolidated Statement of Functional Expenses

Year Ended June 30, 2020

	Program Services	Management and General	Fundraising	Total
Cost of goods sold	\$ 5,545,092	\$ -	\$ -	\$ 5,545,092
Grants	2,754,907	-	-	2,754,907
Salaries and wages	8,638,533	1,508,893	1,618,127	11,765,553
Benefits	1,989,581	383,203	276,604	2,649,388
Professional fees	-	159,174	-	159,174
Contracted services (fulfillment and contract labor)	2,316,426	425,092	363,509	3,105,027
Advertising and promotion	411,261	7,516	67,997	486,774
Office expenses	634,929	120,514	80,560	836,003
Information technology	533,775	165,429	75,685	774,889
Occupancy	166,240	88,422	11,237	265,899
Travel and meals	842,364	23,388	149,266	1,015,018
Conferences and meetings	470,048	22,053	52,671	544,772
Depreciation	212,291	60,654	30,327	303,272
Insurance	63,291	285,522	38,350	387,163
Equipment	87,221	-	12,527	99,748
Total Expenses	\$ 24,665,959	\$ 3,249,860	\$ 2,776,860	\$ 30,692,679

See notes to consolidated financial statements

**AWANA CLUBS INTERNATIONAL
AND AFFILIATES**

Consolidated Statement of Functional Expenses

Year Ended June 30, 2019

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

See notes to consolidated financial statements

AWANA CLUBS INTERNATIONAL AND AFFILIATES

Consolidated Statements of Cash Flows

	Year Ended June 30,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (2,321,711)	\$ 2,325,524
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	303,272	519,128
Realized and unrealized gain on investments	(2,710)	(68,039)
Reduction in equity in captive insurance company	472,522	237,944
Gain on disposition of building	-	(1,970,970)
Change in bequests receivable	45,425	11,058
Change in contributions receivable	46,231	92,877
Change in value of trusts	3,242	2,925
Change in value of annuities	40,623	18,268
Annuity payments	12,206	15,394
Change in:		
Accounts receivable	(35,841)	33,284
Inventory	(555,898)	445,855
Prepaid expenses and other assets	(2,470)	(15,347)
Accounts payable and accrued expenses	31,953	(344,819)
Deferred revenue	(214,038)	(51,583)
Net Cash (Used) Provided by Operating Activities	(2,177,194)	1,251,499
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(7,210)	(54,617)
Proceeds from sale of investments	2,289,768	300,000
Purchase of land, buildings and equipment	(76,447)	(78,413)
Proceeds from sale of land, building and equipment	-	3,978,147
Net Cash Provided by Investing Activities	2,206,111	4,145,117
CASH FLOWS FROM FINANCING ACTIVITIES:		
Present value of new annuities	(38,785)	(15,567)
Annuity and trust payments	(17,348)	(20,224)
Other changes in annuities and trusts	(7,867)	(6,196)
Borrowings on debt	2,815,850	-
Payments on note payable	-	(1,553,819)
Net Cash Provided (Used) by Financing Activities	2,751,850	(1,595,806)
Change in Cash and Cash Equivalents	2,780,767	3,800,810
Cash and Cash Equivalents, Beginning of Year	7,548,753	3,747,943
Cash and Cash Equivalents, End of Year	\$ 10,329,520	\$ 7,548,753

See notes to consolidated financial statements

AWANA CLUBS INTERNATIONAL AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

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 11. Youth Missions International is a Washington non-profit 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 fiscal year 2019 as a supporting organization to further the purposes of Awana Clubs International. The Awana Foundation did not have any financial activity during fiscal year 2019 and very minimal activity in fiscal year 2020. 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, 2020 and 2019

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, 2020 and 2019, ACI's cash balances exceeded federally insured limits by \$9,575,039 and \$6,932,013, 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 \$45,000 and \$75,000 as of June 30, 2020 and 2019, 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, 2020 and 2019

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 \$470,000 and \$825,000 as of June 30, 2020 and 2019, 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, 2020, contributions receivable consists of one bequest. The agreement consists of expected annual payments of \$50,000 through 2021. This bequest is expected to be collected within one year, therefore no present value calculation is necessary and no allowance has been booked.

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 \$782,186 and \$827,611 at June 30, 2020 and 2019, 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.

AWANA CLUBS INTERNATIONAL AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

BENEFICIAL INTEREST IN TRUSTS, continued:

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.

The present value of the remainder interest is reported as a contribution with donor restrictions in the period received and as net assets with donor restrictions until a reclassification to net assets without donor restrictions 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, all computers are expensed in the year purchased. 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.

AWANA CLUBS INTERNATIONAL AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

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. 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 (ASC) 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 when 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.

AWANA CLUBS INTERNATIONAL AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

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 \$1,543,000 and \$1,230,277 for the years ended June 30, 2020 and 2019, respectively. These costs are included in cost of goods sold and contracted services which is a component of ministry programs and supplies expense in the consolidated statements of activities.

ADVERTISING AND PROMOTION EXPENSES

Promotion costs are expensed as incurred and consist of direct mail, magazine advertisements and digital promotions. Total promotion expenses were \$486,774 and \$486,474 for the years ended June 30, 2020 and 2019, respectively.

RECENTLY ADOPTED ACCOUNTING STANDARDS

In 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ACI adopted the provisions of this new standard during the year ended June 30, 2020. The new standard provides a framework for determining whether a particular transaction is an exchange transaction or a contribution, and guidance to assist entities in determining whether a contribution is either conditional or unconditional. The ASU has been applied on a modified retrospective basis for agreements that were incomplete as of the ASU's effective date or that were entered into after the effective date. Adoption of this standard had no effect on change in net assets or net assets in total.

AWANA CLUBS INTERNATIONAL AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

3. INVESTMENTS AND TRUST ASSETS:

Investments and trust assets consist of the following as of:

	June 30,	
	2020	2019
Investments:		
Mutual funds	\$ 231,732	\$ 1,509,648
Money market funds	18,817	1,014,615
Mineral interests	38,508	38,650
	289,057	2,562,913
Investments held in trust:		
Mutual funds	78,060	84,190
Money market funds	5,471	5,333
	83,531	89,523
Total Investments and Trust Assets	\$ 372,588	\$ 2,652,436

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, 2020:

	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	\$ 309,792	\$ -	\$ -	\$ 309,792
Money market funds	24,288	-	-	24,288
Mineral interests	-	-	38,508	38,508
	\$ 334,080	\$ -	\$ 38,508	\$ 372,588
Beneficial interest in trusts	\$ -	\$ -	\$ 782,186	\$ 782,186

AWANA CLUBS INTERNATIONAL AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

3. INVESTMENTS AND TRUST ASSETS, continued:

Assets at fair value as of June 30, 2019:

	Level 1	Level 2	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>

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

	Beneficial Interest in Trusts	Mineral Interests	Total
Balance, July 1, 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	827,611	38,650	958,547
Unrealized losses	-	(142)	(142)
Change in value of beneficial interest in trusts	<u>(45,425)</u>	<u>-</u>	<u>(45,425)</u>
Balance, June 30, 2020	<u>\$ 782,186</u>	<u>\$ 38,508</u>	<u>\$ 912,980</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.

AWANA CLUBS INTERNATIONAL AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

4. LAND, BUILDINGS AND EQUIPMENT:

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

	June 30,	
	2020	2019
Land	\$ 619,238	\$ 619,238
Buildings and improvements	8,074,843	8,074,843
Furniture and equipment	2,744,681	2,944,189
	11,438,762	11,638,270
Less accumulated depreciation	(10,391,693)	(10,364,376)
	\$ 1,047,069	\$ 1,273,894

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, 2020 and 2019, ACI owns approximately 1.94% and 3.3%, respectively, of SIL and accounts for its investment using the equity method.

The investment in SIL is \$645,844 and \$1,118,366 as of June 30, 2020 and 2019, respectively. Summary financial information (unaudited) of SIL is as follows:

	June 30,	
	2020	2019
Total assets	\$ 62,290,597	\$ 63,579,274
Total liabilities	\$ 28,982,231	\$ 29,509,857
Results of operations	\$ 1,526,811	\$ 4,900,121

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6. NOTE PAYABLE:

As part of the response to the impact of COVID-19, ACI applied for a Paycheck Protection Program (PPP) Loan, administered by the Small Business Administration (SBA), under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which was signed into law in March 2020. ACI was approved for a loan in the amount of \$2,815,850 on May 1, 2020. The PPP loan program provides for potential loan forgiveness up to the full amount of the loan provided ACI overcomes (meets) certain loan stipulations. If the loan is not forgiven, it bears annual interest of 1% and repayment is due in full on May 1, 2022.

7. ANNUITIES AND TRUSTS PAYABLE:

Annuities and trusts payable consist of:

	June 30,	
	2020	2019
Annuities payable	\$ 148,280	\$ 149,569
Irrevocable trust obligations	14,397	21,037
	\$ 162,677	\$ 170,606
Change in value of annuities consists of:		
Interest and dividend income	\$ 5,310	\$ 5,660
Actuarial change	(33,727)	(13,372)
Matured annuitants	-	4,838
Annuity payments	(12,206)	(15,394)
	\$ (40,623)	\$ (18,268)
Change in value of trusts consists of:		
Interest and dividend income	\$ 1,900	\$ 1,905
Payments to beneficiaries	(5,142)	(4,830)
	\$ (3,242)	\$ (2,925)

8. EMPLOYEE RETIREMENT PLAN:

ACI has a discretionary match 401(k) plan covering all eligible employees. Employer contributions of \$153,371 and \$106,503 were made in 2020 and 2019, respectively.

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9. NET ASSETS WITH DONOR RESTRICTIONS:

Net assets with donor restrictions consist of the following:

	2020	2019
Restricted by purpose		
International projects	\$ 2,395,794	\$ 2,361,305
U.S. ministry projects	1,543,662	1,443,883
Restricted by time		
Contributions receivable	50,000	96,231
Charitable remainder trusts	69,133	68,451
Beneficial interest in trusts	782,186	827,611
	\$ 4,840,775	\$ 4,797,481

Net assets restricted in perpetuity total \$100,750 at both June 30, 2020 and 2019, 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 \$3,037,604 and \$3,542,883 for the support of these organizations during the years ended June 30, 2020 and 2019, 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 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 were transferred to Lifeline Global Ministries.

12. RISKS AND UNCERTAINTIES:

In January 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a "Public Health Emergency of International Concern," which continues to spread throughout the world and has adversely impacted global economic activity and contributed to significant declines and volatility in financial markets, in addition to significant job loss. COVID-19 could have a continued material adverse impact on economic and market conditions and trigger a period of global economic slowdown. The rapid development and fluidity of this situation precludes any prediction as to the ultimate material adverse impact of COVID-19. Nevertheless, COVID-19 presents uncertainty and risk with respect to ACI and its financial results. ACI was approved for a PPP loan as noted above in Note 6. The PPP loan program provides for potential loan forgiveness up to the full amount of the loans provided ACI overcomes (meets) certain loan stipulations.

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Notes to Consolidated Financial Statements

June 30, 2020 and 2019

13. LIQUIDITY AND AVAILABILITY OF RESOURCES:

The following table reflects ACI's financial assets as of June 30, 2020 and 2019, 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,	
	2020	2019
Financial assets:		
Cash and cash equivalents	\$ 10,329,520	\$ 7,548,753
Investments	372,588	2,652,436
Contributions receivable	50,000	96,231
Financial assets, at year-end	10,752,108	10,297,420
Less those unavailable for general expenditures within one year, due to:		
Restricted by purpose or time	(4,840,775)	(4,797,481)
Board designated capital reserve	(1,917,115)	(1,917,115)
Restricted in perpetuity	(100,750)	(100,750)
	(6,858,640)	(6,815,346)
Financial assets available to meet cash needs for general expenditures within one year	\$ 3,893,468	\$ 3,482,074

ACI structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

14. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through October 2, 2020, which represents the date the consolidated financials statements were available to be issued.