

AWANA CLUBS INTERNATIONAL AND AFFILIATES

Consolidated Financial Statements
With Independent Auditors' Report

June 30, 2021 and 2020

AWANA CLUBS INTERNATIONAL AND AFFILIATES

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Consolidated Financial Statements	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4
Consolidated Statements of Functional Expenses	5
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8

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, 2021 and 2020, 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, 2021 and 2020, 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 8, 2021

**AWANA CLUBS INTERNATIONAL
AND AFFILIATES**

Consolidated Statements of Financial Position

	June 30,	
	2021	2020
ASSETS:		
Cash and cash equivalents	\$ 9,920,781	\$ 10,329,520
Investments and trust assets	443,403	372,588
Property held for sale	678,143	-
Accounts receivable, net	109,008	161,352
Inventory, net	3,369,669	3,793,690
Prepaid expenses and other assets	381,144	373,431
Contributions receivable	-	50,000
Investment in captive insurance company	639,212	645,844
Beneficial interest in trusts	791,961	782,186
Land, buildings and equipment, net	196,921	1,047,069
 Total Assets	 \$ 16,530,242	 \$ 17,555,680
 LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable	\$ 652,023	\$ 939,058
Accrued expenses	729,212	809,911
Deferred revenue	224,194	245,025
Note payable	2,000,000	2,815,850
Annuities and trusts payable	160,337	162,677
	3,765,766	4,972,521
 Net assets:		
Net assets without donor restrictions:		
Undesignated, available for general activities	5,975,098	5,724,519
Board designated capital reserve	1,917,115	1,917,115
	7,892,213	7,641,634
 Net assets with donor restrictions:		
Restricted by purpose or time	4,771,513	4,840,775
Restricted in perpetuity	100,750	100,750
	4,872,263	4,941,525
	12,764,476	12,583,159
 Total Liabilities and Net Assets	 \$ 16,530,242	 \$ 17,555,680

See notes to consolidated financial statements

AWANA CLUBS INTERNATIONAL AND AFFILIATES

Consolidated Statements of Activities

	Year Ended June 30,					
	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues:						
Sales of ministry materials	\$ 8,610,902	\$ -	\$ 8,610,902	\$ 16,323,988	\$ -	\$ 16,323,988
Contributions	11,748,260	1,181,332	12,929,592	9,108,351	1,907,825	11,016,176
Government grants	2,815,850	-	2,815,850	-	-	-
Registration and event fees	571,098	-	571,098	1,236,197	-	1,236,197
Investment income	75,987	-	75,987	2,710	-	2,710
Change in value of annuities and trusts	4,490	(3,639)	851	(40,623)	(3,242)	(43,865)
Change in value of SIL equity	(6,632)	-	(6,632)	(316,552)	-	(316,552)
Other income	532,339	-	532,339	152,314	-	152,314
Reclassifications:						
Net assets released from restrictions:						
Satisfaction of timing restrictions	23,151	(23,151)	-	87,732	(87,732)	-
Satisfaction of purpose restrictions	1,223,804	(1,223,804)	-	1,773,557	(1,773,557)	-
	<u>25,599,249</u>	<u>(69,262)</u>	<u>25,529,987</u>	<u>28,327,674</u>	<u>43,294</u>	<u>28,370,968</u>
Expenses:						
Program services:						
Ministry programs and support	19,784,360	-	19,784,360	24,665,959	-	24,665,959
	<u>19,784,360</u>	<u>-</u>	<u>19,784,360</u>	<u>24,665,959</u>	<u>-</u>	<u>24,665,959</u>
Supporting activities:						
Management and general	3,077,492	-	3,077,492	3,249,860	-	3,249,860
Fundraising	2,486,818	-	2,486,818	2,776,860	-	2,776,860
	<u>5,564,310</u>	<u>-</u>	<u>5,564,310</u>	<u>6,026,720</u>	<u>-</u>	<u>6,026,720</u>
	<u>25,348,670</u>	<u>-</u>	<u>25,348,670</u>	<u>30,692,679</u>	<u>-</u>	<u>30,692,679</u>
Change in Net Assets	250,579	(69,262)	181,317	(2,365,005)	43,294	(2,321,711)
Net Assets, Beginning of Year	7,641,634	4,941,525	12,583,159	10,006,639	4,898,231	14,904,870
Net Assets, End of Year	<u>\$ 7,892,213</u>	<u>\$ 4,872,263</u>	<u>\$ 12,764,476</u>	<u>\$ 7,641,634</u>	<u>\$ 4,941,525</u>	<u>\$ 12,583,159</u>

See notes to consolidated financial statements

**AWANA CLUBS INTERNATIONAL
AND AFFILIATES**

Consolidated Statement of Functional Expenses

Year Ended June 30, 2021

	Program Services	Management and General	Fundraising	Total
Cost of goods sold	\$ 3,616,007	\$ -	\$ -	\$ 3,616,007
Grants	2,446,412	-	-	2,446,412
Salaries and wages	8,376,305	1,443,143	1,685,624	11,505,072
Benefits	1,563,911	309,213	178,040	2,051,164
Professional fees	-	275,754	-	275,754
Contracted services (contract labor)	1,959,932	367,053	253,016	2,580,001
Advertising and promotion	210,543	2,130	72,561	285,234
Office expenses	479,618	136,081	103,622	719,321
Information technology	483,809	123,131	70,321	677,261
Occupancy	120,411	60,718	8,483	189,612
Travel and meals	228,725	9,732	36,677	275,134
Conferences and meetings	75,762	10,913	16,427	103,102
Depreciation	120,404	34,400	17,201	172,005
Insurance	66,422	303,936	40,872	411,230
Equipment	36,099	1,288	3,974	41,361
Total Expenses	\$ 19,784,360	\$ 3,077,492	\$ 2,486,818	\$ 25,348,670

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 Statements of Cash Flows

	Year Ended June 30,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 181,317	\$ (2,321,711)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	172,005	303,272
Realized and unrealized gain on investments	(70,874)	(2,710)
Forgiveness of Paycheck Protection Program loan	(2,815,850)	-
Reduction in equity in captive insurance company	6,632	472,522
Gain on sale of land, building and equipment	(11,500)	-
Change in bequests receivable	-	45,425
Change in contributions receivable	50,000	46,231
Change in value of trusts	3,639	3,242
Change in value of annuities	(4,490)	40,623
Annuity payments	12,034	12,206
Change in:		
Accounts receivable	52,344	(35,841)
Receivables from trusts	(9,775)	-
Inventory	424,021	(555,898)
Prepaid expenses and other assets	(7,713)	(2,470)
Accounts payable and accrued expenses	(367,734)	31,953
Deferred revenue	(20,831)	(214,038)
Net Cash Used by Operating Activities	(2,406,775)	(2,177,194)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(5,864)	(7,210)
Proceeds from sale of investments	5,923	2,289,768
Purchase of land, buildings and equipment	-	(76,447)
Proceeds from sale of land, building and equipment	11,500	-
Net Cash Provided by Investing Activities	11,559	2,206,111
CASH FLOWS FROM FINANCING ACTIVITIES:		
Present value of new annuities	-	(38,785)
Annuity and trust payments	(17,129)	(17,348)
Other changes in annuities and trusts	3,606	(7,867)
Borrowings on debt	2,000,000	2,815,850
Payments on note payable	-	-
Net Cash Provided by Financing Activities	1,986,477	2,751,850
Change in Cash and Cash Equivalents	(408,739)	2,780,767
Cash and Cash Equivalents, Beginning of Year	10,329,520	7,548,753
Cash and Cash Equivalents, End of Year	\$ 9,920,781	\$ 10,329,520
SUPPLEMENTAL INFORMATION:		
Non-cash forgiveness of debt	\$ 2,815,850	\$ -
Disposal of fully depreciated assets	\$ 1,397,203	\$ 275,955

See notes to consolidated financial statements

AWANA CLUBS INTERNATIONAL AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

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 The Awana Foundation which is a controlled affiliated organization of ACI. 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 had very minimal activity in fiscal year 2020 and 2021.

Awana International, a Colorado not-for-profit corporation, was merged into Awana International LLC, an Illinois limited liability corporation in 2013. Awana International LLC is a disregarded entity, without a board of directors or employees. The sole member, Awana Clubs International, manages Awana International LLC.

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, 2021 and 2020

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, 2021 and 2020, ACI's cash balances exceeded federally insured limits by \$9,207,727 and \$9,575,039, 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 \$45,000 as of June 30, 2021 and 2020, 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, 2021 and 2020

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 \$945,000 and \$470,000 as of June 30, 2021 and 2020, 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, 2021, all payments had been made on the bequest.

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 \$791,961 and \$782,186 at June 30, 2021 and 2020, 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, 2021 and 2020

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, digital curriculum subscriptions, 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, 2021 and 2020

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.

Sales revenue is recognized when goods are shipped or otherwise delivered to customers. Revenues and expenses from registration and event fees are deferred until the event occurs. All other revenues are recognized when earned and expenses when incurred in accordance with the accrual basis of accounting.

AWANA CLUBS INTERNATIONAL AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

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 \$897,605 and \$1,543,000 for the years ended June 30, 2021 and 2020, 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 \$285,235 and \$486,474 for the years ended June 30, 2021 and 2020, respectively.

PROPERTY HELD FOR SALE

In fiscal year 2021 ACI made the decision to list its Bode Road building as property for sale. These assets are now classified as held for sale and are reported at the lower of its carrying amount or fair value less estimated selling costs, which at June 30, 2021, was \$678,143. See table below for detail of asset.

	June 30, 2021
Land held for sale	\$ 619,238
Building held for sale	7,961,046
Accumulated depreciation	<u>(7,902,141)</u>
	<u>\$ 678,143</u>

RECENTLY ISSUED ACCOUNTING STANDARDS

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606), which applies to all transactions involving a reciprocal transfer of good or services to a customer. The ASU has been applied on a modified retrospective basis. 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, 2021 and 2020

3. INVESTMENTS AND TRUST ASSETS:

Investments and trust assets consist of the following as of:

	June 30,	
	2021	2020
Investments:		
Mutual funds	\$ 290,157	\$ 231,732
Money market funds	22,397	18,817
Mineral interests	30,969	38,508
	343,523	289,057
Investments held in trust:		
Mutual funds	98,049	78,060
Money market funds	1,831	5,471
	99,880	83,531
Total Investments and trust assets	\$ 443,403	\$ 372,588

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, 2021:

	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	\$ 388,206	\$ -	\$ -	\$ 388,206
Money market funds	24,228	-	-	24,228
Mineral interests	-	-	30,969	30,969
	\$ 412,434	\$ -	\$ 30,969	\$ 443,403
Beneficial interest in trusts	\$ -	\$ -	\$ 791,961	\$ 791,961

AWANA CLUBS INTERNATIONAL AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

3. INVESTMENTS AND TRUST ASSETS, continued:

Assets at fair value as of June 30, 2020:

	Level 1	Level 2	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
	<u>\$ 334,080</u>	<u>\$ -</u>	<u>\$ 77,016</u>	<u>\$ 411,096</u>
Beneficial interest in trusts				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 782,186</u>	<u>\$ 782,186</u>

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

	Beneficial Interest in Trusts	Mineral Interests	Total
Balance, July 1, 2019	\$ 827,611	\$ 38,650	\$ 965,280
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	782,186	38,508	919,713
Unrealized losses	-	(7,539)	(7,539)
Change in value of beneficial interest in trusts	<u>9,775</u>	<u>-</u>	<u>9,775</u>
Balance, June 30, 2021	<u>\$ 791,961</u>	<u>\$ 30,969</u>	<u>\$ 921,949</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, 2021 and 2020

4. LAND, BUILDINGS AND EQUIPMENT:

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

	June 30,	
	2021	2020
Land	\$ -	\$ 619,238
Buildings and improvements	113,797	8,074,843
Furniture and equipment	1,347,478	2,744,681
	1,461,275	11,438,762
Less accumulated depreciation	(1,264,354)	(10,391,693)
	\$ 196,921	\$ 1,047,069

5. INVESTMENT IN CAPTIVE INSURANCE COMPANY:

The Organization is part owner of a captive insurance company, Stewardship Insurance, Ltd. (SIL), which insures and reinsures some of the Organization's own risk. SIL is organized as an offshore entity, domiciled in Bermuda. SIL has a subsidiary, Stewardship Reinsurance Ltd., which operates as a reinsurance subsidiary. SIL's board of directors includes a representative from each of the nine owners. SIL derives its funds from the owners' premiums, interest earned on premium and claim reserves, and captured underwriting profit. as well as from the initial start-up capital (on the initial purchase of shares by the owners). SIL allocates premiums and losses on an entity-specific basis. SIL reinsures the insurance carrier for the Organization's own risk for workers' compensation, general liability, sexual misconduct, and automobile liability and physical damages. As of June 30, 2021 and 2020, ACI owns approximately 1.58% and 1.94%, respectively, of SIL and accounts for its investment using the equity method.

The investment in SIL is \$639,212 and \$645,844 as of June 30, 2021 and 2020, respectively. Summary financial information (unaudited) of SIL is as follows:

	June 30,	
	2021	2020
Total assets	\$ 68,070,450	\$ 62,290,597
Total liabilities	\$ 27,556,992	\$ 28,982,231
Results of operations	\$ 8,883,851	\$ 1,526,811

AWANA CLUBS INTERNATIONAL AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

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 second loan in the amount of \$2,000,000 on January 29, 2021. 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 January 29, 2026.

In fiscal year 2020, ACI was approved for a first PPP loan in the amount of \$2,815,850 on May 1, 2020, which was subsequently forgiven on June 10, 2021, and is therefore reflected in revenue as of June 30, 2021. The second PPP loan in the amount of \$2,000,000 was subsequently forgiven on October 5, 2021.

7. ANNUITIES AND TRUSTS PAYABLE:

Annuities and trusts payable consist of:

	June 30,	
	2021	2020
Annuities payable	\$ 143,026	\$ 148,280
Irrevocable trust obligations	17,311	14,397
	\$ 160,337	\$ 162,677
Change in value of annuities consists of:		
Interest and dividend income	\$ 4,408	\$ 5,310
Actuarial change	12,116	(33,727)
Matured annuitants	-	-
Annuity payments	(12,034)	(12,206)
	\$ 4,490	\$ (40,623)
Change in value of trusts consists of:		
Interest and dividend income	\$ 1,456	\$ 1,900
Payments to beneficiaries	(5,095)	(5,142)
	\$ (3,639)	\$ (3,242)

AWANA CLUBS INTERNATIONAL AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

8. EMPLOYEE RETIREMENT PLAN:

ACI has a discretionary match 401(k) plan covering all eligible employees. Employer contributions of \$148,499 and \$153,371 were made in 2021 and 2020, respectively.

9. NET ASSETS WITH DONOR RESTRICTIONS:

Net assets with donor restrictions consist of the following:

	June 30,	
	2021	2020
Restricted by purpose:		
International projects	\$ 1,971,155	\$ 2,395,794
U.S. ministry projects	1,925,829	1,543,662
Restricted by time:		
Contributions receivable	-	50,000
Charitable remainder trusts	82,568	69,133
Beneficial interest in trusts	791,961	782,186
	\$ 4,771,513	\$ 4,840,775

Net assets restricted in perpetuity total \$100,750 at both June 30, 2021 and 2020, and consist of endowment funds for which only the 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 \$2,757,724 and \$3,037,604 for the support of these organizations during the years ended June 30, 2021 and 2020, respectively.

11. RISKS AND UNCERTAINTIES:

In March 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.

AWANA CLUBS INTERNATIONAL AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

12. LIQUIDITY AND AVAILABILITY OF RESOURCES:

The following table reflects ACI's financial assets as of June 30, 2021 and 2020, 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,	
	2021	2020
Financial assets:		
Cash and cash equivalents	\$ 9,920,781	\$ 10,329,520
Investments	443,403	372,588
Contributions receivable	-	50,000
Financial assets, at year end	10,364,184	10,752,108
Less those unavailable for general expenditures within one year, due to:		
Restricted by purpose or time	(4,771,513)	(4,840,775)
Board designated capital reserve	(1,917,115)	(1,917,115)
Restricted in perpetuity	(100,750)	(100,750)
	(6,789,378)	(6,858,640)
Financial assets available to meet cash needs for general expenditures within one year	\$ 3,574,806	\$ 3,893,468

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

13. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through October 8, 2021, which represents the date the consolidated financials statements were available to be issued.