

AWANA CLUBS INTERNATIONAL AND AFFILIATES
CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2022 AND 2021



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INDEPENDENT AUDITORS' REPORT

Board of Directors
Awana Clubs International and Affiliates
Streamwood, Illinois

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Awana Clubs International and Affiliates (ACI) (a nonprofit organization), which comprise the consolidated statements of financial position as of June 30, 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ACI as of June 30, 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of ACI and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Prior Period Consolidated Financial Statements

The 2021 consolidated financial statements of ACI were audited by other auditors whose report dated October 8, 2021, expressed an unmodified opinion on those consolidated financial statements.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ACI's ability to continue as a going concern for one year after the date the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 ACI's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ACI's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



CliftonLarsonAllen LLP
Oak Brook, Illinois
October 19, 2022

AWANA CLUBS INTERNATIONAL AND AFFILIATES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2022 AND 2021

| | 2022 | 2021 |
|--|---------------|---------------|
| ASSETS | | |
| Cash and Cash Equivalents | \$ 10,961,756 | \$ 9,920,781 |
| Investments and Trust Assets | 370,802 | 443,403 |
| Property Held for Sale | 662,801 | 678,143 |
| Accounts Receivable, Net | 31,972 | 109,008 |
| Inventory, Net | 2,342,012 | 3,369,669 |
| Prepaid Expenses and Other Assets | 560,424 | 381,144 |
| Investment in Captive Insurance Company | 507,237 | 639,212 |
| Beneficial Interest in Trusts | 664,681 | 791,961 |
| Land, Buildings, and Equipment, Net | 121,449 | 196,921 |
| Total Assets | \$ 16,223,134 | \$ 16,530,242 |
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES | | |
| Accounts Payable | \$ 790,106 | \$ 592,069 |
| Funds Held for Others | 170,000 | 59,954 |
| Accrued Expenses | 644,551 | 729,212 |
| Deferred Revenue | 498,909 | 224,194 |
| Note Payable | - | 2,000,000 |
| Annuities and Trusts Payable | 138,758 | 160,337 |
| Total Liabilities | 2,242,324 | 3,765,766 |
| NET ASSETS | | |
| Net Assets Without Donor Restrictions: | | |
| Undesignated, Available for General Activities | 5,491,779 | 5,975,098 |
| Board Designated Capital Reserve | 1,917,115 | 1,917,115 |
| Total Net Assets Without Donor Restrictions | 7,408,894 | 7,892,213 |
| Net Assets With Donor Restrictions: | | |
| Restricted by Purpose or Time | 6,471,166 | 4,771,513 |
| Restricted in Perpetuity | 100,750 | 100,750 |
| Total Net Assets With Donor Restrictions | 6,571,916 | 4,872,263 |
| Total Net Assets | 13,980,810 | 12,764,476 |
| Total Liabilities and Net Assets | \$ 16,223,134 | \$ 16,530,242 |

See accompanying Notes to Consolidated financial statements.

AWANA CLUBS INTERNATIONAL AND AFFILIATES
CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2022 AND 2021

| | 2022 | | | 2021 | | |
|---|-------------------------------|----------------------------|-----------------------------|-------------------------------|----------------------------|-----------------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | Without Donor Restrictions | With Donor Restrictions | Total |
| REVENUES | | | | | | |
| Sales of Ministry Materials | \$ 11,953,703 | \$ - | \$ 11,953,703 | \$ 8,610,902 | \$ - | \$ 8,610,902 |
| Contributions | 2,218,255 | 10,907,680 | 13,125,935 | 11,748,260 | 1,181,332 | 12,929,592 |
| Government Grants | 2,000,000 | - | 2,000,000 | 2,815,850 | - | 2,815,850 |
| Registration and Event Fees | 861,415 | - | 861,415 | 571,098 | - | 571,098 |
| Investment Income (Loss) | (70,631) | - | (70,631) | 75,987 | - | 75,987 |
| Change in Value of Annuities and Trusts | (111,607) | (3,716) | (115,323) | 4,490 | (3,639) | 851 |
| Change in Value of SIL Equity | (80,975) | - | (80,975) | (6,632) | - | (6,632) |
| Other Income | 67,351 | - | 67,351 | 532,339 | - | 532,339 |
| Total Revenues | <u>16,837,511</u> | <u>10,903,964</u> | <u>27,741,475</u> | <u>24,352,294</u> | <u>1,177,693</u> | <u>25,529,987</u> |
| RECLASSIFICATIONS | | | | | | |
| Net Assets Released from Restrictions: | | | | | | |
| Satisfaction of Timing Restrictions | - | - | - | 23,151 | (23,151) | - |
| Satisfaction of Purpose Restrictions | 9,204,311 | (9,204,311) | - | 1,223,804 | (1,223,804) | - |
| Total Reclassifications | <u>9,204,311</u> | <u>(9,204,311)</u> | <u>-</u> | <u>1,246,955</u> | <u>(1,246,955)</u> | <u>-</u> |
| EXPENSES | | | | | | |
| Program Services: | | | | | | |
| Ministry Programs and Support | 21,554,898 | - | 21,554,898 | 19,784,360 | - | 19,784,360 |
| Total Program Services | <u>21,554,898</u> | <u>-</u> | <u>21,554,898</u> | <u>19,784,360</u> | <u>-</u> | <u>19,784,360</u> |
| Supporting Activities: | | | | | | |
| Management and General | 2,424,539 | - | 2,424,539 | 3,077,492 | - | 3,077,492 |
| Fundraising | 2,545,704 | - | 2,545,704 | 2,486,818 | - | 2,486,818 |
| Total Supporting Activities | <u>4,970,243</u> | <u>-</u> | <u>4,970,243</u> | <u>5,564,310</u> | <u>-</u> | <u>5,564,310</u> |
| Total Expenses | <u>26,525,141</u> | <u>-</u> | <u>26,525,141</u> | <u>25,348,670</u> | <u>-</u> | <u>25,348,670</u> |
| CHANGE IN NET ASSETS | (483,319) | 1,699,653 | 1,216,334 | 250,579 | (69,262) | 181,317 |
| Net Assets - Beginning 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> |
| NET ASSETS - END OF YEAR | <u><u>\$ 7,408,894</u></u> | <u><u>\$ 6,571,916</u></u> | <u><u>\$ 13,980,810</u></u> | <u><u>\$ 7,892,213</u></u> | <u><u>\$ 4,872,263</u></u> | <u><u>\$ 12,764,476</u></u> |

See accompanying Notes to Consolidated financial statements.

AWANA CLUBS INTERNATIONAL AND AFFILIATES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2022

| | <u>Program Services</u> | <u>Management and General</u> | <u>Fundraising</u> | <u>Total</u> |
|--|-----------------------------|-----------------------------------|-----------------------------|-----------------------------|
| Cost of Goods Sold | \$ 4,310,019 | \$ - | \$ - | \$ 4,310,019 |
| Grants | 3,260,997 | - | - | 3,260,997 |
| Salaries and Wages | 7,648,244 | 1,142,472 | 1,556,264 | 10,346,980 |
| Benefits | 1,352,926 | 267,017 | 153,511 | 1,773,454 |
| Professional Fees | - | 101,016 | - | 101,016 |
| Contracted Services | | | | |
| (Contract Labor) | 2,401,712 | 296,994 | 401,879 | 3,100,585 |
| Advertising and Promotion | 405,178 | 4,425 | 88,820 | 498,423 |
| Office Expenses | 293,510 | 17,414 | 57,641 | 368,565 |
| Information Technology | 482,570 | 140,585 | 64,756 | 687,911 |
| Occupancy | 169,622 | 88,055 | 11,503 | 269,180 |
| Travel and Meals | 806,789 | 24,150 | 127,685 | 958,624 |
| Conferences and Meetings | 241,485 | 7,708 | 23,265 | 272,458 |
| Depreciation | 68,467 | 19,562 | 9,781 | 97,810 |
| Insurance | 65,220 | 310,166 | 41,544 | 416,930 |
| Equipment | 63,613 | 4,975 | 9,055 | 77,643 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Less: Expenses Netted Against Revenues on the Statement of Activities | <u>(15,454)</u> | <u>-</u> | <u>-</u> | <u>(15,454)</u> |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total Expenses | <u><u>\$ 21,554,898</u></u> | <u><u>\$ 2,424,539</u></u> | <u><u>\$ 2,545,704</u></u> | <u><u>\$ 26,525,141</u></u> |

See accompanying Notes to Consolidated financial statements.

AWANA CLUBS INTERNATIONAL AND AFFILIATES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2021

| | <u>Program Services</u> | <u>Management and General</u> | <u>Fundraising</u> | <u>Total</u> |
|--|-----------------------------|-----------------------------------|-----------------------------|-----------------------------|
| 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) | 1,977,061 | 367,053 | 253,016 | 2,597,130 |
| 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 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Less: Expenses Netted Against Revenues on the Statement of Activities | <u>(17,129)</u> | <u>-</u> | <u>-</u> | <u>(17,129)</u> |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total Expenses | <u><u>\$ 19,784,360</u></u> | <u><u>\$ 3,077,492</u></u> | <u><u>\$ 2,486,818</u></u> | <u><u>\$ 25,348,670</u></u> |

See accompanying Notes to Consolidated financial statements.

**AWANA CLUBS INTERNATIONAL AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2022 AND 2021**

| | 2022 | 2021 |
|---|---------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in Net Assets | \$ 1,216,334 | \$ 181,317 |
| Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities: | | |
| Depreciation | 97,810 | 172,005 |
| Net Realized and Unrealized Loss (Gain) on Investments | 72,601 | (70,874) |
| Forgiveness of Paycheck Protection Program Loan | (2,000,000) | (2,815,850) |
| Reduction in Equity in Captive Insurance Company | 80,975 | 6,632 |
| Gain on Sale of Land, Building, and Equipment | - | (11,500) |
| Change in Contributions Receivable | - | 50,000 |
| Change in Value of Trusts | 2,668 | 3,639 |
| Change in Value of Annuities | (8,793) | (4,490) |
| Annuity Payments | - | 12,034 |
| Change in: | | |
| Accounts Receivable | 77,036 | 52,344 |
| Receivables from Trusts | 127,280 | (9,775) |
| Inventory | 1,027,657 | 424,021 |
| Prepaid Expenses and Other Assets | (179,280) | (7,713) |
| Accounts Payable and Accrued Expenses | 113,376 | (367,734) |
| Funds Held for Others | 110,046 | - |
| Deferred Revenue | 274,715 | (20,831) |
| Net Cash Provided (Used) by Operating Activities | 1,012,425 | (2,406,775) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of Investments | - | (5,864) |
| Proceeds from Sale of Investments | - | 5,923 |
| Purchase of Land, Building, and Equipment | (6,996) | - |
| Proceeds from Sale of Land, Building, and Equipment | - | 11,500 |
| Net Cash Provided (Used) by Investing Activities | (6,996) | 11,559 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Annuity and Trust Payments | (15,454) | (17,129) |
| Other Changes in Annuities and Trusts | - | 3,606 |
| Borrowings on Debt | - | 2,000,000 |
| Distribution of Equity in Captive Insurance Company | 51,000 | - |
| Net Cash Provided by Financing Activities | 35,546 | 1,986,477 |
| CHANGE IN CASH AND CASH EQUIVALENTS | 1,040,975 | (408,739) |
| Cash and Cash Equivalents - Beginning of Year | 9,920,781 | 10,329,520 |
| CASH AND CASH EQUIVALENTS - END OF YEAR | \$ 10,961,756 | \$ 9,920,781 |
| SUPPLEMENTAL INFORMATION | | |
| Noncash Forgiveness of Debt | \$ 2,000,000 | \$ 2,815,850 |
| Disposal of Fully Depreciated Assets | \$ 293,700 | \$ 1,397,203 |

See accompanying Notes to Consolidated financial statements.

AWANA CLUBS INTERNATIONAL AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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 nonprofit 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 the years ended June 30, 2022 and 2021.

Awana International, a Colorado nonprofit 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.

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, 2022 and 2021, ACI's cash balances exceeded federally insured limits by \$10,137,156 and \$9,207,727, respectively. ACI does not believe these funds to be at substantial risk of loss due to the lack of federal insurance coverage.

AWANA CLUBS INTERNATIONAL AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and Trust Assets

Investments and trust assets are reported at fair value as further described in Note 2. 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 \$55,000 and \$45,000 as of June 30, 2022 and 2021, 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 ACI, financial condition of ACI, 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.

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 or net realizable value. Included in the inventory balance on the consolidated statements of financial position is a reserve for obsolescence of \$850,000 and \$945,000 as of June 30, 2022 and 2021, 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.

AWANA CLUBS INTERNATIONAL AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Beneficial Interest in Trusts

Charitable remainder trusts have been established naming ACI as the beneficiary. The irrevocable charitable remainder trusts, which are administrated 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 \$664,681 and \$791,961 at June 30, 2022 and 2021, 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.

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 2.

AWANA CLUBS INTERNATIONAL AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 Assets 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.

AWANA CLUBS INTERNATIONAL AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets (Continued)

Net Assets With Donor Restriction, 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 disclosure 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 noncontribution 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.

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 \$1,294,220 and \$897,605 for the years ended June 30, 2022 and 2021, respectively. These costs are included in costs of goods sold and contracted services which is a component of ministry programs and supplies expense in the consolidated statements of activities.

**AWANA CLUBS INTERNATIONAL AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising and Promotion Expenses

Promotion costs are expensed as incurred and consist of direct mail, magazine advertisements, and digital promotions. Total promotion expenses were \$498,423 and \$285,235 for the years ended June 30, 2022 and 2021, 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 as the lower of its carrying amount or fair value less estimated selling costs, which was \$662,801 and \$678,143 at June 30, 2022 and 2021, respectively. See table below for detail of asset.

| | 2022 | 2021 |
|--------------------------|-------------|-------------|
| Land Held for Sale | \$ 619,238 | \$ 619,238 |
| Building Held for Sale | 7,961,046 | 7,961,046 |
| Accumulated Depreciation | (7,917,483) | (7,902,141) |
| Total | \$ 662,801 | \$ 678,143 |

Subsequent to year-end, the assets were sold to an unrelated third party for \$3,500,000 on October 15, 2022. The sale price was in excess of carrying amounts.

Reclassifications

Certain amounts have been reclassified for the year ended June 30, 2021 to conform to the presentation for the year ended June 30, 2022. The reclassifications had no impact on previously reported net assets.

Subsequent Events

Subsequent events have been evaluated through October 19, 2022, which is the date the consolidated financial statements were available to be issued and has considered any relevant matters in the preparation of the consolidated financial statements and footnotes.

Adoption of New Accounting Standard

In September 2020, the Financial Accounting Standards Board (FASB) issued amended guidance for contributed nonfinancial assets, Accounting Standards Update (ASU) No. 2020-07, *Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The guidance requires the presentation of contributed nonfinancial assets as a separate line item in the statement of activities, disclosure of the disaggregated amount by type, and disclosure of qualitative information about whether the contributed nonfinancial assets were monetized or utilized during the reporting period, as well as a description of the programs or other activities in which the assets were used. The guidance also requires disclosure of any donor-imposed restrictions and a description of valuation techniques. The adoption of the new guidance in 2022 did not have a significant effect on the presentation or disclosures within ACI's consolidated financial statements.

AWANA CLUBS INTERNATIONAL AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 2 INVESTMENTS AND TRUST ASSETS

Investments and trust assets consist of the following as of June 30:

| | 2022 | 2021 |
|------------------------------------|------------|------------|
| Investments: | | |
| Mutual Funds | \$ 253,740 | \$ 290,157 |
| Money Market Funds | 26,854 | 22,397 |
| Mineral Interests | 4,200 | 30,969 |
| Total Investments | 284,794 | 343,523 |
| Investments Held in Trust: | | |
| Mutual Funds | 78,249 | 98,049 |
| Money Market Funds | 7,759 | 1,831 |
| Total Investments Held in Trust | 86,008 | 99,880 |
| Total Investments and Trust Assets | \$ 370,802 | \$ 443,403 |

In determining fair value, ACI uses various valuation approaches within the fair value measurements framework. Fair value measurements are determined based on the assumptions that market participants would use in pricing an asset or liability.

The fair value measurement framework establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. ASC 820-10 defines levels within the hierarchy based on the reliability of inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets,

Level 2 – Valuations based on quoted prices for similar assets or liabilities or identical assets or liabilities in less active markets, such as dealer or broker markets; and

Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models, and similar techniques not based on market, exchange, dealer, or broker-traded transactions.

AWANA CLUBS INTERNATIONAL AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 2 INVESTMENTS AND TRUST ASSETS (CONTINUED)

Fair value of assets measured on a recurring basis as of June 30 are as follows:

| | 2022 | | | Total |
|---------------------------------|-------------------|-------------|-------------------|-------------------|
| | Level 1 | Level 2 | Level 3 | |
| Investments and Trust Assets: | | | | |
| Mutual Funds | \$ 331,989 | \$ - | \$ - | \$ 331,989 |
| Mineral Interests | - | - | 4,200 | 4,200 |
| Total | <u>\$ 331,989</u> | <u>\$ -</u> | <u>\$ 4,200</u> | 336,189 |
| Money Market Funds | | | | 34,613 |
| Total Investments at Fair Value | | | | <u>\$ 370,802</u> |
| Beneficial Interest in Trusts | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 664,681</u> | <u>\$ 664,681</u> |
| | | | | |
| | 2021 | | | Total |
| | Level 1 | Level 2 | Level 3 | |
| Investments and Trust Assets: | | | | |
| Mutual Funds | \$ 388,206 | \$ - | \$ - | \$ 388,206 |
| Mineral Interests | - | - | 30,969 | 30,969 |
| Total | <u>\$ 388,206</u> | <u>\$ -</u> | <u>\$ 30,969</u> | 419,175 |
| Money Market Funds | | | | 24,228 |
| Total Investments at Fair Value | | | | <u>\$ 443,403</u> |
| Beneficial Interest in Trusts | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 791,961</u> | <u>\$ 791,961</u> |

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

| | Beneficial Interest in Trusts | Mineral Interests | Total |
|--|-------------------------------------|----------------------|-------------------|
| Balance - July 1, 2020 | \$ 782,186 | \$ 38,508 | \$ 820,694 |
| Unrealized Losses | - | (7,539) | (7,539) |
| Change in Value of Beneficial Interest in Trusts | 9,775 | - | 9,775 |
| Balance - June 30, 2021 | 791,961 | 30,969 | 822,930 |
| Unrealized Losses | - | (26,769) | (26,769) |
| Change in Value of Beneficial Interest in Trusts | (127,280) | - | (127,280) |
| Balance - June 30, 2022 | <u>\$ 664,681</u> | <u>\$ 4,200</u> | <u>\$ 668,881</u> |

AWANA CLUBS INTERNATIONAL AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 2 INVESTMENTS AND TRUST ASSETS (CONTINUED)

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.

NOTE 3 LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment consist of the following as of June 30:

| | 2022 | 2021 |
|------------------------------------|--------------------|--------------------|
| Land | \$ 619,238 | \$ 619,238 |
| Buildings and Improvements | 8,053,191 | 8,074,843 |
| Furniture and Equipment | 1,060,774 | 1,347,478 |
| Total | <u>9,733,203</u> | <u>10,041,559</u> |
| Less: Accumulated Depreciation | <u>(8,948,953)</u> | <u>(9,166,495)</u> |
| Net Land, Buildings, and Equipment | <u>\$ 784,250</u> | <u>\$ 875,064</u> |

Depreciation expense was \$97,810 and \$172,005 for the years ended June 30, 2022 and 2021, respectively.

NOTE 4 INVESTMENT IN CAPTIVE INSURANCE COMPANY

ACI is part owner of a captive insurance company, Stewardship Insurance, Ltd. (SIL), which insures and reinsures some of ACI'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 startup 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 ACI's own risk for workers' compensation, general liability, sexual misconduct, and automobile liability and physical damages. As of June 30, 2022 and 2021, ACI owns approximately 1.41% and 1.58%, respectively, of SIL, and accounts for its investment using the equity method.

AWANA CLUBS INTERNATIONAL AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 4 INVESTMENT IN CAPTIVE INSURANCE COMPANY (CONTINUED)

The investment in SIL is \$507,237 and \$639,212 as of June 30, 2022 and 2021, respectively. Summary financial information (unaudited) of SIL is as follows:

| | 2022 | 2021 |
|-----------------------|-----------------------|-----------------------|
| Total Assets | <u>\$ 65,317,877</u> | <u>\$ 687,070,450</u> |
| Total Liabilities | <u>\$ 29,328,349</u> | <u>\$ 27,556,992</u> |
| Results of Operations | <u>\$ (2,662,939)</u> | <u>\$ 8,883,851</u> |

NOTE 5 NOTES PAYABLE

On May 1, 2020, ACI received a loan from American National Bank totaling \$2,815,850 to fund payroll and utilities through the Paycheck Protection Program (the PPP Loan). The PPP Loan bore interest at a fixed rate of 1.0% per annum, had a term of two years, and was unsecured and guaranteed by the U.S. Small Business Administration (SBA). Payment of principal and interest was deferred until the date on which the amount of forgiveness was remitted by the SBA to the lender or, if ACI failed to apply for forgiveness within 10 months after the covered period, then payment of principal and interest shall begin on that date. These amounts are subject to forgiveness based on compliance with program requirements and approval by the SBA. The covered period from May 1, 2020 through October 15, 2020, is the time ACI had to spend their PPP Loan funds.

ACI followed ASC 470, *Debt*, to account for the initial receipts related to the PPP Loan. On June 10, 2021, the SBA processed ACI's PPP Loan forgiveness application and notified American National Bank that the PPP Loan qualified for full forgiveness. Loan proceeds were received by the bank from the SBA on this date. Therefore, ACI was legally released from the debt and the loan forgiveness was recorded as a gain on extinguishment of debt, which was included in contributions in the statement of activities during the year ended June 30, 2021.

On January 29, 2021, ACI received a second loan from American National Bank totaling \$2,000,000 to fund payroll and utilities through the Paycheck Protection Program (the PPP Loan #2). The PPP Loan #2 bore interest at a fixed rate of 1.0% per annum, had a term of five years, and was unsecured and guaranteed by the SBA. Payment of principal and interest was deferred until the date on which the amount of forgiveness was remitted by the SBA to the lender or, if ACI failed to apply for forgiveness within 10 months after the covered period, then payment of principal and interest shall begin on that date. These amounts are subject to forgiveness based on compliance with program requirements and approval by the SBA. The covered period from January 19, 2021 through May 7, 2021, is the time ACI had to spend their PPP Loan funds.

AWANA CLUBS INTERNATIONAL AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 5 NOTES PAYABLE (CONTINUED)

ACI followed ASC 470, *Debt*, to account for the initial receipts related to the PPP Loan. On October 5, 2021, the SBA processed ACI's PPP Loan #2 forgiveness application and notified American National Bank that the PPP Loan #2 qualified for full forgiveness. Loan proceeds were received by the bank from the SBA on this date. Therefore, ACI was legally released from the debt and the loan forgiveness was recorded as a gain on extinguishment of debt, which was included in contributions in the statement of activities during the year ended June 30, 2022.

The SBA may review funding eligibility and usage of funds for compliance with program requirements based on dollar thresholds and other factors. The amount of liability, if any, from potential noncompliance cannot be determined with certainty; however, management is of the opinion that any review will not have a material adverse impact on ACI's financial position.

NOTE 6 ANNUITIES AND TRUSTS PAYABLE

Annuities and trusts payable consist of the following at June 30:

| | <u>2022</u> | <u>2021</u> |
|---|---------------------|-------------------|
| Annuities Payable | \$ 123,874 | \$ 143,026 |
| Irrevocable Trust Obligations | 14,884 | 17,311 |
| Total | <u>\$ 138,758</u> | <u>\$ 160,337</u> |
| Change in Value of Annuities Consists of: | | |
| Interest and Dividend Income | \$ 4,454 | \$ 4,408 |
| Actuarial Change | (105,702) | 12,116 |
| Matured Annuitants | - | - |
| Annuity Payments | (10,359) | (12,034) |
| Total | <u>\$ (111,607)</u> | <u>\$ 4,490</u> |
| Change in Value of Trusts Consists of: | | |
| Interest and Dividend Income | \$ 1,379 | \$ 1,456 |
| Payments to Beneficiaries | (5,095) | (5,095) |
| Total | <u>\$ (3,716)</u> | <u>\$ (3,639)</u> |

NOTE 7 EMPLOYEE RETIREMENT PLAN

ACI has a discretionary match 401(k) plan covering all eligible employees. Employer contributions of \$150,483 and \$148,499 were made in 2022 and 2021, respectively.

**AWANA CLUBS INTERNATIONAL AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

NOTE 8 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at June 30:

| | 2022 | 2021 |
|-------------------------------|--------------|--------------|
| Restricted by Purpose: | | |
| International Projects | \$ 3,058,292 | \$ 1,971,155 |
| U.S. Ministry Projects | 2,677,068 | 1,925,829 |
| Restricted by Time: | | |
| Charitable Remainder Trusts | 71,125 | 82,568 |
| Beneficial Interest in Trusts | 664,681 | 791,961 |
| Total | \$ 6,471,166 | \$ 4,771,513 |

Net assets restricted in perpetuity total \$100,750 at both June 30, 2022 and 2021, and consist of endowment funds for which only the investment return is expendable.

NOTE 9 RESTRICTED ENDOWMENTS

ACI's Endowment Fund consists of four individual endowments that have been established by donors to provide annual funding to specific ministry projects and general operations. Net assets associated with endowment funds are classified based on the existence or absence of donor-imposed restrictions. ACI manages its endowments on a pooled basis, and earnings on the pooled investments are allocated on a pro-rata basis to each of the funds. See Note 2 for investments held as of June 30, 2022 and 2021.

ACI has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, ACI classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment.

In Accordance with UPMIFA, ACI considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: a) the duration and preservation of the fund; b) the purposes of the ministry and the donor-restricted endowment fund; c) general economic conditions; d) the possible effect of inflation and deflation; e) the expected total return of income and the appreciation of investments; f) other resources of ACI; and g) the investment policies of ACI.

AWANA CLUBS INTERNATIONAL AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 9 RESTRICTED ENDOWMENTS (CONTINUED)

The change in endowment net assets for the fiscal years ended June 30 are as follows:

| | <u>2022</u> | <u>2021</u> |
|--|-------------------|-------------------|
| Endowment net Assets at Beginning of Year | \$ 150,365 | \$ 150,867 |
| Investment Return | (15,881) | 377 |
| Appropriation of Endowment Assets for Expenditure | <u>(2,227)</u> | <u>(879)</u> |
| Endowment Net Assets at End of Year | <u>\$ 132,257</u> | <u>\$ 150,365</u> |

NOTE 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 \$3,559,000 and \$2,757,724 for the support of these organizations during the years ended June 30, 2022 and 2021, respectively.

NOTE 11 LIQUIDITY AND AVAILABILITY OF RESOURCES

The following table reflects ACI's financial assets as of June 30, 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, under 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.

| | <u>2022</u> | <u>2021</u> |
|--|---------------------|---------------------|
| Financial Assets: | | |
| Cash and Cash Equivalents | \$ 10,961,756 | \$ 9,920,781 |
| Investments | 370,802 | 443,403 |
| Financial Assets - Year End | <u>11,332,558</u> | <u>10,364,184</u> |
| Less Those Unavailable for General Expenditures within One Year Due to: | | |
| Restricted by Time or Purpose | (6,471,166) | (4,771,513) |
| Board Designated Capital Reserve | (1,917,115) | (1,917,115) |
| Restricted in Perpetuity | <u>(100,750)</u> | <u>(100,750)</u> |
| Total Unavailable for General Expenditures within One Year | <u>(8,489,031)</u> | <u>(6,789,378)</u> |
| Financial Assets Available to Meet Cash Needs for General Expenditures within One Year | <u>\$ 2,843,527</u> | <u>\$ 3,574,806</u> |

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

**AWANA CLUBS INTERNATIONAL AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

NOTE 12 UPCOMING ACCOUNTING PRONOUNCEMENTS

Leases

In February 2016, FASB issued amended guidance for treatment of leases. The guidance requires lessees to recognize a right-of-use asset and a corresponding lease liability for all operating and finance leases with lease terms greater than one year. The guidance also requires both qualitative and quantitative disclosures regarding the nature of ACI's leasing activities. The guidance will initially be applied using a modified retrospective approach. The amendments in the guidance will be effective for the year ending June 30, 2023.

Management is evaluating the impact of these pronouncements on the ACI's consolidated financial statements.



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