

**AWANA CLUBS INTERNATIONAL AND AFFILIATES
CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2023 AND 2022**



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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, 2023 and 2022, 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of June 30, 2023 and 2022, and the change in their net assets and their 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.

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.

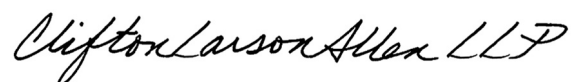
In performing an audit in accordance with GAAS, we:

- 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.

Emphasis of Matter Regarding Correction of an Error

As discussed in Note 14 to the financial statements, ACI adjusted prior year 2022 contributions, net assets without donor restriction and net assets with donor restriction. Accordingly, contributions, net assets with donor restriction, and net assets without donor restrictions have been restated as of the year ended June 30, 2022 to correct the error. Our opinion is not modified with respect to this matter.



CliftonLarsonAllen LLP

Oak Brook, Illinois

October 27, 2023

AWANA CLUBS INTERNATIONAL AND AFFILIATES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2023 AND 2022

	2023	2022 (Restated)
ASSETS		
Cash and Cash Equivalents	\$ 5,834,787	\$ 10,961,756
Investments and Trust Assets	7,586,276	370,802
Property Held for Sale	-	662,801
Accounts Receivable, Net	10,708	31,972
Inventory, Net	3,977,623	2,342,012
Prepaid Expenses and Other Assets	415,029	560,424
Investment in Captive Insurance Company	675,630	507,237
Beneficial Interest in Trusts	604,960	664,681
Land, Buildings, and Equipment, Net	26,321	121,449
Right-of-Use Asset	77,730	-
	\$ 19,209,064	\$ 16,223,134
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	\$ 1,581,946	\$ 790,106
Funds Held for Others	80,000	170,000
Accrued Expenses	666,532	644,551
Deferred Revenue	781,257	498,909
Annuities and Trusts Payable	132,456	138,758
Lease Liability	78,720	-
Total Liabilities	3,320,911	2,242,324
NET ASSETS		
Net Assets Without Donor Restrictions:		
Undesignated, Available for General Activities	10,156,036	6,600,946
Board Designated Capital Reserve	1,917,115	1,917,115
Total Net Assets Without Donor Restrictions	12,073,151	8,518,061
Net Assets With Donor Restrictions:		
Restricted by Purpose or Time	3,714,252	5,361,999
Restricted in Perpetuity	100,750	100,750
Total Net Assets With Donor Restrictions	3,815,002	5,462,749
Total Net Assets	15,888,153	13,980,810
Total Liabilities and Net Assets	\$ 19,209,064	\$ 16,223,134

See accompanying Notes to Consolidated Financial Statements.

AWANA CLUBS INTERNATIONAL AND AFFILIATES
CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2023 AND 2022

	2023			2022 (Restated)		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES						
Sales of Ministry Materials	\$ 13,699,628	\$ -	\$ 13,699,628	\$ 11,953,703	\$ -	\$ 11,953,703
Contributions	4,583,003	9,637,158	14,220,161	3,296,832	9,829,103	13,125,935
Government Grants	1,756,322	-	1,756,322	2,000,000	-	2,000,000
Registration and Event Fees	1,053,630	-	1,053,630	861,415	-	861,415
Investment Income (Loss)	224,486	-	224,486	(70,631)	-	(70,631)
Change in Value of Annuities and Trusts	(62,252)	(5,464)	(67,716)	(111,607)	(3,716)	(115,323)
Change in Value of SIL Equity	168,393	-	168,393	(80,975)	-	(80,975)
Gain on Sale of Building and Equipment	2,575,716	-	2,575,716	-	-	-
Other Income	38,621	-	38,621	67,351	-	67,351
Total Revenues	<u>24,037,547</u>	<u>9,631,694</u>	<u>33,669,241</u>	<u>17,916,088</u>	<u>9,825,387</u>	<u>27,741,475</u>
RECLASSIFICATIONS						
Net Assets Released from Restrictions:						
Satisfaction of Timing Restrictions	-	-	-	-	-	-
Satisfaction of Purpose Restrictions	11,279,441	(11,279,441)	-	9,234,901	(9,234,901)	-
Total Reclassifications	<u>11,279,441</u>	<u>(11,279,441)</u>	<u>-</u>	<u>9,234,901</u>	<u>(9,234,901)</u>	<u>-</u>
EXPENSES						
Program Services:						
Ministry Programs and Support	25,599,550	-	25,599,550	21,554,898	-	21,554,898
Total Program Services	<u>25,599,550</u>	<u>-</u>	<u>25,599,550</u>	<u>21,554,898</u>	<u>-</u>	<u>21,554,898</u>
Supporting Activities:						
Management and General	2,595,387	-	2,595,387	2,424,539	-	2,424,539
Fundraising	3,566,961	-	3,566,961	2,545,704	-	2,545,704
Total Supporting Activities	<u>6,162,348</u>	<u>-</u>	<u>6,162,348</u>	<u>4,970,243</u>	<u>-</u>	<u>4,970,243</u>
Total Expenses	<u>31,761,898</u>	<u>-</u>	<u>31,761,898</u>	<u>26,525,141</u>	<u>-</u>	<u>26,525,141</u>
CHANGE IN NET ASSETS	3,555,090	(1,647,747)	1,907,343	625,848	590,486	1,216,334
Net Assets - Beginning of Year	<u>8,518,061</u>	<u>5,462,749</u>	<u>13,980,810</u>	<u>7,892,213</u>	<u>4,872,263</u>	<u>12,764,476</u>
NET ASSETS - END OF YEAR	<u>\$ 12,073,151</u>	<u>\$ 3,815,002</u>	<u>\$ 15,888,153</u>	<u>\$ 8,518,061</u>	<u>\$ 5,462,749</u>	<u>\$ 13,980,810</u>

See accompanying Notes to Consolidated Financial Statements.

AWANA CLUBS INTERNATIONAL AND AFFILIATES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2023

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Cost of Goods Sold	\$ 5,472,177	\$ -	\$ -	\$ 5,472,177
Grants	5,483,502	60,300	-	5,543,802
Salaries and Wages	7,553,594	1,450,499	1,871,026	10,875,119
Benefits	1,469,328	130,807	250,869	1,851,004
Professional Fees	-	73,942	-	73,942
Contracted Services				
(Contract Labor)	2,152,247	223,697	807,136	3,183,080
Advertising and Promotion	717,700	6,432	85,481	809,613
Office Expenses	281,519	20,348	87,273	389,140
Information Technology	393,522	188,967	114,799	697,288
Occupancy	136,546	51,581	49,303	237,430
Travel and Meals	1,318,537	60,560	224,258	1,603,355
Conferences and Meetings	413,964	8,168	28,648	450,780
Depreciation	5,146	5,146	-	10,292
Insurance	61,814	309,068	41,209	412,091
Equipment	139,954	5,872	28,539	174,365
Less: Expenses Netted Against				
Revenues on the Statement of Activities	-	-	(21,580)	(21,580)
Total Expenses	<u><u>\$ 25,599,550</u></u>	<u><u>\$ 2,595,387</u></u>	<u><u>\$ 3,566,961</u></u>	<u><u>\$ 31,761,898</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
Less: Expenses Netted Against Revenues on the Statement of Activities	<u>(15,454)</u>	<u>-</u>	<u>-</u>	<u>(15,454)</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 CASH FLOWS
YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 1,907,343	\$ 1,216,334
Adjustments to Reconcile Change in Net Assets to		
Net Cash Provided (Used) by Operating Activities:		
Depreciation	10,292	97,810
Net Realized and Unrealized Loss (Gain) on Investments	(50,967)	72,601
Forgiveness of Paycheck Protection Program Loan	-	(2,000,000)
Noncash Lease Expense	990	-
(Increase) Reduction in Equity in Captive Insurance Company	(168,393)	80,975
Gain on Sale of Land, Building, and Equipment	(2,575,716)	-
Change in Contributions Receivable	-	-
Change in Value of Trusts	8,707	2,668
Change in Value of Annuities	6,570	(8,793)
Annuity Payments	-	-
Change in:		
Accounts Receivable	21,264	77,036
Receivables from Trusts	59,721	127,280
Inventory	(1,635,611)	1,027,657
Prepaid Expenses and Other Assets	145,395	(179,280)
Accounts Payable and Accrued Expenses	813,821	113,376
Funds Held for Others	(90,000)	110,046
Deferred Revenue	282,348	274,715
Net Cash Provided (Used) by Operating Activities	(1,264,236)	1,012,425
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	(7,164,507)	-
Proceeds from Sale of Investments	-	-
Purchase of Land, Building, and Equipment	(24,918)	(6,996)
Proceeds from Sale of Land, Building, and Equipment	3,348,271	-
Net Cash Used by Investing Activities	(3,841,154)	(6,996)
CASH FLOWS FROM FINANCING ACTIVITIES		
Annuity and Trust Payments	(21,579)	(15,454)
Other Changes in Annuities and Trusts	-	-
Borrowings on Debt	-	-
Distribution of Equity in Captive Insurance Company	-	51,000
Net Cash Provided (Used) by Financing Activities	(21,579)	35,546
CHANGE IN CASH AND CASH EQUIVALENTS	(5,126,969)	1,040,975
Cash and Cash Equivalents - Beginning of Year	10,961,756	9,920,781
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 5,834,787	\$ 10,961,756
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Noncash Forgiveness of Debt	\$ -	\$ 2,000,000
Employee Retention Credit	\$ 1,756,322	\$ -
Disposal of Fully Depreciated Assets	\$ 8,500,388	\$ 293,700

See accompanying Notes to Consolidated Financial Statements.

AWANA CLUBS INTERNATIONAL AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

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.

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, 2023 and 2022, ACI's cash balances exceeded federally insured limits by \$4,854,427 and \$10,137,156, 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, 2023 AND 2022

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 \$25,000 and \$55,000 as of June 30, 2023 and 2022, 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 \$830,000 and \$850,000 as of June 30, 2023 and 2022, 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, 2023 AND 2022

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 \$604,960 and \$664,681 at June 30, 2023 and 2022, 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.

Land, Buildings, Equipment, and Depreciation

Expenditures for land, buildings, and equipment in excess of \$5,000 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.

AWANA CLUBS INTERNATIONAL AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

AWANA CLUBS INTERNATIONAL AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Support and Revenue (Continued)

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 at a point in time when goods are shipped or otherwise delivered to customers. Revenues and expenses from registration and event fees are deferred until the event occurs. Recognition is over time. 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.

Leases

ACI determines if an arrangement is a lease at inception. Operating leases are included in right-of-use (ROU) assets – operating and lease liability – operating, and finance leases are included in right-of-use (ROU) assets – financing and lease liability – financing in the balance sheet.

ROU assets represent ACI's right to use an underlying asset for the lease term and lease liabilities represent ACI's obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. Lease terms may include options to extend or terminate the lease when it is reasonably certain that ACI will exercise that option. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term. ACI has elected to recognize payments for short-term leases with a lease term of 12 months or less as expense as incurred and these leases are not included as lease liabilities or right of use assets on the balance sheet.

AWANA CLUBS INTERNATIONAL AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)

The individual lease contracts do not provide information about the discount rate implicit in the lease. Therefore, ACI has elected to use a risk-free discount rate determined using a period comparable with that of the lease term for computing the present value of all lease liabilities.

ACI has elected not to separate nonlease components from lease components and instead accounts for each separate lease component and the nonlease component as a single lease component.

Shipping and Handling Costs

Total costs for shipping and handling were \$1,523,356 and \$1,294,220 for the years ended June 30, 2023 and 2022, 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.

Advertising and Promotion Expenses

Promotion costs are expensed as incurred and consist of direct mail, magazine advertisements, and digital promotions. Total promotion expenses were \$809,613 and \$498,423 for the years ended June 30, 2023 and 2022, respectively.

Subsequent Events

Subsequent events have been evaluated through October 27, 2023, 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 February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2016-02, *Leases (ASC 842)*. The new standard increases transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the balance sheet. Most prominent of the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

ACI adopted the requirements of the guidance effective July 1, 2022 and has elected to apply the provisions of this standard to the beginning of the period of adoption, through a cumulative effect adjustment, with certain practical expedients available. There were no leases to record under ASC 840 for the year ended June 30, 2022

ACI has elected to adopt the package of practical expedients available in the year of adoption. ACI has elected to adopt the available practical expedient to use hindsight in determining the lease term and in assessing impairment of the Company's ROU assets.

AWANA CLUBS INTERNATIONAL AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2 INVESTMENTS AND TRUST ASSETS

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

	<u>2023</u>	<u>2022</u>
Investments:		
Mutual Funds	\$ 281,040	\$ 253,740
Money Market Funds	5,428,051	26,854
Certificates of Deposit	1,777,631	-
Mineral Interests	4,200	4,200
Total Investments	<u>7,490,922</u>	<u>284,794</u>
Investments Held in Trust:		
Mutual Funds	85,967	78,249
Money Market Funds	9,387	7,759
Total Investments Held in Trust	<u>95,354</u>	<u>86,008</u>
Total Investments and Trust Assets	<u>\$ 7,586,276</u>	<u>\$ 370,802</u>

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, 2023 AND 2022

NOTE 2 INVESTMENTS AND TRUST ASSETS (CONTINUED)

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

	2023			Total
	Level 1	Level 2	Level 3	
Investments and Trust Assets:				
Mutual Funds	\$ 367,007	\$ -	\$ -	\$ 367,007
Mineral Interests	-	-	4,200	4,200
Certificates of Deposit	-	1,777,631	-	1,777,631
Total	<u>\$ 367,007</u>	<u>\$ 1,777,631</u>	<u>\$ 4,200</u>	2,148,838
Money Market Funds				5,437,438
Total Investments at Fair Value				<u>\$ 7,586,276</u>
Beneficial Interest in Trusts	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 604,960</u>	<u>\$ 604,960</u>
	2022			
	Level 1	Level 2	Level 3	Total
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>

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

	Beneficial Interest in Trusts	Mineral Interests	Total
Balance - July 1, 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	664,681	4,200	668,881
Unrealized Losses	-	-	-
Change in Value of Beneficial Interest in Trusts	(59,721)	-	(59,721)
Balance - June 30, 2023	<u>\$ 604,960</u>	<u>\$ 4,200</u>	<u>\$ 609,160</u>

AWANA CLUBS INTERNATIONAL AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

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:

	<u>2023</u>	<u>2022</u>
Land	\$ -	\$ 619,238
Buildings and Improvements	92,145	8,053,191
Furniture and Equipment	<u>393,033</u>	<u>1,060,774</u>
Total	485,178	9,733,203
Less: Accumulated Depreciation	<u>(458,857)</u>	<u>(8,948,953)</u>
Net Land, Buildings, and Equipment	<u>\$ 26,321</u>	<u>\$ 784,250</u>

Depreciation expense was \$10,292 and \$97,810 for the years ended June 30, 2023 and 2022, respectively.

In fiscal year 2021 ACI made the decision to list its Bode Road building, improvements, and equipment as property for sale. These assets were classified as held for sale and were reported in FY22 as the lower of its carrying amount or fair value less estimated selling costs, which was \$662,801 at June 30, 2022. On October 25, 2022, the assets were sold to an unrelated third-party for \$3,258,033. The sale price was in excess of carrying amounts resulting in a gain recognized of \$2,575,716.

AWANA CLUBS INTERNATIONAL AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

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, 2023 and 2022, ACI owns approximately 2.03% and 1.41%, respectively, of SIL, and accounts for its investment using the equity method. The investment in SIL is \$675,630 and \$507,237 as of June 30, 2023 and 2022, respectively. Summary financial information (unaudited) of SIL is as follows:

	2023	2022
Total Assets	<u>\$ 61,452,706</u>	<u>\$ 65,317,877</u>
Total Liabilities	<u>\$ 28,219,418</u>	<u>\$ 29,328,349</u>
Results of Operations	<u>\$ 192,569</u>	<u>\$ (2,662,939)</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.

AWANA CLUBS INTERNATIONAL AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 5 NOTES PAYABLE (CONTINUED)

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.

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>2023</u>	<u>2022</u>
Annuities Payable	\$ 115,956	\$ 123,874
Irrevocable Trust Obligations	16,500	14,884
Total	<u>\$ 132,456</u>	<u>\$ 138,758</u>
Change in Value of Annuities Consists of:		
Interest and Dividend Income	\$ 5,655	\$ 4,454
Actuarial Change	(53,419)	(105,702)
Matured Annuitants	-	-
Annuity Payments	(14,488)	(10,359)
Total	<u>\$ (62,252)</u>	<u>\$ (111,607)</u>
Change in Value of Trusts Consists of:		
Interest and Dividend Income	\$ 1,627	\$ 1,379
Payments to Beneficiaries	(7,091)	(5,095)
Total	<u>\$ (5,464)</u>	<u>\$ (3,716)</u>

AWANA CLUBS INTERNATIONAL AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 7 DEFERRED REVENUE

Deferred revenue at June 30, 2023 and 2022 consists of the following:

	<u>2023</u>	<u>2022</u>
Deferred Revenue:		
Sales of Ministry Materials	\$ 375,537	\$ 78,960
Registration and Event Fees	405,720	419,949
Total Deferred Revenue	<u>\$ 781,257</u>	<u>\$ 498,909</u>

ACI's deferred revenue for product sales is recognized at a point in time. ACI's deferred revenue for registration and event fees is recognized over time. Deferred revenue was \$224,194 at June 30, 2021.

NOTE 8 LEASES

The Organization leases an office facility for three years under a long-term, noncancelable lease agreements. The lease expires in 2024. In the normal course of business, it is expected that these leases will be renewed or replaced by a similar lease.

The following tables provide quantitative information concerning the Organization's leases for the year ended June 30, 2023:

Operating Lease Costs	\$ 86,427
Other Information:	
Operating Cash Flows	\$ 85,437
Right-of-Use Assets Obtained in Exchange for New	
Operating Lease Liabilities	\$ 161,130
Weighted-Average Remaining Lease Term	0.8 Years
Weighted-Average Discount Rate	2.84%

A maturity analysis of annual undiscounted cash flows for lease liabilities as of June 30, 2023, is as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2024	\$ 79,560
Less: Imputed Interest	(840)
Total Present Value	<u>\$ 78,720</u>
Lease Liability	<u>\$ 78,720</u>

As of June 30, 2023, the Organization has additional operating lease for facility rental, that has not yet commenced of \$52,542. The operating and finance leases will commence during fiscal year 2024 with a lease term of one year.

**AWANA CLUBS INTERNATIONAL AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 9 EMPLOYEE RETIREMENT PLAN

ACI has a discretionary match 401(k) plan covering all eligible employees. Employer contributions of \$217,675 and \$150,483 were made in 2023 and 2022, respectively.

NOTE 10 NET ASSETS WITH DONOR RESTRICTIONS (RESTATED)

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

	2023	2022
Restricted by Purpose:		
International Projects	\$ 1,571,535	\$ 2,719,764
U.S. Ministry Projects	1,458,905	1,906,429
Restricted by Time:		
Charitable Remainder Trusts	78,852	71,125
Beneficial Interest in Trusts	604,960	664,681
Total	\$ 3,714,252	\$ 5,361,999

Net assets restricted in perpetuity total \$100,750 at both June 30, 2023 and 2022, and consist of endowment funds for which only the investment return is expendable.

NOTE 11 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, 2023 and 2022.

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, 2023 AND 2022

NOTE 11 RESTRICTED ENDOWMENTS (CONTINUED)

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

	<u>2023</u>	<u>2022</u>
Endowment Net Assets at Beginning of Year	\$ 132,257	\$ 150,365
Investment Return	10,823	(15,881)
Appropriation of Endowment Assets for Expenditure	<u>(2,827)</u>	<u>(2,227)</u>
Endowment Net Assets at End of Year	<u>\$ 140,253</u>	<u>\$ 132,257</u>

NOTE 12 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 \$6,414,000 and \$3,559,000 for the support of these organizations during the years ended June 30, 2023 and 2022, respectively.

NOTE 13 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>2023</u>	<u>2022</u>
Financial Assets:		
Cash and Cash Equivalents	\$ 5,834,787	\$ 10,961,756
Investments	<u>7,586,276</u>	<u>370,802</u>
Financial Assets - Year End	13,421,063	11,332,558
Less: Those Unavailable for General Expenditures within One Year Due to:		
Restricted by Time or Purpose	(3,714,252)	(5,361,999)
Board Designated Capital Reserve Restricted in Perpetuity	<u>(1,917,115)</u>	<u>(1,917,115)</u>
Total Unavailable for General Expenditures within One Year	<u>(5,732,117)</u>	<u>(7,379,864)</u>
Financial Assets Available to Meet Cash Needs for General Expenditures within One Year	<u>\$ 7,688,946</u>	<u>\$ 3,952,694</u>

AWANA CLUBS INTERNATIONAL AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 13 LIQUIDITY AND AVAILABILITY OF RESOURCES (CONTINUED)

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

NOTE 14 PRIOR PERIOD ADJUSTMENT

The accompanying consolidated financial statements reflect a restatement of beginning of year net assets without donor restriction and net assets with donor restriction to include an adjustment related to the determination of contributions with donor restriction during the year ended June 30, 2022. The effect of this entry was a restatement to decrease contributions with donor restriction by \$1,078,577 and increase contributions without donor restriction by \$1,078,577 for the year ended June 30, 2022. The restatement also increased net assets released from restriction by \$30,590 for the year ended June 30, 2022.

NOTE 15 EMPLOYEE RETENTION CREDIT

On May 20, 2022, ACI applied for the Employee Retention Credit (ERC) grant funding from the Internal Revenue Service. Grants from the government are recognized when all conditions of such grants are fulfilled or there is reasonable assurance that they will be fulfilled. ACI recognized as revenue and received \$1,756,322 of refundable credits, which are included in the accompanying statement of activities as government grants. Eligibility and conditions for the ERC program may be audited by the IRS. The amount of liability, if any, from potential noncompliance cannot be determined with certainty; management is of the opinion that any audit will not have a material adverse impact on ACI's financial position.



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