

# AWANA CLUBS INTERNATIONAL AND AFFILIATES

Consolidated Financial Statements  
With Independent Auditors' Report

June 30, 2018 and 2017

# AWANA CLUBS INTERNATIONAL AND AFFILIATES

## Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Consolidated Financial Statements	
Consolidated Statements of Financial Position	2
Consolidated Statements of Activities	3
Consolidated Statements of Cash Flows	4
Notes to Consolidated Financial Statements	5
Supplementary Information	
Independent Auditors' Report on Supplementary Information	16
Consolidating Statement of Financial Position	17
Consolidating Statement of Activities	18

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Awana Clubs International  
and Affiliates  
Streamwood, Illinois

We have audited the accompanying consolidated financial statements of Awana Clubs International and Affiliates (ACI) which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to ACI's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Awana Clubs International and Affiliates as of June 30, 2018 and 2017, and the changes in its consolidated net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Wheaton, Illinois  
October 4, 2018

# AWANA CLUBS INTERNATIONAL AND AFFILIATES

## Consolidated Statements of Financial Position

	June 30,	
	2018	2017
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 3,747,943	\$ 3,247,706
Investments and trust assets	2,829,780	1,670,867
Accounts receivable, net	158,795	499,924
Inventory, net	3,683,647	4,207,485
Prepaid expenses and other assets	355,614	494,425
Contributions receivable	189,108	388,743
Investment in captive insurance company	1,356,310	1,440,212
Beneficial interest in trusts	838,669	981,680
Land, buildings and equipment, net	3,721,786	4,967,389
 Total Assets	 \$ 16,881,652	 \$ 17,898,431
 <b>LIABILITIES AND NET ASSETS:</b>		
Liabilities:		
Accounts payable	\$ 551,853	\$ 814,844
Accrued expenses	1,509,982	1,584,667
Deferred revenue	510,646	596,708
Note payable	1,553,819	1,600,000
Annuities and trusts payable	176,006	187,545
	4,302,306	4,783,764
Net assets:		
Unrestricted:		
Undesignated, available for general activities	3,858,180	3,511,549
Board designated capital reserve	1,917,115	1,917,115
Net investment in land, buildings and equipment	2,167,967	3,367,389
	7,943,262	8,796,053
Temporarily restricted	4,535,334	4,217,864
Permanently restricted	100,750	100,750
	12,579,346	13,114,667
 Total Liabilities and Net Assets	 \$ 16,881,652	 \$ 17,898,431

See notes to consolidated financial statements

# AWANA CLUBS INTERNATIONAL AND AFFILIATES

## Consolidated Statements of Activities

	Year Ended June 30,							
	2018			2017				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues:</b>								
Sales of ministry materials	\$ 21,056,057	\$ -	\$ -	\$ 21,056,057	\$ 22,461,383	\$ -	\$ -	\$ 22,461,383
Contributions	11,194,738	1,338,653	-	12,533,391	11,189,248	1,105,492	-	12,294,740
Registration and event fees	2,048,539	-	-	2,048,539	2,335,369	-	-	2,335,369
Investment income	183,561	-	-	183,561	317,711	-	-	317,711
Change in value of annuities and trusts	(134,277)	(3,439)	-	(137,716)	(659)	(52,039)	-	(52,698)
Loss on disposition of building	(582,228)	-	-	(582,228)	-	-	-	-
Other income	116,313	-	-	116,313	733,226	-	-	733,226
<b>Reclassifications:</b>								
Net assets released from restrictions:								
Satisfaction of timing restrictions	199,635	(199,635)	-	-	60,150	(60,150)	-	-
Satisfaction of purpose restrictions	818,109	(818,109)	-	-	753,731	(753,731)	-	-
	<u>34,900,447</u>	<u>317,470</u>	<u>-</u>	<u>35,217,917</u>	<u>37,850,159</u>	<u>239,572</u>	<u>-</u>	<u>38,089,731</u>
<b>Expenses:</b>								
<b>Program services:</b>								
Ministry programs and supplies	13,756,170	-	-	13,756,170	15,636,825	-	-	15,636,825
U.S. ministry and events	10,442,892	-	-	10,442,892	10,834,617	-	-	10,834,617
International ministry and events	4,864,592	-	-	4,864,592	5,667,543	-	-	5,667,543
	<u>29,063,654</u>	<u>-</u>	<u>-</u>	<u>29,063,654</u>	<u>32,138,985</u>	<u>-</u>	<u>-</u>	<u>32,138,985</u>
<b>Supporting activities:</b>								
Management and general	4,171,206	-	-	4,171,206	4,695,901	-	-	4,695,901
Fund-raising	2,518,378	-	-	2,518,378	2,369,784	-	-	2,369,784
	<u>6,689,584</u>	<u>-</u>	<u>-</u>	<u>6,689,584</u>	<u>7,065,685</u>	<u>-</u>	<u>-</u>	<u>7,065,685</u>
	<u>35,753,238</u>	<u>-</u>	<u>-</u>	<u>35,753,238</u>	<u>39,204,670</u>	<u>-</u>	<u>-</u>	<u>39,204,670</u>
Change in Net Assets	(852,791)	317,470	-	(535,321)	(1,354,511)	239,572	-	(1,114,939)
Net Assets, Beginning of Year	8,796,053	4,217,864	100,750	13,114,667	10,150,564	3,978,292	100,750	14,229,606
Net Assets, End of Year	<u>\$ 7,943,262</u>	<u>\$ 4,535,334</u>	<u>\$ 100,750</u>	<u>\$ 12,579,346</u>	<u>\$ 8,796,053</u>	<u>\$ 4,217,864</u>	<u>\$ 100,750</u>	<u>\$ 13,114,667</u>

See notes to consolidated financial statements

# AWANA CLUBS INTERNATIONAL AND AFFILIATES

## Consolidated Statements of Cash Flows

	Year Ended June 30,	
	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ (535,321)	\$ (1,114,939)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	1,140,792	948,502
Realized and unrealized gain on investments	(103,059)	(158,882)
Reduction (increase) in equity in captive insurance company	83,902	(381,901)
Loss on disposition of building	582,228	8,717
Change in bequests receivable	143,011	50,725
Change in contributions receivable	199,635	(60,150)
Change in value of trusts	3,439	52,039
Change in value of annuities	134,277	659
Annuity payments	17,276	21,821
Change in:		
Accounts receivable	341,129	(122,575)
Inventory	523,838	(858,536)
Prepaid expenses and other assets	138,811	77,376
Accounts payable and accrued expenses	(337,676)	375,913
Deferred revenue	(86,062)	(260,448)
Net Cash Provided (Used) by Operating Activities	2,246,220	(1,421,679)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of investments	(2,060,539)	(3,091,576)
Proceeds from sale of investments	1,004,685	4,090,156
Purchase of land, buildings and equipment	(477,417)	(168,783)
Net Cash (Used) Provided by Investing Activities	(1,533,271)	829,797
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Present value of new annuities	(142,453)	-
Annuity and trust payments	(22,088)	(26,251)
Other changes in annuities and trusts	(1,990)	(66,589)
Borrowings on debt	-	1,600,000
Payments on note payable	(46,181)	-
Net Cash (Used) Provided by Financing Activities	(212,712)	1,507,160
Change in Cash and Cash Equivalents	500,237	915,278
Cash and Cash Equivalents, Beginning of Year	3,247,706	2,332,428
Cash and Cash Equivalents, End of Year	\$ 3,747,943	\$ 3,247,706

See notes to consolidated financial statements

# AWANA CLUBS INTERNATIONAL AND AFFILIATES

Notes to Consolidated Financial Statements  
June 30, 2018 and 2017

## 1. NATURE OF ORGANIZATION:

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES:

### PRINCIPLES OF CONSOLIDATION

The consolidated financial statements of ACI include the transactions and balances of Awana Lifeline Ministries, ZimZam Global and Youth Missions International which are (or were) controlled affiliated organizations of ACI. Awana Lifeline Ministries is a Colorado nonprofit organization which exists to further the purposes of ACI by reaching men, women and their children with the biblical vision of parenthood. ZimZam Global is an Illinois nonprofit organization which was established to further the purposes of ACI by creating and disseminating programs and training to equip global church leaders to reach children and families to know, love and serve Jesus Christ, and to train and equip leaders in the area of church planting and church growth. Effective December 31, 2016, ACI rescinded all control of ZimZam Global, which is further disclosed in note 13. Only the transactions and balances of ZimZam Global prior to December 31, 2016, are reflected in the consolidated financial statements. Youth Missions International is a Washington non-profit organization which provides missions opportunities for youth so that they grow in their relationship with God by serving God in various locations around the world. All significant intra-organization transactions and balances have been eliminated. The consolidated financial statements do not include the transactions and balances for the affiliated international organizations, whose activities are disclosed in Note 12, because the necessary accounting criteria of control and economic interest do not exist.

### BASIS OF ACCOUNTING

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

# AWANA CLUBS INTERNATIONAL AND AFFILIATES

Notes to Consolidated Financial Statements  
June 30, 2018 and 2017

## 2. SIGNIFICANT ACCOUNTING POLICIES, continued:

### CASH AND CASH EQUIVALENTS

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

ACI maintains cash balances at several financial institutions. From time to time cash accounts may exceed federally insured limits. At June 30, 2018 and 2017, ACI's cash balances exceeded federally insured limits by \$3,211,433 and \$2,845,128, respectively. ACI does not believe these funds to be at substantial risk of loss due to the lack of federal insurance coverage.

### INVESTMENTS AND TRUST ASSETS

Investments and trust assets are reported at fair value as further described in Note 3. ACI reports investment income and gains and losses on investments as increases or decreases in unrestricted net assets, 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 \$85,000 and \$125,000 as of June 30, 2018 and 2017, respectively. Trade accounts receivable become past due when they exceed their contractual due dates, usually 30 days from the date of sale. The allowance for doubtful accounts receivable is maintained at a level that, in management's judgment, is adequate to absorb probable losses. The amount is based upon an analysis of overall trade receivables by management. Management's evaluation of the allowance for doubtful accounts includes, but is not limited to, the historical experience of payment patterns of the churches, financial condition of the churches, other known facts and circumstances and general economic conditions. This process is based on estimates and ultimate losses may vary from current estimates. As changes in estimates occur, adjustments to the level of the allowance are recorded in the provision for doubtful accounts in the period in which they become known. ACI does not assess finance charges or other late payment fees.



# AWANA CLUBS INTERNATIONAL AND AFFILIATES

Notes to Consolidated Financial Statements  
June 30, 2018 and 2017

## 2. SIGNIFICANT ACCOUNTING POLICIES, continued:

### INVENTORY

Inventory consists of various products held for sale to churches, such as uniforms and curriculum, and are stated at the lower of weighted average cost and net realizable value. Included in the inventory balance on the consolidated statements of financial position is a reserve for obsolescence of \$815,000 and \$500,000 as of June 30, 2018 and 2017, respectively. Due to the unknown factors which may affect the obsolescence of the inventory, it is reasonably possible that the reserve for obsolescence could increase or decrease by a material amount in the near term.

### PREPAID EXPENSES AND OTHER ASSETS

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

### CONTRIBUTIONS RECEIVABLE

Unconditional contributions receivable are recognized as income when made and recorded at fair value based upon estimated future cash flows. Bequests are recorded as income at the time ACI has an established right to the bequest and the proceeds are measurable. Unconditional contributions receivable that are expected to be collected within one year are recorded at net realizable value. Unconditional contributions receivable that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk adjusted interest rates applicable to the years in which the promises are expected to be received. This discount rate is based on yields of the various U.S. treasury bills corresponding to the timing of the promise to give. Amortization of the discount is included in contributions revenue in the consolidated statements of activities. At June 30, 2018, contributions receivable consists of two bequests. ACI received notification of a \$200,000 contribution receivable in 2017. The other agreement consists of expected annual payments of \$50,000 through 2021. The present value of these payments is estimated at \$189,108 as of June 30, 2018.

### BENEFICIAL INTEREST IN TRUSTS

Charitable remainder trusts have been established naming ACI as the beneficiary. The irrevocable charitable remainder trusts, which are administered by outside trustees, provide for the payment of distributions to the donors over their lifetimes. At the time of the donors' deaths, ACI will receive the remaining assets. The present value of future benefits expected to be received by ACI is estimated using applicable mortality tables at an average discount rate of 5% and total \$838,669 and \$981,680 at June 30, 2018 and 2017, respectively. Amortization of the discount on the estimated present value of future benefits has been included in change in value of trusts in the consolidated statements of activities. Changes in beneficial interest in trusts are substantially due to changes in fair value of the underlying investments.

# AWANA CLUBS INTERNATIONAL AND AFFILIATES

Notes to Consolidated Financial Statements  
June 30, 2018 and 2017

## 2. SIGNIFICANT ACCOUNTING POLICIES, continued:

### BENEFICIAL INTEREST IN TRUSTS, continued

ACI also administers irrevocable charitable trusts. These trusts provide the payment of lifetime distributions to the donor or other designated beneficiaries. The present value of the estimated future payments is calculated using an average discount rate of 5% and applicable mortality tables and is reported as trusts payable in the consolidated statements of financial position. At the death of the lifetime beneficiaries, the remaining assets are available for use by ACI. The present value of the remainder interest is reported as a temporarily restricted contribution in the period received and as temporarily restricted net assets until a reclassification to unrestricted net assets is made upon maturity of the trust. The resulting actuarial gain or loss is recorded as a component of the change in value of trusts in the consolidated statements of activities. Trust assets with respect to these trusts consist of nonexpendable amounts invested pursuant to ACI's trust agreements and are included in investments as further disclosed in Note 3.

### LAND, BUILDINGS, EQUIPMENT AND DEPRECIATION

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

### DEFERRED REVENUE

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

### ANNUITY AGREEMENTS

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

# AWANA CLUBS INTERNATIONAL AND AFFILIATES

Notes to Consolidated Financial Statements  
June 30, 2018 and 2017

## 2. SIGNIFICANT ACCOUNTING POLICIES, continued:

### NET ASSETS

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

*Unrestricted net assets* are those currently available for ministry purposes under the direction of the Board of Directors, those designated by the Board for capital reserve and those invested in land, buildings and equipment.

*Temporarily restricted net assets* 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, temporarily restricted net assets are released to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

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

### SUPPORT AND REVENUE

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

Gifts of cash or other assets are reported as restricted contributions if they are received with donor stipulations that limit the use of the donated assets. If donor restrictions are met in the same period in which the gift is received, the contribution is reported as unrestricted contributions. Otherwise, when donor stipulated time and/or purpose restrictions are met or accomplished, restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

### FUNCTIONAL ALLOCATION OF EXPENSES

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

# AWANA CLUBS INTERNATIONAL AND AFFILIATES

Notes to Consolidated Financial Statements  
June 30, 2018 and 2017

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

**SHIPPING AND HANDLING COSTS**

Total costs for shipping and handling were \$1,074,115 and \$1,303,226 for the years ended June 30, 2018 and 2017, respectively. These costs are included in cost of goods sold which is a component of ministry programs and supplies expense in the consolidated statements of activities.

**PROMOTION EXPENSES**

Promotion costs are expensed as incurred and consist of direct mail, magazine advertisements and digital promotions. Total promotion expenses were \$174,133 and \$209,835 for the years ended June 30, 2018 and 2017, respectively.

**RECENTLY ADOPTED ACCOUNTING STANDARDS**

In July 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-11, *Simplifying the Measurement of Inventory*. ASU 2015-11 requires inventory to be valued at the lower of cost or net realizable value. The only impact was the inclusion of additional disclosures in Inventory noted above.

3. INVESTMENTS AND TRUST ASSETS:

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

	2018	2017
Investments:		
Mutual funds	\$ 1,449,496	\$ 1,514,668
Money market funds	1,261,904	47,286
Mineral interests	34,325	26,817
	2,745,725	1,588,771
Investments held in trust:		
Mutual funds	80,627	75,356
Money market funds	3,428	6,740
	84,055	82,096
 Total investments and trust assets	 \$ 2,829,780	 \$ 1,670,867
 Investment income includes:		
	2018	2017
Interest and dividends	\$ 80,502	\$ 158,829
Net realized and unrealized gains	103,059	158,882
	\$ 183,561	\$ 317,711

## AWANA CLUBS INTERNATIONAL AND AFFILIATES

Notes to Consolidated Financial Statements  
June 30, 2018 and 2017

3. INVESTMENTS AND TRUST ASSETS, continued:

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

Assets at fair value as of June 30, 2018:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments and trust assets:				
Mutual funds	\$ 1,530,123	\$ -	\$ -	\$ 1,530,123
Money market funds	1,265,332	-	-	1,265,332
Mineral interests	-	-	34,325	34,325
	<u>\$ 2,795,455</u>	<u>\$ -</u>	<u>\$ 34,325</u>	<u>\$ 2,829,780</u>
Beneficial interest in trusts	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 838,669</u>	<u>\$ 838,669</u>

Assets at fair value as of June 30, 2017:

	Level 1	Level 2	Level 3	Total
Investments and trust assets:				
Mutual funds	\$ 1,590,024	\$ -	\$ -	\$ 1,590,024
Money market funds	54,026	-	-	54,026
Mineral interests	-	-	26,817	26,817
	<u>\$ 1,644,050</u>	<u>\$ -</u>	<u>\$ 26,817</u>	<u>\$ 1,670,867</u>
Beneficial interest in trusts	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 981,680</u>	<u>\$ 981,680</u>

## AWANA CLUBS INTERNATIONAL AND AFFILIATES

Notes to Consolidated Financial Statements  
June 30, 2018 and 2017

3. INVESTMENTS AND TRUST ASSETS, continued:

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

	Beneficial Interest in Trusts	Mineral Interests	Total
Balance, July 1, 2016	\$ 1,032,405	\$ 36,667	\$ 1,069,072
Unrealized losses	-	(9,850)	(9,850)
Change in value of beneficial interest in trusts	<u>(50,725)</u>	<u>-</u>	<u>(50,725)</u>
Balance, June 30, 2017	981,680	26,817	1,008,497
Unrealized gains	-	7,508	7,508
Change in value of beneficial interest in trusts	<u>(143,011)</u>	<u>-</u>	<u>(143,011)</u>
Balance, June 30, 2018	<u>\$ 838,669</u>	<u>\$ 34,325</u>	<u>\$ 872,994</u>

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

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

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

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

Changes in valuation techniques: None.

4. LAND, BUILDINGS AND EQUIPMENT:

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

	2018	2017
Land	\$ 1,619,238	\$ 1,739,238
Buildings and improvements	10,097,998	10,648,998
Furniture and equipment	<u>5,723,401</u>	<u>5,530,808</u>
	17,440,637	17,919,044
Less accumulated depreciation	<u>(13,718,851)</u>	<u>(12,951,655)</u>
	<u>\$ 3,721,786</u>	<u>\$ 4,967,389</u>

# AWANA CLUBS INTERNATIONAL AND AFFILIATES

Notes to Consolidated Financial Statements  
June 30, 2018 and 2017

5. INVESTMENT IN CAPTIVE INSURANCE COMPANY:

There are currently nine unrelated nonprofit organizations that have invested in Stewardship Insurance, Ltd (SIL), formerly Stewardship Holdings, Ltd, a captive insurance company. The captive insures claims relating to workers' compensation, general liability, auto liability and sexual misconduct liability. Claim experience is identified to each participating entity, and subsequent premiums are modified based on an entity's experience. As of June 30, 2018 and 2017, ACI owns approximately 4.3% and 4.8%, respectively, of SIL and accounts for its investment using the equity method.

The investment in SIL is \$1,356,310 and \$1,440,212 as of June 30, 2018 and 2017, respectively. Summary financial information (unaudited) of SIL is as follows:

	2018	2017
Total assets	\$ 60,184,560	\$ 57,697,476
Total liabilities	\$ 28,911,971	\$ 27,483,868
Results of operations	\$ 6,112,704	\$ 6,260,590

6. NOTE PAYABLE:

ACI has a \$1,600,000 loan from the Bank of America secured by a lien covering ACI real property. Beginning in August 2017, the loan has monthly principal and interest payments of \$9,704 with interest of 4.01%. Future minimum principal and interest payments are as follows:

2019	\$	116,448
2020		116,448
2021		116,448
2022		116,448
2023		116,448
Thereafter		1,194,583
		\$ 1,776,823

# AWANA CLUBS INTERNATIONAL AND AFFILIATES

Notes to Consolidated Financial Statements  
June 30, 2018 and 2017

7. ANNUITIES AND TRUSTS PAYABLE:

Annuities and trusts payable consist of:

	2018	2017
Annuities payable	\$ 159,479	\$ 170,459
Irrevocable trust obligations	16,527	17,086
	\$ 176,006	\$ 187,545
Change in value of annuities consists of:		
Interest and dividend income	\$ 4,107	\$ 4,373
Actuarial change	(123,648)	(9,975)
Matured annuitants	2,540	26,764
Annuity payments	(17,276)	(21,821)
	\$ (134,277)	\$ (659)
Change in value of trusts consists of:		
Interest and dividend income	\$ 1,373	\$ 1,434
Actuarial change	-	(49,043)
Payments to beneficiaries	(4,812)	(4,430)
	\$ (3,439)	\$ (52,039)

8. EMPLOYEE RETIREMENT PLAN:

ACI has a discretionary match 401(k) plan covering all eligible employees. Discretionary matching contributions were reinstated September 1, 2014, after being suspended since 2009. Employer contributions of \$66,119 and \$72,616 were made in 2018 and 2017, respectively.



# AWANA CLUBS INTERNATIONAL AND AFFILIATES

Notes to Consolidated Financial Statements  
June 30, 2018 and 2017

9. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets consist of the following:

	2018	2017
Purpose restricted:		
International projects	\$ 2,192,607	\$ 1,884,202
U.S. ministry projects	1,247,422	898,229
Time restricted:		
Contributions receivable	189,108	388,743
Charitable remainder trusts	67,528	65,010
Beneficial interest in trusts	838,669	981,680
	\$ 4,535,334	\$ 4,217,864

Permanently restricted net assets total \$100,750 at both June 30, 2018 and 2017, and consist of endowment funds for which only investment return is expendable.

10. AFFILIATED INTERNATIONAL ORGANIZATIONS:

The ACI ministry extends throughout the world to reach children and youth with the Gospel of Jesus Christ. The ministry is conducted internationally through ACI branch offices and affiliated ACI national entities. ACI provided approximately \$3,182,000 and \$3,311,000 for the support of these organizations during the years ended June 30, 2018 and 2017, respectively.

11. EXIT SUBSIDIARY:

In June 2016, ACI unconditionally committed to rescind all control of KidzMatter. On July 1, 2016, the transfer of control occurred and ACI granted net assets with a fair value of approximately \$60,000 to KidzMatter. Additionally, KidzMatter agreed to reimburse ACI approximately \$115,000 no later than June 30, 2018. Upon receipt of the \$115,000, ACI agreed to grant the property that KidzMatter occupies to KidzMatter. In July 2017, KidzMatter provided full payment of the reimbursement amount and during the year ended June 30, 2018, ACI granted the property to KidzMatter resulting in a loss of \$582,228.

In December 2016, ACI unconditionally committed to rescind all control of ZimZam Global. The transfer of control was effective December 31, 2016.

12. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through October 4, 2018, which represents the date the consolidated financials statements were available to be issued.

## **SUPPLEMENTARY INFORMATION**

**INDEPENDENT AUDITORS' REPORT  
ON SUPPLEMENTARY DATA**

Board of Directors  
Awana Clubs International  
and Affiliates  
Streamwood, Illinois

We have audited the consolidated financial statements of Awana Clubs International and Affiliates as of and for the year ended June 30, 2018, and our report thereon dated October 4, 2018, which expresses an unmodified opinion on those consolidated financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statements of financial position and activities on pages 18-19 are presented for purposes of additional analysis of the consolidated financial statements, rather than to present the financial position and operations of the individual organizations, and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Capin Crouse LLP*

Wheaton, Illinois  
October 4, 2018

**AWANA CLUBS INTERNATIONAL  
AND AFFILIATES**

**Consolidating Statement of Financial Position**

June 30, 2018

	<u>Awana Clubs</u>	<u>Youth Missions</u>	<u>Eliminations</u>	<u>Total</u>
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 3,714,978	\$ 32,965	\$ -	\$ 3,747,943
Investments and trust assets	2,829,780	-	-	2,829,780
Accounts receivable, net	172,600	-	(13,805)	158,795
Inventory, net	3,683,647	-	-	3,683,647
Prepaid expenses and other assets	339,947	15,667	-	355,614
Contributions receivable	189,108	-	-	189,108
Investment in captive insurance company	1,356,310	-	-	1,356,310
Beneficial interest in trusts	838,669	-	-	838,669
Land, buildings and equipment, net	3,718,217	3,569	-	3,721,786
	<u>\$ 16,843,256</u>	<u>\$ 52,201</u>	<u>\$ (13,805)</u>	<u>\$ 16,881,652</u>
<b>LIABILITIES AND NET ASSETS:</b>				
Accounts payable	\$ 550,963	\$ 890	\$ -	\$ 551,853
Accrued expenses	1,497,317.00	26,470	(13,805)	1,509,982
Deferred revenue	510,646	-	-	510,646
Note payable	1,553,819	-	-	1,553,819
Annuities and trusts payable	176,006	-	-	176,006
	<u>4,288,751</u>	<u>27,360</u>	<u>(13,805)</u>	<u>4,302,306</u>
<b>Net assets:</b>				
<b>Unrestricted:</b>				
Undesignated - available for general activities	3,836,908	21,272	-	3,858,180
Board designated capital reserve	1,917,115	-	-	1,917,115
Net investment in land, buildings and equipment	2,164,398	3,569	-	2,167,967
	<u>7,918,421</u>	<u>24,841</u>	<u>-</u>	<u>7,943,262</u>
Temporarily restricted	4,535,334	-	-	4,535,334
Permanently restricted	100,750	-	-	100,750
	<u>12,554,505</u>	<u>24,841</u>	<u>-</u>	<u>12,579,346</u>
	<u>\$ 16,843,256</u>	<u>\$ 52,201</u>	<u>\$ (13,805)</u>	<u>\$ 16,881,652</u>

\*Inclusive of Awana Lifeline Ministries

## AWANA CLUBS INTERNATIONAL

### Consolidating Statement of Activities

Year Ended June 30, 2018

	Awana Clubs International*			Total ACI	Youth Missions International			Eliminations	Combined Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		Unrestricted	Temporarily Restricted	Total YMI		
<b>Support and revenue:</b>									
Sales of ministry materials	\$ 21,060,104	\$ -	\$ -	\$ 21,060,104	\$ -	\$ -	\$ -	\$ (4,047)	\$ 21,056,057
Contributions	10,685,308	1,338,653	-	12,023,961	509,430	-	509,430	-	12,533,391
Registration and event fees	1,873,229	-	-	1,873,229	175,310	-	175,310	-	2,048,539
Investment income	183,561	-	-	183,561	-	-	-	-	183,561
Change in value of annuities and trusts	(134,277)	(3,439)	-	(137,716)	-	-	-	-	(137,716)
Loss on disposition of building	(582,228)	-	-	(582,228)	-	-	-	-	(582,228)
Other income	114,553	-	-	114,553	1,760	-	1,760	-	116,313
<b>Reclassifications:</b>									
Net assets released from restrictions:									
Satisfaction of timing restrictions	199,635	(199,635)	-	-	-	-	-	-	-
Satisfaction of purpose restrictions	818,109	(818,109)	-	-	-	-	-	-	-
	<u>34,217,994</u>	<u>317,470</u>	<u>-</u>	<u>34,535,464</u>	<u>686,500</u>	<u>-</u>	<u>686,500</u>	<u>(4,047)</u>	<u>35,217,917</u>
<b>Expenses:</b>									
Program services:									
Ministry programs and supplies	13,252,491	-	-	13,252,491	506,609	-	506,609	(2,930)	13,756,170
U.S. ministry and events	10,442,892	-	-	10,442,892	-	-	-	-	10,442,892
International ministry and events	4,822,433	-	-	4,822,433	42,404	-	42,404	(245)	4,864,592
	<u>28,517,816</u>	<u>-</u>	<u>-</u>	<u>28,517,816</u>	<u>549,013</u>	<u>-</u>	<u>549,013</u>	<u>(3,175)</u>	<u>29,063,654</u>
Supporting activities:									
Management and general	4,066,627	-	-	4,066,627	105,187	-	105,187	(608)	4,171,206
Fund-raising	2,473,207	-	-	2,473,207	45,435	-	45,435	(264)	2,518,378
	<u>6,539,834</u>	<u>-</u>	<u>-</u>	<u>6,539,834</u>	<u>150,622</u>	<u>-</u>	<u>150,622</u>	<u>(872)</u>	<u>6,689,584</u>
	<u>35,057,650</u>	<u>-</u>	<u>-</u>	<u>35,057,650</u>	<u>699,635</u>	<u>-</u>	<u>699,635</u>	<u>(4,047)</u>	<u>35,753,238</u>
Change in Net Assets	(839,656)	317,470	-	(522,186)	(13,135)	-	(13,135)	-	(535,321)
Net Assets, Beginning of Year	8,758,077	4,217,864	100,750	13,076,691	37,976	-	37,976	-	13,114,667
Net Assets, End of Year	<u>\$ 7,918,421</u>	<u>\$ 4,535,334</u>	<u>\$ 100,750</u>	<u>\$ 12,554,505</u>	<u>\$ 24,841</u>	<u>\$ -</u>	<u>\$ 24,841</u>	<u>\$ -</u>	<u>\$ 12,579,346</u>

\*Inclusive of Awana Lifeline Ministries