

CHILD EVANGELISM FELLOWSHIP INC.
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017

**CHILD EVANGELISM FELLOWSHIP INC.
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YEAR ENDED DECEMBER 31, 2017**

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Child Evangelism Fellowship Inc.
Warrenton, Missouri

Report on the Financial Statements

We have audited the accompanying financial statements of Child Evangelism Fellowship Inc. (a Missouri nonprofit organization) which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 financial statements.

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

Board of Trustees
Child Evangelism Fellowship Inc.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Child Evangelism Fellowship Inc., as of December 31, 2017, and the changes in net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Child Evangelism Fellowship Inc.'s 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 4, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.



CliftonLarsonAllen LLP

St. Louis, Missouri
May 2, 2018

CHILD EVANGELISM FELLOWSHIP INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017
(WITH COMPARATIVE FINANCIAL INFORMATION AS OF DECEMBER 31, 2016)

ASSETS	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2017	2016
CURRENT ASSETS					
Cash and Cash Equivalents	\$ 901,562	\$ 215,806	\$ 36,700	1,154,068	\$ 1,005,051
Cash and Cash Equivalents Held for Contracts Payable	103,637	-	-	103,637	-
Investments	-	-	-	-	96,378
Accounts Receivable	605,318	-	-	605,318	568,538
Inventories	538,044	-	-	538,044	588,578
Prepaid Expenses and Other Assets	3,389	-	-	3,389	16,165
Total Current Assets	<u>2,151,950</u>	<u>215,806</u>	<u>36,700</u>	<u>2,404,456</u>	<u>2,274,710</u>
OTHER INVESTMENT IN PROPERTY	2,137,000	938	-	2,137,938	3,938
INVESTMENTS HELD FOR CONTRACTS PAYABLE	907,864	-	-	907,864	885,188
PROPERTY AND EQUIPMENT					
Land	91,800	-	-	91,800	680,800
Buildings and Improvements	8,471,695	-	-	8,471,695	8,492,486
Equipment	2,409,203	-	-	2,409,203	2,462,596
Furniture and Fixtures	67,113	-	-	67,113	65,404
Missionary Equipment	1,448,680	-	-	1,448,680	1,458,524
Total	<u>12,488,491</u>	<u>-</u>	<u>-</u>	<u>12,488,491</u>	<u>13,159,810</u>
Less: Accumulated Depreciation	<u>(7,269,846)</u>	<u>-</u>	<u>-</u>	<u>(7,269,846)</u>	<u>(6,782,848)</u>
Net Property and Equipment	<u>5,218,645</u>	<u>-</u>	<u>-</u>	<u>5,218,645</u>	<u>6,376,962</u>
Total Assets	<u>\$ 10,415,459</u>	<u>\$ 216,744</u>	<u>\$ 36,700</u>	<u>\$ 10,668,903</u>	<u>\$ 9,540,798</u>

See accompanying Notes to Financial Statements.

LIABILITIES AND NET ASSETS	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2017	2016
CURRENT LIABILITIES					
Short-Term Notes Payable	\$ 194,959	\$ -	\$ -	\$ 194,959	\$ 209,382
Lines of Credit	1,675,045	-	-	1,675,045	1,675,045
Current Maturities of Capital Lease Obligation	52,154	-	-	52,154	49,616
Current Maturities of Contracts Payable	1,567,777	-	-	1,567,777	1,742,506
Current Maturities of Long-Term Note Payable	533,328	-	-	533,328	-
Accounts Payable	227,312	-	-	227,312	391,731
Accrued Vacation and Sick Leave	348,572	-	-	348,572	339,825
Other Accrued Liabilities	243,387	-	-	243,387	296,819
Total Current Liabilities	4,842,534	-	-	4,842,534	4,704,924
LONG-TERM LIABILITIES, LESS CURRENT MATURITIES					
Capital Lease Obligation	73,713	-	-	73,713	125,867
Contracts Payable	893,910	-	-	893,910	1,157,373
Long-Term Note Payable	1,066,672	-	-	1,066,672	-
Total Liabilities	6,876,829	-	-	6,876,829	5,988,164
NET ASSETS	3,538,630	216,744	36,700	3,792,074	3,552,634
Total Liabilities and Net Assets	<u>\$ 10,415,459</u>	<u>\$ 216,744</u>	<u>\$ 36,700</u>	<u>\$ 10,668,903</u>	<u>\$ 9,540,798</u>

CHILD EVANGELISM FELLOWSHIP INC.
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017
(WITH COMPARATIVE FINANCIAL INFORMATION AS OF DECEMBER 31, 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2017	2016
REVENUES, GAINS, AND OTHER SUPPORT					
Contributions	\$ 14,814,346	\$ 1,701,188	\$ -	\$ 16,515,534	\$ 17,140,347
Sales of Literature and Materials	1,515,756	-	-	1,515,756	1,672,340
Institute and Training Registrations	215,037	-	-	215,037	316,169
Investment Income	144,724	-	-	144,724	41,067
Royalty Income	9,911	-	-	9,911	5,604
Other Income	413,646	-	-	413,646	234,577
Gain on Sale of Fixed Assets	884	-	-	884	4,298
Gain (Loss) on Sale of Property Held for Investment	(1,840)	-	-	(1,840)	15,000
Change in Value of Split-Interest Agreements	31,503	-	-	31,503	(291,582)
Net Assets Released from Restrictions	2,657,147	(2,657,147)	-	-	-
Total Revenues, Gains, and Other Support	19,801,114	(955,959)	-	18,845,155	19,137,820
PROGRAM SERVICES					
International Ministries	5,648,461	-	-	5,648,461	5,366,039
Sponsor-A-National	2,357,303	-	-	2,357,303	2,516,023
Box of Books & Other	867,180	-	-	867,180	1,067,607
Cost of Literature and Materials	1,845,294	-	-	1,845,294	1,656,773
Training	828,055	-	-	828,055	853,501
United States Ministries	3,750,721	-	-	3,750,721	3,663,742
Truth Chasers Club	-	-	-	-	83,534
Military Children's Ministries	63,574	-	-	63,574	65,727
Good News Across America	96,904	-	-	96,904	36,441
Prison Ministry	-	-	-	-	8,670
Total Program Services	15,457,492	-	-	15,457,492	15,318,057
SUPPORTING SERVICES					
General and Administrative	1,249,851	-	-	1,249,851	1,538,805
Fundraising and Promotion	1,843,261	-	-	1,843,261	1,493,070
Total Supporting Services	3,093,112	-	-	3,093,112	3,031,875
Total Functional Expenses	18,550,604	-	-	18,550,604	18,349,932
OTHER INCOME (EXPENSE)					
Return of Donor Contribution	(1,603,111)	-	-	(1,603,111)	-
Fair Value Gain Adjustment of Land Held as Other Investment Property	1,548,000	-	-	1,548,000	-
Total Other Income (Expense)	(55,111)	-	-	(55,111)	-
CHANGES IN NET ASSETS	1,195,399	(955,959)	-	239,440	787,888
Net Assets - Beginning of Year	2,343,231	1,172,703	36,700	3,552,634	2,764,746
NET ASSETS - END OF YEAR	<u>\$ 3,538,630</u>	<u>\$ 216,744</u>	<u>\$ 36,700</u>	<u>\$ 3,792,074</u>	<u>\$ 3,552,634</u>

See accompanying Notes to Financial Statements.

CHILD EVANGELISM FELLOWSHIP INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017
(WITH COMPARATIVE FINANCIAL INFORMATION AS OF DECEMBER 31, 2016)

	Program Services					
	International Ministries	Sponsor-A- National	Boxes of Books & Other	Cost of Literature and Materials	Training	United States Ministries
EXPENSES						
Salaries	\$ 1,661,156	\$ -	\$ 73,448	\$ 561,202	\$ 324,182	\$ 2,183,493
Employee Benefits	715,013	-	657	101,016	46,749	273,379
Payroll Taxes	113,495	-	749	56,120	23,841	167,230
Cost of Goods Sold	-	-	2,566	773,968	-	-
Promotion	31,112	-	143	24,081	237	4,831
Telephone	53,134	-	-	150	342	48,458
Dues and Subscriptions	2,879	-	11	5,532	-	13,334
Legal and Professional	35,300	-	-	4,942	522	47,406
Postage and Shipping	25,343	-	10,570	135,822	1,422	7,840
Travel	427,351	4,841	11,788	3,942	2,080	105,397
Conferences and Seminars	385,681	-	953	3,022	2,111	33,382
Literature	56,564	-	750,508	907	5,353	23,948
Field Development	1,381,267	2,352,462	6,223	-	58	273,755
Taxes	-	-	-	-	-	-
Insurance	1,378	-	-	-	-	4,135
Real Estate	192,659	-	-	-	-	-
Maintenance and Equipment	104,226	-	7,325	8,160	141,756	120,675
Education	28,896	-	-	126	17,003	12,233
Office Expenses	74,951	-	2,189	7,411	241	11,822
Meals and Housing	66,214	-	-	-	65,635	198,643
Information Technology	39,531	-	-	28,138	48,588	64,668
Miscellaneous	25,691	-	50	201	80	607
Interest	-	-	-	-	-	-
Depreciation	226,620	-	-	130,554	147,855	155,485
Total Expenses	\$ 5,648,461	\$ 2,357,303	\$ 867,180	\$ 1,845,294	\$ 828,055	\$ 3,750,721
CURRENT YEAR PERCENTAGES	30.45%	12.71%	4.67%	9.95%	4.46%	20.22%

See accompanying Notes to Financial Statements.

Program Services			Supporting Services			Totals	
Military Children's Ministry	Good News Across America	Total	General and Administrative	Fund Raising/ Promotion	Total	2017	2016
\$ 50,835	\$ 13,825	\$ 4,868,141	\$ 738,240	\$ 510,369	\$ 1,248,609	\$ 6,116,750	\$ 6,177,426
2,251	691	1,139,756	30,706	80,728	111,434	1,251,190	1,449,143
3,920	1,041	366,396	31,272	37,519	68,791	435,187	409,698
-	-	776,534	-	-	-	776,534	606,575
77	506	60,987	506	173,521	174,027	235,014	254,334
630	2,290	105,004	5,700	6,963	12,663	117,667	122,705
-	-	21,756	5,986	2,946	8,932	30,688	35,103
-	1,295	89,465	53,692	173,921	227,613	317,078	257,940
7	1,198	182,202	3,703	243,226	246,929	429,131	295,701
3,125	64,014	622,538	63,854	151,294	215,148	837,686	685,120
721	-	425,870	4,362	306,267	310,629	736,499	391,266
90	12,044	849,414	-	-	-	849,414	1,018,577
-	-	4,013,765	-	-	-	4,013,765	4,258,653
-	-	-	11,447	-	11,447	11,447	12,866
-	-	5,513	70,064	-	70,064	75,577	168,792
-	-	192,659	-	-	-	192,659	110,076
149	-	382,291	-	21,223	21,223	403,514	400,862
-	-	58,258	-	-	-	58,258	68,524
631	-	97,245	5,584	9,910	15,494	112,739	97,420
-	-	330,492	-	-	-	330,492	301,803
-	-	180,925	40,172	34,663	74,835	255,760	178,057
1,138	-	27,767	-	-	-	27,767	42,101
-	-	-	85,655	70,563	156,218	156,218	188,569
-	-	660,514	98,908	20,148	119,056	779,570	818,621
<u>\$ 63,574</u>	<u>\$ 96,904</u>	<u>\$ 15,457,492</u>	<u>\$ 1,249,851</u>	<u>\$ 1,843,261</u>	<u>\$ 3,093,112</u>	<u>\$ 18,550,604</u>	<u>\$ 18,349,932</u>
0.34%	0.52%	83.32%	6.74%	9.94%	16.68%	100.00%	100.00%

CHILD EVANGELISM FELLOWSHIP INC.
STATEMENT OF CASH FLOWS
DECEMBER 31, 2017
(WITH COMPARATIVE FINANCIAL INFORMATION AS OF DECEMBER 31, 2016)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in Net Assets	\$ 239,440	\$ 787,888
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided (Used) by Operating Activities		
Depreciation	779,570	818,621
Annuities Issued	45,000	225,000
Gain on Sale of Fixed Assets	(884)	(4,298)
Change in Value of Split Interest Agreements	(31,503)	291,582
Interest Added to Principal of Contracts Payable	40,818	41,713
(Gain) Loss on Sale of Property Held for Investment	1,840	(15,000)
Gain on Sale of Investments	(30,501)	(3,987)
Unrealized Gains on Investments	(105,785)	(30,334)
Fair Value Gain of Land Held as Other Investment Property	(1,548,000)	-
Effects of Changes in Operating Assets and Liabilities		
Accounts Receivable	(36,780)	12,132
Inventories	50,534	(115,865)
Prepaid Expenses	12,776	22,469
Accounts Payable	(164,419)	(56,126)
Accrued Vacation and Sick Leave	8,747	(26,343)
Other Accrued Liabilities	(52,789)	(180,466)
Net Cash Provided (Used) by Operating Activities	(791,936)	1,766,986
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Building Improvements and Equipment	(221,605)	(265,619)
Proceeds from Sale of Vehicles and Equipment	12,236	18,000
Proceeds from Sale of Property Held for Other Investment	1,160	94,000
Proceeds from Sale of Investments	306,536	122,875
Payments for Purchases of Investments	(96,549)	(161,286)
Net Cash Provided (Used) by Investing Activities	1,778	(192,030)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Borrowings on Lines of Credit	-	(424,755)
Payments on Notes Payable	(14,423)	(23,971)
Payments on Capital Lease Obligation	(49,616)	(47,201)
Payments to Annuitants	(311,515)	(192,788)
Proceeds from Long Term Note Payable	1,600,000	-
Payments on Contracts Payable	(181,634)	(161,061)
Net Cash Provided (Used) by Financing Activities	1,042,812	(849,776)
NET INCREASE IN CASH AND CASH EQUIVALENTS	252,654	725,180
Cash and Cash Equivalents - Beginning of Year	1,005,051	279,871
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,257,705	\$ 1,005,051

See accompanying Notes to Financial Statements.

**CHILD EVANGELISM FELLOWSHIP INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Child Evangelism Fellowship Inc. (the Organization or CEF®) is a nonprofit organization incorporated under the Michigan General Not-For-Profit Corporation Act. The purpose of the Organization is to evangelize children with the gospel of the Lord Jesus Christ. The financial statements include the accounts of Child Evangelism Fellowship Inc., but do not include the various foreign, state, and local chapters which the Organization may support but over which it has no legal or direct control.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting in conformity with generally accepted accounting principles.

Basis of Presentation

The financial statement presentation follows the recommendations of the Accounting Standards Codification (ASC) 958, *Not-For-Profit Entities*. Under ASC 958, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Unrestricted net assets includes all net assets which are neither temporarily nor permanently restricted. Temporarily restricted net assets includes contributed net assets for which donor imposed time and purpose restrictions have not been met and the ultimate purpose of the contribution is not permanently restricted. Permanently restricted net assets includes contributed net assets which require, by donor restriction, that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions.

Prior Year Summarized Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2016, from which the summarized information was derived. Reclassifications of certain summarized 2016 information have been made to present the information consistent with the 2017 financial statement presentation. There was no effect to the 2016 summarized change in net assets as a result of these reclassifications.

Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**CHILD EVANGELISM FELLOWSHIP INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Description of Program and Supporting Services

The following program and supporting services are included in the accompanying financial statements.

Program Services

International Ministries

The International Ministries department provides leadership, administration, and financial support for *CEF*[®] offices and missionaries around the world. *CEF* is working toward a goal of having a *CEF* ministry in every country of the world.

Sponsor-A-National[™] (*SPAN*)[™]

The *Sponsor-A-National*[™] program provides financial assistance to *CEF* national workers so they can begin full-time service with *CEF* while learning to raise support.

Boxes of Books

The Boxes of Books program provides boxes of teaching materials free of charge to *CEF* ministries in over 100 countries.

Literature and Materials

CEF Press[®] publishes and distributes Bible lesson curriculum, teaching tools, and supporting materials to help *CEF* accomplish ministry goals. *CEF Studios*[™] produces videos to promote the work of *CEF*, recruit workers, and in other ways further the ministry of reaching boys and girls for Christ.

Training

Children's Ministries Institute[®] (*CMI*)[®] offers one of the most innovative, practical training programs available for leaders in children's ministry. Students receive training in direct ministries to children, teacher training, and ministry organization and leadership. *CMI* also offers classes online through *CMI Online*.

United States Ministries (U.S.A. Ministries)

The U.S.A. Ministries department provides leadership, administration, and financial support for *CEF* affiliate chapters throughout the United States.

Truth Chasers Club[™]

The *Truth Chasers Club*[™] is an effective through-the-mail discipleship ministry for children and adults. This ministry was discontinued in January, 2016.

CEF Military Children's Ministry[™]

The *CEF Military Children's Ministry*[™] reaches the children on U.S. military installations and military communities through *CEF* programs like after-school *Good News Club*[®], *5-Day Club*[®], *Truth Chasers Club*, teaching training and *Christian Youth In Action*[®].

**CHILD EVANGELISM FELLOWSHIP INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Description of Program and Supporting Services (Continued)

Program Services (Continued)

Good News Across America®

Good News Across America® is an opportunity for all members of the *CEF* family to come together for two weeks of outreach in a target city. Ministry teams partner with local churches to impact their communities for Christ. Each year thousands of children are reached with the Gospel and many new after-school Good News Clubs are launched.

Prison Ministry

The Prison Ministry program provides the ministry of *CEF* to prisoners and their children. The prisoners receive a *What Went Wrong?* booklet and are able to enroll themselves and their children in the *Truth Chasers Club*. This ministry was discontinued in January, 2016.

Supporting Services

General and Administrative

These expenses include the functions necessary to support the ministry programs and to maintain the facilities at the Organization's International Headquarters campus.

Fundraising and Promotion

These expenses provide the structure necessary to encourage and secure financial support for *CEF* through contributions.

Concentration of Credit Risk

The majority of the Organization's cash and cash equivalents are maintained at one bank. The bank provides a maximum protection under regulations issued by the Federal Deposit Insurance Corporation. At various times during the year ended December 31, 2017, deposits at this bank may have exceeded the Federal Deposit Insurance Corporation's maximum insurable balance. At December 31, 2017, deposits at this bank in excess of federally insured limits were \$1,118,064. Also, the Organization's investments are subject to the inherent risks with the securities market.

Cash and Cash Equivalents

Cash and cash equivalents represent cash and money market funds held at a bank and at a foundation.

Accounts Receivable

Accounts receivable consist primarily of sales of literature and materials to customers and related chapter organizations throughout the world and are uncollateralized obligations due under normal trade terms generally requiring payment within 30 days from the invoice date.

Payments of accounts receivable are allocated to the specific invoices identified on the customer's remittance advice or, if unspecified, are applied to the earliest unpaid invoice.

**CHILD EVANGELISM FELLOWSHIP INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable (Continued)

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management individually reviews all accounts receivable balances that exceed the due date by several days and based on an assessment of current creditworthiness, estimates the portion, if any, of the balance that will not be collected. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to bad debt expense and a credit to accounts receivable.

As of December 31, 2017, related U.S. chapters owe approximately \$102,000 and the Canadian chapter owes approximately \$476,000 of accounts receivable.

Pledges

Pledges are recorded as gift revenue when the related cash is collected. Pledges are obtained as an intention to give by the donor and not as an unconditional promise to give.

Inventories

Inventories are valued at the lower of cost or net realizable value. Cost is determined using the first-in, first-out (FIFO) method. Inventory costs include materials, labor, and production overhead.

Property and Equipment

Property and equipment is recorded at cost if purchased and fair value if contributed and depreciated using the straight-line method based on the estimated useful lives of the assets ranging from 5 – 40 years. The Organization capitalizes property and equipment when the cost or fair value is greater than \$1,000.

Long-Lived Assets

The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or the fair value less costs to sell.

**CHILD EVANGELISM FELLOWSHIP INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recognition of Donor Restrictions

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets except for support of missionaries. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Investment income on restricted assets whose restrictions are met in the same period are shown as increases in unrestricted support.

The Organization reports gifts of long-lived assets as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

The Organization returned funds to a donor in 2017 due to an interpretation of the original donation purpose. The amount returned to the donor was \$1,603,111 and it is reported as other expense.

Sales of Literature and Materials

The Organization publishes and distributes instructional literature and materials for use within the Organization and for sale to outside customers.

Shipping and Handling

The Organization has standard shipping and handling rates that are based on the sales price of the shipment. Shipping and handling charges are billed on the customer's invoice and included in sales of literature and materials. Shipping and handling charged by the carrier to transport products to the buyer's destination are included in cost of literature and materials sold.

Expense Allocation

Expenses are charged to programs and supporting services on the basis of actual costs incurred by the specific program or supporting service, as well as on the basis of periodic time and expense studies and square footage usage. General and administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

**CHILD EVANGELISM FELLOWSHIP INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Statement of Cash Flows

Interest of \$115,399 was paid for the year ended December 31, 2017.

Noncash investing transactions that occurred during the year ended December 31, 2017 included the retirement of fully depreciated equipment for \$258,636.

A parcel of nonoperating land was transferred from property and equipment to other investment in property at fair value. The amount of the nonoperating land has a fair value of \$2,137,000 with a current existing cost value of \$589,000. Hence a noncash adjustment to fair value of land of \$1,548,000 was made.

Income Taxes

The Organization is exempt from United States federal income taxes under the provisions of the Internal Revenue Code, Section 501(c)(3).

Recent Accounting Pronouncements

Leases

The FASB has issued new guidance on the recognition of lease assets and lease liabilities by lessees for those leases previously classified as operating leases. The guidance requires a lessee to recognize in the statement of financial position a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term. When measuring assets and liabilities arising from a lease, a lessee (and a lessor) should include payments to be made in optional periods only if the lessee is reasonably certain to exercise an option to extend the lease or not to exercise an option to terminate the lease. Similarly, optional payments to purchase the underlying asset should be included in the measurement of lease assets and lease liabilities only if the lessee is reasonably certain to exercise that purchase option. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from previous GAAP. There continues to be a differentiation between finance leases and operating leases. However, the principal difference from previous guidance is that the lease assets and lease liabilities arising from operating leases should be recognized in the statement of financial position. The guidance will be required for the first fiscal year beginning after December 15, 2019.

**CHILD EVANGELISM FELLOWSHIP INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements (Continued)

Nonprofit Entities

The FASB has issued new guidance on financial reporting for nonprofit entities. The guidance requires a nonprofit entity to present on the face of the statement of financial position amounts for two classes of net assets at the end of the period, rather than for the currently required three classes. That is, a nonprofit entity will report amounts for net assets with donor restrictions and net assets without donor restrictions, as well as the currently required amount for total net assets. The guidance also requires a nonprofit entity to present on the face of the statement of activities the amount of the change in each of the two classes of net assets rather than that of the currently required three classes. Nonprofit entities will continue reporting the currently required amount of the change in total net assets for the period. The guidance also requires a nonprofit entity to continue to present on the face of the statement of cash flows the net amount for operating cash flows using either the direct or indirect method of reporting but no longer requires the presentation or disclosure of the indirect method (reconciliation) if using the direct method.

The guidance also requires enhanced disclosures about the following:

- Amounts and purposes of governing board designations, appropriations, etc.
- Composition of net assets with donor restrictions at the end of the period
- Qualitative information that communicates how an entity manages its liquid resources
- Quantitative and additional qualitative information as necessary that communicates the availability of an entity's financial assets
- Amounts of expenses by both their natural classification and their functional classification
- Methods used to allocate costs among program and support functions
- Underwater endowment funds

The guidance also requires that the Organization report investment return net of external and direct internal investment expenses and no longer require disclosure of those netted expenses. The guidance also requires that the Association use, in the absence of explicit donor stipulations, the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset.

The guidance will be required for the first fiscal year beginning after December 15, 2017. Based on a preliminary analysis, the Organization expects the new guidance will have a significant impact on its financial statements for the year ended December 31, 2018.

**CHILD EVANGELISM FELLOWSHIP INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements (Continued)

Revenue Recognition

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which is a principles-based standard that replaces all existing guidance under U.S. GAAP. It requires different judgements and estimates and additional financial statement disclosures. It also requires entities to review the terms of their agreements with their customers and sources of revenue to access how they should be accounted for under the new standard. The Organization is evaluating the potential impact of this standard on its financial statements.

NOTE 2 INVESTMENTS

Investments are valued at fair value at the date of purchase or donation. Investment income includes realized and unrealized gains and losses, dividends, and interest. Realized gains and losses are computed on the average cost basis at the trade date. Unrealized gains and losses are computed based on historical cost and quoted market values. The Organization values investments either at fair value, net asset value, or net realizable value depending on the type of investment at December 31, 2017.

During the year ended December 31, 2017 the Organization elected to measure nonoperating land as other investment in property at fair value in accordance with ASC Section 958-325-35-6. This election resulted in previously recorded nonoperating land held at cost of \$589,000 being measured and reported at a fair value of \$2,137,000 in the Organization's December 31, 2017 financial statements.

Investments consist of the following at December 31, 2017:

	Fair Value	Net Asset Value	Net Realizable Value	Total
Investments Held For Contracts Payable:				
Barnabas Long-Term Growth Fund	\$ -	\$ 907,864	\$ -	\$ 907,864
Total Investments Held For Contracts Payable	<u>\$ -</u>	<u>\$ 907,864</u>	<u>\$ -</u>	<u>\$ 907,864</u>
Other Investment in Property :				
Fair Value	\$ 2,137,000	\$ -	\$ -	\$ 2,137,000
Net Realizable Value	-	-	938	938
Total Other Investment in Property	<u>\$ 2,137,000</u>	<u>\$ -</u>	<u>\$ 938</u>	<u>\$ 2,137,938</u>
 Total Investments	 <u>\$ 2,137,000</u>	 <u>\$ 907,864</u>	 <u>\$ 938</u>	 <u>\$ 3,045,802</u>

**CHILD EVANGELISM FELLOWSHIP INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 2 INVESTMENTS (CONTINUED)

Investment income for the year ending December 31, 2017 consists of the following:

Realized Gain on Sales of Investments	\$ 30,501
Unrealized Gain on Investments	105,785
Dividend and Interest Income	<u>8,438</u>
Total	<u><u>\$ 144,724</u></u>

During the year a parcel of land was transferred from property and equipment to other investment in property. The Organization elected to measure this nonoperating land at fair value as an other investment. The 589 acres of this 664-acre parcel of land that is not used in operations is recorded at fair value based on an appraisal of \$2,137,000. The cost value of the 589 acres was \$589,000. The fair value gain on this election follows:

Appraised Value of Nonoperating Land at Fair Value	\$ 2,137,000
Less Original Cost Value of the 589 acres of Land	<u>589,000</u>
Fair Value Gain on Transfer of Land from Property and Equipment to Other Investment in Property	<u><u>\$ 1,548,000</u></u>

NOTE 3 INVENTORIES

Inventories consist of the following at December 31, 2017:

Raw Materials	\$ 39,315
Work in Process	74,796
Finished Goods	<u>423,933</u>
Total	<u><u>\$ 538,044</u></u>

NOTE 4 LINES OF CREDIT

During the year ended December 31, 2017, the Organization maintained a revolving loan agreement with a bank with a \$2,500,000 maximum credit limit. Borrowings under the revolving loan are due on June 30, 2018, with interest payable monthly at 5% or prime plus 0.5%, whichever is greater (5% at December 31, 2017). This line of credit is secured by a deed of trust of property, inventory, furniture, fixtures, and equipment. The Organization had an outstanding balance on this line of credit of \$1,675,045 at December 31, 2017.

**CHILD EVANGELISM FELLOWSHIP INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 5 NOTES PAYABLE

Long-term note payable at December 31, 2017 consists of the following:

Description

The Organization entered into a note with a related party for a \$1,600,000 loan on September 1, 2017. This is a no interest unsecured loan and will be paid with 35 payments of \$44,444 beginning in January, 2018 and a final payment of \$44,460 in December, 2020.

	\$ 1,600,000
	\$ 1,600,000

Future maturities of long-term note payable are as follows:

Year Ending December 31,	Amount
2018	\$ 533,328
2019	533,328
2020	533,344
Total	\$ 1,600,000

Short-term notes payable at December 31, 2017, consist of the following:

Description

To various individuals; unsecured demand notes payable requiring 60-90 days notice; no maturity date; bearing interest at rates ranging from 0% to 7-1/2%.

\$ 180,179

To various chapter organizations; unsecured demand notes payable requiring 60-90 days notice; no maturity date; bearing interest rates ranging from 0% to 3.25%.

14,780

Total

\$ 194,959

NOTE 6 CONTRACTS PAYABLE

Contracts payable at December 31, 2017, consist of the following:

	Current Maturities	Long-Term Portion	Total
Revocable Trusts	\$ 1,121,939	\$ -	\$ 1,121,939
Irrevocable Trusts	24,035	-	24,035
Deposit Agreements	250	-	250
Annuity Agreements	109,542	893,910	1,003,452
Revocable Gifts	310,911	-	310,911
Literature Revolving Fund	1,100	-	1,100
Total	\$ 1,567,777	\$ 893,910	\$ 2,461,687

CHILD EVANGELISM FELLOWSHIP INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 6 CONTRACTS PAYABLE (CONTINUED)

Revocable trusts represent assets placed in trust with the Organization. Periodic interest payments are made using interest rates ranging from 0% to 6%. The agreements may be cancelled upon written notification of the grantor, with the requirement that all assets be distributed to the grantor within thirty to ninety days, depending on the individual agreement. All of the agreements terminate with the death of the survivor of the grantor or other beneficiaries; beneficiaries include other organizations and individuals, as well as the Organization.

Irrevocable trusts represent assets placed in trust with the Organization. Periodic interest payments are made using interest rates in the range from 3-1/4% to 8-1/2%. All agreements terminate with the death of the survivor of the grantor or other beneficiaries; beneficiaries include other individuals as well as the Organization.

At December 31, 2017, the Organization was listed as the beneficiary for \$490,081 of the revocable and irrevocable trusts.

Deposit agreements are payable on demand of the depositor. Interest is payable on the amount deposited with the Organization at rates ranging from 4% to 9%. These agreements terminate upon the depositor's death. At December 31, 2017, deposit agreements totaling \$250 were written with the Organization as the beneficiary.

Annuity agreements represent the present value of future annuities payable to the annuitants as of December 31, 2017, as determined by the terms of the annuity agreement and present value factors provided by the Internal Revenue Service. The gift portion of the annuity agreement is calculated using methods and rates provided by the Internal Revenue Service and is recognized upon receipt. The actuarial gain related to these agreements is \$31,503 for the year ended December 31, 2017. The Organization has segregated \$907,864 of investment and \$103,637 of cash reserves as separate and designated funds to be used for no purpose other than annuity benefits.

Revocable gifts represent assets deposited with the Organization on which interest is accrued and paid either monthly, quarterly, semi-annually, or annually. Interest rates range from 0% to 9%. These agreements are cancelable upon written notification of the donor. Upon the donor's death, all assets under the agreement become the property of the Organization.

Retirement growth certificates represent amounts deposited with the Organization on which interest is accrued at 5%, but only payable upon the depositor's demand. Certificates may be cancelled on the depositor's demand. The deposit and all accrued interest revert to the Organization upon the depositor's death.

The literature revolving fund represents interest-free amounts deposited with the Organization for the purpose of producing low cost items for under-developed nations.

**CHILD EVANGELISM FELLOWSHIP INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 7 RETIREMENT PLAN

The Organization maintains a defined contribution plan with a 401(k) feature. Under this retirement plan, the Organization may make a discretionary matching contribution equal to a uniform percentage of participant salary deferrals. During the year ended December 31, 2017, the expense charged to operations for employer matching contributions was \$312,305.

NOTE 8 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2017, are available for the following purposes:

Program Services-Boxes of Books/International Literature	\$ 215,806
Other Time Restrictions-Investment in Property	<u>938</u>
Total	<u><u>\$ 216,744</u></u>

NOTE 9 PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets at December 31, 2017 are restricted to investments in perpetuity, the income from which is expendable to support:

Missionaries in Greece and the Philippines	<u><u>\$ 36,700</u></u>
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NOTE 10 NET ASSETS RELEASED FROM RESTRICTIONS

The following net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors for the year ended December 31, 2017. It is the Organization's policy to recognize the release of donor restrictions for gifts received for long-lived assets when the long-lived asset is received or purchased and placed in service.

Purpose restrictions accomplished:

Program Services	<u><u>\$ 2,657,147</u></u>
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**CHILD EVANGELISM FELLOWSHIP INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 11 FAIR VALUE MEASUREMENT

In accordance with ASC 820-10, *Fair Value Measurement*, the Organization reports at fair value financial assets and liabilities that are measured on a recurring basis. The fair values of significant financial assets and liabilities that are measured on a recurring basis at December 31, 2017, are as follows:

	Fair Value Measurements at Reporting Date Using			
	Total at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Other Investment in Property	\$ 2,137,000	\$ -	\$ 2,137,000	\$ -
Liabilities:				
Annuity Agreements	\$ (1,003,452)	\$ -	\$ (1,003,452)	\$ -
Irrevocable Trusts	(24,035)	-	(24,035)	-
Total Liabilities	\$ (1,027,487)	\$ -	\$ (1,027,487)	\$ -

Investment earnings and losses are presented within the consolidated statements of earnings. In accordance with ASC 820-10, *Fair Value Measurements*, the investments are valued based on Levels 1, 2, and 3 inputs in the determination of fair value. Inputs for asset values are defined as follows:

Level 1 – Fair value is determined through quoted prices in active (public) markets for identical assets.

Level 2 – Fair value is determined through inputs other than quoted prices included within Level 1 that are observable for the asset either directly or indirectly, including appraisal of property (land).

Level 3 – Fair value is determined through unobservable inputs.

Investments Valued at Net Asset Value

The following table sets forth a summary of the investments of the Organization valued at net asset value as of December 31, 2017:

Investments:	Net Asset Value
Barnabas Long-Term Growth Fund	\$ 907,864

CHILD EVANGELISM FELLOWSHIP INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 11 FAIR VALUE MEASUREMENT (CONTINUED)

Investments Valued at Net Asset Value (Continued)

The investments that are recorded at net asset value are in the Barnabas Long-Term Growth Fund, which is a component fund of the Barnabas Foundation Common Trust Fund. The Barnabas Long Term Growth Fund invests primarily in value stocks, growth stocks, international stocks, mid to small cap stocks, U.S. and non-U.S. real estate investment trusts, U.S. treasuries, U.S. agencies, corporate date, foreign debt, high yield bonds, managed futures, fund of funds hedge funds, and money market investments. The investment objective is to gain long-term capital appreciation while managing risk through investment allocation to a broad diversification of investments. The net asset value is determined based on the Fund's December 31, 2016 audited financial statements.

There are no unfunded commitments required for the Barnabas Long-Term Growth Fund. Redemption is allowed once a month and, generally, 15-day notice for a full redemption is required.

NOTE 12 IN-KIND CONTRIBUTIONS

The Organization receives various printed materials, food products, and other goods which support the accomplishment of its mission. These donations are recorded in the financial statements as in-kind revenue at their estimated fair market value.

Numerous unpaid volunteers have contributed their time to the Organization, principally in program and administrative services. The value of this contributed time is not reflected in these financial statements since it does not meet the criteria for recognition under Accounting Standards Codification 958-25-16, *Contributed Services*. Total volunteer hours were approximately 4,400 for the year ended December 31, 2017.

NOTE 13 COMMITMENTS

Operating Leases

The Organization leases office equipment under operating leases. These leases expire between September 2018 and September 2022. Total rent expense was \$31,179 for the year ended December 31, 2017.

Future minimum lease payments for these operating leases are as follows at December 31, 2017:

<u>Year Ending December 31,</u>	<u>Amount</u>
2018	\$ 23,881
2019	6,442
2020	6,442
2021	6,442
2022	4,832
Total	<u>\$ 48,039</u>

**CHILD EVANGELISM FELLOWSHIP INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 13 COMMITMENTS (CONTINUED)

Capital Lease

The Organization leases certain assets under a noncancelable capital lease arrangement. This lease expires May 2020. The following is a schedule of leased property under capital lease as of December 31, 2017.

Equipment, at Cost	\$ 252,868
Less: Accumulated Amortization	126,435
Net Leased Equipment Under Capital Lease	<u>\$ 126,433</u>

Depreciation expense includes \$50,574 for the equipment under capital lease for the year ended December 31, 2017.

The following is a schedule of future minimum lease payments under capital lease obligation, together with the present value of the net minimum lease payments as of December 31, 2017:

Total Minimum Lease Payments Due	\$ 133,614
Less: Amount Representing Interest	<u>(7,747)</u>
Present Value of Future Minimum Lease Payments	125,867
Less: Current Maturities	<u>(52,154)</u>
Long-Term Portion	<u>\$ 73,713</u>

The present value of the future minimum lease payments is included in the maturities of capital lease obligation.

The aggregate maturities for long-term capital lease obligations at December 31, 2017 are as follows:

<u>Year Ending December 31,</u>	<u>Gross Payment Amount</u>	<u>Principal Amount</u>
2018	\$ 57,263	\$ 52,154
2019	57,263	54,822
2020	19,088	18,891
Total	<u>\$ 133,614</u>	<u>\$ 125,867</u>

CHILD EVANGELISM FELLOWSHIP INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 14 INCOME TAXES

The Organization has adopted ASC 740-10, *Income Taxes*, as it relates to uncertain tax positions and has evaluated its tax positions taken for all open tax years.

Based on the evaluation of the Organization's tax positions, management believes all positions taken would be upheld under an examination. Therefore, no provision for the effects of uncertain tax positions has been recorded at December 31, 2017.

NOTE 15 SUBSEQUENT EVENTS

Management evaluated subsequent events through May 2, 2018, the date which the financial statements were available to be issued.