

SOVEREIGN GRACE CHURCHES, INC.
AUDITED FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2024 AND 2023

Sovereign Grace Churches, Inc.

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Independent Auditor's Report

Executive Committee of the Council of Elders
Sovereign Grace Churches, Inc.
Louisville, Kentucky

Opinion

We have audited the accompanying financial statements of **Sovereign Grace Churches, Inc.** (a nonprofit organization), which comprise the Statements of Financial Position as of August 31, 2024 and 2023, and the related Statements of Activities and Changes in Net Assets, Functional Expenses, and Cash Flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Sovereign Grace Churches, Inc.** as of August 31, 2024 and 2023, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of **Sovereign Grace Churches, Inc.** 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 Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

Independent Auditor's Report (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 generally accepted auditing standards 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 financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 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 **Sovereign Grace Churches, Inc.**'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about **Sovereign Grace Churches, Inc.**'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.



Aprio LLP
Rockville, Maryland
December 7, 2024

Sovereign Grace Churches, Inc.

Statements of Financial Position

<i>August 31,</i>	2024	2023
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,843,756	\$ 2,095,312
Investments	1,101,410	1,084,364
Accounts receivable - trade	37,277	69,855
Notes receivable, current portion	82,845	74,595
Prepaid expenses	101,552	28,045
Inventory	179,108	114,691
Total current assets	4,345,948	3,466,862
Property and equipment		
Land	459,000	459,000
Building and improvements	1,709,348	1,670,279
Furniture, fixtures and equipment	377,199	384,818
Less: Accumulated depreciation and amortization	(354,398)	(307,300)
Net property and equipment	2,191,149	2,206,797
Other assets		
Deposits and other assets	2,548	11,316
Long-term assets		
Notes receivable, net of current portion and discount	242,660	317,516
Total assets	\$ 6,782,305	\$ 6,002,491

The accompanying Notes to Financial Statements are an integral part of these financial statements.

Sovereign Grace Churches, Inc.

Statements of Financial Position

August 31,

2024

2023

Liabilities and Net Assets

Current Liabilities

Accounts payable and accrued expenses	\$ 134,557	\$ 159,757
Deferred revenue	159,590	144,561

Total liabilities	294,147	304,318
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Net assets without restrictions

Board designated	210,000	110,000
Undesignated	3,587,965	3,015,372

Total net assets without restrictions	3,797,965	3,125,372
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Net assets with restrictions	2,690,193	2,572,801
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Total net assets	6,488,158	5,698,173
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Total liabilities and net assets	\$ 6,782,305	\$ 6,002,491
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The accompanying Notes to Financial Statements are an integral part of these financial statements.

Sovereign Grace Churches, Inc.

Statement of Activities and Changes in Net Assets

Year Ended August 31, 2024

	Without Donor Restrictions	With Donor Restrictions	Total
Operating support and revenue			
Contributions - churches	\$ 2,606,760	\$ 141,752	\$ 2,748,512
Contributions - other	1,125,160	215,549	1,340,709
Music and book sales, net	363,174	-	363,174
Music and book royalties	445,750	-	445,750
Tuition and fees	53,625	-	53,625
Conference receipts	410,927	-	410,927
Investment income	167,935	-	167,935
Other income	37,250	-	37,250
Net assets released from restriction	239,909	(239,909)	-
Total operating support and revenue	5,450,490	117,392	5,567,882
Operating expenses			
Program services:			
U.S. church missions	1,764,590	-	1,764,590
Global church missions	1,405,902	-	1,405,902
Pastoral training	375,872	-	375,872
Ministry resources	858,018	-	858,018
Total program services	4,404,382	-	4,404,382
Supporting activities:			
Fundraising	22,267	-	22,267
General and administrative	351,248	-	351,248
Total supporting activities	373,515	-	373,515
Total expenses	4,777,897	-	4,777,897
Total of change in net assets	672,593	117,392	789,985
Net assets, beginning of year	3,125,372	2,572,801	5,698,173
Net assets, end of year	\$ 3,797,965	\$ 2,690,193	\$ 6,488,158

The accompanying Notes to Financial Statements are an integral part of these financial statements.

Sovereign Grace Churches, Inc.

Statement of Activities and Changes in Net Assets

Year Ended August 31, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Operating support and revenue			
Contributions - churches	\$ 2,662,464	\$ 281,316	\$ 2,943,780
Contributions - other	872,849	74,975	947,824
Music and book sales, net	355,875	-	355,875
Music and book royalties	420,088	-	420,088
Tuition and fees	90,450	-	90,450
Conference receipts	133,379	-	133,379
Investment income	42,189	-	42,189
Other income	34,883	-	34,883
Net assets released from restrictions	378,779	(378,779)	-
Total operating support and revenue	4,990,956	(22,488)	4,968,468
Operating expenses			
Program services:			
U.S. church missions	1,462,998	-	1,462,998
Global church missions	1,515,520	-	1,515,520
Pastoral training	355,524	-	355,524
Ministry resources	706,011	-	706,011
Total program services	4,040,053	-	4,040,053
Supporting activities:			
Fundraising	18,316	-	18,316
General and administrative	367,100	-	367,100
Total supporting activities	385,416	-	385,416
Total expenses	4,425,469	-	4,425,469
Total of change in net assets	565,487	(22,488)	542,999
Net assets, beginning of year	2,559,885	2,595,289	5,155,174
Net assets, end of year	\$ 3,125,372	\$ 2,572,801	\$ 5,698,173

The accompanying Notes to Financial Statements are an integral part of these financial statements.

Sovereign Grace Churches, Inc.

Statement of Functional Expenses

Year Ended August 31, 2024

	Program Services					Supporting Activities					Total
	U.S. Church Missions	Global Church Missions	Pastoral Training	Ministry Resources	Total	Fundraising	General and Administrative	Total			
Expenses											
Compensation and benefits	\$ 747,916	\$ 404,718	\$ 264,583	\$ 485,879	\$ 1,903,096	\$ 8,650	\$ 254,251	\$ 262,901	\$ 2,165,997		
Cost of goods sold	2,938	-	-	128,159	131,097	-	-	-	-	131,097	
Gifts and grants	467,748	816,650	7,555	15,132	1,307,085	68	790	858	1,307,943		
Travel and training	441,168	144,877	53,190	116,425	755,660	478	27,041	27,519	783,179		
Office expense	18,450	3,928	3,172	20,989	46,539	410	3,030	3,440	49,979		
Insurance	3,602	15,501	3,415	5,722	28,240	-	1,762	1,762	30,002		
Promotion	2,312	-	-	42,998	45,310	-	-	-	45,310		
Information technology	6,365	5,565	6,752	32,407	51,089	4,035	13,981	18,016	69,105		
Building occupancy	51,701	10,066	15,070	61,187	138,024	-	5,524	5,524	143,548		
Other expenses	23,891	3,515	517	33,768	61,691	8,626	36,225	44,851	106,542		
Depreciation and amortization	1,436	1,082	21,618	43,511	67,647	-	8,644	8,644	76,291		
Total expenses	1,767,527	1,405,902	375,872	986,177	4,535,478	22,267	351,248	373,515	4,908,993		
Less: Cost of goods sold included with revenues in the Statement of Activities and Changes in Net Assets	(2,937)	-	-	(128,159)	(131,096)	-	-	-	(131,096)		
Total expenses reported in the Statement of Activities and Changes in Net Assets	\$ 1,764,590	\$ 1,405,902	\$ 375,872	\$ 858,018	\$ 4,404,382	\$ 22,267	\$ 351,248	\$ 373,515	\$ 4,777,897		

The accompanying Notes to Financial Statements are an integral part of these financial statements.

Sovereign Grace Churches, Inc.

Statement of Functional Expenses

Year Ended August 31, 2023

	Program Services					Supporting Activities				
	U.S. Church Missions	Global Church Missions	Pastoral Training	Ministry Resources	Total	Fundraising	General and Administrative	Total	Total	
Expenses										
Compensation and benefits	\$ 647,003	\$ 339,993	\$ 245,516	\$ 475,912	\$ 1,708,424	\$ 3,050	\$ 242,907	\$ 245,957	\$ 1,954,381	
Cost of goods sold	3,325	-	-	121,748	125,073	-	-	-	-	125,073
Gifts and grants	342,029	997,237	6,669	5,574	1,351,509	-	1,290	1,290	1,290	1,352,799
Travel and training	376,688	146,218	49,966	45,042	617,914	1,007	24,646	25,653	25,653	643,567
Office expense	13,222	1,283	4,183	8,650	27,338	2,654	2,743	5,397	5,397	32,735
Insurance	3,377	11,636	3,309	8,301	26,623	-	2,577	2,577	2,577	29,200
Promotion	13,071	125	-	32,762	45,958	-	-	-	-	45,958
Information technology	6,215	4,963	6,279	38,167	55,624	1,967	15,629	17,596	17,596	73,220
Building occupancy	45,565	3,131	17,150	29,348	95,194	-	29,725	29,725	29,725	124,919
Other expenses	14,269	9,758	7,848	30,565	62,440	9,638	39,855	49,493	49,493	111,933
Depreciation and amortization	1,559	1,176	14,604	31,690	49,029	-	7,728	7,728	7,728	56,757
Total expenses	1,466,323	1,515,520	355,524	827,759	4,165,126	18,316	367,100	385,416	385,416	4,550,542
Less: Cost of goods sold included with revenues in the Statement of Activities and Changes in Net Assets	(3,325)	-	-	(121,748)	(125,073)	-	-	-	-	(125,073)
Total expenses reported in the Statement of Activities and Changes in Net Assets										
Net Assets	\$ 1,462,998	\$ 1,515,520	\$ 355,524	\$ 706,011	\$ 4,040,053	\$ 18,316	\$ 367,100	\$ 385,416	\$ 4,425,469	

The accompanying Notes to Financial Statements are an integral part of these financial statements.

Sovereign Grace Churches, Inc.

Statements of Cash Flows

<i>Years Ended August 31,</i>	2024	2023
Cash flows from operating activities		
Change in net assets	\$ 789,985	\$ 542,999
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	76,291	56,757
Amortization of discount of note receivable	(14,892)	(16,543)
Unrealized and realized (gain) loss on investments	(15,016)	42,585
(Increase) decrease in:		
Accounts receivable - trade	32,578	210,085
Prepaid expenses	(73,507)	(5,045)
Inventory	(64,417)	46,183
Deposits and other assets	8,768	9,841
Increase (decrease) in:		
Accounts payable	(25,200)	(56,890)
Deferred revenue	15,029	32,343
Net cash provided by operating activities	729,619	862,315
Cash flows from investing activities		
Purchases of investments	(1,000,000)	(664,506)
Proceeds from the sale of investments	997,970	1,129,097
Payments on notes receivable	81,498	62,644
Purchases of property and equipment	(60,643)	(477,015)
Net cash provided by investing activities	18,825	50,220
Net change in cash and cash equivalents	748,444	912,535
Cash and cash equivalents, beginning of year	2,095,312	1,182,777
Cash and cash equivalents, end of year	\$ 2,843,756	\$ 2,095,312

The accompanying Notes to Financial Statements are an integral part of these financial statements.

Sovereign Grace Churches, Inc.

Notes to Financial Statements

1. Organization and significant accounting policies

Organization: Sovereign Grace Churches, Inc. (“SGC”) is a Maryland nonprofit corporation with offices in Louisville, Kentucky. SGC is an association of churches operated exclusively for religious, charitable, and educational purposes. SGC is a family of churches who partner together to advance the gospel of Jesus Christ through planting and strengthening churches, training pastors, producing resources, and engaging in missions throughout the world.

Basis of presentation: The financial statements of SGC have been prepared on the accrual basis of accounting whereby revenue and support are recognized when earned and expenses are recognized when incurred. Net assets and revenues are classified based on the existence or absence of donor-imposed restrictions and reported as follows:

Net assets without donor restrictions – net assets that are not subject to donor-imposed stipulations. Includes undesignated net assets available for general operations and board designated net assets.

In October 2017, a Board Designated Reserve was established to fund future church plants when funds are not available in the annual operating budget. As of August 31, 2024 and 2023, the reserve balance was \$210,000 and \$110,000, respectively. No amounts were disbursed from this reserve for the years ended August 31, 2024 and 2023, respectively.

In 2021, a Board Designated Reserve of \$120,000 was established for a future recording studio for music and video. This reserve was released in August 2022 in conjunction with a decision to proceed to build-out the new studio space, which was completed in August 2023.

Net assets with donor restrictions – net assets subject to donor-imposed stipulations that will be met either by actions of SGC and/or the passage of time. Donor-restricted contributions are classified as net assets without donor restrictions when restrictions are met in the same reporting period in which the contributions are received. As of August 31, 2024 and 2023, there were no net assets that were subject to donor-imposed stipulations that were permanent in nature.

Sovereign Grace Churches, Inc.

Notes to Financial Statements

Cash and cash equivalents: SGC classifies all highly liquid investments, with original maturities of less than ninety days, as cash equivalents. Cash and cash equivalents consist of demand deposit accounts and money market accounts. The majority of cash and cash equivalents earn interest.

SGC maintains the majority of its cash balances at one primary commercial bank and in a brokerage account from which cash is swept to deposit account(s) at one or more third-party commercial banks. These balances may exceed the FDIC insured deposit limit of \$250,000 per financial institution, though SGC has taken steps to avoid that. At August 31, 2024 and 2023, SGC's cash balances held at the commercial banks did not exceed the FDIC limit. SGC has not experienced any losses through the date when the financial statements were available to be issued.

Investments: Investments consist of federal government bonds and notes, mortgage-backed securities, and certificates of deposit, which are stated at fair value. Investment income (including realized and unrealized gains and losses on investments, interest, and dividends) is recorded as unrestricted income, unless restricted by donor or law.

Purchases and sales of investments are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net (depreciation) appreciation includes gains and losses on investments bought and sold as well as held during the year.

Accounts receivable: Receivables are reported at face value on the financial statements. All accounts or portions thereof that are deemed to be uncollectible or that require an excessive collection cost are provided for by an allowance for credit losses when needed. The allowance for credit losses estimates the allowance for lifetime expected credit losses. Estimates of expected credit losses are based on historical collection experience and other factors, including current market factors and forecasted economic conditions. At August 31, 2024 and 2023, there is no allowance for credit losses.

Inventory: Inventory consists of books and CDs held for resale to members of related churches and the general public. Inventory is valued at the lower of cost or net realizable value, with cost determined on a weighted average basis.

Property and equipment: Property and equipment greater than \$4,000 are capitalized at original cost or estimated fair value in the case of donated assets. Depreciation is calculated on the straight-line method over estimated useful lives of three to ten years for personal property and ten to thirty-nine years for the building improvements. Depreciation and amortization expense was \$76,291 and \$56,758 for the years ended August 31, 2024 and 2023, respectively.

Sovereign Grace Churches, Inc.

Notes to Financial Statements

On July 30, 2020, SGC sold its right to use asset comprised of 17,125 square feet of buildings and improvements, located in Gaithersburg, Maryland, to Covenant Life Church, Inc. (“CLC”) in exchange for a note receivable of \$525,000, at a 0% interest rate. See Note 5 for a description of the note receivable, the related discount, and a schedule of amounts receivable.

The following joint public statement was issued on August 21, 2020:

“Covenant Life Church (CLC) and Sovereign Grace Churches (SGC) are pleased to announce the transfer of ownership and all obligations associated with their shared real estate in Gaithersburg, Maryland. The property consists of 17,125 square feet of office and warehouse space occupied by SGC in 2002 under a Shared Use Agreement. CLC has acquired full ownership for a sum of \$525,000 payable to SGC as a share of future rental income. CLC is currently seeking a tenant.

The existing Shared Use Agreement made this transaction complex and required both parties to work closely together over the last 12 months. We are grateful for this resolution and pray that it honors our Lord. May He be glorified as we steward these resources for the advancement of the gospel and the good of God’s people.”

On April 27, 2022, SGC and Sovereign Grace Church of Louisville, Inc. (SGCL) jointly purchased a 30,450 square foot building at 12912 Shelbyville Rd, Louisville, KY, 40243 for a price of \$5,500,000. SGC owns 30% and SGCL owns 70%, with both organizations listed on the deed. SGC paid \$1,650,000 cash for its 30% portion. SGCL borrowed \$2.5 million from L&N Federal Credit Union as part of its 70% share of the purchase. SGC is not a borrower, nor a party to the SGCL promissory note or business loan agreement with L&N Federal Credit Union. However, SGC’s 30% share is collateral for the SGCL loan.

SGC and SGCL have signed a tenancy-in-common agreement to formalize the 30/70 share of ownership and operating expenses, and use of the building. This agreement defines all the square footage in the building as either dedicated or common shared space. SGC has 9,089 square feet and SGCL has 21,361 square feet. The agreement provides that after ten years, in 2032, either organization can exercise certain option rights that would terminate the agreement and require disposition of the property.

Sovereign Grace Churches, Inc.

Notes to Financial Statements

Assets held for use: SGC evaluates long-lived assets held for use for impairment based upon comparison of the undiscounted future net cash flows for the asset to the net book value when an indicator of impairment is observed. These evaluations for impairment are significantly impacted by estimates of revenue, costs and expenses, sales rates, and other factors. If the net book value is greater than the future undiscounted cash flow, SGC records an impairment adjustment to reduce its asset cost basis to its fair value.

During the years ended August 31, 2024 and 2023, SGC recorded no impairment adjustments on assets held for use.

Deferred revenue: Consists of conference registration receipts and Pastors College tuition received in advance.

Revenue recognition: SGC recognizes certain revenue under Accounting Standards Codification Topic 606, Revenue from Contracts with Customers (ASC 606). The standard outlines a five-step model whereby revenue is recognized as performance obligations within a contract are satisfied. The five-step model is outlined below:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Accordingly, the following revenue streams are within the scope of ASC 606:

Music and book sales – Sales of books and music are recognized as revenue at a point in time based on the date sales are remitted to SGC by the distributor. Sales revenue is received monthly.

Music and book royalties – Revenue is recognized at a point in time based on the date royalties are remitted to SGC by the distributors. Royalty revenue is generally received quarterly.

Tuition and fees – Amounts received as tuition and fees for the upcoming school year are recognized as revenue ratably over the school year. Amounts received in advance are recorded as deferred revenue until earned over the course of the school year.

Sovereign Grace Churches, Inc.

Notes to Financial Statements

Conference receipts – Amounts received as registration for future events are recognized as revenue at the point in time when the event occurs. Amounts received in advance are recorded as deferred revenue until earned at the date of the conference.

	2024	2023
Disaggregation of Revenue:		
Revenue recognized at a point in time	\$ 1,219,851	\$ 909,342
Revenue recognized over time	53,625	90,450
Total operating revenue:	\$ 1,273,476	\$ 999,792

Contract liabilities – Contract liabilities include amounts paid by customers for which goods or services have not yet been provided and are included in deferred revenue. Contract liabilities totaled \$159,590, \$144,561, and, \$112,218 at August 31, 2024, August 31, 2023, and September 1, 2022, respectively, of deferred revenue related to revenue that gets recognized under ASC 606.

Contract assets – Contract assets include amounts receivable to SGC for which goods and services have been provided and are included in accounts receivable. Contract assets totaled \$37,277, \$69,855, and \$279,940, at August 31, 2024, August 31, 2023, and September 1, 2022, respectively, of receivables related to revenue that were recognized under ASC 606.

Contract costs – Contract costs generally include direct costs such as compensation expenses for program personnel and other direct costs incurred including costs of materials and indirect costs identifiable with and allocable to the contract program. Costs are expensed as incurred. SGC does not incur significant incremental costs for obtaining contracts.

The following revenue streams are outside the scope of ASC 606:

Contributions – SGC recognizes all contributions, including unconditional promises to give, as support in the period pledged or received. Contributions restricted as to their use are recognized as net assets with donor restrictions until these funds have been disbursed or committed as the donor intended.

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statements of Activities and Changes in Net Assets as net assets released from restrictions.

Other income – Consists mostly of rental fees and imputed loan interest income. All are recognized when the services are performed or when earned.

Sovereign Grace Churches, Inc.

Notes to Financial Statements

Functional allocation of expenses: The costs of providing the various programs and other activities have been summarized on a functional basis in the Statements of Activities and Changes in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Expenses that are allocated include the following:

Expenses	Method of Allocation
Compensation and benefits	Direct allocation & percentage of compensation and benefits
Gifts and grants	Direct allocation & percentage of compensation and benefits
Travel and training	Direct allocation & percentage of compensation and benefits
Office expenses	Direct allocation & percentage of compensation and benefits
Insurance	Direct allocation & percentage of compensation and benefits
Information technology	Direct allocation & percentage of compensation and benefits
Building occupancy	Direct allocation & percentage of square footage
Other expense	Direct allocation & percentage of compensation and benefits
Depreciation and amortization	Direct allocation & percentage of compensation and benefits

Income taxes: SGC is a nonprofit organization that is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code (IRC), and is classified as an organization which is not a private foundation.

SGC evaluates uncertainty in income tax positions based on a more-likely-than-not recognition standard. If that threshold is met, the tax position is then measured at the largest amount that is greater than 50% likely of being realized upon ultimate settlement. As of August 31, 2024 and 2023, there are no accruals for uncertain tax positions. If applicable, SGC records interest and penalties as a component of income tax expense. Tax years from 2021 through the current year remain open for examination by tax authorities.

Estimates: 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.

Sovereign Grace Churches, Inc.

Notes to Financial Statements

Reclassification: Certain 2023 balances have been reclassified to reflect 2024 presentation. The 2023 reclassification has transferred \$19,726 from music and book sales revenue to music and book royalties revenue. This reclassification does not have a material impact on the financial statements.

Recently Adopted Accounting Guidance: In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-13, Financial Instruments - Credit Losses (Topic 326), or ("CECL"), which prescribes an impairment model for most financial instruments based on expected losses rather than incurred losses. Under this model, an estimate of expected credit losses over the contractual life of the instrument is to be recorded as of the end of a reporting period as an allowance to offset the amortized cost basis, resulting in a net presentation of the amount expected to be collected on the financial instrument. For most instruments, entities must apply the standard using a cumulative-effect adjustment to beginning net assets as of the beginning of the fiscal year of adoption.

The adoption of CECL did not have a material impact. A cumulative effect adjustment to beginning net assets was not required.

Subsequent events: Management has evaluated subsequent events for disclosure in these financial statements through December 7, 2024, which is the date the financial statements were available to be issued.

Sovereign Grace Churches, Inc.

Notes to Financial Statements

2. Liquidity and availability of resources

The following reflects SGC's financial assets as of the Statement of Financial Position date, reduced by amounts not available for general use because of donor imposed restrictions within one year of the Statement of Financial Position date, or because of an internal board designation. SGC strives to maintain total net financial assets sufficient to cover 30 to 270 days of general expenditures, which are estimated at \$275,000 to \$2,475,000. Financial assets in excess of daily cash requirements are invested in various instruments which are sources of liquidity. These include certificates of deposit, money market funds, U.S. Treasuries, other short-term investments, mortgage-backed securities, and marketable debt and equity securities.

	2024	2023
Cash and cash equivalents	\$ 2,843,756	\$ 2,095,312
Investments	1,101,410	1,084,364
Accounts receivable - trade	37,277	69,855
Notes receivable, current portion	82,845	74,595
Total financial assets	4,065,288	3,324,126
Donor-imposed restrictions		
Net assets with donor restrictions	(2,690,193)	(2,572,801)
Net financial assets after donor-imposed restrictions	1,375,095	751,325
Internal designations		
Board designated church planting reserve	(210,000)	(110,000)
Net financial assets available to meet cash needs for general expenditures within one year	\$ 1,165,095	\$ 641,325

3. Investments

Investments are presented in the financial statements at fair market value. The following is a summary of the investments as of August 31:

	2024	2023
Federal government bonds and notes	\$ -	\$ 195,704
Mortgage-backed securities	98,565	93,608
Certificates of deposit	1,002,845	795,052
Total	\$ 1,101,410	\$ 1,084,364

4. Fair value

SGC values its investments at fair value in accordance with a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1. Observable inputs such as quoted prices in active markets for identical assets or liabilities;

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Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. There have been no changes in the fair value methodologies used at August 31, 2024 and 2023.

The fair value of investments as of August 31, is as follows:

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	No Quoted Prices In Active Markets nor Observable Inputs
August 31, 2024	Total	(Level 1)	(Level 2)	(Level 3)
Mortgage-backed securities	\$ 98,565	\$ -	\$ 98,565	\$ -
Certificates of deposit	1,002,845	-	1,002,845	-
Total	\$1,101,410	\$ -	\$ 1,101,410	\$ -

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	No Quoted Prices In Active Markets nor Observable Inputs
August 31, 2023	Total	(Level 1)	(Level 2)	(Level 3)
Federal government bonds and notes	\$ 195,704	\$ -	\$ 195,704	\$ -
Mortgage-backed securities	93,608	-	93,608	-
Certificates of deposit	795,052	-	795,052	-
Total	\$1,084,364	\$ -	\$ 1,084,364	\$ -

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Level 2 values for federal government bonds and notes and mortgage-backed securities were developed utilizing fluctuations in the attached indices or basket funds from the inception date to the maturity date.

Level 2 value of certificates of deposit is estimated using various techniques, which may consider recently executed transactions in securities of the issuer or comparable issuers, market price quotations (where observable), bond spreads, and fundamental data relating to the issuer.

5. Notes receivable

As described in Note 1, on July 30, 2020, SGC sold its “right to use” asset to CLC in exchange for a note receivable of \$525,000, at a 0% interest rate. The loan amount is discounted with an imputed interest rate of 5%. Monthly payments commenced on the second anniversary of the date of the agreement, July 30, 2022. CLC pays the greater of \$5,000 per month or 50% of rental income if the premises are leased. The note is a secondary lien on property mortgaged through a reputable financial institution. Per the terms of that agreement, payment is subordinated and deferred to the extent necessary prior to the payment in full of the senior debt to the financial institution.

The borrowers made all required payments under the notes as of August 31, 2024, totaling \$81,498, and the remaining \$375,858 was outstanding as of August 31, 2024.

Year ended August 31,		
2025	\$	82,845
2026		60,000
2027		60,000
2028		60,000
2029		60,000
Thereafter		53,013
Subtotal		375,858
Less: present value discount:		(50,353)
Total notes receivable, net		325,505
Less: current portion		(82,845)
Long-term notes receivable	\$	242,660

6. Line of credit

SGC had a \$750,000 bank line of credit which expired on April 26, 2024 and was not renewed. Amounts borrowed under this agreement bore interest at the bank’s prime rate minus 1.00%. There had been no draws on the line of credit during the years ended August 31, 2024 and 2023.

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7. Net assets with donor restrictions Net assets with donor restrictions were available for the following purposes as of August 31:

	2024	2023
U.S. church regions	\$ 1,709,643	\$ 1,639,193
International church regions	802,231	858,633
Pastors College, church planting, other	178,319	74,975
Total net assets with donor restrictions	\$ 2,690,193	\$ 2,572,801

Net assets were released from restrictions by incurring expenses satisfying the restricted purposes or by the passage of time as follows for the years ended August 31:

	2024	2023
U.S. church regions	\$ 855,190	\$ 835,923
International church regions	675,384	938,030
Pastors College, church planting, other	314,176	233,185
Total release of restrictions	1,844,750	2,007,138
Less: Amounts received and released in the same fiscal year	(1,604,841)	(1,628,359)
Total releases presented on the Statements of Activities and Changes in Net Assets	\$ 239,909	\$ 378,779

8. Retirement plan

SGC maintains a retirement plan that is qualified under Section 403(b) of the IRC. The plan covers all full-time employees. SGC will match each participant's salary deferred contribution to the plan based upon a formula outlined in the plan document, up to a maximum employer contribution of 3% of compensation. Employees vest immediately in all employer contributions to the plan. Retirement plan expense for the years ended August 31, 2024 and 2023 was \$22,620 and \$20,947, respectively.

For the pastoral staff who are not participating in the social security system, SGC also provides an amount equal to what would have been the normal employer Social Security and Medicare contribution (currently 7.65% of salary), which is then to be used to purchase any combination of life insurance, disability insurance, and retirement investments. SGC paid \$38,883 and \$34,572 for the years ended August 31, 2024 and 2023, respectively.

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9. Commitments and contingencies During the normal course of business, SGC has entered into agreements with a hotel to reserve room and facility space for future meetings scheduled to be held through 2024. In the event of cancellation, SGC is required to pay various costs of hotel rooms as stipulated in the contracts, the amounts of which are dependent upon the date of cancellation. As of August 31, 2024, such commitments are approximately \$243,200.