

SOVEREIGN GRACE MINISTRIES, INC.

**AUDITED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION**

AUGUST 31, 2008 AND 2007



700 King Farm Blvd, Ste 300, Rockville MD 20850 | 301.231.6200 MAIN | 301.231.7630 FAX | www.aronsoncompany.com

Sovereign Grace Ministries, Inc.

Table of Contents

	Page
Independent Auditor's Report	1
Audited Financial Statements	
Statements of Financial Position	2 - 3
Statements of Activities and Changes in Net Assets	4
Statements of Cash Flows	5
Notes to Financial Statements	6 - 9
Other Financial Information	
Independent Auditor's Report on Other Financial Information	10
Schedules of Revenue and Expenses by Fund	11 - 12

Aronson & Company

Statement of Financial Position Tag Do Not Delete

Statement of Operations Tag Do Not Delete

Cash Flow Tag Do Not Delete

Sovereign Grace Ministries, Inc.

Notes to Financial Statements

-
1. **Organization and significant accounting policies** **Organization:** Sovereign Grace Ministries, Inc. (SGM) is a Maryland nonprofit corporation. SGM is an association of churches and an integrated auxiliary of Covenant Life Church, Inc. (CLC) and is operated exclusively for religious, charitable and educational purposes dedicated to planting and supporting local churches, with a passion for the gospel of Jesus Christ through conferences, training and resources.

Basis of presentation: As of and for the years ended August 31, 2008 and 2007, all net assets of SGM are considered unrestricted in that they are not subject to any donor-imposed stipulations.

Revenue recognition: Contributions are recorded as support when received or upon receipt of an unconditional promise. Event receipts for conferences received in advance are deferred and recognized as revenue when the event occurs. Sales of books, CDs and tapes are recorded as sales revenue at the time the article is shipped or delivered.

Cash and cash equivalents: For purposes of financial statement presentation, SGM considers all highly liquid debt instruments with initial maturities of ninety days or less to be cash equivalents. The Organization maintains cash balances which may exceed Federally insured limits. Management does not believe that this results in any significant credit risk.

Investments: Investments consist of certificates of deposits and publicly traded securities which are stated at fair value as determined by quoted market prices.

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 market, with cost determined on a weighted average basis.

Accounts receivable: The face amount of accounts receivable is reduced by an allowance for doubtful accounts, if needed. The allowance for doubtful accounts reflects the best estimate of probable losses determined principally on the basis of historical experience and specific allowances for known troubled accounts. All accounts or portion thereof that are deemed to be uncollectible or that require an excessive collection cost are written off to the allowance for doubtful accounts. Management believes that all accounts receivable are collectible, therefore, there is no provision for doubtful accounts in the accompanying financial statements.

Sovereign Grace Ministries, Inc.

Notes to Financial Statements

Property and equipment: Property and equipment are capitalized and recorded at cost and are being depreciated using the straight-line method over their estimated useful lives of three to forty years.

SGM paid \$1,890,190 to CLC for its equity interest in its 17,125 square feet of buildings and improvements placed in service by CLC beginning August 1, 2002. An agreement was established between SGM and CLC under which SGM is given use of the building for successive terms of ninety-nine years and CLC provides all services, maintenance and repairs required for the upkeep of the property. SGM reimburses CLC for its share of these expenses at a mutually agreed-upon rate, determined annually. The capitalized cost of the buildings is the amount paid by SGM for building improvements and its equity interest in the buildings.

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.

Income taxes: SGM 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.

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.

Reclassifications: Certain 2007 balances have been reclassified to conform with the August 31, 2008 presentation.

Sovereign Grace Ministries, Inc.

Notes to Financial Statements

- 2. Related party transactions** SGM received contributions of \$723,975 and \$745,405 in 2008 and 2007, respectively, from CLC, a related organization, and sold \$19,220 and \$53,740 of materials to CLC during 2008 and 2007, respectively. SGM and CLC also share the cost of salaries and benefits for several employees whose time is allocated between SGM and CLC. During the years ended August 31, 2008 and 2007, CLC paid SGM \$236,935 and \$317,336, respectively, for services SGM provided to CLC. CLC owed SGM \$21 and \$862 as of August 31, 2008 and 2007, respectively and was due \$377 and \$12,873 from SGM as of August 31, 2008 and 2007, respectively. These amounts are included in accounts receivable and payable, respectively, in the accompanying financial statements. SGM pays CLC a monthly fee for its portion of the building operating expenses. These amounts were \$66,604 and \$61,191 the years ended August 31, 2008 and 2007, respectively.

In addition, for the years ended August 31, 2008 and 2007, SGM incurred \$98,702 and \$53,378, respectively of costs on behalf of CLC, which were reimbursed by CLC to SGM. These costs were for insurance premiums, accounting-related supplies and equipment, registration fees for conferences attended by CLC members, honoraria for specific services rendered by SGM employees to CLC, and some miscellaneous expenses.

- 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:

	<u>2008</u>	<u>2007</u>
Equities	\$ 459,592	\$ -
Certificates of deposit	861,660	737,518
Total	\$ 1,321,252	\$ 737,518

Investment income for the years ended 2008 and 2007 consisted of the following:

	<u>2008</u>	<u>2007</u>
Interest and dividends	\$ 94,721	\$ 139,735
Unrealized and realized losses	(8,045)	(2,482)
Total	\$ 86,676	\$ 137,253

Sovereign Grace Ministries, Inc.

Notes to Financial Statements

- 4. Board designated net assets** As of August 31, 2008 and 2007, the board designated \$700,000 and \$350,000, respectively, of its net assets to be maintained in liquid investments (such as cash and certificates of deposits) as a contingency operating reserve. The board has also designated \$40,000 for a pastors college endowment fund. Total board designated net assets were \$740,000 and \$390,000 as of August 31, 2008 and 2007, respectively.
- 5. Retirement plan** SGM maintains a retirement plan that is qualified under Section 403(b) of the Internal Revenue Code. The plan covers all full time employees. SGM 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 4% of compensation. Employees vest immediately in all employer contributions to the plan. Retirement plan expense for the years ended August 31, 2008 and 2007 was \$65,045 and \$62,194, respectively.

For the pastoral staff who are not participating in the social security system, SGM 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.



700 King Farm Boulevard, Suite 300, Rockville Maryland 20850 | 301.231.6200 MAIN | 301.231.7630 FAX | www.aronsoncompany.com

Independent Auditor's Report on Other Financial Information

Board of Directors
Sovereign Grace Ministries, Inc.
Gaithersburg, Maryland

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying other financial information included on pages 11 and 12 is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Aronson & Company

Rockville, Maryland
January 9, 2009