

GRACEWORKS MINISTRIES, INC.

FINANCIAL STATEMENTS

As of and for the Year Ended June 30, 2025

And Report of Independent Auditor

GRACEWORKS MINISTRIES, INC.

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Report of Independent Auditor

To the Board of Directors
GraceWorks Ministries, Inc.
Nashville, Tennessee

Opinion

We have audited the accompanying financial statements of GraceWorks Ministries, Inc. (the “Organization”) (a nonprofit organization), which comprise the statement of financial position as of June 30, 2025, and the related statements of activities, functional expenses, and cash flows for the year 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 the Organization as of June 30, 2025, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit 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 the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter – Correction of Errors

As discussed in Note 9 to the financial statements, the Organization determined during the current year that an error resulting in the misstatement of amounts previously reported as net assets with donor restrictions as of and for the year ended June 30, 2024 had occurred. Accordingly, amounts reported for net assets with donor restrictions at the beginning of the year have been restated in the 2025 financial statements and an adjustment has been made to net assets without donor restrictions as of July 1, 2024 to correct the error. Additionally, management identified misstatements in the treatment of activity in certain clearing accounts resulting in restating cash and cash equivalents and accounts payable. Further, management has restated the value of donated food pantry inventory on hand at June 30, 2024. Our opinion is not modified with respect to these matters.

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 the Organization’s ability to continue as a going concern within one year after the date the financial statements are available to be issued.

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 the Organization'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 the Organization'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.

Cherry Bekaert LLP

Nashville, Tennessee
February 17, 2026

GRACEWORKS MINISTRIES, INC.
STATEMENT OF FINANCIAL POSITION

JUNE 30, 2025

ASSETS

Current Assets:

Cash and cash equivalents	\$ 4,817,874
Prepaid expenses	28,404
Inventory	632,493
Total Current Assets	<u>5,478,771</u>

Property and equipment, net	220,235
Right-of-use assets, net	1,199,580
Total Assets	<u><u>\$ 6,898,586</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts payable	\$ 25,335
Accrued expenses	55,241
Deferred revenues	33,223
Current portion of operating lease liabilities	379,703
Total Current Liabilities	<u>493,502</u>

Operating lease liabilities, net of current portion	<u>915,524</u>
Total Liabilities	<u>1,409,026</u>

Net Assets:

Without donor restrictions	5,337,564
With donor restrictions	151,996
Total Net Assets	<u>5,489,560</u>
Total Liabilities and Net Assets	<u><u>\$ 6,898,586</u></u>

The accompanying notes to the financial statements are an integral part of these statements.

GRACEWORKS MINISTRIES, INC.
STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2025

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue and Other Support:			
Public Support:			
Contributed nonfinancial assets	\$ 3,942,374	\$ -	\$ 3,942,374
Individual contributions	2,692,418	45,445	2,737,863
Business donations	611,361	-	611,361
Grants	364,661	-	364,661
Church contributions	327,827	-	327,827
Net assets released from restriction	28,804	(28,804)	-
Total Public Support	<u>7,967,445</u>	<u>16,641</u>	<u>7,984,086</u>
Program and Other Revenue:			
Store income	1,953,696	-	1,953,696
Neighborhood assistance payments	77,551	-	77,551
Investment returns, net	207,958	-	207,958
Total Program and Other Revenue	<u>2,239,205</u>	<u>-</u>	<u>2,239,205</u>
Total Revenue and Other Support	<u>10,206,650</u>	<u>16,641</u>	<u>10,223,291</u>
Expenses:			
Program Services	8,640,846	-	8,640,846
Supporting Services:			
Management and general	456,283	-	456,283
Fundraising	1,391,880	-	1,391,880
Total Supporting Services	<u>1,848,163</u>	<u>-</u>	<u>1,848,163</u>
Total Expenses	<u>10,489,009</u>	<u>-</u>	<u>10,489,009</u>
Change in net assets	<u>(282,359)</u>	<u>16,641</u>	<u>(265,718)</u>
Net assets, beginning of year, as previously presented	5,597,265	694,104	6,291,369
Restatement (Note 9)	22,658	(558,749)	(536,091)
Net assets, beginning of year, as restated	<u>5,619,923</u>	<u>135,355</u>	<u>5,755,278</u>
Net assets, end of year	<u>\$ 5,337,564</u>	<u>\$ 151,996</u>	<u>\$ 5,489,560</u>

The accompanying notes to the financial statements are an integral part of these statements.

GRACEWORKS MINISTRIES, INC.
STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2025

	Supporting Services			Total
	Program Services	Management and General	Fundraising	
Salaries	\$ 1,827,110	\$ 217,478	\$ 661,590	\$ 2,706,178
Payroll taxes and benefits	468,151	55,723	169,516	693,390
Total Payroll and Related Expenses	<u>2,295,261</u>	<u>273,201</u>	<u>831,106</u>	<u>3,399,568</u>
In-kind expenses	3,837,893	42,374	3,605	3,883,872
Neighbor food pantry	601,943	-	-	601,943
Neighbor services	746,288	-	-	746,288
Occupancy	620,822	5,901	17,952	644,675
Fundraising	31,714	31,714	253,709	317,137
General and IT repairs and maintenance	202,383	24,089	73,282	299,754
Advertising and promotion	13,830	13,830	110,637	138,297
Merchant and bank fees	88,742	6,826	40,958	136,526
Professional fees	30,023	40,030	30,023	100,076
Client services	62,693	7,837	7,837	78,367
Insurance	37,548	4,694	4,694	46,936
Office expense	19,266	3,855	15,422	38,543
Store supplies	36,080	-	-	36,080
Travel	10,778	1,268	634	12,680
Human resources	5,582	664	2,021	8,267
	<u>\$ 8,640,846</u>	<u>\$ 456,283</u>	<u>\$ 1,391,880</u>	<u>\$ 10,489,009</u>

The accompanying notes to the financial statements are an integral part of these statements.

GRACEWORKS MINISTRIES, INC.
STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2025

Cash flows from operating activities:

Change in net assets	\$ (265,718)
Adjustments to reconcile change in net assets to cash flows from operating activities:	
Depreciation and amortization	88,883
Loss on disposal of property and equipment	48,541
Amortization of right-of-use assets - operating leases	376,661
Realized and unrealized gain on investments	(39,391)
Noncash contributed financial assets	-
Changes in operating assets and liabilities:	
Contributions receivable	14,308
Prepaid expenses	(19,955)
Inventory	(58,502)
Accounts payable	(73,429)
Accrued expenses	(21,566)
Deferred revenues	16,143
Operating lease liability	<u>(434,525)</u>
Net cash flows from operating activities	<u>(368,550)</u>

Cash flows from investing activities:

Purchases of property and equipment	(112,937)
Proceeds from sale of investments	2,877,025
Purchases of investments	<u>(157,441)</u>
Net cash flows from investing activities	<u>2,606,647</u>
Change in cash and cash equivalents	<u>2,238,097</u>

Cash and cash equivalents, beginning of year, as previously reported	2,728,963
Restatement (Note 9)	<u>(149,186)</u>
Cash and cash equivalents, beginning of year, as restated	<u>2,579,777</u>
Cash and cash equivalents, end of year	<u>\$ 4,817,874</u>

The accompanying notes to the financial statements are an integral part of these statements.

GRACEWORKS MINISTRIES, INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2025

Note 1—Nature of organization and summary of significant accounting policies

GraceWorks Ministries, Inc. (the “Organization”) operates as a not-for-profit organization in the state of Tennessee. The Organization is devoted to fulfilling their mission statement: Neighbor serving Neighbor, by the power of God’s grace. The Organization provides food, shelter, and support to individuals and families (“neighbors”) in need.

The Organization believes everyone should have the ability to purchase high quality, used goods such as clothing, furniture, and household items at affordable prices. The Organization’s thrift stores are open to the public. All merchandise sold is donated, including many new items, and the sales help support its mission.

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

Food – Providing food to neighbors experiencing crisis or poverty through five access points: a food pantry, mobile food pantries, holiday food boxes, student fuel bags and classroom snack boxes.

Shelter – Providing neighbors with financial assistance for rent, mortgage and utility payments.

Support – Providing neighbors with clothing and household items such as furniture, housewares, and appliances. Additionally, providing access to the Organization’s network of partners with additional resources.

Basis of Presentation – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with United States generally accepted accounting principles (“U.S. GAAP”). The significant accounting policies followed are described below:

In accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) guidelines, the Organization reports information regarding its financial position and activities according to two classes of net assets based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization’s management and its Board of Directors.

Net Assets With Donor Restrictions – Net assets subject to stipulations imposed by donors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions may be perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. None of the Organization’s net assets with donor restrictions at June 30, 2025 are required by donors to be held in perpetuity.

Cash and Cash Equivalents – For purposes of the statement of cash flows, the Organization considers all cash and investments purchased with an original maturity of 90 days or less from the date of issuance to be a cash equivalent.

Contributions Receivable – Contributions receivable are recognized when the donor makes a promise to give that is, in substance, unconditional. Unconditional promises to give are recorded as net assets with donor restrictions revenue in the year the promise is made and released from restriction in the year received.

GRACEWORKS MINISTRIES, INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2025

Note 1—Nature of organization and summary of significant accounting policies (continued)

Unconditional promises to give due in the next year are reflected as current promises to give and are recorded at their net realizable value. Unconditional promises to give to be received over periods of more than one year are discounted to their net present value based on a credit risk adjusted rate and reflected as long-term. Amortization of net present value discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

The Organization provides for an allowance for uncollectible contributions receivable which is based on management's judgment, including such factors as the age of the receivable, historical collection experience, type of contribution, and nature of fundraising activity. Contributions receivable are reviewed annually as to their collectability. Based on collection experience and management's review, no allowance for doubtful amounts is considered necessary at June 30, 2025.

Inventory – The Organization records inventory for its thrift store and food pantry, which are items that are donated to or purchased by the Organization. U.S. GAAP requires that contributions be recognized as revenue when received.

Thrift Store Inventory – The Organization considers the value of contributed merchandise to be equal to the value of the annual thrift store revenue. Management estimates all thrift store donations exit the store within two months' time; therefore, the value of the thrift store inventory equals two months of subsequent sales.

Food Pantry Inventory – The Organization considers the value of contributed food to be the weight of donated food multiplied by \$1.90 per pound, which is based on estimates used by national food banks. Management estimates the Organization maintains a month and a half of food on premises; therefore, the value of the food pantry inventory equals the value of the subsequent one and a half months of donated food.

Investments – Investments are recorded at cost when purchased and at fair value when donated. Thereafter, investments are reported at fair value. Fair value is determined by reference to exchange or dealer quoted market prices. If a quoted market price is not available, fair value is estimated using quoted market prices for similar investment securities. Changes in fair value of securities, including interest and dividends, and unrealized and realized gains and losses net of investment expenses, are reflected as investment returns, net in the statement of activities. Investment returns on investments are reported as increases or decreases in net assets without restrictions unless their use is restricted by explicit donor stipulations or time.

Fair Value of Financial Instruments – The Organization has estimated the fair values of its financial instruments using available market information and other valuation methodologies in accordance with U.S. GAAP. Accordingly, the estimates presented are not necessarily indicative of the amounts the Organization could realize in a current market exchange. Determinations of fair value are based on subjective data and significant judgment related to timing of payments and collection of the amounts to be realized. Different market assumptions and/or estimation methodologies might have a material effect on the estimated fair value amounts.

The fair value hierarchy for inputs used in measuring fair value maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring the most observable inputs to be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Organization. Unobservable inputs reflect the Organization's assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

GRACEWORKS MINISTRIES, INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2025

Note 1—Nature of organization and summary of significant accounting policies (continued)

The fair value hierarchy is classified in one of the following three levels based on the inputs:

Level 1 – Financial instruments with unadjusted, quoted prices listed on active market exchanges.

Level 2 – Financial instruments valued using inputs that include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 – Financial instruments are not actively traded on a market exchange and require using significant unobservable inputs in determining fair value.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used should maximize the use of observable inputs and minimize the use of unobservable inputs. There have been no changes in the methodologies used during 2025.

Property and Equipment – Property and equipment are recorded at cost. Expenditures for ordinary repairs and maintenance are charged to operations as incurred. Expenditures for renewals or betterments that materially extend the life of the asset are capitalized. Depreciation is provided utilizing the straight-line method over the assets' estimated useful lives of the respective assets, generally 3 to 7 years.

Contributions of long-lived assets are recorded as contribution revenues without donor restrictions unless specifically restricted by donor and are recorded at their estimated fair value at the date of the donation. When property and equipment is retired or sold, the cost and the related accumulated depreciation are removed from the accounts and the resulting gain or loss is included in operations.

Leases – The Organization leases certain buildings and equipment. The determination of whether an arrangement is a lease is made at the lease's inception. The assessment is based on: (1) whether the contract involves the use of a distinct identified asset, (2) whether the Organization obtains the right to substantially all the economic benefit from the use of the asset throughout the period, and (3) whether the Organization has the right to direct the use of the asset. The Organization has also elected not to recognize right-of-use ("ROU") assets and lease liabilities for short-term leases that have a term of 12 months or less. The effect of short-term leases would not be material to the ROU assets and lease liabilities.

ROU assets and lease liabilities are recognized at the commencement date based on the present value of the future minimum lease payments over the lease term. Renewal and termination clauses are factored into the determination of the lease term if it is reasonably certain these options would be exercised by the Organization. Lease assets are amortized over the lease term unless there is a transfer of title or purchase option reasonably certain of exercise, in which case the asset life is used. Certain of the Organization's lease agreements include variable payments. Variable lease payments not dependent on an index or rate primarily consist of common area maintenance, property tax, and property insurance charges and are not included in the calculation of the ROU asset and lease liability and are expensed as incurred. To determine the present value of lease payments, the Organization uses the implicit rate when it is readily determinable. As most of the Organization's leases do not provide an implicit rate, the Organization has elected to utilize the risk-free discount rate to calculate lease assets and liabilities.

GRACEWORKS MINISTRIES, INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2025

Note 1—Nature of organization and summary of significant accounting policies (continued)

Certain leases contain escalation clauses, which are factored into the ROU asset where appropriate. Lease expense for minimum lease payments are recognized on straight-line basis over the lease term.

The Organization has lease agreements with lease and non-lease components. For all leases, these components are accounted for as a single lease component.

Revenue Recognition – The Organization recognizes contributions as support when they are received or unconditionally pledged and records these contributions as without donor restrictions or with donor restrictions if there are donor stipulations that limit the use of these assets due to either a time or purpose restriction. Contributions received with donor restrictions that are met in the year of receipt are recorded as revenues without donor restrictions. When a restriction expires or is met in a subsequent year, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities. Conditional contributions or promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions to be received in the future periods are discounted at an appropriate discount rate. Amortization of discounts on multi-year pledges is recorded as additional contribution support as either with or without donor restrictions based on any donor-imposed restrictions, if any, on the related contributions.

The Organization holds various charity events throughout the year. Participation fees and sponsorship amounts received before the event dates are recorded as contract liabilities until the date of the event, at which time the amounts are recognized as revenue.

The Organization operates a thrift store that sells donated clothes and furniture to raise funds for its programs that assist those in need. Customers will make payment and receive the product at the point of sale at the store and all performance obligations are met at that time. Items must be picked up onsite and no shipping is conducted. There are no returns as all sales are final once payment is made.

Contributed Nonfinancial Assets – Contributions of thrift store goods are valued at the price sold and recognized as support and expense when sold. Contributed food pantry goods are valued based on estimates provided by national food banks (see Note 7) and are distributed free of charge rather than sold.

Donated Services – Contributions of donated services that create or enhance non-financial assets or that require specialized skills are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. The Organization occasionally receives contributed services for its outreach programs. These services meet the requirements for recognition in the financial statements and have been recorded or reflected in the accompanying financial statements.

Additionally, the Organization receives a significant amount of contributed time from volunteers that does not meet the recognition criteria described above. Accordingly, the value of this contributed time has not been determined and is not reflected in the accompanying financial statements.

Compensated Absences – Fulltime employees are defined as those working 30 hours or more per week. Paid time off is calculated based on each employee's regularly scheduled hours per week and is granted 90 days after hire date. An employee can carry over up to 40 hours of paid time off at the end of the fiscal year into the new year. The accrued paid time off at June 30, 2025 amounted to approximately \$25,000 and is included in accrued liabilities on the statement of financial position.

GRACEWORKS MINISTRIES, INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2025

Note 1—Nature of organization and summary of significant accounting policies (continued)

Deferred Revenues – Deferred revenues consist of amounts received for events that have not yet occurred. Deferred revenues balances at June 30, 2025 were \$33,223. The balance of \$17,080 at June 30, 2024 was recognized in full during the year ended June 30, 2025.

Advertising – The cost of advertising is expensed as incurred.

Functional Allocation of Expenses – The costs of providing program and other activities have been summarized on a functional basis in the statement of activities. Costs are charged directly to the functional area to which they relate when possible. However, most costs have been allocated among program and supporting services based on a specific analysis of time and effort spent by personnel and the roles they fulfill. Such allocations are determined by management on an equitable basis.

Income Taxes – The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is not a private foundation. Accordingly, no provision for income taxes has been made. The Organization follows FASB ASC guidance related to unrecognized tax benefits. This guidance prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. The Organization has no tax penalties or interest reported in the accompanying financial statements.

Concentrations of Credit Risk – Financial instruments that potentially expose the Organization to concentrations of credit risk consist primarily of cash and cash equivalents. The Organization places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation covers \$250,000 for substantially all depository accounts. Cash balances may at times exceed federally insured limits. At June 30, 2025, there was approximately \$3,470,000 of cash and cash equivalent balances in excess of federally insured limits. Additionally, as of June 30, 2025, certain of the Organization's cash equivalents held in investment accounts were in excess of Securities Investor Protection Corporation ("SIPC") insurance limits by approximately \$139,000. The Organization has not experienced any losses in such accounts and does not believe this exposes it to any significant credit risk on its cash.

Use of Estimates – The preparation of financial statements in conformity with U.S. GAAP 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events – The Organization has evaluated subsequent events through February 17, 2026, when these financial statements were available to be issued. See Notes 5 and 8.

GRACEWORKS MINISTRIES, INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2025

Note 2—Liquidity and availability of resources

The Organization has a goal to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The following table represents the Organization's financial assets as of June 30, 2025, available for general expenditure within one year. The Organization considers general expenditures to be all expenditures related to its ongoing activities of achieving its mission.

Financial assets at year-end:	
Cash and cash equivalents	\$ 4,817,874
Total financial assets	<u>4,817,874</u>
Less amounts not available to be used for general expenditures within one year:	
Net assets with donor restrictions	<u>151,996</u>
Financial assets not available to be used within one year	<u>151,996</u>
Financial assets available to meet general expenditures within one year	<u><u>\$ 4,665,878</u></u>

Note 3—Investments

The Organization held no investments at June 30, 2025, as those held in previous years were liquidated.

Prior to liquidation, investment returns, net consist of the following for the year ended June 30, 2025:

Interest and dividends	\$ 171,654
Unrealized and realized gains, net	39,391
Investment fees	<u>(3,087)</u>
Investment return, net	<u><u>\$ 207,958</u></u>

Note 4—Property and equipment, net

Property and equipment consist of the following:

Equipment and computers	\$ 151,858
Leasehold improvements	203,898
Vehicles	<u>419,624</u>
Property and equipment, gross	775,380
Less accumulated depreciation	<u>(555,145)</u>
Property and equipment, net	<u><u>\$ 220,235</u></u>

Depreciation expense totaled \$88,883 for the year ended June 30, 2025 and is included in occupancy expense on the statement of activities.

GRACEWORKS MINISTRIES, INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2025

Note 5—Leases

The Organization has operating leases for warehouse buildings and parking space which encompass third party leases. The Organization's leases have remaining terms that mature through 2028. The following is a summary of the carrying values of ROU assets held under operating leases at June 30, 2025:

Operating Leases:

Right-of-use assets	\$ 2,203,519
Less accumulated amortization	<u>(1,003,939)</u>
Right-of-use assets, net	<u>\$ 1,199,580</u>
Current portion of operating lease liabilities	\$ 379,703
Operating lease liabilities, net of current portion	<u>915,524</u>
Total operating lease liabilities	<u>\$ 1,295,227</u>

The following payments related to operating leases are expected to be paid for each of the following years ending June 30:

Years Ending June 30,

2026	\$ 424,366
2027	469,572
2028	<u>482,112</u>
Total undiscounted cash flows	1,376,050
Less effects of discounting	<u>(80,823)</u>
Total lease liabilities	<u>\$ 1,295,227</u>

Required supplemental information relating to the Organization's leases are as follows for the year ended June 30, 2025:

Lease expense:

Operating lease expense, included in operating expenses	<u>\$ 437,734</u>
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Lease term and discount rate:

Weighted average remaining lease term - operating leases	2.99 years
Weighted average discount rate - operating leases	4.05%

In addition to those described above, the Organization has also entered into a month-to-month lease agreement for an administration building for a monthly cost of \$1,000.

Subsequent to June 30, 2025, the Organization has amended its lease arrangement to expand the leased space and extend the term of the lease through June 2030. Under the expansion lease amendment, the Organization has agreed to tenant improvements at an estimated cost of \$25,000. The landlord will make additional tenant improvements estimated at a cost of \$325,000. Monthly base rents under the expansion amendment will range between \$80,000 and \$90,000 during the extended term.

GRACEWORKS MINISTRIES, INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2025

Note 6—Net assets with donor restriction

Net assets with donor restrictions consisted of the following at June 30, 2025:

Specific purpose:		
Holiday food boxes	\$	873
Cash for manger		<u>151,123</u>
	\$	<u><u>151,996</u></u>

Net assets with donor restrictions for the year ended June 30, 2025 were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

Purpose restriction accomplished:		
Holiday food boxes	\$	24,840
Other		<u>3,964</u>
	\$	<u><u>28,804</u></u>

Note 7—Contributed nonfinancial assets

The following contributions of nonfinancial assets with no associated donor restriction in the accompanying statement of activities are as follows for the year ended June 30, 2025:

	<u>Valuation Techniques and Inputs</u>	
Food pantry	Contributed goods at estimated fair value based on Feeding America's current rate per pound received	\$ 1,700,647
Thrift store	Contributed goods at estimated fair value based on current rates for similar items	1,942,944
Other	Contributed goods and services at estimated fair value based on current rate for similar items	<u>298,783</u>
		<u><u>\$ 3,942,374</u></u>

Contributions of nonfinancial assets and their use in programs and other activities are based on the nature of the items contributed as described above and are reflected in in-kind expense within the statement of functional expenses.

GRACEWORKS MINISTRIES, INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2025

Note 8—Employee retirement plan

The Organization maintains a Simple IRA plan for eligible employees. Under the plan, contributions are not required; however, the Organization may contribute an amount which vests immediately, as determined by the board based on each employee's total compensation. Employees may also make pretax contributions to the plan. During the year ended June 30, 2025, the Organization provided a matching contribution up to 3% of employee contributions. Retirement expense totaled \$65,345 during the year ended June 30, 2025.

Effective January 2026, the Organization began offering a 403(b) plan as well. This plan includes an eligible automatic contribution arrangement whereby employees make contributions of 3% of compensation unless a deferral election is made. After completing 3 months of service, employees may receive employer matching contributions.

Note 9—Restatements

During the year ended June 30, 2025, the Organization determined it had incorrectly reflected a donation as restricted for endowment in the net assets with donor restrictions as of June 30, 2024. It was determined that while there had been donations placed into an investment account, there was no such donor restriction to hold such in an endowment.

Additionally, management identified certain amounts reflected in clearing accounts and accounts payable at June 30, 2024 that were deemed to be expenses in fiscal 2024, totaling \$118,492. As such, cash and cash equivalents, and net assets without donor restrictions at June 30, 2024 are restated.

The Organization also identified an error in the method for valuing food donation inventory on hand from valuation of food distributed, as estimated based on neighbor visits. Based on operational data regarding pounds of food donations received and the value of food donations provided by national food banks, the Organization revised the calculated value of its food inventory on hand. This change in valuation was applied retrospectively and resulted in the restatement of food inventory on hand by \$417,599 as of June 30, 2024.

As a result, the following balances within the financial statements as of June 30, 2024 have been restated as follows:

Line Item	As Originally Reported	Correction of an Error	As Restated
Cash and cash equivalents	\$ 2,728,963	\$ (149,186)	\$ 2,579,777
Inventory	991,590	(417,599)	573,991
Accounts payable	129,458	(30,694)	98,764
Net assets with donor restriction	694,104	(558,749)	135,355
Net assets without donor restriction	5,597,265	22,658	5,619,923