

**SOVEREIGN GRACE CHURCHES, INC.**

**AUDITED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**YEARS ENDED AUGUST 31, 2016 AND 2015**

# Sovereign Grace Churches, Inc.

## Table of Contents

---

	<b>Page</b>
<b>Independent Auditor's Report</b>	1 - 2
<b>Audited Financial Statements</b>	
Statements of Financial Position	3 - 4
Statements of Activities and Changes in Net Assets	5 - 6
Statements of Cash Flows	7 - 8
Notes to Financial Statements	9 - 16
<b>Supplementary Information</b>	
<b>Independent Auditor's Report on Supplementary Information</b>	17
Schedules of Revenues and Expenses	18 - 19



## Independent Auditor's Report

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

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, 2016 and 2015, and the related Statements of Activities and Changes in Net Assets and Cash Flows for the years 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.

### *Auditor's 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 from 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 auditor's 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.

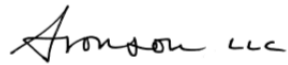
805 King Farm Boulevard  
Suite 300  
Rockville, Maryland 20850

☎ 301.231.6200  
☎ 301.231.7630  
www.aronsonllc.com  
info@aronsonllc.com

## Independent Auditor's Report (Continued)

### *Opinion*

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, 2016 and 2015, 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.



Rockville, Maryland  
December 8, 2016

## Sovereign Grace Churches, Inc.

### Statements of Financial Position

<i>August 31,</i>	2016	2015
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 739,417	\$ 344,081
Investments	442,076	431,668
Accounts receivable - trade	73,156	13,840
Current portion of notes receivable	-	15,517
Prepaid expenses	38,358	37,705
Inventory	149,064	212,861
<b>Total current assets</b>	<b>1,442,071</b>	<b>1,055,672</b>
<b>Property and equipment</b>		
Buildings	2,068,217	2,068,217
Furniture, fixtures and equipment	719,833	848,978
<b>Total</b>	<b>2,788,050</b>	<b>2,917,195</b>
Less: Accumulated depreciation and amortization	(1,447,349)	(1,506,363)
<b>Net property and equipment</b>	<b>1,340,701</b>	<b>1,410,832</b>
<b>Other assets</b>		
Restricted cash	100,069	100,048
Notes receivable, net of current portion	-	3,755
Deposits and other assets	13,199	13,199
<b>Total other assets</b>	<b>113,268</b>	<b>117,002</b>
<b>Total assets</b>	<b>\$ 2,896,040</b>	<b>\$ 2,583,506</b>

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

## Sovereign Grace Churches, Inc.

### Statements of Financial Position (continued)

<i>August 31,</i>	2016	2015
<b>Liabilities and Net Assets</b>		
<b>Current liabilities</b>		
Accounts payable and accrued expenses	\$ 130,043	\$ 115,907
Current portion of capital lease obligation	-	2,241
Deferred revenue	63,142	56,463
<b>Total current liabilities</b>	<b>193,185</b>	<b>174,611</b>
<b>Deferred rent</b>	<b>5,168</b>	<b>10,805</b>
<b>Total liabilities</b>	<b>198,353</b>	<b>185,416</b>
<b>Net assets</b>		
Unrestricted	2,527,467	2,386,484
Temporarily restricted	170,220	11,606
<b>Total net assets</b>	<b>2,697,687</b>	<b>2,398,090</b>
<b>Total liabilities and net assets</b>	<b>\$ 2,896,040</b>	<b>\$ 2,583,506</b>

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, 2016*

	Unrestricted	Temporarily Restricted		Total
<b>Support and Revenue:</b>				
Contributions - churches	\$ 1,352,101	\$ 149,539	\$	1,501,640
Contributions - other	333,599	9,075		342,674
Music and book sales	269,208	-		269,208
Music and book royalties	187,525	-		187,525
Tuition and fees	101,930	-		101,930
Conference receipts	64,345	-		64,345
Investment income	12,218	-		12,218
Other income	222,820	-		222,820
<b>Total support and revenue</b>	<b>2,543,746</b>	<b>158,614</b>		<b>2,702,360</b>
<b>Expenses:</b>				
Program services				
U.S. church missions	674,361	-		674,361
Global church missions	244,658	-		244,658
Pastoral training	365,902	-		365,902
Conferences	221,291	-		221,291
Ministry resources	504,944	-		504,944
<b>Total program services</b>	<b>2,011,156</b>	<b>-</b>		<b>2,011,156</b>
Supporting services				
Fundraising	39,526	-		39,526
General and administrative	352,081	-		352,081
<b>Total supporting services</b>	<b>391,607</b>	<b>-</b>		<b>391,607</b>
<b>Total expenses</b>	<b>2,402,763</b>	<b>-</b>		<b>2,402,763</b>
<b>Change in net assets</b>	<b>140,983</b>	<b>158,614</b>		<b>299,597</b>
<b>Net assets, beginning of year</b>	<b>2,386,484</b>	<b>11,606</b>		<b>2,398,090</b>
<b>Net assets, end of year</b>	<b>\$ 2,527,467</b>	<b>\$ 170,220</b>	<b>\$</b>	<b>2,697,687</b>

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, 2015*

	Unrestricted	Temporarily Restricted		Total
<b>Support and Revenue:</b>				
Contributions - churches	\$ 1,173,606	\$ -	\$	1,173,606
Contributions - other	385,123	9,216		394,339
Music and book sales	315,393	-		315,393
Music and book royalties	189,231	-		189,231
Conference receipts	200,191	-		200,191
Investment loss	(10,420)	-		(10,420)
Other income	78,374	-		78,374
<b>Total support and revenue</b>	<b>2,331,498</b>	<b>9,216</b>		<b>2,340,714</b>
<b>Expenses:</b>				
Program services				
U.S. church missions	634,932	-		634,932
Global church missions	230,082	-		230,082
Pastoral training	325,014	-		325,014
Conferences	317,617	-		317,617
Ministry resources	730,151	-		730,151
<b>Total program services</b>	<b>2,237,796</b>	<b>-</b>		<b>2,237,796</b>
Supporting services				
Fundraising	35,882	-		35,882
General and administrative	281,015	-		281,015
<b>Total supporting services</b>	<b>316,897</b>	<b>-</b>		<b>316,897</b>
<b>Total expenses</b>	<b>2,554,693</b>	<b>-</b>		<b>2,554,693</b>
<b>Change in net assets</b>	<b>(223,195)</b>	<b>9,216</b>		<b>(213,979)</b>
<b>Net assets, beginning of year</b>	<b>2,609,679</b>	<b>2,390</b>		<b>2,612,069</b>
<b>Net assets, end of year</b>	<b>\$ 2,386,484</b>	<b>\$ 11,606</b>	<b>\$</b>	<b>2,398,090</b>

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>	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 299,597	\$ (213,979)
<b>Adjustments to reconcile change in net assets to net cash provided (used) by operating activities</b>		
Depreciation and amortization	73,748	87,947
Unrealized and realized (gain) loss on investments	(9,408)	11,664
Gain on disposal of property and equipment	(380)	(1,086)
<b>(Increase) decrease in</b>		
Accounts receivable - trade	(59,316)	1,993
Prepaid expenses	(653)	26,349
Inventory	63,797	110,915
Deposits and other assets	-	205
<b>(Decrease) increase in</b>		
Accounts payable and accrued expenses	14,136	(38,924)
Deferred revenue	6,679	18,043
Deferred rent	(5,637)	(5,638)
<b>Net cash provided (used) by operating activities</b>	<b>382,563</b>	<b>(2,511)</b>
<b>Cash flows from investing activities</b>		
Purchase of investments	(315,000)	(314,000)
Proceeds from sales of investments	314,000	317,000
Purchase of property and equipment	(4,935)	(10,332)
Proceeds from sale of property and equipment	-	4,000
Proceeds from collections of loans	19,272	57,449
<b>Net cash provided by investing activities</b>	<b>13,337</b>	<b>54,117</b>
<b>Cash flow from financing activities</b>		
Additions to restricted cash	(21)	(20)
Payments on capital lease obligation	(543)	(3,046)
<b>Net cash used in financing activities</b>	<b>(564)</b>	<b>(3,066)</b>
<b>Net change in cash and cash equivalents</b>	<b>395,336</b>	<b>48,540</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>344,081</b>	<b>295,541</b>
<b>Cash and cash equivalents at end of year</b>	<b>\$ 739,417</b>	<b>\$ 344,081</b>

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

## Sovereign Grace Churches, Inc.

### Statements of Cash Flows (continued)

---

<i>Years Ended August 31,</i>	<b>2016</b>	<b>2015</b>
<b>Supplemental cash flow information</b>		
Actual cash payments for interest	\$ 42	\$ 469

---

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, headquartered 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:

**Unrestricted net assets** – net assets that are not subject to donor-imposed stipulations. Includes undesignated net assets available for general operations.

**Temporarily restricted net assets** – 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 unrestricted contributions when restrictions are met in the same reporting period in which the contributions are received.

**Permanently restricted net assets** – net assets subject to donor-imposed stipulations that they be maintained permanently by SGC.

**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. SGC maintains cash balances which may exceed federally insured limits. SGC does not believe that this results in any significant credit risk.

**Restricted cash:** SGC placed \$100,000 in a savings account with Fifth Third Bank as collateral in exchange for \$100,000 of credit in a commercial credit card purchasing program. The cash is restricted.

**Investments:** Investments consist of certificates of deposit and indexed 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 appreciation includes gains and losses on investments bought and sold as well as held during the year.

# Sovereign Grace Churches, Inc.

## Notes to Financial Statements

---

**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 fully collectible; therefore, there is no provision for doubtful accounts in the accompanying financial statements.

**Notes receivable:** Interest income is recognized on a daily basis based on the contractual interest rates of the individual notes receivable. SGC evaluates the notes receivable for impairment. A loan is impaired when it is probable that all amounts due under the note agreement will not be collected according to the contractual terms. If any impairment is identified, an allowance for credit loss is established. The allowance is the difference between the present value of expected future cash flows discounted at the loan's effective interest rate and the recorded investment in the note, including accrued interest. All notes are unsecured. SGC considers all notes to be fully collectible and no allowance for credit loss is necessary.

**Inventory:** Inventory consists of books, CDs and DVDs 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.

**Property and equipment:** Property and equipment greater than \$3,000 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 forty years for the building and improvements. Depreciation and amortization expense was \$73,748 and \$87,947 for the years ended August 31, 2016 and 2015, respectively.

# Sovereign Grace Churches, Inc.

## Notes to Financial Statements

---

SGC capitalized a payment of \$1,890,190 to Covenant Life Church, Inc. (CLC) for its right to use 17,125 square feet of buildings and improvements, located in Gaithersburg, Maryland, placed in service by CLC beginning August 1, 2002. An agreement was established between SGC and CLC under which SGC 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. SGC reimburses CLC for its share of these expenses at a mutually agreed upon rate, determined annually. The agreement contains a termination provision allowing either party to end the agreement after giving 24 months' written notice. If CLC was to terminate the agreement, the buyout shall be equal to the greater of 85% of the estimated fair market value of the premises or the original payment adjusted yearly by the annual percentage change in the Consumer Price Index. If SGC was to terminate the agreement, the buyout shall be equal to the lesser of 45% of the estimated fair market value of the premises or the original payment adjusted yearly by the annual percentage change in the Consumer Price Index. Neither CLC nor SGC have submitted written notice to terminate the agreement.

In August 2012, SGC relocated its primary offices to Louisville, Kentucky. SGC continues to maintain its interest in the building. Starting in September 2012, CLC began paying rent for use of a portion of the SGC space. The lease is operated on a month to month basis. SGC received \$19,200 and \$21,000, from CLC in rental income for the years ended August 31, 2016 and 2015, respectively.

**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, 2016 and 2015, SGC recorded no impairment adjustments on assets held for use.

**Deferred revenue:** Consists of conference registration receipts and pastors college tuition received in advance.

**Deferred rent:** SGC recognizes the minimum non-contingent rents required under operating leases as rent expenses on a straight-line basis over the life of the lease, with differences between amounts recognized as expense and the amounts actually paid recorded as deferred rent on the accompanying Statements of Financial Position.

# Sovereign Grace Churches, Inc.

## Notes to Financial Statements

---

### Revenue recognition:

**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 temporarily restricted revenue 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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions.

**Music and book sales** – Sale of books, CDs and DVDs are recorded as revenue at the time the item is shipped or downloaded.

**Music and book royalties** – Revenue is recognized based on the contract terms.

**Tuition and fees** – Amounts received as tuition for the upcoming school year are recognized as revenue ratably over the school year.

**Conference receipts** – Amounts received as registration for future events are recognized as revenue when the event occurs.

**Other revenue** – Consists mostly of conference administrative services and rental fees. All are recognized when the services are performed or when earned.

**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. Included in general and administrative expense for 2016 and 2015 was \$55,158 of depreciation expense for the Gaithersburg, Maryland facility.

**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, 2016 and 2015, 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 2013 through the current year remain open for examination by tax authorities.

# Sovereign Grace Churches, Inc.

## Notes to Financial Statements

**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.

**Reclassification:** Certain items previously reported in the 2015 financial statements have been reclassified to conform to the current year presentation.

**Subsequent events:** Management has evaluated subsequent events for disclosure in these financial statements through December 8, 2016, which is the date the financial statements were available to be issued.

### 2. 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>2016</u>	<u>2015</u>
Certificates of deposit	\$ 316,656	\$ 214,018
Indexed certificates of deposit	125,420	217,650
<b>Total</b>	<b>\$ 442,076</b>	<b>\$ 431,688</b>

Investment income (loss) for the years ended August 31, consisted of the following:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 2,810	\$ 1,244
Unrealized and realized gain (loss)	9,408	(11,664)
<b>Total</b>	<b>\$ 12,218</b>	<b>\$ (10,420)</b>

### 3. 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;

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

# Sovereign Grace Churches, Inc.

## Notes to Financial Statements

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, 2016 and 2015.

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

August 31, 2016	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	No Quoted Prices In Active Markets nor Observable Inputs (Level 3)
Certificates of deposit	\$ 316,656	\$ -	\$ 316,656	\$ -
Indexed certificates of deposit	125,420	-	125,420	-
<b>Total</b>	<b>\$ 442,076</b>	<b>\$ -</b>	<b>\$ 442,076</b>	<b>\$ -</b>
August 31, 2015				
Certificates of deposit	\$ 214,018	\$ -	\$ 214,018	\$ -
Indexed certificates of deposit	217,650	-	217,650	-
Total	\$ 431,668	\$ -	\$ 431,668	\$ -

Level 2 values were developed utilizing the current interest rates for certificates of deposit with similar time to maturity, discounting the future payments to present value at year end. Indexed certificates of deposit values were developed utilizing fluctuations in the attached indices or basket funds from the instrument's inception date to the maturity date.



# Sovereign Grace Churches, Inc.

## Notes to Financial Statements

**4. Notes receivable**

Notes receivable consisted of the following at August 31:

	2016	2015
Note from a member church dated September 2007, in the original amount of \$100,000 with an original maturity date of August 2017. Interest accrued at 5%. An addendum dated October 2008 increased the balance to \$159,826 with interest accrued at 2.40%. A second addendum dated September 2009 extended the maturity date to August 2019 with interest accrued at 3.68%. A subsequent addendum dated September 2014 reduced the interest rate to 3% and restated the term as 44 months. Sovereign Grace Churches, Inc. forgave \$30,000 of the note receivable in August 2009, \$20,000 in February 2010, \$10,000 in August 2011, \$10,000 in August 2014 and \$3,755 in August 2016. This note was fully paid in August 2016.	\$ -	\$ 9,549
Note from a member church dated April 2011, in the original amount of \$55,000 with a maturity date of April 2017. Interest at 3% began accruing April 1, 2013. This note was fully paid in December 2015.	-	9,723
<b>Total</b>	-	19,272
Less: Current portion	-	(15,517)
<b>Long-term portion</b>	<b>\$ -</b>	<b>\$ 3,755</b>

**5. Operating lease**

SGC entered into a commercial lease for 11,313 square feet of office space at 303 N Hurstbourne Pkwy, Suite 160, Louisville, KY, 40222. The date of occupancy was October 3, 2013. The lease expires on July 31, 2017. The agreement includes two months of rent abatement. A liability is accrued such that the rent expense is recognized on a straight-line basis over the life of the agreement. Rent expense under the lease agreement was \$152,744 for years ended August 31, 2016 and 2015.

The following is a schedule of future minimum lease payments.

Year ending August 31,		
2017	\$	145,184
<b>Total</b>	<b>\$</b>	<b>145,184</b>

# Sovereign Grace Churches, Inc.

## Notes to Financial Statements

**6. Temporarily restricted net assets**

Temporarily restricted net assets were available for the following purposes as of August 31, 2016 and 2015, respectively:

	2016	2015
U.S. church regions	\$ 170,220	\$ 11,606

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

	2016	2015
U.S. church regions	\$ 257,183	\$ 3,945
Pastors college	-	15,518
Music	-	6,581
Global church ministries	-	63,365
<b>Total release of restrictions</b>	<b>257,183</b>	<b>89,409</b>
Less: Amounts received and released in the same fiscal year	(257,183)	(89,409)
<b>Total releases presented on the Statements of Activities and Changes in Net Assets</b>	<b>\$ -</b>	<b>\$ -</b>

**7. Retirement plan**

SGC maintains a retirement plan that is qualified under Section 403(b) of the Internal Revenue Code. 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, 2016 and 2015 was \$15,327 and \$14,976, 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 \$27,578 for the years ended August 31, 2016 and 2015.

**8. Concentration of revenue**

For the years ended August 31, 2016 and 2015, contributions from one donor comprised 12% of total revenue.



## Independent Auditor's Report on Supplementary Information

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

We have audited the financial statements of **Sovereign Grace Churches, Inc.** as of and for the years ended August 31, 2016 and 2015, and our report thereon dated December 8, 2016, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules of Revenues and Expenses are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Rockville, Maryland  
December 8, 2016

805 King Farm Boulevard  
Suite 300  
Rockville, Maryland 20850

301.231.6200  
301.231.7630  
www.aronsonllc.com  
info@aronsonllc.com

**Sovereign Grace Churches, Inc.**

**Schedule of Revenues and Expenses**

Year Ended August 31, 2016

	Program Services						Supporting Services			Total
	U.S. Church Missions	Global Church Missions	Pastoral Training	Conferences	Ministry Resources	Total	Fundraising	General and Administrative	Total	
<b>Revenues</b>										
Contributions - churches	\$ 406,721	\$ -	\$ -	\$ -	\$ -	\$ 406,721	\$ 1,094,919	\$ -	\$ 1,094,919	\$ 1,501,640
Contributions - other	10,076	53,706	9,225	-	6,195	79,202	263,472	-	263,472	342,674
Music and book sales	453	-	-	-	268,755	269,208	-	-	-	269,208
Music and book royalties	-	-	-	-	187,525	187,525	-	-	-	187,525
Tuition and fees	-	-	101,930	-	-	101,930	-	-	-	101,930
Conference receipts	6,330	-	-	58,015	-	64,345	-	-	-	64,345
Investment income	-	-	-	-	-	-	-	12,218	12,218	12,218
Other income	-	-	270	174,508	5,134	179,912	-	42,908	42,908	222,820
<b>Total revenues</b>	<b>423,580</b>	<b>53,706</b>	<b>111,425</b>	<b>232,523</b>	<b>467,609</b>	<b>1,288,843</b>	<b>1,358,391</b>	<b>55,126</b>	<b>1,413,517</b>	<b>2,702,360</b>
<b>Expenses</b>										
Compensation and benefits	358,246	90,854	217,551	132,661	208,440	1,007,752	-	185,726	185,726	1,193,478
Education and training	23,638	-	3,575	182	250	27,645	-	1,251	1,251	28,896
Cost of goods sold	-	-	-	-	152,862	152,862	-	-	-	152,862
Gifts and grants	168,935	66,855	4,867	5,096	1,473	247,226	500	2,242	2,742	249,968
Travel and hospitality	92,405	68,133	41,607	41,808	2,876	246,829	1,268	14,886	16,154	262,983
Office expense	6,344	-	5,411	4,264	12,721	28,740	19,952	10,527	30,479	59,219
Insurance	-	5,335	-	-	1,046	6,381	-	20,577	20,577	26,958
Promotion	-	-	-	1,231	10,311	11,542	5,372	-	5,372	16,914
Information technology	6,468	-	158	7,533	24,508	38,667	6,210	39,133	45,343	84,010
Sound, video, and lighting	-	-	711	-	477	1,188	-	-	-	1,188
Building occupancy	1,623	-	47,407	65	12,864	61,959	-	98,145	98,145	160,104
Interest expense	-	-	-	-	-	-	-	42	42	42
Other expense	11,822	1,949	862	2,233	34,604	51,470	6,224	34,699	40,923	92,393
Depreciation and amortization	571	-	759	-	6,193	7,523	-	66,225	66,225	73,748
Allocation - general expenses	4,309	11,532	42,994	26,218	36,319	121,372	-	(121,372)	(121,372)	-
<b>Total expenses</b>	<b>674,361</b>	<b>244,658</b>	<b>365,902</b>	<b>221,291</b>	<b>504,944</b>	<b>2,011,156</b>	<b>39,526</b>	<b>352,081</b>	<b>391,607</b>	<b>2,402,763</b>
<b>Excess of expenses over revenue</b>	<b>\$ (250,781)</b>	<b>\$ (190,952)</b>	<b>\$ (254,477)</b>	<b>\$ 11,232</b>	<b>\$ (37,335)</b>	<b>\$ (722,313)</b>	<b>\$ 1,318,865</b>	<b>\$ (296,955)</b>	<b>\$ 1,021,910</b>	<b>\$ 299,597</b>

See Independent Auditor's Report on Supplementary Information.

## Sovereign Grace Churches, Inc.

### Schedule of Revenues and Expenses

Year Ended August 31, 2015

	Program Services						Supporting Services			Total
	U.S. Church Missions	Global Church Missions	Pastoral Training	Conferences	Ministry Resources	Total	Fundraising	General and Administrative	Total	
<b>Revenues</b>										
Contributions - churches	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,173,606	\$ -	\$ 1,173,606	\$ 1,173,606
Contributions - other	13,161	63,367	15,518	-	6,581	98,627	295,712	-	295,712	394,339
Music and book sales	94	-	-	-	315,299	315,393	-	-	-	315,393
Music and book royalties	-	-	-	-	189,231	189,231	-	-	-	189,231
Conference receipts	5,600	-	-	194,591	-	200,191	-	-	-	200,191
Investment loss	-	-	-	-	-	-	-	(10,420)	(10,420)	(10,420)
Other income	-	-	2,702	1,175	7,192	11,069	-	67,305	67,305	78,374
<b>Total revenues</b>	<b>18,855</b>	<b>63,367</b>	<b>18,220</b>	<b>195,766</b>	<b>518,303</b>	<b>814,511</b>	<b>1,469,318</b>	<b>56,885</b>	<b>1,526,203</b>	<b>2,340,714</b>
<b>Expenses</b>										
Compensation and benefits	364,360	86,815	195,231	133,482	280,276	1,060,164	-	182,882	182,882	1,243,046
Education and training	23,538	-	3,297	-	168	27,003	-	991	991	27,994
Cost of goods sold	-	-	-	-	207,924	207,924	-	20,107	20,107	228,031
Gifts and grants	110,947	73,305	831	4,993	2,972	193,048	600	136	736	193,784
Travel and hospitality	103,552	54,375	10,966	89,424	4,668	262,985	2,247	11,786	14,033	277,018
Office expense	10,321	-	3,955	8,709	21,524	44,509	15,413	15,314	30,727	75,236
Insurance	-	5,335	1,363	-	3,215	9,913	-	25,568	25,568	35,481
Promotion	-	-	-	3,129	9,043	12,172	790	-	790	12,962
Information technology	4,684	-	222	7,940	45,292	58,138	11,942	30,925	42,867	101,005
Sound, video, and lighting	-	-	-	6,507	-	6,507	-	-	-	6,507
Building occupancy	-	-	43,361	14,994	15,263	73,618	-	99,442	99,442	173,060
Interest expense	-	-	-	-	-	-	-	469	469	469
Other expense	11,709	-	-	6,202	37,087	54,998	4,890	32,265	37,155	92,153
Depreciation and amortization	856	-	4,011	-	14,032	18,899	-	69,048	69,048	87,947
Allocation - General expenses	4,965	10,252	61,777	42,237	88,687	207,918	-	(207,918)	(207,918)	-
<b>Total expenses</b>	<b>634,932</b>	<b>230,082</b>	<b>325,014</b>	<b>317,617</b>	<b>730,151</b>	<b>2,237,796</b>	<b>35,882</b>	<b>281,015</b>	<b>316,897</b>	<b>2,554,693</b>
Excess of expenses over revenue	\$ (616,077)	\$ (166,715)	\$ (306,794)	\$ (121,851)	\$ (211,848)	\$ (1,423,285)	\$ 1,433,436	\$ (224,130)	\$ 1,209,306	\$ (213,979)

See Independent Auditor's Report on Supplementary Information.