

SOVEREIGN GRACE CHURCHES, INC.

**AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

YEARS ENDED AUGUST 31, 2017 AND 2016

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

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, 2017 and 2016, 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.

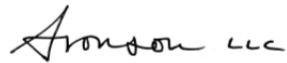
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Independent Auditor's Report (Continued)

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, 2017 and 2016, 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 19, 2017

Sovereign Grace Churches, Inc.

Statements of Financial Position

<i>August 31,</i>	2017	2016
Assets		
Current assets		
Cash and cash equivalents	\$ 847,672	\$ 739,417
Investments	456,259	442,076
Accounts receivable - trade	94,811	73,156
Prepaid expenses	56,749	38,358
Inventory	139,825	149,064
Total current assets	1,595,316	1,442,071
Property and equipment		
Buildings	2,074,230	2,068,217
Furniture, fixtures and equipment	604,628	719,833
Total	2,678,858	2,788,050
Less: Accumulated depreciation and amortization	(1,378,912)	(1,447,349)
Net property and equipment	1,299,946	1,340,701
Other assets		
Restricted cash	100,089	100,069
Deposits and other assets	23,040	13,199
Total other assets	123,129	113,268
Total assets	\$ 3,018,391	\$ 2,896,040

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>	2017	2016
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 100,357	\$ 130,043
Deferred revenue	110,607	63,142
Total current liabilities	210,964	193,185
Deferred rent	16,679	5,168
Total liabilities	227,643	198,353
Net assets		
Unrestricted	2,433,092	2,527,467
Temporarily restricted	357,656	170,220
Total net assets	2,790,748	2,697,687
Total liabilities and net assets	\$ 3,018,391	\$ 2,896,040

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, 2017

	Unrestricted	Temporarily Restricted	Total
Support and Revenue:			
Contributions - churches	\$ 1,480,144	\$ 191,861	\$ 1,672,005
Contributions - other	346,614	7,181	353,795
Music and book sales	235,387	-	235,387
Music and book royalties	213,357	-	213,357
Tuition and fees	88,275	-	88,275
Conference receipts	117,174	-	117,174
Investment income	18,218	-	18,218
Other income	69,034	-	69,034
Total	2,568,203	199,042	2,767,245
Net assets released from restrictions	11,606	(11,606)	-
Total support and revenue	2,579,809	187,436	2,767,245
Expenses:			
Program services			
U.S. church missions	938,916	-	938,916
Global church missions	258,180	-	258,180
Pastoral training	389,500	-	389,500
Conferences	262,558	-	262,558
Ministry resources	428,786	-	428,786
Total program services	2,277,940	-	2,277,940
Supporting services			
Fundraising	39,271	-	39,271
General and administrative	356,973	-	356,973
Total supporting services	396,244	-	396,244
Total expenses	2,674,184	-	2,674,184
Change in net assets	(94,375)	187,436	93,061
Net assets, beginning of year	2,527,467	170,220	2,697,687
Net assets, end of year	\$ 2,433,092	\$ 357,656	\$ 2,790,748

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
Support and Revenue:			
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
Total support and revenue	2,543,746	158,614	2,702,360
Expenses:			
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
Total program services	2,011,156	-	2,011,156
Supporting services			
Fundraising	39,526	-	39,526
General and administrative	352,081	-	352,081
Total supporting services	391,607	-	391,607
Total expenses	2,402,763	-	2,402,763
Change in net assets	140,983	158,614	299,597
Net assets, beginning of year	2,386,484	11,606	2,398,090
Net assets, end of year	\$ 2,527,467	\$ 170,220	\$ 2,697,687

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>	2017	2016
Cash flows from operating activities		
Change in net assets	\$ 93,061	\$ 299,597
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	71,235	73,748
Unrealized and realized gain on investments	(14,183)	(9,408)
Loss (gain) on disposal of property and equipment	15,571	(380)
(Increase) decrease in		
Accounts receivable - trade	(21,655)	(59,316)
Prepaid expenses	(18,391)	(653)
Inventory	9,239	63,797
Deposits and other assets	(9,841)	-
(Decrease) increase in		
Accounts payable and accrued expenses	(29,686)	14,136
Deferred revenue	47,465	6,679
Deferred rent	11,511	(5,637)
Net cash provided by operating activities	154,326	382,563
Cash flows from investing activities		
Purchase of investments	-	(315,000)
Proceeds from sales of investments	-	314,000
Purchase of property and equipment	(46,051)	(4,935)
Proceeds from collections of loans	-	19,272
Net cash (used) provided by investing activities	(46,051)	13,337
Cash flow from financing activities		
Additions to restricted cash	(20)	(21)
Payments on capital lease obligation	-	(543)
Net cash used in financing activities	(20)	(564)
Net change in cash and cash equivalents	108,255	395,336
Cash and cash equivalents at beginning of year	739,417	344,081
Cash and cash equivalents at end of year	\$ 847,672	\$ 739,417
Supplemental cash flow information		
Actual cash payments for interest	\$ 42	\$ 469
Noncash investing and financing activities		
Insurance recoveries receivable for property loss	\$ 14,802	\$ -

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.

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 \$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 \$71,235 and \$73,748 for the years ended August 31, 2017 and 2016, respectively.

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 \$20,800 and \$19,200, from CLC in rental income for the years ended August 31, 2017 and 2016, respectively.

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, 2017 and 2016, 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.

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 and CDs 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.

Sovereign Grace Churches, Inc.

Notes to Financial Statements

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 2017 and 2016 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, 2017 and 2016, 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 2014 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.

New accounting standard adopted: In July 2015, the FASB issued Accounting Standards Update 2015-11 (ASU 2015-11) *Inventory (Topic 330): Simplifying the Measurement of Inventory*. The amendments in ASU 2015-11 require an entity to measure inventory at the lower of cost and net realizable value. ASU 2015-11 is effective for public business entities for the fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. For all other entities, ASU 2015-11 is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years beginning after December 31, 2017. A reporting entity should apply the amendments prospectively to all periods presented. Early adoption is permitted. Management has elected to early adopt this ASU 2015-11 in the accompanying financial statements as of August 31, 2017. There were no changes to the value of inventory reported for the years ended August 31, 2017 and 2016 as a result of adopting ASU 2015-11.

Sovereign Grace Churches, Inc.

Notes to Financial Statements

Subsequent events: Management has evaluated subsequent events for disclosure in these financial statements through December 19, 2017, 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>2017</u>	<u>2016</u>
Certificates of deposit	\$ 314,236	\$ 316,656
Indexed certificates of deposit	142,023	125,420
Total	\$ 456,259	\$ 442,076

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

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 4,035	\$ 2,810
Unrealized and realized gain	14,183	9,408
Total	\$ 18,218	\$ 12,218

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

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, 2017 and 2016.

Sovereign Grace Churches, Inc.

Notes to Financial Statements

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

		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)
August 31, 2017	Total			
Certificates of deposit	\$ 314,236	\$ -	\$ 314,236	\$ -
Indexed certificates of deposit	142,023	-	142,023	-
Total	\$ 456,259	\$ -	\$ 456,259	\$ -
August 31, 2016				
Certificates of deposit	\$ 316,656	\$ -	\$ 316,656	\$ -
Indexed certificates of deposit	125,420	-	125,420	-
Total	\$ 442,076	\$ -	\$ 442,076	\$ -

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.

4. Operating lease

SGC entered into a commercial lease for 11,313 square feet of office space at 303 N. Hurstbourne Pkwy, Suite 160, Louisville, Kentucky, 40222. The date of occupancy was October 3, 2013. The lease expired on July 31, 2017. The agreement included two months of rent abatement. A liability was accrued such that the rent expense was recognized on a straight-line basis over the life of the agreement. Rent expense under the lease agreement was \$140,661 and \$152,744 for years ended August 31, 2017 and 2016, respectively.

Sovereign Grace Churches, Inc.

Notes to Financial Statements

SGC entered into a commercial lease for 7,619 square feet of office space at 10507 Timberwood Circle, Louisville, Kentucky. The date of occupancy was July 10, 2017. The lease expires on September 30, 2022. The agreement included three months of rent abatement. A liability was accrued such that the rent expense was recognized on a straight-line basis over the life of the agreement. Rent expense under the lease agreement was \$16,679 for the year ended August 31, 2017.

The following is a schedule of future minimum lease payments:

Year ending August 31,

2018	\$	105,396
2019		120,260
2020		122,691
2021		125,129
2022		127,637
Thereafter		10,654
<hr/>		
Total	\$	611,767

5. Temporarily restricted net assets

Temporarily restricted net assets were available for the following purposes as of August 31:

		<u>2017</u>		<u>2016</u>
U.S. church regions	\$	350,475	\$	170,220
Hurricane Harvey Relief Fund		7,181		-
<hr/>				
Total temporarily restricted net assets	\$	357,656	\$	170,220

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:

		<u>2017</u>		<u>2016</u>
U.S. church regions	\$	388,101	\$	257,183
Hurricane Harvey Relief Fund		1,875		-
<hr/>				
Total release of restrictions		389,976		257,183
Less: Amounts received and released in the same fiscal year		(378,370)		(257,183)
<hr/>				
Total releases presented on the Statements of Activities and Changes in Net Assets	\$	11,606	\$	-

Sovereign Grace Churches, Inc.

Notes to Financial Statements

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- 6. 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, 2017 and 2016 was \$16,718 and \$15,327, 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 \$28,390 and \$27,578 for the years ended August 31, 2017 and 2016, respectively.
- 7. Concentration of revenue** For the years ended August 31, 2017 and 2016, contributions from one church comprised 11% and 12% of total revenue, respectively.



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, 2017 and 2016, and our report thereon dated December 19, 2017, 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 19, 2017

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Sovereign Grace Churches, Inc.

Schedule of Revenues and Expenses

	<i>Year Ended August 31, 2017</i>										
	Program Services						Supporting Services				Total
	U.S. Church Missions	Global Church Missions	Pastoral Training	Conferences	Ministry Resources	Total	Fundraising	General and Administrative	Total		
Revenues											
Contributions - churches	\$ 550,442	\$ -	\$ -	\$ -	\$ -	\$ 550,442	\$ 1,121,563	\$ -	\$ 1,121,563	\$ 1,672,005	
Contributions - other	26,969	8,891	-	-	-	35,860	317,935	-	317,935	353,795	
Music and book sales	413	-	-	-	234,974	235,387	-	-	-	235,387	
Music and book royalties	-	-	-	-	213,357	213,357	-	-	-	213,357	
Tuition and fees	-	-	88,275	-	-	88,275	-	-	-	88,275	
Conference receipts	-	-	-	106,505	10,669	117,174	-	-	-	117,174	
Investment income	-	-	-	-	-	-	-	18,218	18,218	18,218	
Other income	-	-	200	31,844	470	32,514	-	36,520	36,520	69,034	
Total revenues	577,824	8,891	88,475	138,349	459,470	1,273,009	1,439,498	54,738	1,494,236	2,767,245	
Expenses											
Compensation and benefits	441,218	96,562	237,426	149,780	220,533	1,145,519	-	198,995	198,995	1,344,514	
Education and training	25,472	-	3,354	10	235	29,071	-	271	271	29,342	
Cost of goods sold	-	-	-	-	86,856	86,856	-	-	-	86,856	
Gifts and grants	276,363	69,849	3,927	11,744	7,499	369,382	767	378	1,145	370,527	
Travel and hospitality	159,202	66,907	41,051	55,410	7,290	329,860	-	21,067	21,067	350,927	
Office expense	7,997	67	4,586	7,395	815	20,860	18,141	14,482	32,623	53,483	
Insurance	-	3,134	-	-	3,326	6,460	-	19,997	19,997	26,457	
Promotion	-	-	-	-	17,345	17,345	6,364	-	6,364	23,709	
Information technology	5,379	-	630	909	9,197	16,115	7,416	37,309	44,725	60,840	
Sound, video, and lighting	1,143	-	-	-	248	1,391	133	-	133	1,524	
Building occupancy	660	-	48,911	3,220	15,622	68,413	-	97,072	97,072	165,485	
Other expense	6,044	8,000	2,228	4,675	21,023	41,970	6,450	40,865	47,315	89,285	
Depreciation and amortization	-	-	759	-	3,341	4,100	-	67,135	67,135	71,235	
Allocation - general expenses	15,438	13,661	46,628	29,415	35,456	140,598	-	(140,598)	(140,598)	-	
Total expenses	938,916	258,180	389,500	262,558	428,786	2,277,940	39,271	356,973	396,244	2,674,184	
Excess of revenue over expense											
(expenses over revenue)	\$ (361,092)	\$ (249,289)	\$ (301,025)	\$ (124,209)	\$ 30,684	\$ (1,004,931)	\$ 1,400,227	\$ (302,235)	\$ 1,097,992	\$ 93,061	

See Independent Auditor's Report on Supplementary Information.

Sovereign Grace Churches, Inc.

Schedule of Revenues and Expenses

Year Ended August 31, 2016

	Program Services						Supporting Services			
	U.S. Church Missions	Global Church Missions	Pastoral Training	Conferences	Ministry Resources	Total	Fundraising	General and Administrative	Total	Total
Revenues										
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 loss	-	-	-	-	-	-	-	12,218	12,218	12,218
Other income	-	-	270	174,508	5,134	179,912	-	42,908	42,908	222,820
Total revenues	423,580	53,706	111,425	232,523	467,609	1,288,843	1,358,391	55,126	1,413,517	2,702,360
Expenses										
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)	-
Total expenses	674,361	244,658	365,902	221,291	504,944	2,011,156	39,526	352,081	391,607	2,402,763
Excess of revenue over expense (expenses over revenue)	\$ (250,781)	\$ (190,952)	\$ (254,477)	\$ 11,232	\$ (37,335)	\$ (722,313)	\$ 1,318,865	\$ (296,955)	\$ 1,021,910	\$ 299,597

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