

SOVEREIGN GRACE CHURCHES, INC.
AUDITED FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2023 AND 2022

Sovereign Grace Churches, Inc.

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Independent Auditor's Report

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

Opinion

We have audited the accompanying financial statements of **Sovereign Grace Churches, Inc.** (a nonprofit organization), which comprise the Statements of Financial Position as of August 31, 2023 and 2022, and the related Statements of Activities and Changes in Net Assets, Functional Expenses, and Cash Flows for the years then ended, and the related notes to the financial statements.

In our opinion, the 2023 financial statements referred to above present fairly, in all material respects, the financial position of **Sovereign Grace Churches, Inc.** as of August 31, 2023, 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 **Sovereign Grace Churches, Inc.** and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Prior Period Financial Statements

The financial statements as of August 31, 2022, were audited by Aronson LLC, who merged with Aprio LLP as of January 1, 2023, and whose report dated December 9, 2022, expressed an unmodified opinion on those statements.

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.

Independent Auditor's Report (Continued)

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

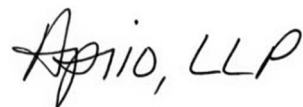
Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of **Sovereign Grace Churches, Inc.**'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about **Sovereign Grace Churches, Inc.**'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



Aprio LLP
Rockville, Maryland
December 21, 2023

Sovereign Grace Churches, Inc.

Statements of Financial Position

<i>August 31,</i>	2023	2022
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,095,312	\$ 1,182,777
Investments	1,084,364	1,591,540
Accounts receivable - trade	69,855	279,940
Notes receivable, current portion	74,595	60,000
Prepaid expenses	28,045	23,000
Inventory	114,691	160,874
Total current assets	3,466,862	3,298,131
Property and equipment		
Land	459,000	459,000
Building and improvements	1,670,279	1,239,673
Furniture, fixtures and equipment	384,818	392,168
Less: Accumulated depreciation and amortization	(307,300)	(304,302)
Net property and equipment	2,206,797	1,786,539
Other assets		
Deposits and other assets	11,316	21,157
Long-term assets		
Notes receivable, net of current portion and discount	317,516	378,212
Total assets	\$ 6,002,491	\$ 5,484,039

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

Sovereign Grace Churches, Inc.

Statements of Financial Position

<i>August 31,</i>	2023	2022
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 159,757	\$ 216,647
Deferred revenue	144,561	112,218
Total liabilities	304,318	328,865
Net assets without restrictions		
Board designated	110,000	110,000
Undesignated	3,015,372	2,449,885
Total net assets without restrictions	3,125,372	2,559,885
Net assets with restrictions	2,572,801	2,595,289
Total net assets	5,698,173	5,155,174
Total liabilities and net assets	\$ 6,002,491	\$ 5,484,039

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

Sovereign Grace Churches, Inc.

Statement of Activities and Changes in Net Assets

Year Ended August 31, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Operating support and revenue			
Contributions - churches	\$ 2,662,464	\$ 281,316	\$ 2,943,780
Contributions - other	872,849	74,975	947,824
Music and books sales, net	375,601	-	375,601
Music and books royalties	400,362	-	400,362
Tuition and fees	90,450	-	90,450
Conference receipts	133,379	-	133,379
Investment income	42,189	-	42,189
Other income	34,883	-	34,883
Net assets released from restriction	378,779	(378,779)	-
Total operating support and revenue	4,990,956	(22,488)	4,968,468
Operating Expenses			
Program services:			
U.S. church missions	1,462,998	-	1,462,998
Global church missions	1,515,520	-	1,515,520
Pastoral training	355,524	-	355,524
Ministry resources	706,011	-	706,011
Total program services	4,040,053	-	4,040,053
Supporting activities:			
Fundraising	18,316	-	18,316
General and administrative	367,100	-	367,100
Total supporting activities	385,416	-	385,416
Total expenses	4,425,469	-	4,425,469
Total of change in net assets	565,487	(22,488)	542,999
Net assets, beginning of year	2,559,885	2,595,289	5,155,174
Net assets, end of year	\$ 3,125,372	\$ 2,572,801	\$ 5,698,173

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

Sovereign Grace Churches, Inc.

Statement of Activities and Changes in Net Assets

Year Ended August 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Operating support and revenue			
Contributions - churches	\$ 2,525,877	\$ 56,935	\$ 2,582,812
Contributions - other	847,505	867,690	1,715,195
Music and books sales, net	338,478	-	338,478
Music and books royalties	386,493	-	386,493
Tuition and fees	70,400	-	70,400
Conference receipts	212,381	-	212,381
Investment loss	(67,082)	-	(67,082)
Other income	69,303	-	69,303
Total operating support and revenue	4,383,355	924,625	5,307,980
Operating Expenses			
Program services:			
U.S. church missions	1,587,676	-	1,587,676
Global church missions	955,274	-	955,274
Pastoral training	374,895	-	374,895
Ministry resources	724,627	-	724,627
Total program services	3,642,472	-	3,642,472
Supporting activities:			
Fundraising	16,951	-	16,951
General and administrative	374,634	-	374,634
Total supporting activities	391,585	-	391,585
Total expenses	4,034,057	-	4,034,057
Total of change in net assets	349,298	924,625	1,273,923
Net assets, beginning of year	2,210,587	1,670,664	3,881,251
Net assets, end of year	\$ 2,559,885	\$ 2,595,289	\$ 5,155,174

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

Sovereign Grace Churches, Inc.

Statement of Functional Expenses

Year Ended August 31, 2023

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

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

Sovereign Grace Churches, Inc.

Statement of Functional Expenses

Year Ended August 31, 2022

	Program Services					Supporting Activities			Total
	U.S. Church Missions	Global Church Missions	Pastoral Training	Ministry Resources	Total	Fundraising	General and Administrative	Total	
Expenses									
Compensation and benefits	\$ 588,421	\$ 196,752	\$ 236,785	\$ 464,769	\$ 1,486,727	\$ 6,100	\$ 232,547	\$ 238,647	\$ 1,725,374
Cost of goods sold	1,524	-	-	116,575	118,099	-	-	-	118,099
Gifts and grants	507,565	663,889	4,070	9,862	1,185,386	-	612	612	1,185,998
Travel and training	352,630	76,487	43,562	61,098	533,777	982	28,270	29,252	563,029
Office expense	11,716	496	3,472	9,784	25,468	728	3,731	4,459	29,927
Insurance	4,392	7,552	3,271	9,522	24,737	-	3,112	3,112	27,849
Promotion	40,132	-	-	46,415	86,547	-	-	-	86,547
Information Technology	5,535	2,847	2,610	24,071	35,063	3,215	18,224	21,439	56,502
Building Occupancy	33,643	222	70,476	54,328	158,669	-	40,996	40,996	199,665
Other expenses	42,414	6,367	1,763	24,055	74,599	5,926	44,250	50,176	124,775
Depreciation and amortization	1,228	662	8,886	20,723	31,499	-	2,892	2,892	34,391
Total expenses	1,589,200	955,274	374,895	841,202	3,760,571	16,951	374,634	391,585	4,152,156
Less: Cost of goods sold included with revenues in the Statement of Activities and Changes in Net Assets	(1,524)	-	-	(116,575)	(118,099)	-	-	-	(118,099)
Total expenses reported in the Statement of Activities and Changes in Net Assets	\$ 1,587,676	\$ 955,274	\$ 374,895	\$ 724,627	\$ 3,642,472	\$ 16,951	\$ 374,634	\$ 391,585	\$ 4,034,057

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>	2023	2022
Cash flows from operating activities		
Change in net assets	\$ 542,999	\$ 1,273,923
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	56,757	34,391
Amortization of discount of note receivable	(16,543)	(18,116)
Unrealized and realized loss on investments	42,585	86,875
Forgiveness of notes receivable	-	9,900
(Increase) decrease in:		
Accounts receivable - trade	210,085	(71,271)
Prepaid expenses	(5,045)	19,022
Inventory	46,183	(31,997)
Deposits and other assets	9,841	(2,148)
Increase (decrease) in:		
Accounts payable	(56,890)	98,865
Deferred revenue	32,343	1,214
Deferred rent	-	(10,345)
Net cash provided by operating activities	862,315	1,390,313
Cash flows from investing activities		
Purchases of investments	(664,506)	(1,169,072)
Proceeds from the sale of investments	1,129,097	537,654
Payments on notes receivable	62,644	7,476
Purchases of property and equipment	(477,015)	(1,785,241)
Net cash provided (used) by investing activities	50,220	(2,409,183)
Net change in cash and cash equivalents	912,535	(1,018,870)
Cash and cash equivalents, beginning of year	1,182,777	2,201,647
Cash and cash equivalents, end of year	\$ 2,095,312	\$ 1,182,777

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

Sovereign Grace Churches, Inc.

Notes to Financial Statements

1. Organization and significant accounting policies

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

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

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

In October 2017, a Board Designated Reserve was established to fund future church plants when funds are not available in the annual operating budget. As of August 31, 2023 and 2022, the reserve balance was \$110,000. \$0 and \$5,000 were disbursed from this reserve for years ended August 31, 2023 and 2022, respectively.

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

Net assets with donor restrictions – net assets subject to donor-imposed stipulations that will be met either by actions of SGC and/or the passage of time. Donor-restricted contributions are classified as net assets without donor restrictions when restrictions are met in the same reporting period in which the contributions are received. As of August 31, 2023 and 2022, there were no net assets that were subject to donor-imposed stipulations that were permanent in nature.

Sovereign Grace Churches, Inc.

Notes to Financial Statements

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

SGC maintains the majority of its cash balances at one primary commercial bank and in a brokerage account from which cash is swept to deposit account(s) at one or more third-party commercial banks. These balances may exceed the FDIC insured deposit limit of \$250,000 per financial institution, though SGC has taken steps to avoid that. At August 31, 2023 and 2022, SGC's cash balances held at commercial banks exceeded the FDIC limit by approximately \$0 and \$174,000, respectively. SGC has not experienced any losses through the date when the financial statements were available to be issued.

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

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

Accounts receivable: 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 based on 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 \$4,000 are capitalized at original cost or estimated fair value in the case of donated assets. Depreciation is calculated on the straight-line method over estimated useful lives of three to ten years for personal property and eight years for the building improvements. Depreciation and amortization expense was \$56,758 and \$34,390 for the years ended August 31, 2023 and 2022, respectively.

Sovereign Grace Churches, Inc.

Notes to Financial Statements

On July 30, 2020, SGC sold its right to use asset comprised of 17,125 square feet of buildings and improvements, located in Gaithersburg, Maryland, to Covenant Life Church, Inc. (“CLC”) in exchange for a note receivable of \$525,000, at a 0% interest rate. The following joint public statement was issued on August 21, 2020:

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

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

See Note 5 for a description of the note receivable, the related discount, and a schedule of amounts receivable.

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

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

Sovereign Grace Churches, Inc.

Notes to Financial Statements

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

During the years ended August 31, 2023 and 2022, SGC recorded no impairment adjustments on assets held for use.

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

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

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

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

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

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

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

Sovereign Grace Churches, Inc.

Notes to Financial Statements

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

	2023	2022
Disaggregation of Revenue:		
Revenue recognized at a point in time	\$ 909,342	\$ 937,352
Revenue recognized over time	90,450	70,400
Total operating revenue:	\$ 999,792	\$ 1,007,752

Contract liabilities – Contract liabilities include amounts paid by customers for which goods or services have not yet been provided and are included in deferred revenue. Contract liabilities totaled \$144,561, \$112,218, \$111,004 at August 31, 2023, August 31, 2022, and September 1, 2021, respectively, of deferred revenue related to revenue was recognized under ASC 606.

Contract assets – Contract assets include amounts receivable to SGC for which goods and services have been provided and are included in accounts receivable. Contract assets totaled \$69,855, \$279,940, \$208,669 at August 31, 2023, August 31, 2022, and September 1, 2021, respectively, of receivables related to revenue were recognized under ASC 606.

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

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

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

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

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

Sovereign Grace Churches, Inc.

Notes to Financial Statements

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

Expenses that are allocated include the following:

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

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

SGC evaluates uncertainty in income tax positions based on a more-likely-than-not recognition standard. If that threshold is met, the tax position is then measured at the largest amount that is greater than 50% likely of being realized upon ultimate settlement. As of August 31, 2023 and 2022, 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 2020 through the current year remain open for examination by tax authorities.

Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Sovereign Grace Churches, Inc.

Notes to Financial Statements

Reclassifications: Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. One reclassification nets the remaining balance of deferred rent as of August 31, 2022 against deposits and other assets. The second adjusts the presentation of certain 2022 net assets on the Statement of Financial Position totaling \$9,380. The reclassifications do not have a material impact on the financial statements.

Recent accounting pronouncements adopted: SGC adopted Accounting Standards Codification (ASC) 842 effective September 1, 2022. This standard requires lessees to recognize leases on the Statement of Financial Position as right-of-use (ROU) assets and lease liabilities based on the value of the discounted future lease payments. SGC has elected to apply the modified retrospective adoption method whereby SGC applied the guidance to leases in place as of the adoption date (“effective date” method). Accordingly, the prior period was not restated, and all prior period amounts disclosed are presented under ASC 840. SGC has elected the available practical expedients to account for any existing finance leases and operating leases as finance leases and operating leases, respectively, under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification of finance leases or operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs under the new guidance at lease commencement. The standard did not have a material impact on SGC’s financial statements.

Subsequent events: Management has evaluated subsequent events for disclosure in these financial statements through December 31, 2023, which is the date the financial statements were available to be issued.

2. Liquidity and availability of resources

The following reflects SGC’s financial assets as of the Statement of Financial Position date, reduced by amounts not available for general use because of donor imposed restrictions within one year of the Statement of Financial Position date, or because of an internal board designation. SGC strives to maintain total net financial assets sufficient to cover 30 to 270 days of general expenditures, which are estimated at \$225,000 to \$2,025,000. Financial assets in excess of daily cash requirements are invested in various instruments which are sources of liquidity. These include certificates of deposit, money market funds, U.S. Treasuries, other short-term investments, mortgage-backed securities, and marketable debt and equity securities. A \$750,000 line of credit is in place to meet the cash requirements if necessary.

Sovereign Grace Churches, Inc.

Notes to Financial Statements

	2023	2022
Cash and cash equivalents	\$ 2,095,312	\$ 1,182,777
Investments	1,084,364	1,591,540
Accounts receivable - trade	69,855	279,940
Notes receivable, current portion	74,595	60,000
Total financial assets	3,324,126	3,114,257
Donor-imposed restrictions		
Net assets with donor restrictions	(2,572,801)	(2,595,289)
Net financial assets after donor-imposed restrictions	751,325	518,968
Internal designations		
Board designated church planting reserve	(110,000)	(110,000)
Net financial assets available to meet cash needs for general expenditures within one year	\$ 641,325	\$ 408,968

3. Investments

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

	2023	2022
Federal government bonds and notes	\$ 195,704	\$ 591,445
Mortgage-backed securities	93,608	130,761
Indexed corporate bonds	795,052	572,355
Fixed income mutual funds - domestic	-	296,979
Total	\$ 1,084,364	\$ 1,591,540

4. Fair value

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

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

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, 2023 and 2022.

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, 2023	Total			
Federal government bonds and notes	\$ 195,704	\$ -	\$ 195,704	\$ -
Mortgage-backed securities	93,608	-	93,608	-
Indexed corporate bonds	795,052	-	795,052	-
Total	\$1,084,364	\$ -	\$ 1,084,364	\$ -

		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, 2022	Total			
Federal government bonds and notes	\$ 591,445	\$ -	\$ 591,445	\$ -
Mortgage-backed securities	130,761	-	130,761	-
Indexed corporate bonds	572,355	-	572,355	-
Fixed income mutual funds - domestic	296,979	296,979	-	-
Total	\$1,591,540	\$ 296,979	\$ 1,294,561	\$ -

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

5. Notes receivable

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

The borrowers made all required payments under the notes as of August 31, 2023, totaling \$62,644, and the remaining \$457,356 was outstanding as of August 31, 2023.

Year ended August 31,	
2024	\$ 74,595
2025	82,845
2026	60,000
2027	60,000
2028	60,000
Thereafter	119,916
Subtotal	457,356
Less: present value discount:	(65,245)
Total notes receivable, net	392,111
Less: current portion	(74,595)
Long-term notes receivable	\$ 317,516

6. Operating lease

SGC entered into a commercial lease for 7,619 square feet of office space at 10509 Timberwood Circle, Louisville, Kentucky. The date of occupancy was July 10, 2017. The lease expired on October 31, 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 \$19,514 and \$117,082 for the years ended August 31, 2023 and 2022, respectively.

7. Line of credit

SGC has a \$750,000 bank line of credit which matures April 26, 2024. Amounts borrowed under this agreement bear interest at the bank’s prime rate minus 1.00% (7.50% at August 31, 2023). At August 31, 2023, there had been no draws on the line of credit and the full balance was available.

Sovereign Grace Churches, Inc.

Notes to Financial Statements

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

	2023	2022
U.S. church regions	\$ 1,639,193	\$ 1,419,622
International church regions	858,633	1,175,667
Pastors College, church planting, other	74,975	-
Total net assets with donor restrictions	\$ 2,572,801	\$ 2,595,289

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:

	2023	2022
U.S. church regions	\$ 835,923	\$ 926,876
International church regions	938,030	497,691
Pastors College, church planting, other	233,185	-
Total release of restrictions	2,007,138	1,424,567
Less: Amounts received and released in the same fiscal year	(1,628,359)	(1,424,567)
Total releases presented on the Statements of Activities and Changes in Net Assets	\$ 378,779	\$ -

- 9. Retirement plan**

SGC maintains a retirement plan that is qualified under Section 403(b) of the IRC. The plan covers all full-time employees. SGC will match each participant's salary deferred contribution to the plan based upon a formula outlined in the plan document, up to a maximum employer contribution of 3% of compensation. Employees vest immediately in all employer contributions to the plan. Retirement plan expense for the years ended August 31, 2023 and 2022 was \$20,947 and \$18,056, 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 \$33,190 and \$32,083 for the years ended August 31, 2023 and 2022, respectively.

Sovereign Grace Churches, Inc.

Notes to Financial Statements

**10. Commitments
and
contingencies**

During the normal course of business, SGC has entered into agreements with a hotel to reserve room and facility space for future meetings scheduled to be held through 2024. In the event of cancellation, SGC is required to pay various costs of hotel rooms as stipulated in the contracts, the amounts of which are dependent upon the date of cancellation. As of August 31, 2023, such commitments are approximately \$243,200.