
Grace Centers of Hope and Subsidiaries

Consolidated Financial Report
October 31, 2019

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Independent Auditor's Report

To the Board of Directors
Grace Centers of Hope and Subsidiaries

We have audited the accompanying consolidated financial statements of Grace Centers of Hope and Subsidiaries (the "Center"), which comprise the consolidated balance sheet as of October 31, 2019 and 2018 and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Grace Centers of Hope and Subsidiaries as of October 31, 2019 and 2018 and their changes in net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As described in Note 2 to the consolidated financial statements, the Center adopted the provisions of Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

To the Board of Directors
Grace Centers of Hope and Subsidiaries

As described in Note 2 to the consolidated financial statements, on March 11, 2020 the World Health Organization declared the outbreak of a respiratory disease a pandemic. No impairments were recorded as of October 31, 2019; however due to significant uncertainty surrounding the situation, management's judgment regarding this could change in the future. Our opinion is not modified with respect to this matter.

Plante & Moran, PLLC

September 2, 2020

Grace Centers of Hope and Subsidiaries

Consolidated Balance Sheet

October 31, 2019 and 2018

	2019	2018
Assets		
Current Assets		
Cash	\$ 564,692	\$ 649,891
Investments (Note 3)	192,148	179,566
Contributions receivable (Note 5)	16,352	3,858
Inventory	230,936	245,520
Prepaid expenses and other current assets	140,272	43,860
Total current assets	1,144,400	1,122,695
Other Assets	313,860	263,860
Property and Equipment - Net (Note 6)	5,292,789	4,422,686
Total assets	\$ 6,751,049	\$ 5,809,241
Liabilities and Net Assets		
Current Liabilities		
Trade accounts payable	\$ 327,138	\$ 204,460
Accrued liabilities and other	348,868	300,130
Current portion of long-term debt (Note 8)	38,153	47,188
Total current liabilities	714,159	551,778
Long-term Debt - Net of current portion (Note 8)	115,279	137,953
Total liabilities	829,438	689,731
Net Assets		
Without donor restrictions:		
Undesignated	4,023,510	4,566,718
Board designated (Note 2)	433,968	420,991
Total without donor restrictions	4,457,478	4,987,709
With donor restrictions (Note 9)	1,464,133	131,801
Total net assets	5,921,611	5,119,510
Total liabilities and net assets	\$ 6,751,049	\$ 5,809,241

Grace Centers of Hope and Subsidiaries

Consolidated Statement of Activities and Changes in Net Assets

Years Ended October 31, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support						
Donations and contributions	\$ 3,129,860	\$ 1,463,933	\$ 4,593,793	\$ 3,563,024	\$ 42,744	\$ 3,605,768
Donations in kind	230,492	-	230,492	460,221	-	460,221
Car donation income	-	-	-	29,040	-	29,040
Thrift store and salvage sales	2,206,666	-	2,206,666	2,244,808	-	2,244,808
Special event revenue:						
Gross revenue	546,533	-	546,533	341,889	-	341,889
Direct benefit expenses	(250,461)	-	(250,461)	(139,915)	-	(139,915)
Interest	2,209	-	2,209	1,780	-	1,780
Net realized and unrealized gain (loss) on investments	10,586	-	10,586	(3,618)	-	(3,618)
Gain (loss) on sale of fixed assets	44,524	-	44,524	(7,631)	-	(7,631)
Rental income	283,172	-	283,172	268,220	-	268,220
Other revenue	143,943	-	143,943	150,464	-	150,464
Total revenue and support	6,347,524	1,463,933	7,811,457	6,908,282	42,744	6,951,026
Net Assets Released from Restrictions	131,601	(131,601)	-	867,405	(867,405)	-
Total revenue, support, and net assets released from restrictions	6,479,125	1,332,332	7,811,457	7,775,687	(824,661)	6,951,026
Expenses						
Program services:						
Homeless shelter	3,226,259	-	3,226,259	3,396,609	-	3,396,609
Thrift stores	1,879,669	-	1,879,669	2,013,607	-	2,013,607
Rental homes	191,085	-	191,085	205,912	-	205,912
Day care facility	342,062	-	342,062	333,926	-	333,926
Total program services	5,639,075	-	5,639,075	5,950,054	-	5,950,054
Support services:						
Management and general	463,989	-	463,989	509,811	-	509,811
Fundraising	906,292	-	906,292	827,322	-	827,322
Total support services	1,370,281	-	1,370,281	1,337,133	-	1,337,133
Total expenses	7,009,356	-	7,009,356	7,287,187	-	7,287,187
(Decrease) Increase in Net Assets	(530,231)	1,332,332	802,101	488,500	(824,661)	(336,161)
Net Assets - Beginning of year	4,987,709	131,801	5,119,510	4,499,209	956,462	5,455,671
Net Assets - End of year	\$ 4,457,478	\$ 1,464,133	\$ 5,921,611	\$ 4,987,709	\$ 131,801	\$ 5,119,510

See notes to consolidated financial statements.

Grace Centers of Hope and Subsidiaries

Consolidated Statement of Functional Expenses

Year Ended October 31, 2019

	Program Services					Support Services				
	Homeless Shelter	Thrift Stores	Rental Homes	Day Care Facility	Total	Management and General	Fundraising	Special Events - Direct Benefit to Donors	Total	Total
Compensation, benefits, and related taxes	\$ 1,952,652	\$ 1,019,795	\$ -	\$ 264,575	\$ 3,237,022	\$ 312,456	\$ 410,538	\$ -	\$ 722,994	\$ 3,960,016
Occupancy and vehicle fleet	306,255	710,905	113,670	45,124	1,175,954	14,956	14,754	-	29,710	1,205,664
Advertising and contribution development	-	-	-	-	-	-	422,663	-	422,663	422,663
Support - Grace Gospel Fellowship	137,500	-	-	-	137,500	-	-	-	-	137,500
Office supplies and expenses	26,354	56,049	111	10,016	92,530	5,280	18,588	3,322	27,190	119,720
Kitchen supplies and food	239,200	-	-	6,958	246,158	-	-	-	-	246,158
Facility and production costs	-	-	-	-	-	-	-	228,075	228,075	228,075
Depreciation	349,248	47,527	47,644	555	444,974	17,364	17,131	-	34,495	479,469
Miscellaneous expenses	124,258	34,491	10,206	9,878	178,833	11,152	13,974	19,064	44,190	223,023
Interest	2,452	3,805	4,148	-	10,405	41,233	92	-	41,325	51,730
Other expenses	88,340	7,097	15,306	4,956	115,699	61,548	8,552	-	70,100	185,799
Total functional expenses	\$ 3,226,259	\$ 1,879,669	\$ 191,085	\$ 342,062	\$ 5,639,075	\$ 463,989	\$ 906,292	\$ 250,461	\$ 1,620,742	\$ 7,259,817

Grace Centers of Hope and Subsidiaries

Consolidated Statement of Functional Expenses

Year Ended October 31, 2018

	Program Services					Support Services				
	Homeless Shelter	Thrift Stores	Rental Homes	Day Care Facility	Total	Management and General	Fundraising	Special Events - Direct Benefit to Donors	Total	Total
Compensation, benefits, and related taxes	\$ 1,960,520	\$ 1,078,490	\$ -	\$ 256,200	\$ 3,295,210	\$ 368,394	\$ 385,919	\$ -	\$ 754,313	\$ 4,049,523
Occupancy and vehicle fleet	360,547	768,409	121,841	29,444	1,280,241	13,482	13,481	-	26,963	1,307,204
Advertising and contribution development	-	-	-	-	-	-	379,954	-	379,954	379,954
Support - Grace Gospel Fellowship	195,000	-	-	-	195,000	-	-	-	-	195,000
Office supplies and expenses	23,414	67,775	308	13,430	104,927	5,118	13,733	4,094	22,945	127,872
Kitchen supplies and food	262,299	-	-	5,616	267,915	-	-	-	-	267,915
Facility and production costs	-	-	-	-	-	-	-	119,590	119,590	119,590
Depreciation	370,378	56,567	47,298	25,940	500,183	13,849	13,849	-	27,698	527,881
Miscellaneous expenses	154,049	30,738	12,236	3,296	200,319	6,965	17,748	16,231	40,944	241,263
Interest	2,353	4,632	4,793	-	11,778	44,128	89	-	44,217	55,995
Other expenses	68,049	6,996	19,436	-	94,481	57,875	2,549	-	60,424	154,905
Total functional expenses	\$ 3,396,609	\$ 2,013,607	\$ 205,912	\$ 333,926	\$ 5,950,054	\$ 509,811	\$ 827,322	\$ 139,915	\$ 1,477,048	\$ 7,427,102

Grace Centers of Hope and Subsidiaries

Consolidated Statement of Cash Flows

Years Ended October 31, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Increase (decrease) in net assets	\$ 802,101	\$ (336,161)
Adjustments to reconcile increase (decrease) in net assets to net cash from operating activities:		
Depreciation	479,469	527,881
(Gain) loss on disposal of asset	(44,524)	7,631
Net realized and unrealized (gain) loss from investments	(10,586)	3,618
Donated capital assets	-	(229,591)
Construction in process payable	80,032	-
Changes in operating assets and liabilities that (used) provided cash:		
Contributions receivable	(12,494)	9,475
Inventory	14,584	78,666
Prepaid expenses and other	(96,412)	22,984
Accounts payable	42,646	25,928
Accrued liabilities and other	48,738	27,384
Net cash provided by operating activities	1,303,554	137,815
Cash Flows from Investing Activities		
Purchase of property and equipment	(1,534,808)	(336,482)
Proceeds from disposition of property and equipment	250,500	-
Purchases of investments	(1,996)	-
Purchase of annuity contract	(50,000)	(50,000)
Net cash used in investing activities	(1,336,304)	(386,482)
Cash Flows Used in Financing Activities - Repayment of debt	(52,449)	(49,294)
Net Decrease in Cash	(85,199)	(297,961)
Cash - Beginning of year	649,891	947,852
Cash - End of year	<u>\$ 564,692</u>	<u>\$ 649,891</u>
Supplemental Cash Flow Information		
Cash paid for interest	\$ 10,090	\$ 11,955
Purchase of capital assets through installment notes	20,740	-

Grace Centers of Hope and Subsidiaries

Notes to Consolidated Financial Statements

October 31, 2019 and 2018

Note 1 - Nature of Business

Grace Centers of Hope and Subsidiaries (GCH or the "Center") is a not-for-profit organization that receives its revenue principally from contributions, grants, and thrift store sales. The Center has been in operation since 1942 and is Oakland County, Michigan's oldest and largest homeless shelter.

The Center's ultimate goal is total rehabilitation by meeting all of the needs of the homeless, including food, clothing, shelter, educational courses, day care, job training and assistance in preparing resumes, substance abuse programs, medical care, and housing placement.

The Center is a subsidiary of a related entity, Grace Gospel Fellowship Church (the "Church") (see Note 11). The Center includes the following single-member LLCs:

- **Rescued Treasures of Sterling Heights, LLC (Rescued Treasures - Sterling Heights)** - This entity operates a thrift store that sells donated clothing and other items to both subsidize center operations and provide employment to center residents.
- **Rescued Treasures of Waterford, LLC (Rescued Treasures - Waterford)** - This entity operates a thrift store that sells donated clothing and other items to both subsidize center operations and provide employment to center residents.
- **Rescued Treasures Warren - Dequindre, LLC (Rescued Treasures - Dequindre)** - This entity operates a thrift store that sells donated clothing and other items to both subsidize center operations and provide employment to center residents.
- **Rescued Treasures of Oak Park, LLC (Rescued Treasures - Oak Park)** - This entity operates a thrift store that sells donated clothing and other items to both subsidize center operations and provide employment to center residents.
- **Rescued Homes, LLC (Rescued Homes)** - This entity provides short-term rental housing to graduates of center programs.
- **Hands of Hope Childcare Center, LLC (Hands of Hope)** - This entity operates a childcare center for residents of the Center.

Note 2 - Significant Accounting Policies

Consolidation

The consolidated financial statements include the accounts of Grace Centers of Hope and its wholly owned subsidiaries: Rescued Treasures - Sterling Heights, Rescued Treasures - Waterford, Rescued Treasures - Dequindre, Rescued Treasures - Oak Park, Rescued Homes, and Hands of Hope. All significant intercompany transactions have been eliminated in consolidation. Effective November 1, 2020, the GCH board of directors has authorized the transfer of Rescued Homes, LLC to Grace Gospel Fellowship Church. This change better aligns with the overall mission of the Center's Aftercare Program.

Concentration of Credit Risk Arising from Deposit Accounts

The Center maintains cash balances at several banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Center evaluates financial institutions with which it deposits funds; however, it is not practical to insure all cash deposits.

Investments

Investment securities are carried at fair value, as described in Note 3.

October 31, 2019 and 2018

Note 2 - Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment are recorded at cost when purchased or at fair value at the date of donation and are being depreciated on a straight-line basis over their estimated useful lives. Costs of maintenance and repairs are charged to expense when incurred.

The Center reports gifts of property, plant, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of property, plant, and equipment with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire property, plant, and equipment are reported as restricted support. Absent explicit donor stipulations about how long the property, plant, and equipment must be maintained, the Center reports such gifts as unrestricted support.

Donated Food and Services

The value of donated food and services has been estimated by the Center and recorded as in-kind revenue and expenses. Donated professional services offered at the Center's sites that are coordinated with the activities of other third-party health and welfare organizations are not reflected in the consolidated financial statements.

Other Assets

Other long-term assets on the consolidated balance sheet consist of a rare coin valued at \$13,860 at October 31, 2019 and 2018 and an annuity contract for \$300,000 and \$250,000 at October 31, 2019 and 2018, respectively.

The rare coin was donated to the Center and is recorded at fair value at the date of donation.

The annuity contract relates to a contract for which the Center is the sole beneficiary. The contract is carried at cost. During 2019 and 2018, the Center contributed an additional \$50,000 to the annuity contract. The Center will receive annuity payments over the life of its current CEO. The annuity payments will be determined based on the date that payments begin. The earliest date that annuity payments may begin is March 7, 2020.

Contributions

Contributions of cash and other assets, including unconditional promises to give in the future, are reported as revenue when received, measured at fair value. Donor promises to give in the future are recorded at the present value of estimated future cash flows.

Contributions without donor-imposed restrictions and contributions with donor-imposed time or purpose restrictions that are met in the same period as the gift are both reported as support without donor restrictions. Other restricted gifts are reported as support with donor restrictions.

Inventory

Inventory, which consists of contributed clothing and other items, is stated at the lower of cost or net realizable value by use of the first-in, first-out (FIFO) method of valuation. There is a significant amount of work involved in bringing contributed goods to salable value; therefore, the Center records inventory only for contributed goods brought to the point of sale. Contributed goods that have not reached their point of sale have not been included in inventory.

Note 2 - Significant Accounting Policies (Continued)

Contributions Receivable

Contributions receivable on the consolidated balance sheet consist of contributions designated by donors for center programs, undesignated contributions, and a bequest receivable. A provision for uncollectible accounts has been made for specific amounts deemed uncollectible by management. The allowance for uncollectible contributions receivable at October 31, 2019 and 2018 was \$0 and \$4,000, respectively. All amounts deemed uncollectible are charged against the allowance for doubtful accounts in the period that determination is made.

Classification of Net Assets

Net assets of the Center are classified based on the presence or absence of donor-imposed restrictions.

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions or for which the donor-imposed restrictions have expired or been fulfilled. Net assets in this category may be expended for any purpose in performing the primary objectives of the Center.

Board-designated net assets are net assets without donor restrictions designated by the board for reserves. This designation is based on board actions, which can be altered or revoked at a future time by the board. At October 31, 2019 and 2018, the board-designated net assets include a \$100,000 emergency fund. At October 31, 2019 and 2018, the board-designated net assets include an endowment fund of \$333,968 and \$320,991, respectively (see Note 10).

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Center or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Earnings, gains, and losses on donor-restricted net assets are classified as net assets without donor restrictions unless specifically restricted by the donor or by applicable state law.

Thrift Store and Salvage Sales

Revenue recorded for thrift store and salvage sales is recorded based on the sale price of goods and services sold.

Rental Income

The Center leases rehabilitated homes within the surrounding community to current and former participants of its program. The Center charges fair market value for the rental of these homes and leases these homes on month-to-month contracts recognized on a straight-line basis.

Functional Allocation of Expenses

Costs of providing the program and support services have been reported on a functional basis in the consolidated statement of activities and changes in net assets. Costs have been allocated between the various programs and support services on a direct basis, except for building-related expenses, which have been allocated by square footage, and compensation-related expenses, which have been allocated based on time and effort spent by the staff within the department. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 - Significant Accounting Policies (Continued)

Income Taxes

The Center is a not-for-profit corporation and is exempt from tax under the provisions of Internal Revenue Code Section 501(c)(3).

Adoption of New Accounting Pronouncement

For the year ended October 31, 2019 and applied retrospectively, the Center adopted ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit-Entities*. This standard requires net assets to be classified in two categories, net assets without donor restrictions and net assets with donor restrictions, rather than the three previous classifications. This standard also requires changes in the way certain information is aggregated and reported by the Center, including disclosures of quantitative and qualitative information about the liquidity and availability of resources and the presentation of expenses by both functional and natural classification. The standard also clarifies the definition of management and general and prohibits certain expenses from being allocated out of management and general. As a result of the adoption of this standard, the financial information for the year ended October 31, 2018 has been restated as follows: fundraising expenses have increased by \$68,243 and program expenses have decreased by \$68,243 from the amounts previously reported. These differences relate to advertising and contribution development expenses.

Upcoming Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Center's year ending October 31, 2021. The ASU permits application of the new revenue recognition guidance using one of two retrospective application methods. The Center has reviewed its various revenue streams and does not feel this standard will have a significant impact on the timing of revenue recognition. However, the Center does expect to have expanded disclosures as a result of the new standard.

The FASB issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-to-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Center's year ending October 31, 2022 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The new lease standard is expected to have a significant effect on the Center's consolidated financial statements, as a result of the leases for the buildings related to the thrift stores.

Notes to Consolidated Financial Statements

October 31, 2019 and 2018

Note 2 - Significant Accounting Policies (Continued)

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and (2) determining whether a contribution is conditional. The accounting guidance will result in more governmental contracts being accounted for as contributions and may delay revenue recognition for certain grants and contributions that no longer meet the definition of unconditional. The new guidance will be effective for the Center's year ending October 31, 2020 and will be applied on a modified prospective basis. The Center has not yet determined the impact on the timing of recognition of foundation and individual grants and contributions.

Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including September 2, 2020, which is the date the consolidated financial statements were available to be issued.

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus a pandemic. First identified in late 2019 and now known as COVID-19, the outbreak has impacted millions of individuals worldwide. In response, many countries have implemented measures to combat the outbreak that have impacted global business operations. Thrift store and salvage sales revenue initially decreased as a result of the pandemic forcing the closure of the thrift stores for approximately two months; however, they have since reopened and are performing in line with budgetary goals. The Center has had increased donations during the pandemic but has been forced to postpone fundraising events. None of the planned events have been subsequently canceled due to the pandemic. The Center has responded to the outbreak by reducing certain 2020 budgeted expenses and obtaining a Paycheck Protection Program loan to help prevent any layoffs from occurring. No impairments were recorded as of the consolidated balance sheet date; however, due to significant uncertainty surrounding the situation, management's judgment regarding this could change in the future. In addition, while the Center's results of operations, cash flows, and financial condition could be negatively impacted, the additional extent of the impact beyond the date of this report cannot be reasonably estimated at this time.

Note 3 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about the Center's assets measured at fair value on a recurring basis at October 31, 2019 and 2018 and the valuation techniques used by the Center to determine those fair values.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Center has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

Grace Centers of Hope and Subsidiaries

Notes to Consolidated Financial Statements

October 31, 2019 and 2018

Note 3 - Fair Value Measurements (Continued)

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Center's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

	Assets Measured at Fair Value on a Recurring Basis at October 31, 2019			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at October 31, 2019
Investments - Mutual fund - Moderate allocation	\$ 192,148	\$ -	\$ -	\$ 192,148

	Assets Measured at Fair Value on a Recurring Basis at October 31, 2018			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at October 31, 2018
Investments:				
Money market mutual funds	\$ 40,126	\$ -	\$ -	\$ 40,126
U.S. common stock	111,505	-	-	111,505
Equity mutual funds	27,935	-	-	27,935
Total assets	\$ 179,566	\$ -	\$ -	\$ 179,566

Note 4 - Liquidity and Availability of Resources

The following reflects the Center's financial assets as of October 31, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the consolidated balance sheet date:

	2019	2018
Cash	\$ 564,692	\$ 649,891
Investments	192,148	179,566
Contributions receivable	16,352	3,858
Annuity contract	300,000	250,000
Financial assets - At year end	1,073,192	1,083,315
Less those unavailable for general expenditures within one year due to:		
Contractual or donor-imposed restrictions - Investments held in annuity contract	300,000	250,000
Board designations - Quasi-endowment fund, primarily for long-term investing	333,968	320,991
Financial assets available to meet cash needs for general expenditures within one year	\$ 439,224	\$ 512,324

Grace Centers of Hope and Subsidiaries

Notes to Consolidated Financial Statements

October 31, 2019 and 2018

Note 4 - Liquidity and Availability of Resources (Continued)

The Center has a goal to maintain financial assets, which consist of cash, short-term investments, and receivables, on hand to meet normal operating expenses. The Center has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Center has a line of credit established with Bank of America it can draw on in the event of unanticipated liquidity needs. If unanticipated liquidity needs arise, the board is able to undesignate additional funds.

Note 5 - Contributions Receivable

Included in contributions receivable is one fundraising pledge received subsequent to year end. The prior year receivables relate to a capital campaign pledge and a bequest. They are included as follows:

	2019	2018
Gross promises to give before unamortized discount	\$ 16,352	\$ 7,858
Less allowance for uncollectible contributions	-	(4,000)
Net contributions receivable	<u>\$ 16,352</u>	<u>\$ 3,858</u>
Amounts due in - Less than one year	<u>\$ 16,352</u>	<u>\$ 7,858</u>

Note 6 - Property and Equipment

Property and equipment are summarized as follows:

	2019	2018	Depreciable Life - Years
Land	\$ 41,500	\$ 41,500	-
Buildings	2,444,219	2,616,819	10-15
Leasehold improvements	4,119,577	4,209,470	10-15
Machinery and equipment	451,661	461,160	3
Transportation equipment	591,292	592,748	3-5
Furniture and fixtures	421,887	421,888	3
Construction in progress	1,661,367	336,482	-
	9,731,503	8,680,067	
Accumulated depreciation	<u>4,438,714</u>	<u>4,257,381</u>	
Net property and equipment	<u>\$ 5,292,789</u>	<u>\$ 4,422,686</u>	

Depreciation expense for 2019 and 2018 was \$479,469 and \$527,881, respectively.

Note 7 - Operating Leases

The Center has noncancelable operating lease agreements for the thrift store facilities.

The Waterford thrift store agreement requires monthly rent of \$9,500 to \$11,500 through July 31, 2025. Rental expense has been recognized on a straight-line basis over the term of the lease. As a result, \$6,750 and \$11,250 is included in accrued liabilities as of October 31, 2019 and 2018, respectively, which will be amortized over the remaining term of the lease.

The Sterling Heights thrift store requires monthly rent of \$5,971 to \$8,376 and common area maintenance and taxes of \$3,431 to \$3,889 through December 31, 2028. Rental expense has been recognized on a straight-line basis over the term of the lease. As a result, \$24,028 and \$18,817 is included in accrued liabilities as of October 31, 2019 and 2018, respectively, which will be amortized over the remaining term of the lease.

Grace Centers of Hope and Subsidiaries

Notes to Consolidated Financial Statements

October 31, 2019 and 2018

Note 7 - Operating Leases (Continued)

The Dequindre thrift store requires monthly rent payments of \$7,280 to \$8,030 through July 31, 2025. Rental expense has been recognized on a straight-line basis over the term of the lease. As a result, \$4,050 and \$7,200 is included in accrued liabilities as of October 31, 2019 and 2018, respectively, which will be amortized over the remaining term of the lease.

The Oak Park thrift store requires monthly rent payments of \$8,795 to \$9,697 through July 31, 2025. Rental expense has been recognized on a straight-line basis over the term of the lease. As a result, \$4,399 and \$6,699 is included in accrued liabilities as of October 31, 2019 and 2018, respectively, which will be amortized over the remaining term of the lease.

Future minimum annual commitments under these operating leases are as follows:

Years Ending October 31	Amount
2020	\$ 466,953
2021	475,101
2022	481,971
2023	481,058
2024	492,566
Thereafter	866,787
Total	<u>\$ 3,264,436</u>

Total rent expense on these leases for 2019 and 2018 was \$433,611 and \$441,390, respectively.

Note 8 - Long-term Debt

Long-term debt at October 31 is as follows:

	2019	2018
Mortgage loan for 43 Fairgrove, payable in monthly installments of \$1,099, including interest at a fixed rate of 3.74 percent. The loan matured in December 2019. The loan is collateralized by a first mortgage lien on property owned by Rescued Homes, LLC	\$ -	\$ 14,909
Notes payable to a financial institution in monthly installments totaling \$3,344, including interest at fixed rates varying from 4.2 to 6.9 percent, through May 2025. The notes are collateralized by transportation equipment	101,268	114,276
Mortgage loan for 45 Seneca, payable in monthly installments of \$323, including interest at a fixed rate of 6.9 percent. The loan matures in July 2024. The loan is collateralized by a first mortgage lien on property owned by Rescued Homes, LLC	15,305	18,012
Land contract for 70 Seneca, payable in monthly installments of \$309, including interest at a fixed rate of 7.0 percent. The loan was modified in 2018 to extend the final balloon payment to November 2021	36,859	37,944
Total	153,432	185,141
Less current portion	38,153	47,188
Long-term portion	<u>\$ 115,279</u>	<u>\$ 137,953</u>

Grace Centers of Hope and Subsidiaries

Notes to Consolidated Financial Statements

October 31, 2019 and 2018

Note 8 - Long-term Debt (Continued)

The balance of the above debt matures as follows:

<u>Years Ending</u>	<u>Amount</u>
2020	\$ 38,153
2021	34,739
2022	62,090
2023	10,141
2024	6,299
Thereafter	2,010
Total	<u>\$ 153,432</u>

Interest expense for 2019 and 2018 was \$10,090 and \$11,955, respectively.

The Center has an available line of credit of up to \$300,000 guaranteed by Rescued Treasures - Sterling Heights and Rescued Treasures - Waterford. The line of credit bears interest equal to prime plus 0.75 percent and is collateralized by the assets of the Center. Interest payments are due monthly. The line of credit expires on May 31, 2021. No amounts were drawn during 2019 or 2018.

Note 9 - Net Assets with Donor Restrictions

Net assets with donor restrictions as of October 31, 2019 and 2018 are available for the following purposes:

	<u>2019</u>	<u>2018</u>
Contributions restricted for specific program use:		
Men's dorm renovations	\$ 535,630	\$ 40,000
Day care renovations	908,310	-
35 E. Huron roof replacement	-	65,000
Other	3,841	2,943
Total contributions restricted for specific program use	<u>1,447,781</u>	<u>107,943</u>
Time restrictions:		
Pledges and grants receivable	16,352	3,858
Mission building	-	20,000
	<u>16,352</u>	<u>23,858</u>
Total	<u>\$ 1,464,133</u>	<u>\$ 131,801</u>

Notes to Consolidated Financial Statements

October 31, 2019 and 2018

Note 10 - Board-designated Endowment

During 2013, the board of directors adopted a policy to designate all bequests received by the Center as board-designated endowment funds. The endowment fund assets are invested in money market funds and equity investments and maintained in cash accounts. The expenditures of the funds are at the board of directors' discretion. Net assets associated with these endowment funds, including funds designated by the board of directors to function as endowments, are reported as net assets without donor restrictions, and the designation may be removed at the board's discretion.

The board-designated endowment activity for the years ended October 31, 2019 and 2018 is as follows:

	2019	2018
Endowment - Beginning of year	\$ 320,991	\$ 378,264
Bequests	352	74,855
Investment income	2,349	-
Net appreciation (depreciation)	10,586	(3,618)
Expenses	(310)	(128,510)
Endowment - End of year	<u>\$ 333,968</u>	<u>\$ 320,991</u>

The investment income includes interest income earned on investments and interest income earned on cash accounts.

Note 11 - Related Party Transactions

The chief executive officer (CEO) of the Center is the pastor and CEO of Grace Gospel Fellowship Church in Pontiac, Michigan. The Center reimburses the Church for expenses paid by the Church on behalf of the Center. The Center reimbursed the Church \$444 and \$0 during 2019 and 2018, respectively. The Center did not have any outstanding liabilities with the Church for reimbursement for services at October 31, 2019 and 2018.

The Center remitted to the Church a total of \$137,500 and \$195,000 for the years ended October 31, 2019 and 2018. These are unrestricted support and, therefore, subject to the discretion of the Church.

The Center received donations of \$7,098 and \$10,356 for the Church for the years ended October 31, 2019 and 2018, respectively. These funds were remitted to the Church.

Note 12 - Retirement Plans

As of January 1, 2010, the Center implemented a SIMPLE IRA plan for substantially all full-time employees. Effective January 1, 2016, the employer match contribution was 3 percent of wages. Effective January 2018, the Center rolled over the plan into a 401(k) plan, and the employer match remained at 3 percent. For the years ended October 31, 2019 and 2018, the Center had retirement contributions of \$48,926 and \$41,638, respectively.