

Grace Centers of Hope and Subsidiaries

Consolidated Financial Report
October 31, 2015

Grace Centers of Hope and Subsidiaries

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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, 2015 and 2014 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, 2015 and 2014 and the results of its changes in net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

March 10, 2016

Grace Centers of Hope and Subsidiaries

Consolidated Balance Sheet

	October 31, 2015	October 31, 2014
Assets		
Current Assets		
Cash	\$ 1,023,660	\$ 815,530
Receivables:		
Grants	984,138	500,000
Contributions (Note 3)	792,394	-
Investments (Note 9)	150,077	150,090
Inventory	251,426	215,212
Prepaid expenses and other current assets	69,215	109,464
	<u>3,270,910</u>	<u>1,790,296</u>
Long-term contributions receivable - Net of current portion	154,583	-
Property and Equipment - Net (Note 2)	3,138,933	2,075,000
Other Assets	113,860	78,860
	<u>\$ 6,678,286</u>	<u>\$ 3,944,156</u>
Liabilities and Net Assets		
Current Liabilities		
Trade accounts payable	\$ 363,342	\$ 258,257
Current portion of long-term debt (Note 5)	110,722	69,231
Accrued liabilities and other	154,571	209,719
	<u>628,635</u>	<u>537,207</u>
Long-term Debt - Net of current portion (Note 5)	317,567	160,677
	<u>946,202</u>	<u>697,884</u>
Net Assets		
Unrestricted:		
Undesignated	2,842,544	1,938,633
Board-designated (Notes 1 and 10)	387,419	350,788
Temporarily restricted (Note 6)	2,502,121	956,851
	<u>5,732,084</u>	<u>3,246,272</u>
	<u>\$ 6,678,286</u>	<u>\$ 3,944,156</u>

Grace Centers of Hope and Subsidiaries

Consolidated Statement of Activities and Changes in Net Assets

	Year Ended October 31					
	2015			2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue and Support						
Donations and contributions	\$ 2,229,852	\$ 3,054,850	\$ 5,284,702	\$ 2,465,101	\$ 1,202,629	\$ 3,667,730
Donations in-kind	249,424	-	249,424	184,252	-	184,252
Car donation income	21,215	-	21,215	17,129	-	17,129
Thrift store and salvage sales	2,534,617	-	2,534,617	2,515,531	-	2,515,531
Special event revenue:						
Gross revenue	330,219	-	330,219	310,313	-	310,313
Direct benefit expenses	(170,316)	-	(170,316)	(144,080)	-	(144,080)
Interest	2,700	-	2,700	4,705	-	4,705
Investment (loss) income	(13)	-	(13)	19,677	-	19,677
Rental income	200,845	-	200,845	211,981	-	211,981
Other revenue	47,208	-	47,208	35,578	-	35,578
Total revenue and support	5,445,751	3,054,850	8,500,601	5,620,187	1,202,629	6,822,816
Net Assets Released from Restrictions	1,509,580	(1,509,580)	-	490,341	(490,341)	-
Total revenue, support, and net assets released from restrictions	6,955,331	1,545,270	8,500,601	6,110,528	712,288	6,822,816
Expenses						
Program services:						
Homeless shelter	2,346,573	-	2,346,573	2,777,565	-	2,777,565
Thrift stores	2,103,207	-	2,103,207	2,094,786	-	2,094,786
Rental homes	208,628	-	208,628	188,140	-	188,140
Daycare facility	315,357	-	315,357	316,313	-	316,313
Total program services	4,973,765	-	4,973,765	5,376,804	-	5,376,804
Support services:						
Management and general	368,255	-	368,255	294,927	-	294,927
Fundraising	672,769	-	672,769	569,468	-	569,468
Total support services	1,041,024	-	1,041,024	864,395	-	864,395
Total expenses	6,014,789	-	6,014,789	6,241,199	-	6,241,199
Increase (Decrease) in Net Assets	940,542	1,545,270	2,485,812	(130,671)	712,288	581,617
Net Assets - Beginning of year	2,289,421	956,851	3,246,272	2,420,092	244,563	2,664,655
Net Assets - End of year	\$ 3,229,963	\$ 2,502,121	\$ 5,732,084	\$ 2,289,421	\$ 956,851	\$ 3,246,272

See Notes to Consolidated Financial Statements.

Grace Centers of Hope and Subsidiaries

Consolidated Statement of Functional Expenses Year Ended October 31, 2015

	Program Services					Support Services				2015 Total
	Homeless Shelter	Thrift Stores	Rental Homes	Daycare Facility	Total	Management and General	Fundraising	Special Events - Direct Benefit to Donors	Total	
Compensation, benefits, and related taxes	\$ 1,389,915	\$ 1,028,860	\$ -	\$ 240,294	\$ 2,659,069	\$ 248,264	\$ 212,501	\$ -	\$ 460,765	\$ 3,119,834
Rent	-	458,067	-	-	458,067	-	-	-	-	458,067
Advertising and contribution development	21,465	39,249	-	-	60,714	-	423,076	-	423,076	483,790
Food - Donated	153,144	-	-	-	153,144	-	-	-	-	153,144
Legal and professional fees	-	10,825	1,570	-	12,395	30,077	-	-	30,077	42,472
Utilities	154,401	171,384	75,244	21,155	422,184	5,773	5,773	-	11,546	433,730
Repair and maintenance	72,708	120,741	28,773	5,575	227,797	2,626	2,625	-	5,251	233,048
Support - Grace Gospel Fellowship	195,000	-	-	-	195,000	-	-	-	-	195,000
Office supplies and expenses	3,667	68,618	3,209	13,509	89,003	57,111	1,116	-	58,227	147,230
Insurance	34,556	48,244	13,884	3,222	99,906	935	935	3,463	5,333	105,239
Housekeeping	22,524	-	-	-	22,524	843	842	-	1,685	24,209
Postage	833	-	-	-	833	834	8,751	-	9,585	10,418
Travel	12,994	15,998	-	-	28,992	2,305	1,973	-	4,278	33,270
Lease expense	16,050	-	-	-	16,050	2,866	2,454	-	5,320	21,370
Kitchen	23,583	-	-	4,954	28,537	-	-	-	-	28,537
Membership and dues	1,749	-	-	-	1,749	312	267	-	579	2,328
Interest and fees	224	2,047	9,835	-	12,106	8,165	8	-	8,173	20,279
Property taxes	-	-	18,281	-	18,281	-	-	-	-	18,281
Facilities expense	-	-	-	-	-	-	-	77,091	77,091	77,091
Production expense	-	-	-	-	-	-	-	63,335	63,335	63,335
Other services	93,943	-	-	-	93,943	-	-	-	-	93,943
Miscellaneous	17,607	80,288	10,065	1,960	109,920	3,201	7,504	26,427	37,132	147,052
Depreciation	132,210	58,886	47,767	24,688	263,551	4,943	4,944	-	9,887	273,438
Total functional expenses	\$ 2,346,573	\$ 2,103,207	\$ 208,628	\$ 315,357	\$ 4,973,765	\$ 368,255	\$ 672,769	\$ 170,316	\$ 1,211,340	\$ 6,185,105

Grace Centers of Hope and Subsidiaries

Consolidated Statement of Functional Expenses Year Ended October 31, 2014

	Program Services					Support Services				2014 Total
	Homeless Shelter	Thrift Stores	Rental Homes	Daycare Facility	Total	Management and General	Fundraising	Special Events - Direct Benefit to Donors	Total	
Compensation, benefits, and related taxes	\$ 1,352,716	\$ 1,077,307	\$ -	\$ 244,638	\$ 2,674,661	\$ 210,725	\$ 193,549	\$ -	\$ 404,274	\$ 3,078,935
Rent	-	454,070	-	-	454,070	-	-	-	-	454,070
Advertising and contribution development	28,510	12,194	-	-	40,704	-	338,083	-	338,083	378,787
Food - Donated	149,982	-	-	-	149,982	-	-	-	-	149,982
Legal and professional fees	-	11,016	1,296	-	12,312	29,256	-	-	29,256	41,568
Utilities	158,994	189,448	86,228	21,542	456,212	5,947	5,944	-	11,891	468,103
Repair and maintenance	89,495	126,067	14,640	6,381	236,583	3,296	3,297	-	6,593	243,176
Support - Grace Gospel Fellowship	618,177	-	-	-	618,177	-	-	-	-	618,177
Office supplies and expenses	5,285	50,718	101	8,250	64,354	31,274	756	-	32,030	96,384
Insurance	29,536	28,984	11,951	2,757	73,228	767	767	3,279	4,813	78,041
Housekeeping	25,522	-	-	-	25,522	955	954	-	1,909	27,431
Postage	1,086	-	-	-	1,086	1,086	11,407	53,474	65,967	67,053
Travel	9,647	8,624	-	-	18,271	1,197	1,099	-	2,296	20,567
Lease expense	20,600	-	-	-	20,600	3,209	2,948	-	6,157	26,757
Kitchen	21,330	-	-	2,864	24,194	-	-	-	-	24,194
Membership and dues	989	-	-	-	989	154	142	-	296	1,285
Interest and fees	-	2,526	9,801	824	13,151	-	-	-	-	13,151
Property taxes	-	-	18,148	-	18,148	-	-	-	-	18,148
Production expense	-	-	-	-	-	-	-	68,807	68,807	68,807
Other services	99,354	-	-	-	99,354	-	-	-	-	99,354
Miscellaneous	28,899	62,431	10,605	4,669	106,604	1,922	5,383	18,520	25,825	132,429
Depreciation	137,443	71,401	35,370	24,388	268,602	5,139	5,139	-	10,278	278,880
Total functional expenses	\$ 2,777,565	\$ 2,094,786	\$ 188,140	\$ 316,313	\$ 5,376,804	\$ 294,927	\$ 569,468	\$ 144,080	\$ 1,008,475	\$ 6,385,279

Grace Centers of Hope and Subsidiaries

Consolidated Statement of Cash Flows

	Year Ended	
	October 31, 2015	October 31, 2014
Cash Flows from Operating Activities		
Increase in net assets	\$ 2,485,812	\$ 581,617
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation	273,438	278,880
Loss on disposal of fixed assets	9,487	-
Donations of property and equipment	(82,780)	(860)
Net realized and unrealized loss (gain) from investments	13	(19,677)
Changes in operating assets and liabilities which provided (used) cash:		
Inventory	(36,214)	28,412
Prepaid expenses and other	55,249	11,735
Grants receivable	(484,138)	(500,000)
Contributions receivable	(946,977)	-
Accounts payable	105,085	44,578
Accrued liabilities and other	(55,148)	47,586
Net cash provided by operating activities	1,323,827	472,271
Cash Flows from Investing Activities		
Purchase of property and equipment	(1,264,078)	(117,639)
Purchase of securities	-	(436)
Purchase of annuity contract	(50,000)	(50,000)
Deposit on property and equipment	-	(15,000)
Net cash used in investing activities	(1,314,078)	(183,075)
Cash Flows from Financing Activities		
Proceeds from debt	293,396	-
Repayment of debt	(95,015)	(157,363)
Net cash provided by (used in) financing activities	198,381	(157,363)
Net Increase in Cash	208,130	131,833
Cash - Beginning of year	815,530	683,697
Cash - End of year	\$ 1,023,660	\$ 815,530
Supplemental Cash Flow Information		
Cash paid for interest	\$ 11,985	\$ 13,151
Purchase of capital assets through installment notes	82,600	-

Grace Centers of Hope and Subsidiaries

Notes to Consolidated Financial Statements October 31, 2015 and 2014

Note I - Nature of Business and Significant Accounting Policies

Nature of Organization - Grace Centers of Hope and Subsidiaries (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'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, daycare, 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 7). 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 to 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 to 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 to 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 to 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.

Grace Centers of Hope and Subsidiaries

Notes to Consolidated Financial Statements October 31, 2015 and 2014

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Significant accounting policies are as follows:

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.

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 market value as described in Note 9.

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 balance sheet consist of the following:

	2015	2014
Rare coin	\$ 13,860	\$ 13,860
Annuity contract	100,000	50,000
Deposit on property purchase	-	15,000
Total other assets	<u>\$ 113,860</u>	<u>\$ 78,860</u>

Grace Centers of Hope and Subsidiaries

Notes to Consolidated Financial Statements October 31, 2015 and 2014

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

The rare coin was donated to the Center and is recorded at the fair market 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. 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 November 1, 2017.

The deposit on property purchase relates to a payment made for a house that was purchased during 2015.

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 unrestricted support. Other restricted gifts are reported as restricted support and temporarily or permanently restricted net assets.

Inventory - Inventory, which consists of contributed clothing and other items, is stated at the lower of cost or market 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.

Grants Receivable - Grants receivable on the balance sheet consist of two grants to be used for a building renovation project. The grants receivable are expected to be collected over the life of the renovation project. All amounts deemed uncollectible are charged against the allowance for doubtful accounts in the period that determination is made. The Center has not recorded a provision for doubtful accounts for grants receivable since it is the opinion of management that those receivables are collectible in full.

Grace Centers of Hope and Subsidiaries

Notes to Consolidated Financial Statements October 31, 2015 and 2014

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Contributions Receivable - Contributions receivable on the balance sheet consist of contributions designated by donors for Center programs 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, 2015 and 2014 was \$6,300 and \$0, 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 as unrestricted, temporarily restricted, or permanently restricted depending on the presence and characteristics of donor-imposed restrictions limiting the Center's ability to use or dispose of contributed assets or the economic benefits embodied in those assets.

Board-designated net assets are unrestricted net assets 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, 2015 and 2014, the board-designated net assets include a \$100,000 emergency fund. At October 31, 2015 and 2014 the board-designated net assets include an endowment fund of \$287,419 and \$250,788, respectively (see Note 10).

Donor-imposed restrictions that expire with the passage of time or can be removed by meeting certain requirements result in temporarily restricted net assets. Permanently restricted net assets result from donor-imposed restrictions that limit the use of net assets in perpetuity. Earnings, gains, and losses on restricted net assets are classified as unrestricted unless specifically restricted by the donor or by applicable state law. No permanently restricted net assets exist at October 31, 2015 or 2014.

Functional Allocation of Expenses - The costs of providing program and support services have been reported on a functional basis in the consolidated statement of activities and changes in net assets. Indirect costs have been allocated between the various programs and support services based on estimates, as determined by management. Although the methods of allocation used are considered reasonable, other methods could be used that would produce a different amount.

Use of Estimates - The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenue, expenses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Grace Centers of Hope and Subsidiaries

Notes to Consolidated Financial Statements October 31, 2015 and 2014

Note I - Nature of Business and Significant Accounting Policies (Continued)

Income Tax Status - The Center is exempt from income tax under Internal Revenue Code Section 501(a) as an organization described in Internal Revenue Code Section 501(c)(3) and is classified as a public charity. Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Center and recognize a tax liability if the Center has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities. Management has analyzed the tax positions taken by the Center and has concluded that as of October 31, 2015 and 2014, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the consolidated financial statements. The Center is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to 2012.

Upcoming Accounting Change - In May 2014, the Financial Accounting Standards Board 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, 2020. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. The Center has not yet determined which application method it will use or the potential effects of the new standard on the consolidated financial statements, if any.

Subsequent Events - The consolidated financial statements and related disclosures include evaluation of events up through and including March 10, 2016, which is the date the consolidated financial statements were available to be issued.

Grace Centers of Hope and Subsidiaries

Notes to Consolidated Financial Statements October 31, 2015 and 2014

Note 2 - Property and Equipment

Property and equipment consist of the following as of October 31, 2015 and 2014:

	2015	2014	Depreciable Life - Years
Land	\$ 41,500	\$ 41,500	-
Buildings	2,611,700	2,473,817	10-15
Leasehold improvements	1,495,369	1,381,813	10-15
Machinery and equipment	253,425	228,053	3
Transportation equipment	432,171	409,571	3-5
Furniture and fixtures	120,006	98,024	3
Construction in progress	1,010,743	15,295	-
Total cost	5,964,914	4,648,073	
Accumulated depreciation	2,825,981	2,573,073	
Net property and equipment	<u>\$ 3,138,933</u>	<u>\$ 2,075,000</u>	

Amounts included in construction in progress relate to costs associated with a building renovation as of October 31, 2015. At October 31, 2015, the Center had outstanding construction commitments of approximately \$1,147,000.

Depreciation expense was \$273,438 and \$278,880 for 2015 and 2014, respectively.

Note 3 - Contributions Receivable

Included in contributions receivable are several unconditional promises to give generated from a capital campaign and a bequest receivable of \$36,644. They are due as follows:

	<u>2015</u>
Gross promises to give	\$ 953,277
Less allowance for doubtful accounts	<u>(6,300)</u>
Net contributions receivable	<u>\$ 946,977</u>
Amounts due in:	
Less than one year	\$ 798,694
One to five years	<u>154,583</u>
Total	<u>\$ 953,277</u>

Grace Centers of Hope and Subsidiaries

Notes to Consolidated Financial Statements October 31, 2015 and 2014

Note 4 - Operating Leases

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

The Waterford thrift store agreement required monthly rent of \$10,750 through July 31, 2015. The agreement was extended to July 31, 2020 with escalating monthly rent payments of \$9,500 to \$10,750. Rental expense on the extended lease has been recognized on a straight-line basis over the term of the lease. As a result, \$1,500 is included in accrued liabilities as of October 31, 2015, which will be amortized over the remaining term of the lease.

The Sterling Heights thrift store and related warehouse required total monthly rent of \$7,270 and common area maintenance and taxes of \$2,230 through December 31, 2014. The agreement was extended to December 31, 2019 with escalating monthly rent payments of \$5,719 to \$7,230, plus common area maintenance and taxes of \$3,431 to \$3,775. Rental expense on the extended lease has been recognized on a straight-line basis over the term of the lease. As a result, \$8,810 is included in accrued liabilities as of October 31, 2015, which will be amortized over the remaining term of the lease.

The Dequindre thrift store required monthly rent payments of \$7,280 through June 30, 2015. Under the lease agreement, the Center received a period of free rent for part of the space through December 31, 2010. Rental expense has been recognized on a straight-line basis over the term of the lease. As a result, \$4,085 is included in accrued liabilities as of October 31, 2014, which was amortized over the remaining term of the lease. The agreement was extended to July 31, 2020 with escalating monthly rent payments of \$7,280 to \$8,030. Rental expense on the extended lease has been recognized on a straight-line basis over the term of the lease. As a result, \$900 is included in accrued liabilities as of October 31, 2015, which will be amortized over the remaining term of the lease.

The Oak Park thrift store required monthly rent payments of \$10,813 through April 30, 2015 and \$11,378 through July 31, 2015. Under the lease agreement, the Center received a period of free rent for part of the space through October 31, 2012. Rental expense has been recognized on a straight-line basis over the term of the lease. As a result, \$52,446 was included in accrued liabilities as of October 31, 2014. During 2015, this lease was terminated and the Center recognized a gain of \$45,271. The Center entered into a new lease agreement through July 31, 2020 with escalating monthly rent payments of \$8,795 to \$9,472. Rental expense has been recognized on a straight-line basis over the term of the lease. As a result, \$2,098 is included in accrued liabilities as of October 31, 2015, which will be amortized over the remaining term of the lease.

Grace Centers of Hope and Subsidiaries

Notes to Consolidated Financial Statements October 31, 2015 and 2014

Note 4 - Operating Leases (Continued)

The following is a schedule of future minimum rental payments on the thrift store leases for the years ending October 31:

2016	\$	420,400
2017		433,848
2018		448,040
2019		461,615
2020		<u>272,872</u>
Total	\$	<u>2,036,775</u>

Total rent expense on these leases for 2015 and 2014 was \$458,067 and \$454,070, respectively.

Note 5 - Long-term Debt

The following is a summary of long-term debt payable at October 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Construction Loan, payable as draws are made up to principal of \$500,000, including interest at a variable rate, which is the prime lending rate as published in <i>The Wall Street Journal</i> . As draws are made, interest-only payments are required. The loan matures in June 2017, at which time all principal and unpaid are due. At October 31, 2015, the prime rate was 3.25 percent. The loan is collateralized by property constructed under the Center	\$ 194,934	\$ -
Mortgage loan, payable in monthly installments of \$1,099, including interest at a fixed rate of 3.74 percent. The loan matures in December 2019. The loan is collateralized by a first mortgage lien on property owned by Rescued Homes, LLC	50,671	-
Notes payable to a financial institution in monthly installments totaling \$2,281, including interest at fixed rates varying from 2.9 to 7.9 percent, through August 2020. The notes are collateralized by transportation equipment. During the year, two notes payable with monthly installments of \$928 were paid in full	59,073	63,106

Grace Centers of Hope and Subsidiaries

Notes to Consolidated Financial Statements October 31, 2015 and 2014

Note 5 - Long-term Debt (Continued)

	<u>2015</u>	<u>2014</u>
Mortgage loan, 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	\$ 25,139	\$ 27,185
Consolidated mortgage loan to Rescued Homes, LLC, payable in monthly installments of \$3,016, including interest at a fixed rate of 4.5 percent. The loan matures in July 2017. The loan is collateralized by a first mortgage lien on property owned by Rescued Homes, LLC. The loan is guaranteed by Grace Centers of Hope and Rescued Treasures - Sterling Heights, LLC	57,701	90,434
Land contract, payable in monthly installments of \$309, including interest at a fixed rate of 7.0 percent. The loan matures in November 2016	40,771	41,590
Land contract, payable in monthly installments of \$708, including interest at a fixed rate of 5.0 percent. The loan was paid in full during the year	-	7,593
Total	<u>428,289</u>	<u>229,908</u>
Less current portion	<u>110,722</u>	<u>69,231</u>
Long-term portion	<u>\$ 317,567</u>	<u>\$ 160,677</u>

The debt service requirements for the succeeding years are as follows:

<u>Years Ending October 31</u>	<u>Amount</u>
2016	\$ 110,722
2017	251,521
2018	23,935
2019	20,425
2020	9,199
Thereafter	<u>12,487</u>
Total	<u>\$ 428,289</u>

Grace Centers of Hope and Subsidiaries

Notes to Consolidated Financial Statements October 31, 2015 and 2014

Note 5 - Long-term Debt (Continued)

Interest expense for the years ended October 31, 2015 and 2014 was \$12,226 and \$13,151, 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, 2016. No amounts were drawn during 2015 or 2014.

Subsequent to year end, the Center entered into a \$500,000 line of credit. The line of credit bears interest equal to prime plus 0.50 percent. Interest payments are due monthly. The line of credit expires February 2017, at which time all outstanding principal and accrued interest are due. No amounts have been drawn on the line of credit.

Note 6 - Temporarily Restricted Net Assets

Temporarily restricted net assets at October 31, 2015 and 2014 are restricted for the following:

	2015	2014
Contributions restricted for specific program use	\$ 527,650	\$ 356,851
Time restricted - pledges and grants receivable	1,894,471	500,000
Time restricted - Mission building	80,000	100,000
Total temporarily restricted net assets	<u>\$ 2,502,121</u>	<u>\$ 956,851</u>

The mission building was donated to the Center in November 2008 by the federal government. The deed on the building includes a restriction that the building must continue in its current use for a 30-year period beginning in June 1989, which is when the Center first began using the building. The deed includes a clause that the building can be sold; however, the Center would be required to pay the federal government a prorated portion of the fair market value of the building based on the number of years remaining in that 30-year period. As of October 31, 2015, four years remain on the restriction.

Note 7 - Related Party Transactions

The chief executive officer (CEO) of the Center is the pastor and CEO of Grace Gospel Fellowship Church (the "Church") in Pontiac, Michigan. The Center reimburses the Church for expenses paid by the Church on behalf of the Center. During 2015 and 2014, the Center reimbursed the Church approximately \$21,943 and \$2,831, respectively. The Center owed the Church \$923 and \$5,265 for reimbursement for services at October 31, 2015 and 2014, respectively.

Grace Centers of Hope and Subsidiaries

Notes to Consolidated Financial Statements October 31, 2015 and 2014

Note 7 - Related Party Transactions (Continued)

Men of Grace, LLC, which is a subsidiary of the Church, raised funds of approximately \$0 and \$22,000 for the years ended October 31, 2015 and 2014, respectively, on behalf of the Center. The Men of Grace choir also performs outreach to educate the community on the Center's programs. The Center remitted to the Church a total of \$195,000 and \$194,691 for the years ended October 31, 2015 and 2014, respectively. These funds primarily supported Men of Grace, LLC; however, the funds were unrestricted support and therefore subject to the discretion of the Church.

During 2015, the Center received donations of \$45,580 for the Church parking lot and a Church fundraising event. These funds were remitted to the Church.

The Church used a facility until April 2014 for church services that was originally purchased by the Center as a women and children's center. The Church did not pay rent for its usage. During 2014, the Church began renovations on a new church building. The Center remitted approximately \$414,000 to help fund the Church project.

During 2015, the Center purchased a building from the Church for a purchase price of \$75,000. This building is operated by Rescued Homes.

Note 8 - Retirement Plans

As of January 1, 2010, the Center implemented a SIMPLE IRA plan for substantially all full-time employees. The plan included an employer match of up to 3 percent of wages. Effective January 1, 2015, the employer match contribution was reduced to 1 percent of wages. For the years ended October 31, 2015 and 2014, the Center contributed \$11,947 and \$31,817, respectively, to the plan.

Note 9 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value on the consolidated 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, 2015 and 2014 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.

Grace Centers of Hope and Subsidiaries

Notes to Consolidated Financial Statements October 31, 2015 and 2014

Note 9 - Fair Value Measurements (Continued)

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.

In instances whereby 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, 2015

	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, 2015
Investments:				
Money market mutual funds	\$ 26,253	\$ -	\$ -	\$ 26,253
Mutual funds - U.S. equity securities	123,824	-	-	123,824
Total assets	<u>\$ 150,077</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 150,077</u>

Assets Measured at Fair Value on a Recurring Basis at October 31, 2014

	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, 2014
Investments:				
Money market mutual funds	\$ 21,207	\$ -	\$ -	\$ 21,207
Mutual funds - U.S. equity securities	128,883	-	-	128,883
Total assets	<u>\$ 150,090</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 150,090</u>

Grace Centers of Hope and Subsidiaries

Notes to Consolidated Financial Statements October 31, 2015 and 2014

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 unrestricted net assets and the designation may be removed at the board's discretion.

The board-designated endowment activity for the years ended October 31, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Endowment - Beginning of year	\$ 250,788	\$ 230,675
Bequests	36,644	436
Investment loss	<u>(13)</u>	<u>19,677</u>
Endowment - End of year	<u>\$ 287,419</u>	<u>\$ 250,788</u>