Grace Centers of Hope and Subsidiaries

Consolidated Financial Report

October 31, 2016

Grace Centers of Hope and Subsidiaries

Contents

Plante & Moran, PLLC
1098 Woodward Avenue
Detroit, MI 48226-1906
Tel: 313.496.7200
Fax: 313.496.7201
plantemoran.com

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, 2016 and 2015, 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, 2016 and 2015, and their changes in net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

June 2, 2017

Grace Centers of Hope and Subsidiaries

Consolidated Balance Sheet

	October 31, 2016	October 31, 2015
Assets		
Current Assets		
Cash	$ 1,367,386	$ 1,023,660
Receivables:		
Grants	-	984,138
Contributions (Note 3)	129,175	792,394
Investments (Note 9)	155,408	150,077
Inventory	313,198	251,426
Prepaid expenses and other current assets	92,780	69,215
Total current assets	2,057,947	3,270,910
Long-term Contributions Receivable - Net of current portion	22,917	154,583
Property and Equipment - Net (Note 2)	4,805,379	3,138,933
Other Assets	163,860	113,860
Total assets	**$ 7,050,103**	**$ 6,678,286**
Liabilities and Net Assets		
Current Liabilities		
Trade accounts payable	$ 288,225	$ 363,342
Current portion of long-term debt (Note 5)	109,876	110,722
Accrued liabilities and other	201,741	154,571
Total current liabilities	599,842	628,635
Long-term Debt - Net of current portion (Note 5)	134,653	317,567
Total liabilities	734,495	946,202
Net Assets		
Unrestricted:		
Undesignated	4,324,299	2,842,544
Board designated (Notes 1 and 10)	411,716	387,419
Temporarily restricted (Note 6)	1,579,593	2,502,121
Total net assets	6,315,608	5,732,084
Total liabilities and net assets	**$ 7,050,103**	**$ 6,678,286**

Grace Centers of Hope and Subsidiaries

Consolidated Statement of Activities and Changes in Net Assets

	Year Ended October 31					
	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue and Support						
Donations and contributions	$ 2,239,598	$ 1,765,220	$ 4,004,818	$ 2,219,856	$ 3,054,850	$ 5,274,706
Donations in-kind	148,158	-	148,158	259,420	-	259,420
Car donation income	8,973	-	8,973	21,215	-	21,215
Thrift store and salvage sales	2,417,568	-	2,417,568	2,534,617	-	2,534,617
Special event revenue:						
Gross revenue	383,917	-	383,917	330,219	-	330,219
Direct benefit expenses	(203,209)	-	(203,209)	(170,316)	-	(170,316)
Interest	7,199	-	7,199	2,700	-	2,700
Investment income (loss)	5,331	-	5,331	(13)	-	(13)
Rental income	231,247	-	231,247	200,845	-	200,845
Other revenue	204,728	-	204,728	47,208	-	47,208
Total revenue and support	5,443,510	1,765,220	7,208,730	5,445,751	3,054,850	8,500,601
Net Assets Released from Restrictions	2,687,748	(2,687,748)	-	1,509,580	(1,509,580)	-
Total revenue, support, and net assets released from restrictions	8,131,258	(922,528)	7,208,730	6,955,331	1,545,270	8,500,601
Expenses						
Program services:						
Homeless shelter	2,731,011	-	2,731,011	2,346,573	-	2,346,573
Thrift stores	2,337,901	-	2,337,901	2,103,207	-	2,103,207
Rental homes	182,321	-	182,321	208,628	-	208,628
Daycare facility	335,628	-	335,628	315,357	-	315,357
Total program services	5,586,861	-	5,586,861	4,973,765	-	4,973,765
Support services:						
Management and general	411,546	-	411,546	368,255	-	368,255
Fundraising	626,799	-	626,799	672,769	-	672,769
Total support services	1,038,345	-	1,038,345	1,041,024	-	1,041,024
Total expenses	6,625,206	-	6,625,206	6,014,789	-	6,014,789
Increase (Decrease) in Net Assets	1,506,052	(922,528)	583,524	940,542	1,545,270	2,485,812
Net Assets - Beginning of year	3,229,963	2,502,121	5,732,084	2,289,421	956,851	3,246,272
Net Assets - End of year	**$ 4,736,015**	**$ 1,579,593**	**$ 6,315,608**	**$ 3,229,963**	**$ 2,502,121**	**$ 5,732,084**

See Notes to Consolidated Financial Statements.

Grace Centers of Hope and Subsidiaries

Consolidated Statement of Functional Expenses
Year Ended October 31, 2016

	Program Services					Support Services				
	Homeless Shelter	Thrift Stores	Rental Homes	Daycare Facility	Total	Management and General	Fundraising	Special Events - Direct Benefit to Donors	Total	2016 Total
Compensation, benefits, and related taxes	$ 1,557,186	$ 1,128,041	$ -	$ 254,584	$ 2,939,811	$ 269,776	$ 247,892	$ -	$ 517,668	$ 3,457,479
Rent	-	440,908	-	-	440,908	-	-	-	-	440,908
Advertising and contribution development	22,689	56,924	-	-	79,613	-	336,968	-	336,968	416,581
Food - Donated	120,432	-	-	-	120,432	-	-	-	-	120,432
Legal and professional fees	-	14,025	2,175	-	16,200	30,706	-	-	30,706	46,906
Utilities	160,441	163,691	77,492	22,075	423,699	5,998	6,000	-	11,998	435,697
Repair and maintenance	89,111	104,031	5,420	5,164	203,726	3,270	3,270	-	6,540	210,266
Support - Grace Gospel Fellowship	195,000	-	-	-	195,000	-	-	-	-	195,000
Office supplies and expenses	7,431	74,884	-	19,224	101,539	1,287	1,183	-	2,470	104,009
Insurance	37,225	43,275	15,903	3,643	100,046	1,012	1,012	-	2,024	102,070
Housekeeping	22,332	-	-	-	22,332	835	835	-	1,670	24,002
Postage	671	-	-	-	671	672	7,050	4,948	12,670	13,341
Travel	19,829	21,054	-	-	40,883	3,435	3,157	-	6,592	47,475
Lease expense	29,162	-	-	-	29,162	5,052	4,642	-	9,694	38,856
Kitchen	29,134	-	-	5,580	34,714	-	-	-	-	34,714
Membership and dues	291	-	-	-	291	50	46	-	96	387
Interest and fees	1,257	1,066	8,190	-	10,513	76,429	47	-	76,476	86,989
Property taxes	-	-	18,372	-	18,372	-	-	-	-	18,372
Facilities expense	-	-	-	-	-	-	-	82,664	82,664	82,664
Production expense	-	-	-	-	-	-	-	97,989	97,989	97,989
Other services	116,922	-	-	-	116,922	-	-	-	-	116,922
Miscellaneous	89,945	230,129	3,332	2,014	325,420	4,351	6,024	17,608	27,983	353,403
Depreciation	231,953	59,873	51,437	23,344	366,607	8,673	8,673	-	17,346	383,953
Total functional expenses	**$ 2,731,011**	**$ 2,337,901**	**$ 182,321**	**$ 335,628**	**$ 5,586,861**	**$ 411,546**	**$ 626,799**	**$ 203,209**	**$ 1,241,554**	**$ 6,828,415**

Grace Centers of Hope and Subsidiaries

Consolidated Statement of Functional Expenses
Year Ended October 31, 2015

	Program Services					Support Services				
	Homeless Shelter	Thrift Stores	Rental Homes	Daycare Facility	Total	Management and General	Fundraising	Special Events - Direct Benefit to Donors	Total	2015 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 Cash Flows

	Year Ended October 31, 2016	Year Ended October 31, 2015
Cash Flows from Operating Activities		
Increase in net assets	$ 583,524	$ 2,485,812
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation	383,953	273,438
Loss on disposal of fixed assets	-	9,487
Donations of property and equipment	-	(82,780)
Net realized and unrealized (gain) loss from investments	(5,331)	13
Changes in operating assets and liabilities which (used) provided cash:		
Inventory	(61,772)	(36,214)
Prepaid expenses and other	(23,565)	55,249
Grants receivable	984,138	(484,138)
Contributions receivable	794,885	(946,977)
Accounts payable	(75,117)	105,085
Accrued liabilities and other	47,170	(55,148)
Net cash provided by operating activities	2,627,885	1,323,827
Cash Flows from Investing Activities		
Purchase of property and equipment	(1,965,730)	(1,264,078)
Purchase of annuity contract	(50,000)	(50,000)
Net cash used in investing activities	(2,015,730)	(1,314,078)
Cash Flows from Financing Activities		
Proceeds from debt	217,781	293,396
Repayment of debt	(486,210)	(95,015)
Net cash (used in) provided by financing activities	(268,429)	198,381
Net Increase in Cash	343,726	208,130
Cash - Beginning of year	1,023,660	815,530
Cash - End of year	**$ 1,367,386**	**$ 1,023,660**
Supplemental Cash Flow Information		
Cash paid for interest	$ 9,256	$ 11,985
Purchase of capital assets through installment notes	84,669	82,600

Note 1 - 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.

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 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 consolidated balance sheet consist of the following:

	2016	2015
Rare coin	$ 13,860	$ 13,860
Annuity contract	150,000	100,000
Total other assets	$ 163,860	$ 113,860

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

The rare coin was donated to the Center and is recorded at the 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 2016 and 2015, 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 November 1, 2017.

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 consolidated balance sheet consist of two grants to be used for a building 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. The grants receivable were collected in full during 2016.

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, 2016 and 2015 was $9,725 and $6,300, respectively. All amounts deemed uncollectible are charged against the allowance for doubtful accounts in the period that determination is made.

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

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, 2016 and 2015, the board-designated net assets include a $100,000 emergency fund. At October 31, 2016 and 2015, the board-designated net assets include an endowment fund of $311,716 and $287,419, 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, 2016 or 2015.

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.

Note 1 - 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, 2016 and 2015, 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.

Upcoming Accounting Changes - 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.

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

In February 2016, the Financial Accounting Standards Board issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-of-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 note guidance will be effective for the Center's year ending October 31, 2021 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. The effect of applying the new lease guidance on the consolidated financial statements has not yet been determined.

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 requires significant changes to the financial reporting model of organizations that follow FASB not-for-profit rules, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the Center, including required disclosures about the liquidity and availability of resources. The new standard is effective for the Center's year ending October 31, 2019 and thereafter and must be applied on a retrospective basis. The Center is currently evaluating the impact this standard will have on the consolidated financial statements.

Reclassification - Certain contributions in the October 31, 2015 consolidated financial statements have been reclassified to in-kind contributions in 2016. These reclassifications had no effect on the October 31, 2015 net assets, changes in net assets, or cash flows as previously reported.

Subsequent Events - The consolidated financial statements and related disclosures include evaluation of events up through and including June 2, 2017, which is the date the consolidated financial statements were available to be issued.

Note 2 - Property and Equipment

Property and equipment consist of the following as of October 31, 2016 and 2015:

	2016	2015	Depreciable Life - Years
Land	$ 41,500	$ 41,500	-
Buildings	2,613,753	2,611,700	10-15
Leasehold improvements	3,980,616	1,495,369	10-15
Machinery and equipment	430,388	253,425	3
Transportation equipment	524,340	432,171	3-5
Furniture and fixtures	404,144	120,006	3
Construction in progress	20,571	1,010,743	-
Total cost	8,015,312	5,964,914	
Accumulated depreciation	3,209,933	2,825,981	
Net property and equipment	$ 4,805,379	$ 3,138,933	

Amounts included in construction in progress relate to costs associated with a building renovation as of October 31, 2016.

Depreciation expense was $383,953 and $273,438 for 2016 and 2015, respectively.

Note 3 - Contributions Receivable

Included in contributions receivable are several unconditional promises to give generated from a capital campaign. In addition, at October 31, 2016, a contribution of $15,300 was included in contributions receivable. At October 31, 2015, a bequest receivable of $36,644 was included in contributions receivable. They are due as follows:

	2016	2015
Gross promises to give	$ 161,817	$ 953,277
Less allowance for doubtful accounts	(9,725)	(6,300)
Net contributions receivable	$ 152,092	$ 946,977
Amounts due in:		
Less than one year	$ 138,900	$ 798,694
One to five years	22,917	154,583
Total	$ 161,817	$ 953,277

Note 4 - 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 $10,750 through July 31, 2020. Rental expense has been recognized on a straight-line basis over the term of the lease. As a result, $7,500 and $1,500 is included in accrued liabilities as of October 31, 2016 and 2015, respectively, which will be amortized over the remaining term of the lease.

The Sterling Heights thrift store and related warehouse lease, which was amended during the year, requires total monthly rent of $5,971 to $7,230 and common area maintenance and taxes of $3,431 to $3,775 through December 31, 2021. Rental expense on the lease has been recognized on a straight-line basis over the term of the lease. As a result, $2,091 and $8,810 is included in accrued liabilities as of October 31, 2016 and 2015, respectively, which will be amortized over the remaining term of the lease.

The Dequindre thrift store requires monthly rent payments of $7,280 to $8,030 through July 31, 2020. Rental expense on the extended lease has been recognized on a straight-line basis over the term of the lease. As a result, $4,500 and $900 is included in accrued liabilities as of October 31, 2016 and 2015, 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 $9,472 through July 31, 2020. Rental expense has been recognized on a straight-line basis over the term of the lease. As a result, $5,210 and $2,098 is included in accrued liabilities as of October 31, 2016 and 2015, respectively, which will be amortized over the remaining term of the lease.

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

2017		$ 590,693
2018		604,884
2019		620,277
2020		400,126
2021		131,372
Thereafter		22,010
	Total	$ 2,369,362

Total rent expense on these leases for 2016 and 2015 was $440,908 and $458,067, respectively.

Note 5 - Long-term Debt

The following is a summary of long-term debt payable at October 31, 2016 and 2015:

	2016	2015
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 *The Wall Street Journal*. As draws are made, interest-only payments are required. The loan matures in June 2017, at which time all principal and unpaid amounts are due. The loan is collateralized by property constructed under the Center. During 2016, the loan was paid in full	$ -	$ 194,934
Mortgage loan for 43 Fairgrove, 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	39,206	50,671
Notes payable to a financial institution in monthly installments totaling $3,127, including interest at fixed rates varying from 2.9 to 6.9 percent, through April 2022. The notes are collateralized by transportation equipment. During the year, one note payable with monthly installments of $592 was paid in full	119,016	59,073
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	22,946	25,139
Consolidated mortgage loan for 73 and 79 Seneca and 90 University 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	23,468	57,701

Note 5 - Long-term Debt (Continued)

	2016	2015
Land contract for 70 Seneca, payable in monthly installments of $309, including interest at a fixed rate of 7.0 percent. The loan matured in November 2016	$ 39,893	$ 40,771
Total	244,529	428,289
Less current portion	109,876	110,722
Long-term portion	$ 134,653	$ 317,567

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

Years Ending October 31	Amount
2017	$ 109,876
2018	38,051
2019	35,282
2020	24,858
2021	18,536
Thereafter	17,926
Total	$ 244,529

Interest expense for the years ended October 31, 2016 and 2015 was $10,608 and $12,226, 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, 2018. No amounts were drawn during 2016 or 2015.

During 2016, the Center entered into a $500,000 line of credit, guaranteed by Hands of Hope. The line of credit bears interest equal to prime plus 0.50 percent. Interest payments are due monthly. The line of credit expired in February 2017 and was not renewed. The line of credit did not have an outstanding balance at October 31, 2016.

Note 6 - Temporarily Restricted Net Assets

Temporarily restricted net assets at October 31, 2016 and 2015 are restricted for the following:

	2016	2015
Contributions restricted for specific program use	$ 1,382,801	$ 527,650
Time restricted - Pledges and grants receivable	136,792	1,894,471
Time restricted - Mission building	60,000	80,000
Total temporarily restricted net assets	$ 1,579,593	$ 2,502,121

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, 2016, three 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 2016 and 2015, the Center reimbursed the Church $27,671 and $21,943, respectively. The Center owed the Church $0 and $923 for reimbursement for services at October 31, 2016 and 2015, respectively.

Men of Grace, LLC is a subsidiary of the Church. The Men of Grace choir performs outreach to educate the community on the Center's programs. The Center remitted to the Church a total of $195,000 for the years ended October 31, 2016 and 2015. These funds primarily supported Men of Grace, LLC; however, the funds were unrestricted support and therefore subject to the discretion of the Church.

The Center received donations of $444,987 and $45,580 for the Church parking lot and a Church fundraising event for the years ended October 31, 2016 and 2015, respectively. These funds were remitted to the Church.

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. Effective January 1, 2016, the employer match contribution was increased to 3 percent of wages. For the years ended October 31, 2016 and 2015, the Center contributed $23,388 and $11,947, respectively, to the plan.

Note 9 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in 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, 2016 and 2015 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.

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.

Note 9 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis at October 31, 2016

	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, 2016
Investments:				
Money market mutual funds	$ 30,102	$ -	$ -	$ 30,102
Mutual funds - U.S. equity securities	125,306	-	-	125,306
Total assets	$ 155,408	$ -	$ -	$ 155,408

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	$ 150,077	$ -	$ -	$ 150,077

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, 2016 and 2015 is as follows:

	2016	2015
Endowment - Beginning of year	$ 287,419	$ 250,788
Bequests	18,966	36,644
Investment gain (loss)	5,331	(13)
Endowment - End of year	$ 311,716	$ 287,419