Grace Centers of Hope and Subsidiaries

Consolidated Financial Report

October 31, 2017

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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, 2017 and 2016 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, 2017 and 2016 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.

Plante & Moran, PLLC

February 6, 2018

Grace Centers of Hope and Subsidiaries

Consolidated Balance Sheet

	October 31, 2017	October 31, 2016
Assets		
Current Assets		
Cash	$ 947,852	$ 1,367,386
Contributions receivable (Note 3)	8,333	129,175
Investments (Note 9)	183,184	155,408
Inventory	324,186	313,198
Prepaid expenses and other current assets	66,844	92,780
Total current assets	1,530,399	2,057,947
Long-term Contributions Receivable - Net of current portion (Note 3)	5,000	22,917
Property and Equipment - Net (Note 2)	4,392,125	4,805,379
Other Assets	213,860	163,860
Total assets	**$ 6,141,384**	**$ 7,050,103**
Liabilities and Net Assets		
Current Liabilities		
Trade accounts payable	$ 178,532	$ 288,225
Current portion of long-term debt (Note 5)	49,286	109,876
Accrued liabilities and other	272,746	201,741
Total current liabilities	500,564	599,842
Long-term Debt - Net of current portion (Note 5)	185,149	134,653
Total liabilities	685,713	734,495
Net Assets		
Unrestricted:		
Undesignated	4,020,945	4,324,299
Board designated (Notes 1 and 10)	478,264	411,716
Temporarily restricted (Note 6)	956,462	1,579,593
Total net assets	5,455,671	6,315,608
Total liabilities and net assets	**$ 6,141,384**	**$ 7,050,103**

Grace Centers of Hope and Subsidiaries

Consolidated Statement of Activities and Changes in Net Assets

	Year Ended October 31					
	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue and Support						
Donations and contributions	$ 2,591,724	$ 238,944	$ 2,830,668	$ 2,239,598	$ 1,765,220	$ 4,004,818
Donations in-kind	160,883	-	160,883	148,158	-	148,158
Car donation income	10,013	-	10,013	8,973	-	8,973
Thrift store and salvage sales	2,423,116	-	2,423,116	2,417,568	-	2,417,568
Special event revenue:						
Gross revenue	343,197	-	343,197	383,917	-	383,917
Direct benefit expenses	(180,859)	-	(180,859)	(203,209)	-	(203,209)
Interest	3,229	-	3,229	7,199	-	7,199
Investment income	27,776	-	27,776	5,331	-	5,331
Loss on disposal of fixed assets	(20,571)	-	(20,571)	-	-	-
Rental income	244,637	-	244,637	231,247	-	231,247
Other revenue	189,041	-	189,041	204,728	-	204,728
Gain on insurance proceeds	535,477	-	535,477	-	-	-
Total revenue and support	6,327,663	238,944	6,566,607	5,443,510	1,765,220	7,208,730
Net Assets Released from Restrictions	862,075	(862,075)	-	2,687,748	(2,687,748)	-
Total revenue, support, and net assets released from restrictions	7,189,738	(623,131)	6,566,607	8,131,258	(922,528)	7,208,730
Expenses						
Program services:						
Homeless shelter	3,484,843	-	3,484,843	2,731,011	-	2,731,011
Thrift stores	2,260,586	-	2,260,586	2,337,901	-	2,337,901
Rental homes	185,034	-	185,034	182,321	-	182,321
Day Care facility	343,248	-	343,248	335,628	-	335,628
Total program services	6,273,711	-	6,273,711	5,586,861	-	5,586,861
Support services:						
Management and general	485,209	-	485,209	411,546	-	411,546
Fundraising	667,624	-	667,624	626,799	-	626,799
Total support services	1,152,833	-	1,152,833	1,038,345	-	1,038,345
Total expenses	7,426,544	-	7,426,544	6,625,206	-	6,625,206
(Decrease) Increase in Net Assets	(236,806)	(623,131)	(859,937)	1,506,052	(922,528)	583,524
Net Assets - Beginning of year	4,736,015	1,579,593	6,315,608	3,229,963	2,502,121	5,732,084
Net Assets - End of year	**$ 4,499,209**	**$ 956,462**	**$ 5,455,671**	**$ 4,736,015**	**$ 1,579,593**	**$ 6,315,608**

See Notes to Consolidated Financial Statements.

Grace Centers of Hope and Subsidiaries

Consolidated Statement of Functional Expenses
Year Ended October 31, 2017

	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	2017 Total
Compensation, benefits, and related taxes	$ 1,878,498	$ 1,166,490	$ -	$ 263,255	$ 3,308,243	$ 362,752	$ 318,238	$ -	$ 680,990	$ 3,989,233
Rent	-	471,651	-	-	471,651	-	-	-	-	471,651
Advertising and contribution development	18,129	43,336	-	-	61,465	-	295,467	-	295,467	356,932
Food - Donated	128,547	-	-	-	128,547	-	-	-	-	128,547
Legal and professional fees	-	14,024	2,214	-	16,238	40,088	-	-	40,088	56,326
Utilities	218,338	191,027	71,434	22,838	503,637	8,164	8,164	-	16,328	519,965
Repair and maintenance	209,761	99,828	15,124	3,240	327,953	3,153	3,154	-	6,307	334,260
Support - Grace Gospel Fellowship	195,000	-	-	-	195,000	-	-	-	-	195,000
Office supplies and expenses	8,272	76,462	302	19,679	104,715	1,598	1,401	33	3,032	107,747
Insurance	38,660	41,195	15,866	3,671	99,392	1,064	1,065	-	2,129	101,521
Housekeeping	30,917	-	-	-	30,917	1,157	1,156	-	2,313	33,230
Postage	1,010	-	-	-	1,010	1,010	10,606	5,506	17,122	18,132
Travel	16,803	14,944	-	-	31,747	3,245	2,847	-	6,092	37,839
Lease expense	16,681	-	-	-	16,681	3,221	2,826	-	6,047	22,728
Kitchen	47,740	-	-	6,052	53,792	-	-	-	-	53,792
Membership and dues	588	-	-	-	588	114	100	-	214	802
Interest and fees	2,059	5,721	5,988	-	13,768	38,330	77	-	38,407	52,175
Property taxes	-	-	18,353	-	18,353	-	-	-	-	18,353
Facilities expense	-	-	-	-	-	-	-	75,041	75,041	75,041
Production expense	-	-	-	-	-	-	-	93,241	93,241	93,241
Other services	139,690	-	-	-	139,690	-	-	-	-	139,690
Miscellaneous	171,097	62,929	8,858	1,522	244,406	7,738	8,948	7,038	23,724	268,130
Depreciation	363,053	72,979	46,895	22,991	505,918	13,575	13,575	-	27,150	533,068
Total functional expenses	**$ 3,484,843**	**$ 2,260,586**	**$ 185,034**	**$ 343,248**	**$ 6,273,711**	**$ 485,209**	**$ 667,624**	**$ 180,859**	**$ 1,333,692**	**$ 7,607,403**

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	Day Care 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 Cash Flows

	Year Ended October 31, 2017	Year Ended October 31, 2016
Cash Flows from Operating Activities		
(Decrease) increase in net assets	$ (859,937)	$ 583,524
Adjustments to reconcile (decrease) increase in net assets to net cash from operating activities:		
Depreciation	533,068	383,953
Loss on disposal of fixed assets	20,571	-
Net realized and unrealized gain from investments	(27,776)	(5,331)
Changes in operating assets and liabilities which (used) provided cash:		
Inventory	(10,988)	(61,772)
Prepaid expenses and other	25,936	(23,565)
Grants receivable	138,759	984,138
Contributions receivable	-	794,885
Accounts payable	(109,693)	(75,117)
Accrued liabilities and other	71,005	47,170
Net cash (used in) provided by operating activities	(219,055)	2,627,885
Cash Flows from Investing Activities		
Purchase of property and equipment	(140,385)	(1,965,730)
Purchase of annuity contract	(50,000)	(50,000)
Net cash used in investing activities	(190,385)	(2,015,730)
Cash Flows from Financing Activities		
Proceeds from debt	68,121	217,781
Repayment of debt	(78,215)	(486,210)
Net cash used in financing activities	(10,094)	(268,429)
Net (Decrease) Increase in Cash	(419,534)	343,726
Cash - Beginning of year	1,367,386	1,023,660
Cash - End of year	**$ 947,852**	**$ 1,367,386**
Supplemental Cash Flow Information		
Cash paid for interest	$ 13,923	$ 9,256
Purchase of capital assets through installment notes	-	84,669

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, 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 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:

	2017	2016
Rare coin	$ 13,860	$ 13,860
Annuity contract	200,000	150,000
Total other assets	$ 213,860	$ 163,860

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 2017 and 2016, 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 31, 2018.

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.

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, 2017 and 2016 was $5,500 and $9,725, 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.

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

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, 2017 and 2016, the board-designated net assets include a $100,000 emergency fund. At October 31, 2017 and 2016, the board-designated net assets include an endowment fund of $378,264 and $311,716, 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, 2017 or 2016.

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.

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.

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

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 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.

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.

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

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 has determined the effects of the new standard on the consolidated financial statements will included a change in the net asset descriptions, additional disclosures regarding liquidity, and additional information on the natural classifications of the functional expenses.

Subsequent Events - The consolidated financial statements and related disclosures include evaluation of events up through and including February 6, 2018, 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, 2017 and 2016:

	2017	2016	Depreciable Life - Years
Land	$ 41,500	$ 41,500	-
Buildings	2,616,819	2,613,753	10-15
Leasehold improvements	3,984,449	3,980,616	10-15
Machinery and equipment	463,310	430,388	3
Transportation equipment	607,161	524,340	3-5
Furniture and fixtures	421,888	404,144	3
Construction in progress	-	20,571	-
Total cost	8,135,127	8,015,312	
Accumulated depreciation	3,743,002	3,209,933	
Net property and equipment	$ 4,392,125	$ 4,805,379	

Depreciation expense was $533,068 and $383,953 for 2017 and 2016, respectively.

Subsequent to year end, the Center signed a purchase agreement to purchase a building in Pontiac, Michigan. It is anticipated the purchase will close in February 2018.

Note 3 - Contributions Receivable

Included in contributions receivable are several unconditional promises to give generated from a capital campaign. They are due as follows:

	2017	2016
Gross promises to give	$ 18,833	$ 161,817
Less allowance for doubtful accounts	(5,500)	(9,725)
Net contributions receivable	$ 13,333	$ 152,092
Amounts due in:		
Less than one year	$ 13,833	$ 138,900
One to five years	5,000	22,917
Total	$ 18,833	$ 161,817

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 $10,500 through July 31, 2020. Rental expense has been recognized on a straight-line basis over the term of the lease. As a result, $12,000 and $7,500 is included in accrued liabilities as of October 31, 2017 and 2016, respectively, which will be amortized over the remaining term of the lease.

The Sterling Heights thrift store and related warehouse lease 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, $8,363 and $2,091 is included in accrued liabilities as of October 31, 2017 and 2016, 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, $7,350 and $4,500 is included in accrued liabilities as of October 31, 2017 and 2016, 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, $6,293 and $5,210 is included in accrued liabilities as of October 31, 2017 and 2016, respectively, which will be amortized over the remaining term of the lease.

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:

2018	$	604,884
2019		620,277
2020		400,126
2021		131,372
2022		22,010
Total	$	1,778,669

Total rent expense on these leases for 2017 and 2016 was $471,651 and $440,908, respectively.

Note 5 - Long-term Debt

The following is a summary of long-term debt payable at October 31, 2017 and 2016:

	2017	2016
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	$ 27,294	$ 39,206
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	147,594	119,016
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	20,596	22,946
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 matured in July 2017. The loan was collateralized by a first mortgage lien on property owned by Rescued Homes, LLC. The loan was guaranteed by Grace Centers of Hope and Rescued Treasures - Sterling Heights, LLC	-	23,468

Note 5 - Long-term Debt (Continued)

	2017	2016
Land contract for 70 Seneca, payable in monthly installments of $309, including interest at a fixed rate of 7.0 percent. The loan was extended in November 2016 through November 2037	$ 38,951	$ 39,893
Total	234,435	244,529
Less current portion	49,286	109,876
Long-term portion	$ 185,149	$ 134,653

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

Years Ending October 31	Amount
2018	$ 49,286
2019	47,188
2020	37,517
2021	31,934
2022	25,963
Thereafter	42,547
Total	$ 234,435

Interest expense for the years ended October 31, 2017 and 2016 was $13,923 and $10,608, 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 2017 or 2016.

During 2016, the Center entered into a $500,000 line of credit, guaranteed by Hands of Hope. The line of credit bore interest equal to prime plus 0.50 percent. Interest payments were due monthly. The line of credit was set to expire in February 2017, but the account was closed as of August 2016.

Note 6 - Temporarily Restricted Net Assets

Temporarily restricted net assets at October 31, 2017 and 2016 are restricted for the following:

	2017	2016
Contributions restricted for specific program use	$ 903,129	$ 1,382,801
Time restricted - Pledges and grants receivable	13,333	136,792
Time restricted - Mission building	40,000	60,000
Total temporarily restricted net assets	$ 956,462	$ 1,579,593

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, 2017, two 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 2017 and 2016, the Center reimbursed the Church $2,380 and $27,671, respectively. The Center did not have any outstanding liabilities with the Church for reimbursement for services at October 31, 2017 and 2016.

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, 2017 and 2016. 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 $125,000 and $444,987 for the Church for the years ended October 31, 2017 and 2016, respectively. These funds were remitted to the Church.

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, 2017 and 2016, the Center contributed $29,080 and $23,388, 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, 2017 and 2016 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, 2017

	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, 2017
Investments:				
Money market mutual funds	$ 34,323	$ -	$ -	$ 34,323
Mutual funds - U.S. equity securities	148,861	-	-	148,861
Total assets	$ 183,184	$ -	$ -	$ 183,184

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

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, 2017 and 2016 is as follows:

	2017	2016
Endowment - Beginning of year	$ 311,716	$ 287,419
Bequests	38,772	18,966
Investment gain	27,776	5,331
Endowment - End of year	$ 378,264	$ 311,716