
Grace Centers of Hope and Subsidiaries

Consolidated Financial Report
October 31, 2022

Independent Auditor's Report	1-2
Consolidated Financial Statements	
Balance Sheet	3
Statement of Activities and Changes in Net Assets	4
Statement of Functional Expenses	5-6
Statement of Cash Flows	7
Notes to Consolidated Financial Statements	8-16

Independent Auditor's Report

To the Board of Directors
Grace Centers of Hope and Subsidiaries

Opinion

We have audited the consolidated financial statements of Grace Centers of Hope and Subsidiaries (the "Center"), which comprise the consolidated balance sheet as of October 31, 2022 and 2021 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Center as of October 31, 2022 and 2021 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audits of the Consolidated Financial Statements* section of our report. We are required to be independent of the Center and to meet our ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, the 2021 consolidated financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audits of the Consolidated Financial Statements

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

To the Board of Directors
Grace Centers of Hope and Subsidiaries

In performing audits in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audits 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 Center's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Center's ability to continue as a going concern for a reasonable period of time.

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

Plante & Moran, PLLC

September 6, 2023

Grace Centers of Hope and Subsidiaries

Consolidated Balance Sheet

October 31, 2022 and 2021

	2022	2021
Assets		
Current Assets		
Cash	\$ 5,534,377	\$ 4,525,093
Investments (Note 3)	206,655	248,601
Contributions receivable (Note 5)	-	51,884
Inventory	224,758	267,459
Prepaid expenses and other current assets	71,073	41,950
Total current assets	6,036,863	5,134,987
Other Assets	253,102	273,354
Property and Equipment - Net (Note 6)	3,717,502	4,005,527
Total assets	\$ 10,007,467	\$ 9,413,868
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 129,240	\$ 93,100
Accrued liabilities and other	497,962	463,364
Total liabilities	627,202	556,464
Net Assets		
Without donor restrictions:		
Undesignated	8,767,791	8,127,403
Board designated (Note 2)	590,779	632,644
Total without donor restrictions	9,358,570	8,760,047
With donor restrictions (Note 8)	21,695	97,357
Total net assets	9,380,265	8,857,404
Total liabilities and net assets	\$ 10,007,467	\$ 9,413,868

Grace Centers of Hope and Subsidiaries

Consolidated Statement of Activities and Changes in Net Assets

Years Ended October 31, 2022 and 2021

	2022			2021 (As Restated)		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support						
Donations and contributions	\$ 4,579,404	\$ 3,630	\$ 4,583,034	\$ 4,626,227	\$ 77,076	\$ 4,703,303
In-kind donations (Note 12)	2,968,628	-	2,968,628	2,759,945	-	2,759,945
Thrift store and salvage sales	2,816,780	-	2,816,780	2,707,249	-	2,707,249
Special event revenue:						
Gross revenue	548,382	-	548,382	435,476	-	435,476
Direct benefit expenses	(172,555)	-	(172,555)	(91,970)	-	(91,970)
Interest	5,500	-	5,500	6,305	-	6,305
Net realized and unrealized (loss) gain on investments	(43,642)	-	(43,642)	44,046	-	44,046
Loss on disposal of fixed assets	-	-	-	(7,648)	-	(7,648)
Rental income	5,419	-	5,419	7,732	-	7,732
Other revenue	161,030	-	161,030	211,873	-	211,873
Total revenue and support	10,868,946	3,630	10,872,576	10,699,235	77,076	10,776,311
Net Assets Released from Restrictions	79,292	(79,292)	-	175,545	(175,545)	-
Total revenue, support, and net assets released from restrictions	10,948,238	(75,662)	10,872,576	10,874,780	(98,469)	10,776,311
Expenses						
Program services:						
Homeless shelter	3,391,816	-	3,391,816	2,974,252	-	2,974,252
Thrift stores	4,802,658	-	4,802,658	4,575,225	-	4,575,225
Day care facility	540,047	-	540,047	499,752	-	499,752
Total program services	8,734,521	-	8,734,521	8,049,229	-	8,049,229
Support services:						
Management and general	558,944	-	558,944	589,566	-	589,566
Fundraising	1,056,250	-	1,056,250	850,495	-	850,495
Total support services	1,615,194	-	1,615,194	1,440,061	-	1,440,061
Total expenses	10,349,715	-	10,349,715	9,489,290	-	9,489,290
Increase (Decrease) in Net Assets - Before other revenue	598,523	(75,662)	522,861	1,385,490	(98,469)	1,287,021
Other Revenue - Paycheck Protection Program loan forgiveness	-	-	-	600,000	-	600,000
Increase (Decrease) in Net Assets	598,523	(75,662)	522,861	1,985,490	(98,469)	1,887,021
Net Assets - Beginning of year	8,760,047	97,357	8,857,404	6,774,557	195,826	6,970,383
Net Assets - End of year	\$ 9,358,570	\$ 21,695	\$ 9,380,265	\$ 8,760,047	\$ 97,357	\$ 8,857,404

See notes to consolidated financial statements.

Grace Centers of Hope and Subsidiaries

Consolidated Statement of Functional Expenses

Year Ended October 31, 2022

	Program Services				Support Services				Total
	Homeless Shelter	Thrift Stores	Day Care Facility	Total Program Services	Management and General	Fundraising	Special Events - Direct Benefit to Donors	Total Support Services	
Compensation, benefits, and related taxes	\$ 2,270,915	\$ 1,139,025	\$ 352,082	\$ 3,762,022	\$ 407,922	\$ 530,731	\$ -	\$ 938,653	\$ 4,700,675
Occupancy and vehicle fleet	362,386	811,998	43,866	1,218,250	18,020	17,774	-	35,794	1,254,044
Advertising and contribution development	-	-	-	-	-	457,429	9,036	466,465	466,465
Office supplies and expenses	26,405	38,191	5,515	70,111	50,211	23,075	9,968	83,254	153,365
Kitchen supplies and food	275,664	-	17,634	293,298	-	-	-	-	293,298
Facility and production costs	-	-	-	-	-	-	124,190	124,190	124,190
Depreciation	332,500	10,239	110,246	452,985	16,532	16,309	-	32,841	485,826
Miscellaneous expenses	55,832	26,827	10,704	93,363	3,766	9,001	29,361	42,128	135,491
Other expenses	68,114	2,299	-	70,413	62,493	1,931	-	64,424	134,837
In-kind cost of goods sold	-	2,774,079	-	2,774,079	-	-	-	-	2,774,079
Total functional expenses	\$ 3,391,816	\$ 4,802,658	\$ 540,047	\$ 8,734,521	\$ 558,944	\$ 1,056,250	\$ 172,555	\$ 1,787,749	\$ 10,522,270

Grace Centers of Hope and Subsidiaries

Consolidated Statement of Functional Expenses

Year Ended October 31, 2021

	Program Services				Support Services				Total
	Homeless Shelter	Thrift Stores	Day Care Facility	Total Program Services	Management and General	Fundraising	Special Events - Direct Benefit to Donors	Total Support Services	
Compensation, benefits, and related taxes	\$ 1,939,040	\$ 1,008,420	\$ 317,860	\$ 3,265,320	\$ 394,657	\$ 464,067	\$ -	\$ 858,724	\$ 4,124,044
Occupancy and vehicle fleet	333,428	786,225	38,706	1,158,359	16,576	16,356	-	32,932	1,191,291
Advertising and contribution development	-	-	-	-	-	317,267	-	317,267	317,267
Office supplies and expenses	24,062	37,370	5,418	66,850	51,577	23,134	4,259	78,970	145,820
Kitchen supplies and food	153,576	-	13,635	167,211	-	-	-	-	167,211
Facility and production costs	-	-	-	-	-	-	69,035	69,035	69,035
Depreciation	354,896	17,944	109,960	482,800	17,645	17,408	-	35,053	517,853
Miscellaneous expenses	49,390	45,753	14,173	109,316	3,730	8,744	18,676	31,150	140,466
Other expenses	54,860	3,679	-	58,539	105,381	3,519	-	108,900	167,439
Donation expense	65,000	-	-	65,000	-	-	-	-	65,000
In-kind cost of goods sold	-	2,675,834	-	2,675,834	-	-	-	-	2,675,834
Total functional expenses	\$ 2,974,252	\$ 4,575,225	\$ 499,752	\$ 8,049,229	\$ 589,566	\$ 850,495	\$ 91,970	\$ 1,532,031	\$ 9,581,260

Grace Centers of Hope and Subsidiaries

Consolidated Statement of Cash Flows

Years Ended October 31, 2022 and 2021

	2022	2021
Cash Flows from Operating Activities		
Increase in net assets	\$ 522,861	\$ 1,887,021
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation	485,826	517,853
Loss on disposal of property and equipment	-	7,648
Bad debt recovery	-	(43,141)
Paycheck Protection Program loan forgiveness	-	(600,000)
Net realized and unrealized loss (gain) on investments	43,642	(44,046)
Changes in operating assets and liabilities that provided (used) cash:		
Contributions receivable	51,884	184,196
Inventory	42,701	17,299
Prepaid expenses and other assets	(29,123)	20,590
Accounts payable	36,140	2,265
Accrued and other liabilities	34,598	61,716
Net cash provided by operating activities	1,188,529	2,011,401
Cash Flows from Investing Activities		
Purchase of property and equipment	(197,801)	(124,369)
Purchases of investments	(1,696)	(1,368)
Payments from annuity contract	20,252	20,253
Net cash used in investing activities	(179,245)	(105,484)
Net Increase in Cash	1,009,284	1,905,917
Cash - Beginning of year	4,525,093	2,619,176
Cash - End of year	\$ 5,534,377	\$ 4,525,093

October 31, 2022 and 2021

Note 1 - Nature of Business

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

The Center's ultimate goal is total rehabilitation by meeting all of the needs of the unwanted, addicted, and 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 10).

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 both to subsidize center operations and provide employment to center residents.
- **Rescued Treasures of Waterford, LLC (Rescued Treasures - Waterford)** - This entity operates a thrift store that sells donated clothing and other items both to subsidize center operations and provide employment to center residents.
- **Rescued Treasures Warren - Dequindre, LLC (Rescued Treasures - Dequindre)** - This entity operates a thrift store that sells donated clothing and other items both to subsidize center operations and provide employment to center residents.
- **Rescued Treasures of Oak Park, LLC (Rescued Treasures - Oak Park)** - This entity operates a thrift store that sells donated clothing and other items both to subsidize center operations and provide employment to center residents.
- **Hands of Hope Childcare Center, LLC (Hands of Hope)** - This entity operates a child care center for residents of the Center.

Note 2 - Significant Accounting Policies

Consolidation

The consolidated financial statements include the accounts of Grace Centers of Hope and its wholly owned subsidiaries: Rescued Treasures - Sterling Heights, Rescued Treasures - Waterford, Rescued Treasures - Dequindre, Rescued Treasures - Oak Park, 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 a few banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The Center evaluates financial institutions with which it deposits funds; however, it is not practical to insure all cash deposits. As of October 31, 2022 and 2021, the Center had total uninsured bank deposits of \$5,297,560 and \$4,263,972, respectively.

Investments

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

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.

Notes to Consolidated Financial Statements

October 31, 2022 and 2021

Note 2 - Significant Accounting Policies (Continued)

The Center reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of property 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 and equipment are reported as restricted support. Absent explicit donor stipulations about how long the property and equipment must be maintained, the Center reports such gifts as unrestricted support.

Contributed Nonfinancial Assets

The value of donated food 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. The Center also receives donated goods in its thrift stores, which are sold and valued based on the subsequent sales revenue recorded by the thrift stores. See Note 12 for further details.

Other Assets

Other long-term assets on the consolidated balance sheet consist of a rare coin valued at \$13,860 at October 31, 2022 and 2021 and an annuity contract for \$239,242 and \$259,494 at October 31, 2022 and 2021, respectively.

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

The annuity contract relates to a contract for which the Center is the sole beneficiary. The contract is carried at cost. The Center began receiving annuity payments in June 2020 and will receive annuity payments over the life of its current CEO.

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 period in which the gift is received are both reported as support without donor restrictions. Other restricted gifts are reported as support with donor restrictions.

Inventory

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

Contributions Receivable

Contributions receivable on the consolidated 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, 2022 and 2021 was \$0. All amounts deemed uncollectible are charged against the allowance for doubtful accounts in the period that determination is made.

Classification of Net Assets

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

Notes to Consolidated Financial Statements

October 31, 2022 and 2021

Note 2 - Significant Accounting Policies (Continued)

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

Board-designated net assets are net assets without donor restrictions designated by the board for reserves. This designation is based on board actions, which can be altered or revoked at a future time by the board. At October 31, 2022 and 2021, the board-designated net assets include a \$100,000 emergency fund and an endowment fund of \$490,779 and \$532,644, respectively (see Note 9).

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

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

Revenue Recognition

During the years ended October 31, 2022 and 2021, the Center recognized revenue from contracts with customers of \$2,816,780 and \$2,707,249, respectively, that includes thrift store and salvage sales. The Center did not recognize any impairment losses on trade receivables for the years ended October 31, 2022 and 2021.

Revenue recorded for thrift store and salvage sales is recorded based on the sale price of goods and services sold and is recorded at the point in time when the sale occurs. Cash is due at the time of sale, and the Center does not allow returns or refunds to customers, who predominantly are individuals. The Center did not have any trade receivables or contract liabilities recorded at October 31, 2022; October 31, 2021; and November 1, 2021.

Functional Allocation of Expenses

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

Use of Estimates

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

Income Taxes

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

Note 2 - Significant Accounting Policies (Continued)

Restatement

The 2021 consolidated statement of activities and changes in net assets has been restated to correct a misstatement. Donations that are sold in the Center's thrift stores are required to be recorded as in-kind contribution revenue under generally accepted accounting principles. Upon sale of those items, cost of sales should also be recorded on the consolidated statement of activities and changes in net assets as an expense. As a result of the restatement, total revenue and support increased by \$2,675,834, and total thrift store expenses increased by \$2,675,834, with no impact to total net assets.

Adoption of New Accounting Pronouncement

In September 2020, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The update increases the transparency of contributed nonfinancial assets for not-for-profit entities through enhancements to presentation and disclosure regarding the measurement of contributed nonfinancial assets, as well as the amount of those contributions used in the Center's programs and other activities. The ASU has been applied on a retrospective basis and has increased required disclosures for the Center relating specifically to in-kind donations (see Note 12).

Upcoming Accounting Pronouncement

The FASB issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-to-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of activities. 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 activities and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Center's year ending October 31, 2023 and will be applied using a modified retrospective transition method to the beginning of the year of adoption. 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.

Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including September 6, 2023, which is the date the consolidated financial statements were available to be issued.

Note 3 - Fair Value Measurements

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

The following tables present information about the Center's assets measured at fair value on a recurring basis at October 31, 2022 and 2021 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.

Grace Centers of Hope and Subsidiaries

Notes to Consolidated Financial Statements

October 31, 2022 and 2021

Note 3 - Fair Value Measurements (Continued)

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

Assets Measured at Fair Value on a Recurring Basis at October 31, 2022

	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, 2022
Investments - Mutual fund - Moderate allocation	\$ 206,655	\$ -	\$ -	\$ 206,655

Assets Measured at Fair Value on a Recurring Basis at October 31, 2021

	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, 2021
Investments - Mutual fund - Moderate allocation	\$ 248,601	\$ -	\$ -	\$ 248,601

Grace Centers of Hope and Subsidiaries

Notes to Consolidated Financial Statements

October 31, 2022 and 2021

Note 4 - Liquidity and Availability of Resources

The following reflects the Center's financial assets as of October 31, 2022 and 2021, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the consolidated balance sheet date:

	2022	2021
Cash	\$ 5,534,377	\$ 4,525,093
Investments	206,655	248,601
Contributions receivable	-	51,884
Other asset - Annuity contract	239,242	259,494
Financial assets - At year end	5,980,274	5,085,072
Less those unavailable for general expenditures within one year due to:		
Contractual or donor-imposed restrictions:		
Resident funds	418,643	336,506
Other asset - Annuity contract	239,242	259,494
Board-designated funds	590,779	632,644
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 4,731,610</u>	<u>\$ 3,856,428</u>

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

Note 5 - Contributions Receivable

Included in contributions receivable are contributions designated by donors for center programs and a bequest receivable. They are included as follows:

	2022	2021
Gross promises to give before unamortized discount	<u>\$ -</u>	<u>\$ 51,884</u>
Amounts due in - Less than one year	<u>\$ -</u>	<u>\$ 51,884</u>

Note 6 - Property and Equipment

Property and equipment are summarized as follows:

	2022	2021	Depreciable Life - Years
Land	\$ 324,909	\$ 324,909	-
Buildings	1,560,421	1,560,422	10-15
Leasehold improvements	5,082,075	4,961,941	10-15
Machinery and equipment	389,900	339,285	3
Transportation equipment	272,310	272,310	3-5
Furniture and fixtures	401,799	401,799	3
Construction in progress	21,469	-	-
Total	8,052,883	7,860,666	
Accumulated depreciation	4,335,381	3,855,139	
Net property and equipment	<u>\$ 3,717,502</u>	<u>\$ 4,005,527</u>	

Notes to Consolidated Financial Statements

October 31, 2022 and 2021

Note 6 - Property and Equipment (Continued)

Depreciation expense for 2022 and 2021 was \$485,826 and \$517,853, respectively.

Note 7 - Operating Leases

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

The Waterford thrift store agreement requires monthly rent of \$10,750 to \$11,500 through July 31, 2025. Rental expense has been recognized on a straight-line basis over the term of the lease. As a result, \$14,013 and \$12,563 is included in accrued liabilities as deferred rent as of October 31, 2022 and 2021, respectively, which will be amortized over the remaining term of the lease.

The Sterling Heights thrift store agreement requires monthly rent of \$6,544 to \$8,376 and common area maintenance and taxes of \$3,775 to \$3,889 through December 31, 2028. Rental expense has been recognized on a straight-line basis over the term of the lease. As a result, \$12,054 and \$11,117 is included in accrued liabilities as deferred rent as of October 31, 2022 and 2021, which will be amortized over the remaining term of the lease.

The Warren thrift store lease was extended in July 2020 and requires monthly rent payments of \$8,030 through July 31, 2025. Rental expense has been recognized on a straight-line basis over the term of the lease.

The Oak Park thrift store lease was extended in June 2019 and requires monthly rent payments of \$9,697 through July 31, 2025. Rental expense has been recognized on a straight-line basis over the term of the lease.

Effective September 2020, the Center entered into an agreement to lease donation trucks for each thrift store facility. The donation truck leases require monthly lease payments of \$807 for each truck through September 2024. Lease expense has been recognized on a straight-line basis over the term of the lease.

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

Years Ending October 31	Amount
2023	\$ 519,811
2024	528,090
2025	405,835
2026	142,789
2027	146,450
Thereafter	171,713
Total	<u>\$ 1,914,688</u>

Total rent expense on these leases for 2022 and 2021 was \$527,571 and \$523,868, respectively.

Grace Centers of Hope and Subsidiaries

Notes to Consolidated Financial Statements

October 31, 2022 and 2021

Note 8 - Net Assets with Donor Restrictions

Net assets with donor restrictions as of October 31, 2022 and 2021 are available for the following purposes:

	2022	2021
Contributions restricted for specific program use:		
Day care renovations	\$ 11,965	\$ 23,912
Day care operations	-	799
Other	9,730	22,646
Total contributions restricted for specific program use	21,695	47,357
Time and purpose restrictions - Pledges and grants receivable	-	50,000
Total	<u>\$ 21,695</u>	<u>\$ 97,357</u>

Note 9 - Board-designated Endowment

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

The board-designated endowment activity for the years ended October 31, 2022 and 2021 is as follows:

	2022	2021
Endowment - Beginning of year	\$ 532,644	\$ 530,190
Investment income	3,162	2,921
Net (depreciation) appreciation	(43,642)	44,046
Expenses	(1,385)	(1,372)
Appropriations	-	(43,141)
Endowment - End of year	<u>\$ 490,779</u>	<u>\$ 532,644</u>

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

Note 10 - Related Party Transactions

The chief executive officer (CEO) of the Center is the pastor and CEO of Grace Gospel Fellowship Church in Pontiac, Michigan. The Center reimburses the Church for expenses paid by the Church on behalf of the Center. The Center reimbursed the Church \$983 and \$0 during 2022 and 2021, respectively. The Church reimbursed the Center for monthly maintenance costs paid by the Center of \$33,290 and \$23,282 during 2022 and 2021, respectively. The Center had outstanding receivables from the Church of \$2,995 and \$2,555 for the years ended October 31, 2022 and 2021, respectively.

The Center received donations of \$96 and \$21,786 for the Church for the years ended October 31, 2022 and 2021, respectively. These funds were remitted to the Church.

The Center received donations from Rescued Homes LLC (Rescued Homes), an entity that provides short-term rental housing to graduates of center programs, of \$0 and \$164,649 for the years ended October 31, 2022 and 2021, respectively. The Church is the sole member of Rescued Homes, and, therefore, the Center is related through common control. The Center received donations of \$0 and \$65,000 for Rescued Homes for the years ended October 31, 2022 and 2021, respectively. These funds were remitted to Rescued Homes.

Notes to Consolidated Financial Statements

October 31, 2022 and 2021

Note 11 - Retirement Plans

As of January 2018, the Center sponsors a 401(k) plan, and the employer match is 3 percent. For the years ended October 31, 2022 and 2021, the Center made retirement contributions of \$31,392 and \$37,059, respectively.

Note 12 - In-kind Donations

The Center receives donations of goods that are subsequently sold and recorded as thrift store and salvage sales revenue on the consolidated statement of activities and changes in net assets. The items donated to the thrift stores are recorded as in-kind donations and are valued based on subsequent sales proceeds. Fair value is determined at the time of sale. For the years ended October 31, 2022 and 2021, in-kind donations related to items sold in the thrift stores totaled \$2,731,378 and \$2,644,579, respectively. In-kind cost of goods sold expense of \$2,774,079 and \$2,675,834 was recorded at the time of sale during 2022 and 2021, respectively. There were no donor restrictions associated with these donations.

The Center records donated food for meals provided to individuals in the homeless shelter as in-kind donations. These donations are recorded at an estimated fair value determined by management of \$1.83 and \$1.05 per meal served for the years ended October 31, 2022 and 2021, respectively. For the year ended October 31, 2022, the per meal estimate is calculated based on external source data from food banks that calculate an estimated value of donated food per pound, which is then calculated into a price per meal estimate by management. The number of meals served is estimated based on census data for the homeless shelter. For the years ended October 31, 2022 and 2021, in-kind donation revenue related to donated food was \$237,250 and \$115,366, respectively. Donated food expense of \$237,250 and \$115,366 was recorded when utilized by the Center during 2022 and 2021, respectively. There were no donor restrictions associated with these donations, and none of the food donations were monetized by the Center.