

# **Grace Centers of Hope and Subsidiaries**

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**Consolidated Financial Report**  
**October 31, 2010**

# Grace Centers of Hope and Subsidiaries

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## Independent Auditor's Report

To the Board of Directors  
Grace Centers of Hope and Subsidiaries

We have audited the accompanying consolidated balance sheet of Grace Centers of Hope and Subsidiaries (the "Center") as of October 31, 2010 and 2009 and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Center's management. 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Grace Centers of Hope and Subsidiaries at October 31, 2010 and 2009 and the consolidated changes in their net assets and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

*Plante & Moran, PLLC*

May 2, 2011

# Grace Centers of Hope and Subsidiaries

## Consolidated Balance Sheet

	October 31, 2010	October 31, 2009
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 541,519	\$ 427,174
Contributions receivable	25,000	-
Contributions receivable - Related party (Note 6)	-	35,072
Inventory	208,407	117,588
Prepaid expenses and other current assets	82,943	51,062
Total current assets	857,869	630,896
<b>Property and Equipment - Net (Note 2)</b>	2,017,756	1,970,984
Total assets	<b>\$ 2,875,625</b>	<b>\$ 2,601,880</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Trade accounts payable	\$ 144,264	\$ 82,192
Current portion of long-term debt (Note 4)	101,858	45,786
Accrued liabilities and other	45,781	7,836
Total current liabilities	291,903	135,814
<b>Long-term Debt - Net of current portion (Note 4)</b>	293,774	274,824
Total liabilities	585,677	410,638
<b>Net Assets</b>		
Unrestricted	1,919,132	1,875,276
Temporarily restricted (Note 5)	370,816	315,966
Total net assets	2,289,948	2,191,242
Total liabilities and net assets	<b>\$ 2,875,625</b>	<b>\$ 2,601,880</b>

# Grace Centers of Hope and Subsidiaries

## Consolidated Statement of Activities and Changes in Net Assets

	Year Ended October 31					
	2010		2009			
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>Revenue and Support</b>						
Donations and contributions	\$ 1,668,610	\$ 165,922	\$ 1,834,532	\$ 1,584,406	\$ 12,972	\$ 1,597,378
Donations in-kind	158,787	-	158,787	235,118	-	235,118
Contribution - Mission building	-	-	-	400,000	200,000	600,000
Car donation income	26,023	-	26,023	27,059	-	27,059
Thrift store and salvage sales	2,294,302	-	2,294,302	1,363,112	-	1,363,112
Special event revenue:						
Gross revenue	312,163	-	312,163	328,596	-	328,596
Direct benefit expenses	(130,429)	-	(130,429)	(150,835)	-	(150,835)
Interest	2,730	-	2,730	1,134	-	1,134
Loss on disposal of fixed assets	(35,166)	-	(35,166)	-	-	-
Rental income	161,122	-	161,122	179,451	-	179,451
Other revenue	58,149	-	58,149	18,975	-	18,975
Total revenue and support	4,516,291	165,922	4,682,213	3,987,016	212,972	4,199,988
<b>Net Assets Released from Restrictions</b>	111,072	(111,072)	-	141,695	(141,695)	-
Total revenue, support, and net assets released from restrictions	4,627,363	54,850	4,682,213	4,128,711	71,277	4,199,988
<b>Expenses</b>						
Program services:						
Homeless shelter	1,914,536	-	1,914,536	1,419,700	-	1,419,700
Thrift stores	1,610,745	-	1,610,745	890,843	-	890,843
Rental homes	243,685	-	243,685	260,113	-	260,113
Total program services	3,768,966	-	3,768,966	2,570,656	-	2,570,656
Support services:						
Management and general	271,872	-	271,872	272,909	-	272,909
Fundraising	542,669	-	542,669	479,505	-	479,505
Total expenses	4,583,507	-	4,583,507	3,323,070	-	3,323,070
<b>Increase in Net Assets</b>	43,856	54,850	98,706	805,641	71,277	876,918
<b>Net Assets - Beginning of year</b>	1,875,276	315,966	2,191,242	1,069,635	244,689	1,314,324
<b>Net Assets - End of year</b>	<b>\$ 1,919,132</b>	<b>\$ 370,816</b>	<b>\$ 2,289,948</b>	<b>\$ 1,875,276</b>	<b>\$ 315,966</b>	<b>\$ 2,191,242</b>

# Grace Centers of Hope and Subsidiaries

## Consolidated Statement of Functional Expenses Year Ended October 31, 2010

	Program Services				Support Services				
	Homeless Shelter	Thrift Stores	Rental Homes	Total	Management and General	Fundraising	Direct Benefit to Donors	Total	
							Special Events -	2010 Total	
Compensation, benefits, and related taxes	\$ 1,051,649	\$ 735,843	\$ 25,855	\$ 1,813,347	\$ 188,228	\$ 215,831	\$ -	\$ 404,059	\$ 2,217,406
Rent	-	347,419	-	347,419	-	-	-	-	347,419
Advertising and contribution development	11,977	78,171	6,548	96,696	-	290,301	-	290,301	386,997
Food - Donated	106,005	-	-	106,005	-	-	-	-	106,005
Legal and professional fees	-	8,960	2,714	11,674	38,472	-	-	38,472	50,146
Utilities	151,505	158,246	48,281	358,032	5,664	5,666	-	11,330	369,362
Repair and maintenance	100,811	114,665	15,133	230,609	3,416	3,417	-	6,833	237,442
Support - Grace Gospel Fellowship	175,000	-	-	175,000	-	-	-	-	175,000
Office supplies and expenses	6,367	30,853	405	37,625	13,639	1,307	200	15,146	52,771
Insurance	18,680	26,252	12,141	57,073	699	698	419	1,816	58,889
Housekeeping	20,100	-	-	20,100	751	752	-	1,503	21,603
Postage	1,011	-	-	1,011	1,012	10,619	1,020	12,651	13,662
Travel	16,126	8,879	-	25,005	1,804	2,069	-	3,873	28,878
Lease expense	12,848	-	-	12,848	2,300	2,637	-	4,937	17,785
Kitchen	15,706	-	-	15,706	-	-	-	-	15,706
Membership and dues	1,092	-	-	1,092	195	224	-	419	1,511
Interest and fees	2,347	3,451	22,713	28,511	94	88	-	182	28,693
Property taxes	-	-	25,535	25,535	-	-	-	-	25,535
Facilities expense	-	-	-	-	-	-	46,951	46,951	46,951
Production expense	85,242	-	-	85,242	-	-	68,600	68,600	68,600
Other services	19,266	58,840	13,250	91,356	11,155	4,618	13,239	29,012	85,242
Miscellaneous	118,804	39,166	71,110	229,080	4,443	4,442	-	8,885	120,368
Depreciation	-	-	-	-	-	-	-	-	237,965
<b>Total functional expenses</b>	<b>\$ 1,914,536</b>	<b>\$ 1,610,745</b>	<b>\$ 243,685</b>	<b>\$ 3,768,966</b>	<b>\$ 271,872</b>	<b>\$ 542,669</b>	<b>\$ 130,429</b>	<b>\$ 944,970</b>	<b>\$ 4,713,936</b>

# Grace Centers of Hope and Subsidiaries

## Consolidated Statement of Functional Expenses Year Ended October 31, 2009

	Program Services				Support Services				2009 Total
	Homeless Shelter	Thrift Stores	Rental Homes	Total	Management and General	Fundraising	Direct Benefit to Donors	Total	
Compensation, benefits, and related taxes	\$ 853,284	\$ 372,621	\$ 23,000	\$ 1,248,905	\$ 193,525	\$ 216,057	\$ -	\$ 409,582	\$ 1,658,487
Rent	-	242,063	-	242,063	-	-	-	-	242,063
Rent - Donated	13,750	-	-	13,750	-	-	-	-	13,750
Advertising and contribution development	9,238	38,032	7,917	55,187	-	230,630	-	230,630	285,817
Food - Donated	107,625	-	-	107,625	-	-	-	-	107,625
Legal and professional fees	-	9,699	2,914	12,613	29,495	-	-	29,495	42,108
Utilities	132,848	93,958	55,931	282,737	4,967	4,968	-	9,935	292,672
Repair and maintenance	37,526	57,659	20,110	115,295	1,996	1,998	-	3,994	119,289
Support - Grace Gospel Fellowship	30,000	-	-	30,000	-	-	-	-	30,000
Office supplies and expenses	4,445	15,580	136	20,161	11,732	1,126	11,787	24,645	44,806
Insurance	19,878	18,050	21,295	59,223	744	743	1,570	3,057	62,280
Housekeeping	9,245	-	-	9,245	345	346	-	691	9,936
Postage	1,095	-	-	1,095	1,095	11,500	1,478	14,073	15,168
Travel	13,734	1,249	-	14,983	2,192	2,449	-	4,641	19,624
Lease expense	11,419	-	-	11,419	2,590	2,891	-	5,481	16,900
Kitchen	7,640	-	-	7,640	-	-	-	-	7,640
Membership and dues	1,280	-	-	1,280	290	324	-	614	1,894
Interest and fees	2,521	550	19,472	22,543	239	95	-	334	22,877
Property taxes	-	-	30,438	30,438	-	-	-	-	30,438
Facilities expense	-	-	-	-	-	-	64,513	64,513	64,513
Production expense	-	-	-	-	-	-	56,261	56,261	56,261
Other services	49,566	-	-	49,566	-	-	-	-	49,566
Miscellaneous	5,337	24,761	11,610	41,708	19,613	2,292	15,226	37,131	78,839
Depreciation	109,269	16,621	67,290	193,180	4,086	4,086	-	8,172	201,352
<b>Total functional expenses</b>	<b>\$ 1,419,700</b>	<b>\$ 890,843</b>	<b>\$ 260,113</b>	<b>\$ 2,570,656</b>	<b>\$ 272,909</b>	<b>\$ 479,505</b>	<b>\$ 150,835</b>	<b>\$ 903,249</b>	<b>\$ 3,473,905</b>

# Grace Centers of Hope and Subsidiaries

## Consolidated Statement of Cash Flows

	Years Ended	
	October 31, 2010	October 31, 2009
<b>Cash Flows from Operating Activities</b>		
Increase in net assets	\$ 98,706	\$ 876,918
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation	237,965	201,352
Change in donated rent receivable	-	104,467
Change in contributions receivable	-	44,928
Loss on disposal of fixed assets	35,166	-
Donations of property and equipment	(19,200)	(711,262)
Contributions restricted for long-term purposes	(25,000)	-
Changes in operating assets and liabilities which (used) provided cash:		
Inventory	(90,819)	(13,440)
Prepaid expenses and other	(31,881)	(23,883)
Accounts payable	62,072	(30,876)
Accrued liabilities and other	37,945	(52,373)
Net cash provided by operating activities	304,954	395,831
<b>Cash Flows from Investing Activities - Purchase of property and equipment</b>	(181,214)	(248,541)
<b>Cash Flows from Financing Activities</b>		
Proceeds from debt	37,501	36,000
Repayment of debt	(46,896)	(42,567)
Net cash used in financing activities	(9,395)	(6,567)
<b>Net Increase in Cash</b>	114,345	140,723
<b>Cash - Beginning of year</b>	427,174	286,451
<b>Cash - End of year</b>	<u>\$ 541,519</u>	<u>\$ 427,174</u>
<b>Supplemental Cash Flow Information</b>		
Cash paid for interest	\$ 26,103	\$ 19,935
Purchase of capital assets through capital leases	39,489	41,902

# Grace Centers of Hope and Subsidiaries

## Notes to Consolidated Financial Statements October 31, 2010 and 2009

### Note I - Nature of Business and Significant Accounting Policies

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

The Center's ultimate goal is total rehabilitation by meeting all of the needs of the homeless, including food, clothing, shelter, educational courses, 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 6). 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 Warren - 8 Mile, LLC (Rescued Treasures - 8 Mile)** - 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.

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 - 8 Mile, and Rescued Homes. All significant intercompany transactions have been eliminated in consolidation.

# Grace Centers of Hope and Subsidiaries

## Notes to Consolidated Financial Statements October 31, 2010 and 2009

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

**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.

**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.

The Center previously leased a building in Pontiac, Michigan from the federal government for \$1 per year. The Center was deeded the building on November 20, 2008 and recorded the donated building at the estimated fair market value of \$600,000 during the year ended October 31, 2009.

**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.

**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.

**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.

# Grace Centers of Hope and Subsidiaries

## Notes to Consolidated Financial Statements October 31, 2010 and 2009

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

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.

**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.

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, 2010 or 2009.

**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 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 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. The Center is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Center believes it is no longer subject to income tax examinations for periods prior to 2007.

**Reclassification** - Certain reclassifications were made to amounts in the 2009 consolidated financial statements conform to the classifications used in 2010. These reclassifications had no impact on total assets, liabilities, revenue, expenses, or the change in net assets for 2010.

# Grace Centers of Hope and Subsidiaries

## Notes to Consolidated Financial Statements October 31, 2010 and 2009

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

**Subsequent Events** - The consolidated financial statements and related disclosures include evaluation of events up through and including May 2, 2011, 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, 2010 and 2009:

	2010	2009	Depreciable Life - Years
Land	\$ 41,500	\$ 41,500	-
Buildings	2,173,512	2,079,613	10-15
Leasehold improvements	904,735	816,912	10-15
Machinery and equipment	287,254	256,311	3
Transportation equipment	279,811	223,277	3-5
Furniture and fixtures	87,164	71,498	3
Construction in progress	1,438	8,286	-
Total cost	3,775,414	3,497,397	
Accumulated depreciation	1,757,658	1,526,413	
Net property and equipment	\$ 2,017,756	\$ 1,970,984	

Depreciation expense was \$237,965 and \$201,352 for 2010 and 2009, respectively.

Construction in progress at October 31, 2009 relates to the construction of a daycare facility. During 2010, the construction in progress was written off as construction of the facility was stopped. Subsequent to October 31, 2010, the Center purchased a building that will serve as a daycare facility once it is renovated. The building was purchased in January 2011 for \$180,000. The Center entered into a land contract for the purchase of the property, which bears interest at 4 percent and is due in monthly installments of \$3,315 through January 2016. Construction in progress at October 31, 2010 relates to inspection costs for this facility. The Center has not made any purchase commitments related to the renovation of the facility.

# Grace Centers of Hope and Subsidiaries

## Notes to Consolidated Financial Statements October 31, 2010 and 2009

### Note 3 - Operating Leases

The Center has noncancelable operating lease agreements for the thrift store facilities. The Waterford thrift store agreement requires monthly rent of \$10,208 through July 31, 2012. This agreement has two successive three-year renewal options at \$11,667 and \$13,125 monthly rent, respectively. The Sterling Heights thrift store and related warehouse require total monthly rent payments of \$7,270 to \$8,270, plus common area maintenance and taxes of \$3,230 per month through December 31, 2013. The Dequindre thrift store requires monthly rent payments of \$7,280 through June 30, 2015. The 8 Mile thrift store requires monthly rent payments of \$3,000 per month through December 31, 2011.

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

2011	\$ 368,500
2012	315,235
2013	110,361
2014	87,360
2015	58,240
Total	<u>\$ 939,696</u>

Total rent expense on these leases for 2010 and 2009 was \$347,419 and \$242,063, respectively. Under the lease agreement for the Dequindre thrift store, the Center received a period of free rent for part of the space through December 31, 2010. Rental expense has been recognized on a straight-line basis over the term of the lease. As a result, \$25,233 is included in accrued liabilities as of December 31, 2010, which will be amortized over the remaining term of the lease.

### Note 4 - Long-term Debt

The following is a summary of long-term debt payable at October 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Mortgage loan, payable in monthly installments of \$1,842, including interest at a fixed rate of 7.5 percent. The loan matures in September 2012. The loan is collateralized by a first mortgage lien on property owned by Rescued Homes, LLC	\$ 116,454	\$ 129,176
Mortgage loan, payable in monthly installments of \$676, including interest at a fixed rate of 7.5 percent. The loan matures in July 2012. The loan is collateralized by a first mortgage lien on property owned by Rescued Homes, LLC	41,889	46,615

# Grace Centers of Hope and Subsidiaries

## Notes to Consolidated Financial Statements October 31, 2010 and 2009

### Note 4 - Long-term Debt (Continued)

	2010	2009
Mortgage loan, payable in monthly installments of \$676, including interest at a fixed rate of 7.5 percent. The loan matures in July 2012. The loan is collateralized by a first mortgage lien on property owned by Rescued Homes, LLC	\$ 41,891	\$ 46,617
Mortgage loan, payable in monthly installments of \$253, including interest at a fixed rate of 6.5 percent. The loan matures in December 2013. The loan is collateralized by a first mortgage lien on property owned by Rescued Homes, LLC	8,376	10,877
Notes payable to a financial institution in monthly installments totaling \$2,356, including interest at fixed rates varying from 3.0 percent to 13.8 percent, through April 2015. The notes are collateralized by transportation equipment	71,631	51,786
Mortgage loan, payable in monthly installments of \$323, including interest at a fixed rate of 6.9 percent. The loan matures in July 2024. The loan is collateralized by a first mortgage lien on property owned by Rescued Homes, LLC	34,092	35,539
Land contract, payable in monthly installments of \$708, including interest at a fixed rate of 5.0 percent, through September 2015	36,949	-
Land contract, payable in monthly installments of \$309, including interest at a fixed rate of 7.0 percent. The loan matures in November 2036	44,350	-
Total	395,632	320,610
Less current portion	101,858	45,786
Long-term portion	\$ 293,774	\$ 274,824

# Grace Centers of Hope and Subsidiaries

## Notes to Consolidated Financial Statements October 31, 2010 and 2009

### Note 4 - Long-term Debt (Continued)

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

Years Ending October 31	Amount
2011	\$ 101,858
2012	210,198
2013	29,885
2014	16,000
2015	12,547
2016 and thereafter	<u>25,144</u>
Total	<u>\$ 395,632</u>

Interest expense for the years ended October 31, 2010 and 2009 was \$26,103 and \$19,935, respectively.

During 2009, the Center had an available line of credit of up to \$150,000 guaranteed by Grace Gospel Fellowship Church (see Note 6). The line of credit bore interest at the greater of 7.25 percent or LIBOR plus 2.75 percent and was collateralized by a building owned by the Center. Interest payments were due monthly. The line of credit expired on August 1, 2009. No amounts were drawn during 2009.

The Center has an available line of credit of up to \$200,000 guaranteed by Rescued Treasures - Sterling Heights and Rescued Treasures - Waterford. The line of credit bears interest equal to prime plus 2 percent and is collateralized by the assets of the Center. Interest payments are due monthly. The line of credit originally expired on November 3, 2010, but it was extended through December 31, 2011 subsequent to year end. No amounts were drawn during 2010.

### Note 5 - Temporarily Restricted Net Assets

Temporarily restricted net assets at October 31, 2010 and 2009 are restricted for the following:

	2010	2009
Time restricted - Contributions receivable	\$ 25,000	\$ 35,072
Contributions restricted for specific program use	165,816	80,894
Time restricted - Mission building	<u>180,000</u>	<u>200,000</u>
Total temporarily restricted net assets	<u>\$ 370,816</u>	<u>\$ 315,966</u>

# Grace Centers of Hope and Subsidiaries

## Notes to Consolidated Financial Statements October 31, 2010 and 2009

### Note 5 - Temporarily Restricted Net Assets (Continued)

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, 2010, nine years remain on the restriction.

### Note 6 - 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 Church uses a facility originally purchased by the Center as a women and children's center for church services. The Church does not pay rent for its usage.

The Center raised funds of approximately \$38,000 and \$13,000 for the years ended October 31, 2010 and 2009, respectively, on behalf of Men of Grace, LLC, which is a subsidiary of the Church. These funds were remitted to the Church during the year to be used to support the Men of Grace, LLC choir, which consists of Center program participants and graduates. The Men of Grace choir also performs outreach to educate the community on the Center's programs. Additionally, the Center remitted to the Church a total of \$175,000 and \$30,000, respectively, for the years ended October 31, 2010 and 2009. These funds primarily supported Men of Grace, LLC; however, the funds were unrestricted support and therefore subject to the discretion of the Church.

Rescued Homes purchased lawn care services from Gracefully Done, LLC, of which the Church is the sole member. Payments for these services totaled \$4,576 and \$3,698 for the years ended October 31, 2010 and 2009, respectively.

As of October 31, 2009, the Center had recognized a receivable of \$35,702 related to two properties that had been donated by the Church for which the Center had not yet received title. Contribution revenue and a receivable of \$80,000 for the estimated fair market value of these properties were recognized in 2008. The Center also assumed responsibility for the land contract with a balance of \$44,928 as of October 31, 2009, related to the short-term rental housing unit. The title to these properties transferred from the Church to the Center during 2010.

# **Grace Centers of Hope and Subsidiaries**

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## **Notes to Consolidated Financial Statements October 31, 2010 and 2009**

### **Note 7 - 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. For the year ended October 31, 2010, the Center contributed \$23,331 to the plan. Effective January 1, 2011, the employer-match contribution has been reduced to 1 percent of wages.