

NEIGHBORHOOD CLUB

AUDITED FINANCIAL STATEMENTS

Years ended August 31, 2019 and 2018

NEIGHBORHOOD CLUB

TABLE OF CONTENTS

	Page
Independent Auditor's Report	1
Financial Statements	
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	5
Statements of Cash Flows	6
Notes to Financial Statements	7
Supplementary Information	
Schedules of Program Revenue and Direct Expenses	24

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Neighborhood Club

Report on the Financial Statements

We have audited the accompanying financial statements of Neighborhood Club (the "Club", a nonprofit organization), which comprise the statements of financial position as of August 31, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Board of Trustees
of Neighborhood Club
Page Two

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Neighborhood Club as of August 31, 2019 and 2018, 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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on page 24 is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in dark ink, appearing to read "UHY LLP", is positioned above the typed name and date.

Farmington Hills, Michigan
December 19, 2019

NEIGHBORHOOD CLUB
STATEMENTS OF FINANCIAL POSITION

	August 31,	
	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 588,657	\$ 948,244
Unconditional promises to give, current portion	2,520	3,520
Other receivables	22,236	4,710
Prepaid expenses	26,458	14,166
Total current assets	639,871	970,640
PROPERTY AND EQUIPMENT, net	7,889,896	8,079,880
OTHER ASSETS		
Restricted cash	195	195
Investments	4,758,597	4,202,318
Total other assets	4,758,792	4,202,513
TOTAL ASSETS	\$ 13,288,559	\$ 13,253,033
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 59,916	\$ 38,888
Accrued payroll liabilities	4,116	17,988
Deferred program and membership revenue	110,039	137,332
Bonds payable, current portion	120,000	120,000
Total current liabilities	294,071	314,208
LONG-TERM LIABILITIES		
Interest rate swap agreement	47,692	44,689
Bonds payable, net, less current portion	2,776,069	3,492,576
Total long-term liabilities	2,823,761	3,537,265
Total liabilities	3,117,832	3,851,473
NET ASSETS		
Without donor restrictions:		
Undesignated	5,302,248	5,088,360
Board designated	4,542,588	3,986,309
Total net assets without donor restrictions	9,844,836	9,074,669
With donor restrictions	325,891	326,891
Total net assets	10,170,727	9,401,560
TOTAL LIABILITIES AND NET ASSETS	\$ 13,288,559	\$ 13,253,033

See notes to financial statements.

NEIGHBORHOOD CLUB
STATEMENTS OF ACTIVITIES

	Year ended August 31, 2019			Year ended August 31, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND PUBLIC SUPPORT						
Program service revenue:						
Membership dues, net	\$ 1,746,376	\$ -	\$ 1,746,376	\$ 1,690,058	\$ -	\$ 1,690,058
Program fees, net	832,513	-	832,513	806,745	-	806,745
Total program service revenue	<u>2,578,889</u>	<u>-</u>	<u>2,578,889</u>	<u>2,496,803</u>	<u>-</u>	<u>2,496,803</u>
Public support:						
Annual fund contributions	487,690	-	487,690	97,674	-	97,674
Other contributions	19,561	-	19,561	18,819	-	18,819
Donations-in-kind	267,396	-	267,396	239,348	-	239,348
Total public support	<u>774,647</u>	<u>-</u>	<u>774,647</u>	<u>355,841</u>	<u>-</u>	<u>355,841</u>
Other revenues and gains (losses):						
Thrift shop sales, net of commissions	267,462	-	267,462	239,402	-	239,402
Rental revenue	380,531	-	380,531	370,725	-	370,725
Investment return, net	44,212	-	44,212	281,549	-	281,549
Loss on sale of property and equipment	-	-	-	(652)	-	(652)
Gain (loss) on interest rate swap agreement	(3,003)	-	(3,003)	109,039	-	109,039
Other revenues	7,584	-	7,584	15,528	-	15,528
Total other revenues	<u>696,786</u>	<u>-</u>	<u>696,786</u>	<u>1,015,591</u>	<u>-</u>	<u>1,015,591</u>
Net assets released from restrictions	<u>1,000</u>	<u>(1,000)</u>	<u>-</u>	<u>3,673</u>	<u>(3,673)</u>	<u>-</u>
Total revenues and public support	<u>4,051,322</u>	<u>(1,000)</u>	<u>4,050,322</u>	<u>3,871,908</u>	<u>(3,673)</u>	<u>3,868,235</u>
FUNCTIONAL EXPENSES						
Program and services	2,903,148	-	2,903,148	2,803,489	-	2,803,489
General and administrative	350,247	-	350,247	346,346	-	346,346
Fundraising	27,760	-	27,760	30,135	-	30,135
Total functional expenses	<u>3,281,155</u>	<u>-</u>	<u>3,281,155</u>	<u>3,179,970</u>	<u>-</u>	<u>3,179,970</u>
CHANGE IN NET ASSETS	<u>770,167</u>	<u>(1,000)</u>	<u>769,167</u>	<u>691,938</u>	<u>(3,673)</u>	<u>688,265</u>
NET ASSETS , Beginning of year	<u>9,074,669</u>	<u>326,891</u>	<u>9,401,560</u>	<u>8,382,731</u>	<u>330,564</u>	<u>8,713,295</u>
NET ASSETS , End of year	<u>\$ 9,844,836</u>	<u>\$ 325,891</u>	<u>\$ 10,170,727</u>	<u>\$ 9,074,669</u>	<u>\$ 326,891</u>	<u>\$ 9,401,560</u>

See notes to financial statements.

NEIGHBORHOOD CLUB
STATEMENTS OF FUNCTIONAL EXPENSES

	Year ended August 31, 2019				Year ended August 31, 2018			
	Program Services	Supporting Services Management and General	Fundraising	Total Functional Expenses	Program Services	Supporting Services Management and General	Fundraising	Total Functional Expenses
Direct program expenses	\$ 765,542	\$ -	\$ -	\$ 765,542	\$ 726,920	\$ -	\$ -	\$ 726,920
Salaries and wages	871,342	217,836	17,225	1,106,403	881,166	220,292	20,759	1,122,217
Payroll taxes	85,752	21,438	1,318	108,508	85,630	21,407	1,588	108,625
Employee insurance	26,539	6,635	557	33,731	13,743	3,435	805	17,983
Total direct program expenses, salaries and related expenses	1,749,175	245,909	19,100	2,014,184	1,707,459	245,134	23,152	1,975,745
Property and liability insurance	31,939	1,681	-	33,620	30,002	1,579	-	31,581
Care of building	99,831	5,254	-	105,085	83,945	4,418	-	88,363
Utilities	158,203	8,326	-	166,529	149,331	7,860	-	157,191
Payroll costs	2,966	2,967	-	5,933	2,644	2,645	-	5,289
Office supplies	32,652	2,540	1,088	36,280	32,242	2,508	1,075	35,825
Postage	3,112	1,038	-	4,150	2,007	669	-	2,676
Accounting fees	-	16,500	-	16,500	-	16,400	-	16,400
Telephone	5,002	263	-	5,265	5,898	310	-	6,208
Printing	-	-	7,572	7,572	-	-	5,908	5,908
Miscellaneous	3,460	2,307	-	5,767	4,128	2,752	-	6,880
Credit card fees	57,947	-	-	57,947	52,446	-	-	52,446
Staff development	1,678	419	-	2,097	3,574	893	-	4,467
Legal fees	-	1,150	-	1,150	-	693	-	693
Parking	-	7,200	-	7,200	-	7,474	-	7,474
Maintenance of trucks	840	-	-	840	572	-	-	572
403(b) Match	-	31,800	-	31,800	-	30,035	-	30,035
Thrift shop utilities, rent, supplies	321,385	-	-	321,385	292,686	-	-	292,686
Total expenses before interest, depreciation and amortization	2,468,190	327,354	27,760	2,823,304	2,366,934	323,370	30,135	2,720,439
Interest	162,369	8,546	-	170,915	133,987	6,868	-	140,855
Depreciation and amortization	272,589	14,347	-	286,936	302,568	16,108	-	318,676
Total expenses	<u>\$ 2,903,148</u>	<u>\$ 350,247</u>	<u>\$ 27,760</u>	<u>\$ 3,281,155</u>	<u>\$ 2,803,489</u>	<u>\$ 346,346</u>	<u>\$ 30,135</u>	<u>\$ 3,179,970</u>

See notes to financial statements.

NEIGHBORHOOD CLUB

STATEMENTS OF CASH FLOWS

	Years ended August 31,	
	2019	2018
OPERATING ACTIVITIES		
Change in net assets	\$ 769,167	\$ 688,265
Adjustments to reconcile change in net assets to net cash flows provided by operating activities:		
Depreciation and amortization	286,936	318,676
Net realized and unrealized (gain) loss on investments	30,178	(183,217)
Non-cash interest expense	3,493	3,492
Loss on sale of property and equipment	-	652
Change in fair value of interest rate swap	3,003	(109,039)
Changes in:		
Other receivables	(17,526)	1,058
Prepaid expenses	(12,292)	(13,943)
Accounts payable	21,028	13,620
Accrued payroll liabilities	(13,872)	(125,036)
Deferred program and membership revenue	(27,293)	3,244
Net cash provided by operating activities	<u>1,042,822</u>	<u>597,772</u>
INVESTING ACTIVITIES		
Proceeds from sale of property and equipment	-	3,000
Purchase of property and equipment	(96,952)	(143,015)
Proceeds from sale of investments	3,749,631	2,458,166
Purchases of investments	(4,336,088)	(2,557,858)
Net cash used in investing activities	<u>(683,409)</u>	<u>(239,707)</u>
FINANCING ACTIVITIES		
Unconditional promises to give	1,000	3,673
Payments on bonds payable	(720,000)	(120,000)
Net cash used in operating activities	<u>(719,000)</u>	<u>(116,327)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	<u>(359,587)</u>	<u>241,738</u>
CASH AND CASH EQUIVALENTS, beginning of year	<u>948,244</u>	<u>706,506</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 588,657</u>	<u>\$ 948,244</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 167,422</u>	<u>\$ 130,495</u>

NEIGHBORHOOD CLUB

NOTES TO FINANCIAL STATEMENTS

August 31, 2019 and 2018

NOTE 1 – SUMMARY OF ACCOUNTING POLICIES

The following is a summary of certain accounting policies followed in the preparation of these financial statements. The policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Organization

The Neighborhood Club (the "Club") was incorporated in 1912 as a nonprofit corporation to provide education, recreation, and community service activities for the residents of Grosse Pointe, Michigan and the surrounding areas. The Club is qualified under section 501(c)(3) of the internal revenue code.

Basis of Presentation

The Club follows accounting standards set by the Financial Accounting Standards Board (FASB). The FASB sets generally accepted accounting principles (GAAP) that the Club follows to ensure they consistently report their financial condition, results of operations and cash flows. References to GAAP issued by the FASB in the following footnotes are the *FASB Accounting Standards Codification* (ASC).

As of August 31, 2019, the Club adopted Accounting Standards Update 2016-14, Not-for-Profit Entities – Presentation of Financial Statements of Not-for-Profit Entities. This update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The update was adopted on a retrospective basis.

Classification of Net Assets

In accordance with Accounting Standards Update 2016-14, net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets of the Club and changes therein are classified as follows:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Club. These net assets may be used at the discretion of the Club management and the board of directors.

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 Club or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

NEIGHBORHOOD CLUB
NOTES TO FINANCIAL STATEMENTS
August 31, 2019 and 2018

NOTE 1 – SUMMARY OF ACCOUNTING POLICIES (Continued)

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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, the Club considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents as reported in the Statements of Cash Flows excludes restricted cash, as well as any temporary cash balances maintained in the Club's investment accounts.

Concentration of Credit Risk

The Club maintains cash in bank deposit accounts, which at times, may exceed federally insured limits. The Club has not experienced any losses in such accounts. The Club believes it is not exposed to any significant credit risk on its cash or cash equivalents. Management has deemed this as a normal business risk.

Restricted Cash

The Club maintains a separate bank account that was used to pay costs of its new facility, bond issuance costs, capitalized interest, and initial and quarterly letter of credit fees with respect to the bonds. The balance of this account was \$195 at both years ended August 31, 2019 and 2018.

Unconditional Promises to Give and Allowance for Doubtful Promises

The Club's pledges receivable are comprised of amounts committed from individuals for use in its capital projects. The receivable is recorded at the present value of estimated future cash flows. Management reviews all pledges receivable as of year end and establishes an allowance for doubtful pledges. The allowance for doubtful pledges was \$3,488 and \$12,479 for the years ended August 31, 2019 and 2018, respectively.

NEIGHBORHOOD CLUB
NOTES TO FINANCIAL STATEMENTS
August 31, 2019 and 2018

NOTE 1 – SUMMARY OF ACCOUNTING POLICIES (Continued)

Inventory

Accounting principles generally accepted in the United States of America require the Club to record contributed goods as revenue when received and expenses when sold or donated, with any donated goods remaining at year end recorded on the statement of financial position as inventory. Total revenues and expenses related to donated goods for the years ended August 31, 2019 and 2018 amount to \$267,462 and \$239,402, respectively. The Club has not recorded donated goods still held at year end as inventory on the accompanying statements of financial position, the effect of which is immaterial to the financial statements as a whole.

Investments

The Club's investments are stated at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (see Note 6). Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Purchases and sales are recorded on a trade date basis. Investment securities received by gift are recorded at fair value on the date of donation. Investment return is presented net of investment fees.

Property and Equipment and Depreciation and Amortization

Property and equipment are stated at cost. Donated assets are recorded at fair value on the date of the donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, which range from five to forty years. Maintenance and repairs which do not enhance the value or prolong the useful life of assets are expensed when incurred. The Club capitalizes assets with cost in excess of \$5,000. Management annually reviews these assets to determine whether carrying values have been impaired.

Bond Issuance Costs

The Club presents debt issuance costs related to a recognized debt liability in the statements of financial position as a direct deduction from the carrying amount of that debt liability. See Note 8.

Deferred Revenue

Revenue from program fees is recognized ratably over the period of the program. Fees received in advance, if any, are recorded as deferred revenue and subsequently recognized as revenue over the program period. Program fees are nonrefundable after the second class or first game.

NEIGHBORHOOD CLUB
NOTES TO FINANCIAL STATEMENTS
August 31, 2019 and 2018

NOTE 1 – SUMMARY OF ACCOUNTING POLICIES (Continued)

Deferred Revenue (Continued)

The Club generally receives a one-time enrollment fee at the time a member joins and annual membership dues for usage from its members. Enrollment fees and annual membership dues are recognized on a straight-line basis over the life of the membership. These memberships automatically renew each year, unless cancelled by a member. The Club also offers month-to-month and daily memberships with no long-term contracts.

Membership and Program Service Fees

Membership and program service fee revenues are recorded when services have occurred and collectability is probable.

Contributions

Contributions, including unconditional promises to give in the future, are measured at fair value and reported as revenue when pledged. Donor promises to give in the future are recorded at the present value of estimated future cash flows. Contributions with donor-imposed time or purpose restrictions are reported as restricted support. All other contributions are reported as unrestricted support. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donor restricted contributions whose restrictions are met in the same reporting period are reported as net assets without donor restriction.

Income Taxes

The Club operates as a not-for-profit corporation under Section 501(c)(3) of the Internal Revenue Code and is exempt from income taxes.

ASC guidance regarding accounting for uncertainty in income taxes clarifies the accounting for income taxes by prescribing the minimum recognition threshold income tax position is required to meet before being recognized in the financial statements and applies to all income tax positions. Each income tax position is assessed using a two-step process. A determination is first made as to whether it is more likely than not that the income tax position will be sustained, based upon technical merits, upon examination by the taxing authorities. If the income tax position is expected to meet the more likely than not criteria, the benefit recorded in the financial statements equals the largest amount that is greater than 50% likely to be realized upon its ultimate settlement. At August 31, 2019 and 2018, there were no uncertain tax positions that required accrual.

The Club believes that it has been operating within its tax-exempt status and has no unrelated business income.

NEIGHBORHOOD CLUB
NOTES TO FINANCIAL STATEMENTS
August 31, 2019 and 2018

NOTE 1 – SUMMARY OF ACCOUNTING POLICIES (Continued)

Allocation of Expenses

In the Statements of Activities, salaries and related expenses have been classified as program services, general and administrative, and fundraising on the basis of estimated time devoted to these activities. Other expenses have been allocated on various bases as determined by management. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different results.

Subsequent Event

The Club has performed a review of events subsequent to the statement of financial position through December 19, 2019, the date the financials were available to be issued.

NOTE 2 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following reflects the Club's financial assets as of August 31, 2019. All amounts are available for general use within one year.

Financial assets	
Cash and cash equivalents	\$ 588,657
Receivables, net	24,756
Investments	<u>4,758,597</u>
Financial assets available to meet general expenditures in one year	<u>\$ 5,372,010</u>

As part of the Club's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

NOTE 3 – UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give consist of the following at:

Description	August 31,	
	2019	2018
Due in less than one year	\$ 6,008	\$ 15,999
Due in one to five years	-	-
Less allowance for doubtful promises	<u>(3,488)</u>	<u>(12,479)</u>
Unconditional promises to give, net	<u>\$ 2,520</u>	<u>\$ 3,520</u>

NEIGHBORHOOD CLUB
NOTES TO FINANCIAL STATEMENTS
August 31, 2019 and 2018

NOTE 4 – INVESTMENTS

Cost and fair value of investments are as follows:

Description	August 31,			
	2019		2018	
	Cost	Fair Value	Cost	Fair Value
Cash and short-term investments	\$ 126,907	\$ 126,907	\$ 256,274	\$ 256,274
Fixed income securities	1,582,419	1,606,861	1,108,521	1,099,056
Real estate	45,090	55,724	6,733	6,710
Equity securities	<u>2,882,953</u>	<u>2,969,105</u>	<u>2,481,425</u>	<u>2,840,278</u>
Total	<u>\$ 4,637,369</u>	<u>\$ 4,758,597</u>	<u>\$ 3,852,953</u>	<u>\$ 4,202,318</u>

Investment income consists of the following at:

Description	August 31,	
	2019	2018
Interest and dividend income	\$ 106,854	\$ 113,853
Net realized and unrealized gain (loss)	(30,178)	183,217
Less: Investment expenses	<u>(32,464)</u>	<u>(15,521)</u>
Net investment return	<u>\$ 44,212</u>	<u>\$ 281,549</u>

NEIGHBORHOOD CLUB
NOTES TO FINANCIAL STATEMENTS
August 31, 2019 and 2018

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at:

	August 31,	
	2019	2018
Land	\$ 488,026	\$ 488,026
Building	8,491,375	8,491,375
Building improvements	118,953	108,987
Furniture and fixtures	697,709	610,723
Computer software	44,161	44,161
Program equipment	157,436	157,436
Transportation equipment	38,437	38,437
Total	10,036,097	9,939,145
Less: Accumulated depreciation and amortization	2,146,201	1,859,265
Property and equipment, net	<u>\$ 7,889,896</u>	<u>\$ 8,079,880</u>

Depreciation and amortization expense for the years ended August 31, 2019 and 2018 was \$286,936 and \$318,676, respectively.

NOTE 6 – FAIR VALUE MEASUREMENT

ASC topic *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy under ASC topic *Fair Value Measurements* are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Club has the abilities to access.

Level 2 Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;

NEIGHBORHOOD CLUB
NOTES TO FINANCIAL STATEMENTS
August 31, 2019 and 2018

Note 6 – FAIR VALUE MEASUREMENT (Continued)

- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specific (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value.

Cash and short-term investments: Valued at the net asset value (NAV) of the shares held by the Club at year-end. Holdings of the funds typically include cash, bank notes, corporate notes, government bills and various short-term debt instruments.

Fixed income securities, commodities, real estate and equity securities: Valued at the closing price reported on the national active market on which the individual securities are traded.

Interest rate swap agreement: Based on the present value of the expected future cash flows from the agreement. Inputs to the valuation include LIBOR-forward interest rate curves and a discount commensurate with current market rates.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Club believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

NEIGHBORHOOD CLUB
NOTES TO FINANCIAL STATEMENTS
August 31, 2019 and 2018

NOTE 6 – FAIR VALUE MEASUREMENT (Continued)

	August 31, 2019			
	Level 1	Level 2	Level 3	Total
Fixed income securities	\$ 1,606,861	\$ -	\$ -	\$ 1,606,861
Real estate	55,724	-	-	55,724
Equity securities	2,969,105	-	-	2,969,105
Total assets	4,631,690	-	-	4,631,690
Liability - Interest rate swap	-	47,692	-	47,692
	<u>\$ 4,631,690</u>	<u>\$ (47,692)</u>	<u>\$ -</u>	<u>\$ 4,583,998</u>

	August 31, 2018			
	Level 1	Level 2	Level 3	Total
Fixed income securities	\$ 1,099,056	\$ -	\$ -	\$ 1,099,056
Real estate	6,710	-	-	6,710
Equity securities	2,840,278	-	-	2,840,278
Total assets	3,946,044	-	-	3,946,044
Liability - Interest rate swap	-	44,689	-	44,689
	<u>\$ 3,946,044</u>	<u>\$ (44,689)</u>	<u>\$ -</u>	<u>\$ 3,901,355</u>

NOTE 7 – ENDOWMENT FUNDS

The Club has an endowment that consists of two individual funds established for the purpose of further supporting the mission of the Club. The endowments are donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

NEIGHBORHOOD CLUB
NOTES TO FINANCIAL STATEMENTS
August 31, 2019 and 2018

NOTE 7 – ENDOWMENT FUNDS (Continued)

Interpretation of Relevant Law

The Club has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. In accordance with generally accepted accounting principles and this interpretation, the Club classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund is classified as unrestricted unless otherwise specified by the donor. The Club considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Club and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Club
- (7) The investment policies

Endowment net asset composition by type of fund as of August 31, 2019 is as follows:

Description	Without Donor Restrictions	With Donor Restrictions	Total
Donor restricted endowment funds	\$ -	\$ 216,009	\$ 216,009
Board designated endowment funds	<u>4,542,588</u>	<u>-</u>	<u>4,542,588</u>
Total endowment net asset composition by type of fund	<u>\$ 4,542,588</u>	<u>\$ 216,009</u>	<u>\$ 4,758,597</u>

NEIGHBORHOOD CLUB
NOTES TO FINANCIAL STATEMENTS
August 31, 2019 and 2018

NOTE 7 – ENDOWMENT FUNDS (Continued)

Endowment net asset composition by type of fund as of August 31, 2018 is as follows:

<u>Description</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	\$ 216,009	\$ 216,009
Board designated endowment funds	<u>3,986,309</u>	<u>-</u>	<u>3,986,309</u>
Total endowment net asset composition by type of fund	<u><u>\$3,986,309</u></u>	<u><u>\$ 216,009</u></u>	<u><u>\$4,202,318</u></u>

Changes in endowment net assets for the fiscal year ended August 31, 2019 are as follows:

<u>Description</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 3,986,309	\$ 216,009	\$ 4,202,318
Investment return - investment income-net	70,566	3,824	74,390
Net depreciation (realized and unrealized)	(28,627)	(1,551)	(30,178)
Appropriation of endowment income for spending	-	(2,273)	(2,273)
Board authorized transfer to board designated endowment	<u>514,340</u>	<u>-</u>	<u>514,340</u>
Endowment net assets, end of year	<u><u>\$ 4,542,588</u></u>	<u><u>\$ 216,009</u></u>	<u><u>\$ 4,758,597</u></u>

NEIGHBORHOOD CLUB
NOTES TO FINANCIAL STATEMENTS
August 31, 2019 and 2018

NOTE 7 – ENDOWMENT FUNDS (Continued)

Changes in endowment net assets for the fiscal year ended August 31, 2018 are as follows:

<u>Description</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 3,703,400	\$ 216,009	\$ 3,919,409
Investment return - investment income-net	92,913	5,419	98,332
Net appreciation (realized and unrealized)	173,119	10,098	183,217
Appropriation of endowment income for spending	-	(15,517)	(15,517)
Board authorized transfer to board designated endowment	<u>16,877</u>	<u>-</u>	<u>16,877</u>
Endowment net assets, end of year	<u>\$ 3,986,309</u>	<u>\$ 216,009</u>	<u>\$ 4,202,318</u>

Return Objectives and Risk Parameters

The Neighborhood Club has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs of the Club while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Club must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the Board of Trustees the endowment assets are invested in a manner to maximize return within prudent levels of risk, and to obtain a positive total return while minimizing the potential of a significant loss.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Club relies on a total return strategy where investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Club utilizes a strategic asset allocation approach with an equal emphasis on Equity and Fixed Income Investments.

NEIGHBORHOOD CLUB
NOTES TO FINANCIAL STATEMENTS
August 31, 2019 and 2018

NOTE 7 – ENDOWMENT FUNDS (Continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Neighborhood Club has an established policy for budgeting endowment income. The Board has developed a formula for determining investment income to be used for operations (program services). In establishing this policy, the Club considered the long-term expected return on its endowment. Accordingly, the Club allows for a 4% annual distribution based on a three-year rolling average. The three-year average is intended to meet the objectives of the spending policies while maintaining the purchasing power of the investments.

NOTE 8 – BONDS PAYABLE

On December 2, 2013, the Club entered into a bond purchase and continuing covenant agreement (the "Agreement") with Huntington Public Capital Corporation (the "Bank") under which the Club issued new bonds that were purchased by the Bank. Proceeds from sale of the bonds were used to replace the Club's original bond issue that had been used to finance construction of the Club's new facility. The original bond issue was secured by a letter of credit, which was released concurrent with the bond refinancing. The Agreement includes an initial purchase term of seven years with an option to extend the Agreement, if elected by the Bank. If not extended, the Bank may exercise its right to tender the remaining bond balance to the Club. Principal payments on the bonds are due in varying annual installments through December 2038, unless tendered earlier as described above. Interest is payable monthly based on LIBOR plus an applicable spread.

The Agreement is collateralized by substantially all of the Club's assets and contains various restrictive covenants, such as maintaining a debt service coverage ratio and submission of quarterly and annual financial statements within specified time frames. As of August 31, 2019, the Club was in compliance with these covenants.

Bonds payable at August 31, 2019 consist of the following:

Bonds payable to the Bank	\$ 2,963,280
Bond issuance costs, net	<u>(67,211)</u>
Total bonds payable	<u>\$ 2,896,069</u>

NEIGHBORHOOD CLUB
NOTES TO FINANCIAL STATEMENTS
August 31, 2019 and 2018

NOTE 8 – BONDS PAYABLE (Continued)

Bonds payable at August 31, 2018 consist of the following:

Bonds payable to the Bank	\$ 3,683,280
Bond issuance costs, net	<u>(70,704)</u>
Total bonds payable	<u><u>\$ 3,612,576</u></u>

The Club incurred bond issuance costs of \$87,292 in connection with issuing the bonds payable with the Bank. These costs have been capitalized as a discount to the bonds payable and are being amortized over the life of the bonds. Accumulated amortization at August 31, 2019 and 2018 was \$20,081 and \$16,588, respectively.

Future minimum principal maturities of the bonds for the five years subsequent to August 31, 2019, are scheduled as follows:

<u>Year ending August 31,</u>	<u>Amount</u>
2020	\$ 120,000
2021	120,000
2022	120,000
2023	120,000
2024	165,000
Thereafter	<u>2,318,280</u>
Total future bond payments	<u><u>\$ 2,963,280</u></u>

Total principal payments were \$720,000 and \$120,000 for the years ended August 31, 2019 and 2018, respectively.

In conjunction with the new bond purchase and continuing covenant agreement as stated above, the Club entered into an interest rate swap contract with Huntington National Bank that effectively fixed the rate paid on the bonds payable at 3.58% until December 1, 2020 (See Note 8). Effective September 1, 2018 the fixed rate on the swap agreement was increased to 4.27% as a result of corporate tax rate changes.

NOTE 9 – DERIVATIVE FINANCIAL INSTRUMENTS

The Club was exposed to certain risks in the normal course of its business operations. The main risks are those relating to the variability of future earnings and cash flows, which are managed through the use of derivatives. The only derivative instrument used by the Club is an interest rate swap.

NEIGHBORHOOD CLUB
NOTES TO FINANCIAL STATEMENTS
August 31, 2019 and 2018

NOTE 9 – DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

On December 2, 2013, the Club entered into an interest rate swap agreement with a financial institution to reduce the impact of changes in the interest rate of their variable rate bonds. Under the terms of the interest rate swap agreement, the Club paid a fixed-interest rate of 3.58 percent of the outstanding principal of the bonds to the bank in exchange for a payment from the bank of a variable rate of LIBOR plus 2.00 percent times 65.01 percent (2.08% as of August 31, 2019). During the year ended August 31, 2019, the financial institution increased the fixed rate of the swap to 4.27% as a result of corporate tax rate decreases as a result of the Tax Cuts and Jobs Act reform.

As of August 31, 2019, the notional amount of the swap agreement was \$2,911,194. The change in fair value of the interest rate swap of \$3,003 has been recognized as a loss for the year ended August 31, 2019. The Club has recorded the fair value of the interest rate swap agreement, which resulted in a liability of \$47,692 at August 31, 2019.

NOTE 10 – COMMUNITY FOUNDATION ENDOWMENT

The Club is part of an endowment program sponsored by the Community Foundation for Southeastern Michigan (an unrelated nonprofit foundation). The purpose of the Endowment Fund is to provide unrestricted operating support for the Club from the endowment earnings. Benefactors contribute funds directly to the Community Foundation, who holds, invests and administers the funds. In accordance with ASC Topic No. 958-605-25-31, *Revenue Recognition*, the endowment investments are not reflected as assets in the Club's financial statements since the Community Foundation retains variance power over such assets. Income distributions totaled \$19,061 and \$18,818 for the years ended August 31, 2019 and 2018, respectively, and are included in net investment return. The fair value of the Endowment Fund was \$448,769 and \$455,795 as of August 31, 2019 and 2018, respectively, as reported by the Community Foundation.

NOTE 11 – NET ASSETS

The Board has designated the following net assets without donor restrictions:

	August 31,	
	2019	2018
Long-term operations of the Club	<u>\$ 4,542,588</u>	<u>\$ 3,986,309</u>

NEIGHBORHOOD CLUB
NOTES TO FINANCIAL STATEMENTS
August 31, 2019 and 2018

NOTE 11 – NET ASSETS (Continued)

Net assets with donor restrictions were comprised of the following:

	August 31,	
	2019	2018
Building for the future	\$ 107,362	\$ 107,362
Long term pledges	2,520	3,520
Long-term support of youth programs	100,000	100,000
Land	116,009	116,009
Net assets with donor restrictions	<u>\$ 325,891</u>	<u>\$ 326,891</u>

The reduction of long-term pledges was a result of collections on the balances.

NOTE 12 – RENTAL REVENUE

Operating Lease

Upon completion of its new facility in January 2013, the Club began leasing space to William Beaumont Hospital (a non-profit "Hospital") pursuant to an agreement executed on July 5, 2011 by the parties. The agreement includes an initial term of twelve years with four optional five-year renewals and requires the Hospital to reimburse the Club for its share of the facility's monthly operating expenses.

Future minimum rental lease revenue under this non-cancelable operating lease is as follows for the years subsequent to August 31, 2019:

Year ending August 31,	Amount
2020	\$ 318,133
2021	324,173
2022	330,214
2023	336,255
2024	342,295
Subsequent to 2024	<u>114,770</u>
Total future minimum lease revenue	<u>\$ 1,765,840</u>

Total rental revenue was \$380,531 and \$370,725 for the years ended August 31, 2019 and 2018, respectively. The revenues include \$74,177 and \$72,377 in reimbursed operating expenses for the years ended August 31, 2019 and 2018, respectively.

NEIGHBORHOOD CLUB
NOTES TO FINANCIAL STATEMENTS
August 31, 2019 and 2018

NOTE 13 – RETIREMENT PLAN

The Club sponsors a 403(b) retirement plan (the "Plan"). Under the Plan, all full-time employees can elect to defer a portion of their compensation, and the Club may make discretionary contributions to the Plan. Contributions made to the Plan for the years ended August 31, 2019 and 2018 were \$31,800 and \$30,035, respectively.

NOTE 14 – OPERATING LEASES

The Club leases space for its Thrift Shop and for various programs under non-cancelable operating leases that expire at various dates through September 2021. In addition, the Club must pay other costs including utilities, insurance, and maintenance and repairs on certain leases. Rent expense for the years ended August 31, 2019 and 2018 was \$67,638 and \$67,577, respectively.

Minimum future rental payments under non-cancelable operating leases having initial or remaining terms in excess of one year as of August 31, 2019 for each of the next three years are:

<u>Year ending August 31,</u>	<u>Amount</u>
2020	\$ 69,018
2021	39,143
2022	<u>3,262</u>
Total future minimum lease payments	<u><u>\$ 111,423</u></u>

SUPPLEMENTARY INFORMATION

NEIGHBORHOOD CLUB
SCHEDULES OF PROGRAM REVENUE AND DIRECT EXPENSES

	August 31,			
	2019		2018	
	Program Service Revenue	Direct Expenses	Excess of Revenue Over (Under) Direct Expenses	Excess of Revenue Over (Under) Direct Expenses
Preschool	\$ 139,655	\$ 70,428	\$ 69,227	\$ 68,366
Personal training	156,498	94,174	62,324	54,476
Camps (Winter/Summer)	76,888	27,424	49,464	36,087
Basketball	91,877	46,956	44,921	46,068
Soccer	50,289	20,531	29,758	38,707
Rowing	19,666	3,246	16,420	11,143
Karate	37,264	24,537	12,727	11,162
Volleyball	21,121	12,450	8,671	8,223
Party rentals	10,688	3,518	7,170	5,989
Flag Football	13,445	6,831	6,614	8,779
Specialty classes	6,602	100	6,502	6,754
T-Ball	14,186	7,761	6,425	6,578
Lacrosse	15,467	9,191	6,276	3,639
Gymnastics	21,923	16,107	5,816	10,122
Classes	11,597	6,795	4,802	11,358
Computer education	2,759	-	2,759	3,163
Preschool activity	2,880	1,825	1,055	(377)
Adaptive recreation	1,927	1,691	236	2,001
Aerobic slimnastics	-	-	-	233
Yoga	-	-	-	450
Building use	4,135	5,270	(1,135)	(1,350)
Field hockey	-	1,199	(1,199)	-
Aquatics	98,889	100,580	(1,691)	(3,884)
Adult Softball	7,860	9,922	(2,062)	387
Program shared costs	281	16,941	(16,660)	(12,378)
Fitness center admin	26,616	278,065	(251,449)	(235,871)
Total program revenue and expenses	<u>\$ 832,513</u>	<u>\$ 765,542</u>	<u>\$ 66,971</u>	<u>\$ 79,825</u>