

# **NEIGHBORHOOD CLUB**

AUDITED FINANCIAL STATEMENTS

Years ended August 31, 2020 and 2019

# **NEIGHBORHOOD CLUB**

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## **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, 2020 and 2019, 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  
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### **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, 2020 and 2019, 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 26 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.

The image shows a handwritten signature in dark ink. The letters 'UHY' are written in a large, stylized, cursive font, and 'LLP' is written in a smaller, simpler font to the right of 'UHY'.

Farmington Hills, Michigan  
January 12, 2021

**NEIGHBORHOOD CLUB**  
**STATEMENTS OF FINANCIAL POSITION**

	<b>August 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 455,059	\$ 588,657
Unconditional promises to give, current portion	2,520	2,520
Other receivables	17,412	22,236
Prepaid expenses	9,162	26,458
Total current assets	484,153	639,871
<b>PROPERTY AND EQUIPMENT, net</b>	7,660,311	7,889,896
<b>OTHER ASSETS</b>		
Restricted cash	195	195
Investments	5,328,793	4,758,597
Total other assets	5,328,988	4,758,792
<b>TOTAL ASSETS</b>	<b>\$ 13,473,452</b>	<b>\$ 13,288,559</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 15,342	\$ 59,916
Accrued payroll liabilities	1,487	4,116
Deferred program and membership revenue	33,161	110,039
Bonds payable, current portion	164,667	120,000
Total current liabilities	214,657	294,071
<b>LONG-TERM LIABILITIES</b>		
Interest rate swap agreement	20,094	47,692
Bonds payable, net, less current portion	2,614,894	2,776,069
Total long-term liabilities	2,634,988	2,823,761
Total liabilities	2,849,645	3,117,832
<b>NET ASSETS</b>		
Without donor restrictions:		
Undesignated	5,185,132	5,302,248
Board designated	5,112,784	4,542,588
Total net assets without donor restrictions	10,297,916	9,844,836
With donor restrictions	325,891	325,891
Total net assets	10,623,807	10,170,727
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 13,473,452</b>	<b>\$ 13,288,559</b>

**NEIGHBORHOOD CLUB**  
**STATEMENTS OF ACTIVITIES**

	Year ended August 31, 2020			Year ended August 31, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUES AND PUBLIC SUPPORT</b>						
Program service revenue:						
Membership dues, net	\$ 1,058,923	\$ -	\$ 1,058,923	\$ 1,746,376	\$ -	\$ 1,746,376
Program fees, net	545,908	-	545,908	832,513	-	832,513
Total program service revenue	1,604,831	-	1,604,831	2,578,889	-	2,578,889
Public support:						
Annual fund contributions	119,372	-	119,372	487,690	-	487,690
Other contributions	29,658	-	29,658	19,561	-	19,561
Contribution - forgiven PPP loan	-	208,610	208,610	-	-	-
Donations-in-kind	214,094	-	214,094	267,396	-	267,396
Total public support	363,124	208,610	571,734	774,647	-	774,647
Other revenues and gains (losses):						
Thrift shop sales, net of commissions	214,148	-	214,148	267,462	-	267,462
Rental revenue	320,951	-	320,951	380,531	-	380,531
Investment return, net	564,874	-	564,874	44,212	-	44,212
Loss on sale of property and equipment	(30,101)	-	(30,101)	-	-	-
Gain (loss) on interest rate swap agreement	27,598	-	27,598	(3,003)	-	(3,003)
Other revenues	6,152	-	6,152	7,584	-	7,584
Total other revenues	1,103,622	-	1,103,622	696,786	-	696,786
Net assets released from restrictions	208,610	(208,610)	-	1,000	(1,000)	-
Total revenues and public support	3,280,187	-	3,280,187	4,051,322	(1,000)	4,050,322
<b>FUNCTIONAL EXPENSES</b>						
Program and services	2,507,843	-	2,507,843	2,903,148	-	2,903,148
General and administrative	295,274	-	295,274	350,247	-	350,247
Fundraising	23,990	-	23,990	27,760	-	27,760
Total functional expenses	2,827,107	-	2,827,107	3,281,155	-	3,281,155
<b>CHANGE IN NET ASSETS</b>	453,080	-	453,080	770,167	(1,000)	769,167
<b>NET ASSETS</b> , Beginning of year	9,844,836	325,891	10,170,727	9,074,669	326,891	9,401,560
<b>NET ASSETS</b> , End of year	\$ 10,297,916	\$ 325,891	\$ 10,623,807	\$ 9,844,836	\$ 325,891	\$ 10,170,727

See notes to financial statements.

**NEIGHBORHOOD CLUB**  
**STATEMENTS OF FUNCTIONAL EXPENSES**

	Year ended August 31, 2020				Year ended August 31, 2019			
	Program Services	Supporting Services		Total Functional Expenses	Program Services	Supporting Services		Total Functional Expenses
		Management and General	Fundraising			Management and General	Fundraising	
Direct program expenses	\$ 608,240	\$ -	\$ -	\$ 608,240	\$ 765,542	\$ -	\$ -	\$ 765,542
Salaries and wages	797,620	199,405	15,458	1,012,483	871,342	217,836	17,225	1,106,403
Payroll taxes	76,574	19,144	1,183	96,901	85,752	21,438	1,318	108,508
Employee insurance	39,243	9,811	557	49,611	26,539	6,635	557	33,731
Total direct program expenses, salaries and related expenses	1,521,677	228,360	17,198	1,767,235	1,749,175	245,909	19,100	2,014,184
Property and liability insurance	32,708	1,722	-	34,430	31,939	1,681	-	33,620
Care of building	77,831	4,096	-	81,927	99,831	5,254	-	105,085
Utilities	137,028	7,212	-	144,240	158,203	8,326	-	166,529
Payroll costs	3,212	3,212	-	6,424	2,966	2,967	-	5,933
Office supplies	21,729	1,690	724	24,143	32,652	2,540	1,088	36,280
Postage	2,675	892	-	3,567	3,112	1,038	-	4,150
Accounting fees	-	16,500	-	16,500	-	16,500	-	16,500
Telephone	4,226	222	-	4,448	5,002	263	-	5,265
Printing	-	-	6,068	6,068	-	-	7,572	7,572
Miscellaneous	3,581	2,387	-	5,968	3,460	2,307	-	5,767
Credit card fees	45,442	-	-	45,442	57,947	-	-	57,947
Staff development	1,844	461	-	2,305	1,678	419	-	2,097
Legal fees	-	2,598	-	2,598	-	1,150	-	1,150
Professional fees	1,092	-	-	1,092	-	-	-	-
Parking	-	5,400	-	5,400	-	7,200	-	7,200
Maintenance of trucks	470	-	-	470	840	-	-	840
403(b) Match	-	-	-	-	-	31,800	-	31,800
Thrift shop utilities, rent, supplies	264,409	-	-	264,409	321,385	-	-	321,385
Total expenses before interest, depreciation and amortization	2,117,924	274,752	23,990	2,416,666	2,468,190	327,354	27,760	2,823,304
Interest	118,594	6,242	-	124,836	162,369	8,546	-	170,915
Depreciation and amortization	271,325	14,280	-	285,605	272,589	14,347	-	286,936
Total expenses	<u>\$ 2,507,843</u>	<u>\$ 295,274</u>	<u>\$ 23,990</u>	<u>\$ 2,827,107</u>	<u>\$ 2,903,148</u>	<u>\$ 350,247</u>	<u>\$ 27,760</u>	<u>\$ 3,281,155</u>

See notes to financial statements.

**NEIGHBORHOOD CLUB**  
**STATEMENTS OF CASH FLOWS**

	<b>Years ended August 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>OPERATING ACTIVITIES</b>		
Change in net assets	\$ 453,080	\$ 769,167
Adjustments to reconcile change in net assets to net cash flows provided by operating activities:		
Depreciation and amortization	285,605	286,936
Net realized and unrealized (gain) loss on investments	(494,197)	30,178
Non-cash interest expense	3,493	3,493
Loss on sale of property and equipment	30,100	-
Change in fair value of interest rate swap	(27,598)	3,003
Changes in:		
Other receivables	4,824	(17,526)
Prepaid expenses	17,296	(12,292)
Accounts payable	(44,574)	21,028
Accrued payroll liabilities	(2,629)	(13,872)
Deferred program and membership revenue	(76,879)	(27,293)
Net cash provided by operating activities	148,521	1,042,822
<b>INVESTING ACTIVITIES</b>		
Proceeds from sale of property and equipment	8,600	-
Purchase of property and equipment	(94,720)	(96,952)
Proceeds from sale of investments	2,360,587	3,749,631
Purchases of investments	(2,436,586)	(4,336,088)
Net cash used in investing activities	(162,119)	(683,409)
<b>FINANCING ACTIVITIES</b>		
Unconditional promises to give	-	1,000
Payments on bonds payable	(120,000)	(720,000)
Net cash used in financing activities	(120,000)	(719,000)
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(133,598)</b>	<b>(359,587)</b>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<b>588,657</b>	<b>948,244</b>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<b>\$ 455,059</b>	<b>\$ 588,657</b>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Cash paid for interest	\$ 121,343	\$ 167,422



**NEIGHBORHOOD CLUB**  
**NOTES TO FINANCIAL STATEMENTS**  
**August 31, 2020 and 2019**

**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.

**Adoption of New Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the current revenue recognition requirements in Topic 605, Revenue Recognition. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The Club adopted the ASU effective September 1, 2019. The adoption of the ASU resulted in no change from the prior year net assets.

In June 2018, the FASB issued ASU No. 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958). The ASU provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and (2) determining whether a contribution is conditional. Management performed an assessment of the Club's contributions and determined the adoption of the standard has no impact on the recognition of contributions for the year ended August 31, 2020 or 2019.

**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)*.

**NEIGHBORHOOD CLUB**  
**NOTES TO FINANCIAL STATEMENTS**  
**August 31, 2020 and 2019**

**NOTE 1 – SUMMARY OF ACCOUNTING POLICIES (Continued)**

**Classification of Net Assets**

The financial statements of the Club have been prepared in accordance with U.S. generally accepted accounting principles (“US GAAP”), which requires the Club to report information regarding its financial position according to the following net asset classifications:

**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.

**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.

**NEIGHBORHOOD CLUB**  
**NOTES TO FINANCIAL STATEMENTS**  
**August 31, 2020 and 2019**

**NOTE 1 – SUMMARY OF ACCOUNTING POLICIES (Continued)**

**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, 2020 and 2019.

**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 for both years ended August 31, 2020 and 2019.

**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, 2020 and 2019 amount to \$214,148 and \$267,462, 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.

**NEIGHBORHOOD CLUB**  
**NOTES TO FINANCIAL STATEMENTS**  
**August 31, 2020 and 2019**

**NOTE 1 – SUMMARY OF ACCOUNTING POLICIES (Continued)**

**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.

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.

**Conditional Contributions**

Unconditional contributions are recognized as contribution revenue when received. Conditional contributions for which the conditions have been substantially met or explicitly waived by the donor are recorded as contribution revenue. Contributions that are restricted by the donor are reported as refundable advance until all conditions are substantially met to remove the restriction.

**NEIGHBORHOOD CLUB**  
**NOTES TO FINANCIAL STATEMENTS**  
**August 31, 2020 and 2019**

**NOTE 1 – SUMMARY OF ACCOUNTING POLICIES (Continued)**

**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, 2020 and 2019, 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.

**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 January 12, 2021, the date the financials were available to be issued. Subsequent to the year ended August 31, 2020, the Organization's bonds were amended and extended. See Note 8.

**NEIGHBORHOOD CLUB**  
**NOTES TO FINANCIAL STATEMENTS**  
**August 31, 2020 and 2019**

**NOTE 2 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS**

The following reflects the Club's financial assets as of August 31, 2020. All amounts are available for general use within one year.

	August 31,	
	2020	2019
Financial assets		
Cash and cash equivalents	\$ 455,059	\$ 588,657
Receivables, net	19,932	24,756
Investments	5,328,793	4,758,597
Financial assets available to meet general expenditures in one year	<u>\$ 5,803,784</u>	<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:

	August 31,	
Description	2020	2019
Due in less than one year	\$ 6,008	\$ 6,008
Due in one to five years	-	-
Less allowance for doubtful promises	<u>(3,488)</u>	<u>(3,488)</u>
Unconditional promises to give, net	<u>\$ 2,520</u>	<u>\$ 2,520</u>

**NEIGHBORHOOD CLUB**  
**NOTES TO FINANCIAL STATEMENTS**  
**August 31, 2020 and 2019**

**NOTE 4 – INVESTMENTS**

Cost and fair value of investments are as follows:

Description	August 31,			
	2020		2019	
	Cost	Fair Value	Cost	Fair Value
Cash and short-term investments	\$ 135,769	\$ 135,769	\$ 126,907	\$ 126,907
Fixed income securities	1,638,716	1,693,382	1,582,419	1,606,861
Real estate	37,442	60,667	45,090	55,724
Equity securities	3,320,193	3,438,975	2,882,953	2,969,105
Total	<u>\$ 5,132,120</u>	<u>\$ 5,328,793</u>	<u>\$ 4,637,369</u>	<u>\$ 4,758,597</u>

Investment income consists of the following at:

Description	August 31,	
	2020	2019
Interest and dividend income	\$ 102,339	\$ 106,854
Net realized and unrealized gain (loss)	494,197	(30,178)
Less: Investment expenses	<u>(31,662)</u>	<u>(32,464)</u>
Net investment return	<u>\$ 564,874</u>	<u>\$ 44,212</u>

**NEIGHBORHOOD CLUB**  
**NOTES TO FINANCIAL STATEMENTS**  
**August 31, 2020 and 2019**

**NOTE 5 – PROPERTY AND EQUIPMENT**

Property and equipment consists of the following at:

	August 31,	
	2020	2019
Land	\$ 488,026	\$ 488,026
Building	8,491,375	8,491,375
Building improvements	118,953	118,953
Furniture and fixtures	710,577	697,709
Computer software	44,161	44,161
Program equipment	157,436	157,436
Transportation equipment	38,437	38,437
Total	10,048,965	10,036,097
Less: Accumulated depreciation and amortization	2,388,654	2,146,201
Property and equipment, net	<u>\$ 7,660,311</u>	<u>\$ 7,889,896</u>

Depreciation and amortization expense for the years ended August 31, 2020 and 2019 was \$285,605 and \$286,936, 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.



**NEIGHBORHOOD CLUB**  
**NOTES TO FINANCIAL STATEMENTS**  
**August 31, 2020 and 2019**

**NOTE 6 – FAIR VALUE MEASUREMENT (Continued)**

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;
- 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:* 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, 2020 and 2019**

**NOTE 6 – FAIR VALUE MEASUREMENT (Continued)**

	August 31, 2020			
	Level 1	Level 2	Level 3	Total
Fixed income securities	\$ 1,693,382	\$ -	\$ -	\$ 1,693,382
Real estate	60,667	-	-	60,667
Cash and short-term investments	135,769	-	-	135,769
Equity securities	3,438,975	-	-	3,438,975
<b>Total assets</b>	<b>5,328,793</b>	<b>-</b>	<b>-</b>	<b>5,328,793</b>
Liability - Interest rate swap	-	20,094	-	20,094
	<u>\$ 5,328,793</u>	<u>\$ (20,094)</u>	<u>\$ -</u>	<u>\$ 5,308,699</u>
	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
Cash and short-term investments	126,907	-	-	126,907
Equity securities	2,969,105	-	-	2,969,105
<b>Total assets</b>	<b>4,758,597</b>	<b>-</b>	<b>-</b>	<b>4,758,597</b>
Liability - Interest rate swap	-	47,692	-	47,692
	<u>\$ 4,758,597</u>	<u>\$ (47,692)</u>	<u>\$ -</u>	<u>\$ 4,710,905</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, 2020 and 2019**

**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, 2020 is as follows:

Description	Without Donor Restrictions	With Donor Restrictions	Total
Donor restricted endowment funds	\$ -	\$ 216,009	\$ 216,009
Board designated endowment funds	5,112,784	-	5,112,784
Total endowment net asset composition by type of fund	<u>\$ 5,112,784</u>	<u>\$ 216,009</u>	<u>\$ 5,328,793</u>

**NEIGHBORHOOD CLUB**  
**NOTES TO FINANCIAL STATEMENTS**  
**August 31, 2020 and 2019**

**NOTE 7 – ENDOWMENT FUNDS (Continued)**

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>

Changes in endowment net assets for the fiscal year ended August 31, 2020 are as follows:

Description	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 4,542,588	\$ 216,009	\$ 4,758,597
Investment return - investment income-net	67,469	3,208	70,677
Net appreciation (realized and unrealized)	471,764	22,433	494,197
Appropriation of endowment income for spending	-	(25,641)	(25,641)
Board authorized transfer to board designated endowment	<u>30,963</u>	<u>-</u>	<u>30,963</u>
Endowment net assets, end of year	<u>\$ 5,112,784</u>	<u>\$ 216,009</u>	<u>\$ 5,328,793</u>

**NEIGHBORHOOD CLUB**  
**NOTES TO FINANCIAL STATEMENTS**  
**August 31, 2020 and 2019**

**NOTE 7 – ENDOWMENT FUNDS (Continued)**

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

Description	Without Donor Restrictions	With Donor Restrictions	Total
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>\$ 4,542,588</u>	<u>\$ 216,009</u>	<u>\$ 4,758,597</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, 2020 and 2019**

**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 2020, unless tendered earlier as described above. Interest is payable monthly based on LIBOR plus an applicable spread. Subsequent to the year ended August 31, 2020, the bonds were amended.

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, 2020, the Organization was in compliance with these covenants.

Effective December 1, 2020, the bonds were amended and extended the tender date through December 1, 2025. Under the amendment, the Organization will pay \$15,583 in principal payments plus interest at 0.79% times the LIBO Rate plus 210 basis points. The amendment includes various restrictive covenants, such as maintaining a debt service coverage ratio and maintaining unrestricted liquid assets levels.

Bonds payable at August 31, 2020 consist of the following:

Bonds payable to the Bank	\$ 2,843,280
Bond issuance costs, net	<u>(63,719)</u>
Total bonds payable	<u>\$ 2,779,561</u>

**NEIGHBORHOOD CLUB**  
**NOTES TO FINANCIAL STATEMENTS**  
**August 31, 2020 and 2019**

**NOTE 8 – BONDS PAYABLE (Continued)**

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>

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, 2020 and 2019 was \$23,573 and \$20,081, respectively.

Future minimum principal maturities of the bonds for the five years subsequent to August 31, 2020, are scheduled as followed:

<u>Year ending August 31,</u>	<u>Amount</u>
2021	\$ 164,667
2022	187,000
2023	187,000
2024	187,000
2025	187,000
Thereafter	<u>1,930,613</u>
Total future bond payments	<u>\$ 2,843,280</u>

Total principal payments were \$120,000 and \$720,000 for the years ended August 31, 2020 and 2019, respectively.

In conjunction with the 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 9). Effective September 1, 2018 the fixed rate on the swap agreement was increased to 4.27% as a result of corporate tax rate changes. The swap agreement was not renewed with the amendment of the bonds payable.

**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, 2020 and 2019**

**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, 2020). 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, 2020 and 2019, the notional amount of the swap agreement was \$2,776,865 and \$2,911,194, respectively. The change in fair value of the interest rate swap has been recognized as a gain of \$27,598 for the year ended August 31, 2020 and a loss of \$3,003 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 \$20,094 and \$47,692 at August 31, 2020 and 2019, respectively.

**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. 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 \$19,658 and \$19,061 for the years ended August 31, 2020 and 2019, respectively, and are included in net investment return. The fair value of the Endowment Fund was \$448,769 and \$448,769 as of August 31, 2020 and 2019, respectively, as reported by the Community Foundation.

**NOTE 11 – NET ASSETS**

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

	August 31,	
	2020	2019
Long-term operations of the Club	<u>\$ 5,112,784</u>	<u>\$ 4,542,588</u>



**NEIGHBORHOOD CLUB**  
**NOTES TO FINANCIAL STATEMENTS**  
**August 31, 2020 and 2019**

**NOTE 11 – NET ASSETS (Continued)**

Net assets with donor restrictions were comprised of the following:

	August 31,	
	2020	2019
Building for the future	\$ 107,362	\$ 107,362
Long term pledges	2,520	2,520
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>\$ 325,891</u>

**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, 2020:

Year ending August 31,	Amount
2021	\$ 324,173
2022	330,214
2023	336,254
2024	342,295
2025	114,770
Total future minimum lease revenue	<u>\$ 1,447,706</u>

Total rental revenue was \$320,951 and \$380,531 for the years ended August 31, 2020 and 2019, respectively. The revenues include \$60,870 and \$74,177 in reimbursed operating expenses for the years ended August 31, 2020 and 2019, respectively.

**NEIGHBORHOOD CLUB**  
**NOTES TO FINANCIAL STATEMENTS**  
**August 31, 2020 and 2019**

**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, 2020 and 2019 were \$-0- and \$31,800, 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, 2020 and 2019 was \$69,081 and \$67,638, respectively.

Minimum future rental payments under non-cancelable operating leases having initial or remaining terms in excess of one year as of August 31, 2020 for each of the next two years are:

<u>Year ending August 31,</u>	<u>Amount</u>
2021	\$ 69,143
2022	<u>3,262</u>
Total future minimum lease payments	<u><u>\$ 72,405</u></u>

**NOTE 15 – COVID-19**

On March 11, 2020, the World Health Organization declared a novel strain of coronavirus disease ("COVID-19") a pandemic. The extent of COVID-19's effect on the Club's operational and financial performance will depend on future developments, including the duration, spread and intensity of the pandemic, all of which are uncertain and difficult considering the rapidly evolving landscape

Due to the COVID-19 pandemic, the Club adhered to the state's orders and closed the Club for operations in March 2020 and shifted to virtual programs wherever possible. Following the state's guidelines, the Club reopened the Hospital space in June 2020 and the Recreation and Wellness Center in September 2020. The Club also waived membership fee billings from April 2020 until October 2020. As a result, it is not currently possible to ascertain the overall impact of COVID-19 on the Club's finances. However, if the pandemic continues to evolve into a severe worldwide health crisis, the disease could have a material adverse impact on the Club's activities, results of operations, financial condition and cash flows.

**NEIGHBORHOOD CLUB**  
**NOTES TO FINANCIAL STATEMENTS**  
**August 31, 2020 and 2019**

**NOTE 16 – PAYCHECK PROTECTION PROGRAM LOAN AND FORGIVENESS**

On April 22, 2020, the Club was granted a loan in the amount of \$208,610 under the Paycheck Protection Program (“PPP”) administered by a Small Business Administration (“SBA”) approved partner. The loan is uncollateralized and fully guaranteed by the Federal government. The Club is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements including maintaining employment levels during its 24-week covered period and using the funds for certain payroll, rent and utility expenses. The Club initially recorded the loan as a refundable advance. Subsequently the Club recognized grant revenue in accordance with ASC 985-605, *Not-for-Profit Entities – Revenue Recognition*; that is, once the measurable performance or barrier and right of return of the PPP loan no longer existed. The Club will be required to repay any remaining balance not forgiven, plus interest accrued at 1% per annum. The Club has recognized \$208,610 as grant revenue for the year ended August 31, 2020.

## **SUPPLEMENTARY INFORMATION**

**NEIGHBORHOOD CLUB**  
**SCHEDULES OF PROGRAM REVENUE AND DIRECT EXPENSES**

August 31,				
2020			2019	
	Program Service Revenue	Direct Expenses	Excess of Revenue Over (Under) Direct Expenses	Excess of Revenue Over (Under) Direct Expenses
Personal training	\$ 98,109	\$ 59,957	\$ 38,152	\$ 62,324
Basketball	78,307	43,574	34,733	44,921
Preschool	85,606	65,673	19,933	69,227
Soccer	34,392	16,568	17,824	29,758
Specialty classes	13,120	-	13,120	6,502
Camps (Winter/Summer)	23,723	11,716	12,007	49,464
Volleyball	19,549	8,327	11,222	8,671
Gymnastics	24,862	14,568	10,294	5,816
Flag Football	14,747	5,435	9,312	6,614
Rowing	12,599	3,422	9,177	16,420
Classes	15,300	7,354	7,946	4,802
Karate	18,827	13,338	5,489	12,727
Party rentals	6,803	3,111	3,692	7,170
Adaptive recreation	3,300	651	2,649	236
Lacrosse	8,426	5,902	2,524	6,276
Computer education	2,150	-	2,150	2,759
Preschool activity	675	-	675	1,055
Field hockey	3,644	3,160	484	(1,199)
T-Ball	2,588	4,167	(1,579)	6,425
Building use	2,325	4,515	(2,190)	(1,135)
Adult Softball	4,195	10,056	(5,861)	(2,062)
Aquatics	49,107	64,667	(15,560)	(1,691)
Program shared costs	-	16,403	(16,403)	(16,660)
Fitness center admin	23,554	245,676	(222,122)	(251,449)
Total program revenue and expenses	\$ 545,908	\$ 608,240	\$ (62,332)	\$ 66,971