

NEIGHBORHOOD CLUB

AUDITED FINANCIAL STATEMENTS

Years ended August 31, 2017 and 2016

NEIGHBORHOOD CLUB

TABLE OF CONTENTS

	Page
Independent Auditor's Report	1
Financial Statements	
Statements of Financial Position	3
Statements of Activities and Changes in Net Assets	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	25

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, 2017 and 2016, and the related statements of activities and changes in net assets, 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, 2017 and 2016, 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.

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
November 9, 2017

NEIGHBORHOOD CLUB
STATEMENTS OF FINANCIAL POSITION

	August 31,	
	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 706,506	\$ 772,458
Unconditional promises to give, current portion	7,193	19,129
Other receivables	5,768	5,750
Prepaid expenses	223	3,076
Total current assets	719,690	800,413
PROPERTY AND EQUIPMENT, net	8,259,194	8,437,576
OTHER ASSETS		
Restricted cash	195	195
Investments	3,919,409	3,307,017
Total other assets	3,919,604	3,307,212
TOTAL ASSETS	\$ 12,898,488	\$ 12,545,201
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 25,269	\$ 57,792
Accrued payroll liabilities	143,024	143,260
Deferred program and membership revenue	134,088	153,945
Bonds payable, current portion	120,000	120,000
Total current liabilities	422,381	474,997
LONG-TERM LIABILITIES		
Security deposit	-	3,174
Interest rate swap agreement	153,728	258,949
Bonds payable, net, less current portion	3,609,084	3,725,592
Total liabilities	4,185,193	4,462,712
NET ASSETS		
Unrestricted:		
Undesignated	4,679,331	4,648,981
Board designated	3,703,400	3,091,008
Total unrestricted net assets	8,382,731	7,739,989
Temporarily restricted	114,555	126,491
Permanently restricted	216,009	216,009
Total net assets	8,713,295	8,082,489
TOTAL LIABILITIES AND NET ASSETS	\$ 12,898,488	\$ 12,545,201

NEIGHBORHOOD CLUB
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

	Year ended August 31, 2017				Year ended August 31, 2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND PUBLIC SUPPORT								
Program service revenue:								
Membership dues, net	\$ 1,595,367	\$ -	\$ -	\$ 1,595,367	\$ 1,474,410	\$ -	\$ -	\$ 1,474,410
Program fees, net	863,748	-	-	863,748	905,693	-	-	905,693
Total program service revenue	2,459,115	-	-	2,459,115	2,380,103	-	-	2,380,103
Public support:								
Annual fund contributions	119,459	-	-	119,459	112,744	-	-	112,744
Other contributions	19,407	-	-	19,407	33,149	-	-	33,149
Restricted contributions	-	-	-	-	-	69,497	-	69,497
Donations-in-kind	169,962	-	-	169,962	205,628	-	-	205,628
Total public support	308,828	-	-	308,828	351,521	69,497	-	421,018
Other revenues and gains (losses):								
Thrift shop sales, net of commissions	170,004	-	-	170,004	205,628	-	-	205,628
Rental revenue	366,094	-	-	366,094	356,038	-	-	356,038
Investment return, net	309,873	-	-	309,873	162,462	-	-	162,462
Loss on sale of property and equipment	(11,110)	-	-	(11,110)	(7,218)	-	-	(7,218)
Gain (loss) on interest rate swap agreement	105,221	-	-	105,221	(31,146)	-	-	(31,146)
Other revenues	5,610	-	-	5,610	7,068	-	-	7,068
Total other revenues	945,692	-	-	945,692	692,832	-	-	692,832
Net assets released from restrictions	11,936	(11,936)	-	-	66,845	(66,845)	-	-
Total revenues and public support	3,725,571	(11,936)	-	3,713,635	3,491,301	2,652	-	3,493,953
FUNCTIONAL EXPENSES								
Program and services	2,718,208	-	-	2,718,208	2,772,312	-	-	2,772,312
General and administrative	334,314	-	-	334,314	311,666	-	-	311,666
Fundraising	30,307	-	-	30,307	34,153	-	-	34,153
Total functional expenses	3,082,829	-	-	3,082,829	3,118,131	-	-	3,118,131
CHANGE IN NET ASSETS	642,742	(11,936)	-	630,806	373,170	2,652	-	375,822
NET ASSETS , Beginning of year	7,739,989	126,491	216,009	8,082,489	7,366,819	123,839	216,009	7,706,667
NET ASSETS , End of year	\$ 8,382,731	\$ 114,555	\$ 216,009	\$ 8,713,295	\$ 7,739,989	\$ 126,491	\$ 216,009	\$ 8,082,489

NEIGHBORHOOD CLUB
STATEMENTS OF FUNCTIONAL EXPENSES

	Year ended August 31, 2017				Year ended August 31, 2016			
	Supporting Services			Total Functional Expenses	Supporting Services			Total Functional Expenses
	Program Services	Management and General	Fundraising		Program Services	Management and General	Fundraising	
Direct program expenses	\$ 753,203	\$ -	\$ -	\$ 753,203	\$ 803,310	\$ -	\$ -	\$ 803,310
Salaries and wages	832,007	208,002	20,759	1,060,768	785,515	196,379	20,944	1,002,838
Payroll taxes	80,820	20,205	1,588	102,613	77,892	19,473	1,602	98,967
Employee insurance	22,471	5,618	805	28,894	17,574	4,393	805	22,772
Total direct program expenses, salaries and related expenses	1,688,501	233,825	23,152	1,945,478	1,684,291	220,245	23,351	1,927,887
Property and liability insurance	29,372	1,546	-	30,918	30,426	1,601	-	32,027
Care of building	97,583	5,136	-	102,719	87,287	4,594	-	91,881
Utilities	146,526	7,712	-	154,238	149,111	7,848	-	156,959
Payroll costs	2,603	2,602	-	5,205	2,371	2,372	-	4,743
Office supplies	27,312	2,124	910	30,346	30,465	2,369	1,015	33,849
Postage	1,981	660	-	2,641	4,460	1,487	-	5,947
Accounting fees	-	15,900	-	15,900	-	15,900	-	15,900
Telephone	5,142	271	-	5,413	4,392	231	-	4,623
Printing	-	-	6,245	6,245	-	-	9,787	9,787
Miscellaneous	3,764	2,509	-	6,273	3,045	2,030	-	5,075
Credit card fees	51,406	-	-	51,406	48,854	-	-	48,854
Staff development	2,909	727	-	3,636	2,046	511	-	2,557
Legal fees	-	1,191	-	1,191	-	1,516	-	1,516
Professional fees	5,491	-	-	5,491	50,055	-	-	50,055
Parking	-	7,200	-	7,200	-	8,406	-	8,406
Maintenance of trucks	1,157	-	-	1,157	1,081	-	-	1,081
403(b) Match	-	29,920	-	29,920	-	20,570	-	20,570
Thrift shop utilities, rent, supplies	217,647	-	-	217,647	255,189	-	-	255,189
Total expenses before interest, depreciation and amortization	2,281,394	311,323	30,307	2,623,024	2,353,073	289,680	34,153	2,676,906
Interest	138,214	7,091	-	145,305	117,003	5,975	-	122,978
Depreciation and amortization	298,600	15,900	-	314,500	302,236	16,011	-	318,247
Total expenses	<u>\$ 2,718,208</u>	<u>\$ 334,314</u>	<u>\$ 30,307</u>	<u>\$ 3,082,829</u>	<u>\$ 2,772,312</u>	<u>\$ 311,666</u>	<u>\$ 34,153</u>	<u>\$ 3,118,131</u>

NEIGHBORHOOD CLUB

STATEMENTS OF CASH FLOWS

	Years ended August 31,	
	2017	2016
OPERATING ACTIVITIES		
Change in net assets	\$ 630,806	\$ 375,822
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation and amortization	314,500	318,247
Net realized and unrealized (gain) on investments	(239,564)	(85,799)
Non-cash interest expense	3,492	3,492
Loss on sale of property and equipment	11,110	7,218
Change in fair value of interest rate swap	(105,221)	31,146
Changes in:		
Other receivables	(18)	(4,537)
Prepaid expenses	2,853	(394)
Accounts payable	(32,523)	(8,021)
Accrued payroll liabilities	(236)	138,922
Deferred program and membership revenue	(19,857)	28,424
Security deposit	(3,174)	(24,665)
Net cash provided by operating activities	<u>562,168</u>	<u>779,855</u>
INVESTING ACTIVITIES		
Proceeds from sale of property and equipment	18,800	5,600
Purchase of property and equipment	(166,027)	(91,215)
Proceeds from sale of investments	303,033	624,492
Purchases of investments	(675,862)	(1,357,884)
Net cash used in investing activities	<u>(520,056)</u>	<u>(819,007)</u>
FINANCING ACTIVITIES		
Unconditional promises to give	11,936	(2,652)
Payments on bonds payable	(120,000)	(100,000)
Net cash used in operating activities	<u>(108,064)</u>	<u>(102,652)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	<u>(65,952)</u>	<u>(141,804)</u>
CASH AND CASH EQUIVALENTS, beginning of year	<u>772,458</u>	<u>914,262</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 706,506</u></u>	<u><u>\$ 772,458</u></u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	<u><u>\$ 113,511</u></u>	<u><u>\$ 119,486</u></u>

NEIGHBORHOOD CLUB
NOTES TO FINANCIAL STATEMENTS
August 31, 2017 and 2016

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).

Financial statement presentation follows the recommendations of the ASC topic-Presentation of Financial Statements for Not-for-Profit Entities. The Club is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

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 held with Northern Trust.

NEIGHBORHOOD CLUB
NOTES TO FINANCIAL STATEMENTS
August 31, 2017 and 2016

NOTE 1 – SUMMARY OF ACCOUNTING POLICIES (Continued)

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, 2017 and 2016.

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 August 31st, and establishes an allowance for doubtful pledges. The allowance for doubtful pledges was \$15,300 at both August 31, 2017 and 2016.

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, 2017 and 2016 amount to \$170,004 and \$205,628, 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 5). 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.

NEIGHBORHOOD CLUB
NOTES TO FINANCIAL STATEMENTS
August 31, 2017 and 2016

NOTE 1 – SUMMARY OF ACCOUNTING POLICIES (Continued)

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 is 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

Effective September 1, 2016, the Organization adopted new accounting standards that require debt issuance costs related to a recognized debt liability be presented in the statements of financial position as a direct deduction from the carrying amount of that debt liability. Previously, the Organization presented unamortized debt issuance costs as bond issuance costs on the statements of financial position. The Organization retrospectively presented debt issuance costs as a deduction from long-term debt for all periods presented. The reclassification reduced total assets and long-term debt by \$77,688 at August 31, 2016 with no effect on net assets or net increase in net assets for the year. See Note 7.

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.

NEIGHBORHOOD CLUB
NOTES TO FINANCIAL STATEMENTS
August 31, 2017 and 2016

NOTE 1 – SUMMARY OF ACCOUNTING POLICIES (Continued)

Net Assets

Unrestricted Activities

The unrestricted activities of the Club consist of the general operations of the Club. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.

Temporarily Restricted Activities

The temporarily restricted activities of the Club consist of contributions received and endowment earnings that are restricted as to use or time as specified by the donor. The restrictions expire when the purpose or time restriction has been accomplished.

Permanently Restricted Activities

The permanently restricted activities of the Club include contributions held for investment purposes as stipulated by the donor. The Club's Board of Directors considers unrestricted investment earnings to be appropriated for use in the year earned.

Contributions with donor-imposed restrictions that are met in the same year as received or earned are reported as unrestricted revenues. Contributions with donor-imposed restrictions that are not met in the same year as received are reported as temporarily restricted revenues and are reclassified to unrestricted net assets when the donor-imposed restriction is met or when the restriction expires due to the passage of time.

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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions.

NEIGHBORHOOD CLUB
NOTES TO FINANCIAL STATEMENTS
August 31, 2017 and 2016

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, 2017 and 2016, 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 fund-raising 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 November 9, 2017, the date the financials were available to be issued.

NEIGHBORHOOD CLUB
NOTES TO FINANCIAL STATEMENTS
August 31, 2017 and 2016

NOTE 2 – UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give consist of the following:

Description	August 31,	
	2017	2016
Due in less than one year	\$ 24,311	\$ 36,247
Due in one to five years	-	-
Less discounts to net present value (using a 1.4% discount rate)	(1,818)	(1,818)
Less allowance for doubtful promises	<u>(15,300)</u>	<u>(15,300)</u>
Unconditional promises to give, net	<u>\$ 7,193</u>	<u>\$ 19,129</u>

NOTE 3 – INVESTMENTS

Cost and fair value of investments are as follows:

Description	August 31,			
	2017		2016	
	Cost	Fair Value	Cost	Fair Value
Cash and short-term investments	\$ 359,734	\$ 359,734	\$ 67,151	\$ 67,151
Fixed income securities	1,161,945	1,165,259	1,267,481	1,271,071
Commodities	172,986	176,372	61,928	50,616
Real estate	168,803	189,183	168,803	189,361
Equity securities	<u>1,542,546</u>	<u>2,028,861</u>	<u>1,426,489</u>	<u>1,728,818</u>
Total	<u>\$ 3,406,014</u>	<u>\$ 3,919,409</u>	<u>\$ 2,991,852</u>	<u>\$ 3,307,017</u>

Investment income consists of the following:

Description	August 31,	
	2017	2016
Interest and dividend income	\$ 77,747	\$ 91,398
Net realized and unrealized gain	248,246	85,799
Less: Investment expenses	<u>(16,120)</u>	<u>(14,735)</u>
Net investment return	<u>\$ 309,873</u>	<u>\$ 162,462</u>

NEIGHBORHOOD CLUB
NOTES TO FINANCIAL STATEMENTS
August 31, 2017 and 2016

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	August 31,	
	2017	2016
Land	\$ 488,026	488,026
Building	8,491,375	8,491,375
Building improvements	69,126	54,807
Furniture and fixtures	557,617	519,183
Computer software	44,161	44,161
Program equipment	157,436	157,436
Construction in Progress	12,150	-
Transportation equipment	12,761	12,761
Total	9,832,652	9,767,749
Less: Accumulated depreciation and amortization	1,573,458	1,330,173
Property and equipment, net	<u>\$ 8,259,194</u>	<u>\$ 8,437,576</u>

Depreciation and amortization expense for the years ended August 31, 2017 and 2016 was \$314,500 and \$318,247, respectively.

NOTE 5 – 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, 2017 and 2016

Note 5 – 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, 2017 and 2016

Note 5 – FAIR VALUE MEASUREMENT (Continued)

	August 31, 2017			
	Level 1	Level 2	Level 3	Total
Fixed income securities	\$ 1,165,259	\$ -	\$ -	\$ 1,165,259
Commodities	176,372	-	-	176,372
Real estate	189,183	-	-	189,183
Equity securities	2,028,861	-	-	2,028,861
 Total assets	 3,559,675	 -	 -	 3,559,675
 Liability - Interest rate swap	 -	 153,728	 -	 153,728
	<u>\$ 3,559,675</u>	<u>\$ (153,728)</u>	<u>\$ -</u>	<u>\$ 3,405,947</u>
	August 31, 2016			
	Level 1	Level 2	Level 3	Total
Fixed income securities	\$ 1,271,071	\$ -	\$ -	\$ 1,271,071
Commodities	50,616	-	-	50,616
Real estate	189,361	-	-	189,361
Equity securities	1,728,818	-	-	1,728,818
 Total assets	 3,239,866	 -	 -	 3,239,866
 Liability - Interest rate swap	 -	 258,949	 -	 258,949
	<u>\$ 3,239,866</u>	<u>\$ (258,949)</u>	<u>\$ -</u>	<u>\$ 2,980,917</u>

NOTE 6 – 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, 2017 and 2016

NOTE 6 – 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 permanently restricted net assets (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 that is not classified in permanently restricted net assets 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, 2017 is as follows:

Description	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ -	\$ -	\$ 216,009	\$ 216,009
Board designated endowment funds	<u>3,703,400</u>	<u>-</u>	<u>-</u>	<u>3,703,400</u>
Total endowment net asset composition by type of fund	<u>\$3,703,400</u>	<u>\$ -</u>	<u>\$ 216,009</u>	<u>\$3,919,409</u>

NEIGHBORHOOD CLUB
NOTES TO FINANCIAL STATEMENTS
August 31, 2017 and 2016

NOTE 6 – ENDOWMENT FUNDS (Continued)

Endowment net asset composition by type of fund as of August 31, 2016 is as follows:

Description	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ -	\$ -	\$ 216,009	\$ 216,009
Board designated endowment funds	<u>3,091,008</u>	<u>-</u>	<u>-</u>	<u>3,091,008</u>
Total endowment net asset composition by type of fund	<u>\$3,091,008</u>	<u>\$ -</u>	<u>\$ 216,009</u>	<u>\$3,307,017</u>

Changes in endowment net assets for the fiscal year ended August 31, 2017 are as follows:

Description	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$3,091,008	\$ -	\$ 216,009	\$3,307,017
Investment return- investment income-net	65,717	4,592	-	70,309
Net appreciation (realized and unrealized)	223,916	15,648	-	239,564
Appropriation of endowment income for spending	-	(20,240)	-	(20,240)
Board authorized transfer to board designated endowment	<u>322,759</u>	<u>-</u>	<u>-</u>	<u>322,759</u>
Endowment net assets, end of year	<u>\$3,703,400</u>	<u>\$ -</u>	<u>\$ 216,009</u>	<u>\$3,919,409</u>

NEIGHBORHOOD CLUB
NOTES TO FINANCIAL STATEMENTS
August 31, 2017 and 2016

NOTE 6 – ENDOWMENT FUNDS (Continued)

Changes in endowment net assets for the fiscal year ended August 31, 2016 are as follows:

Description	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$2,271,817	\$ -	\$ 216,009	\$2,487,826
Investment return- investment income-net	70,007	6,656	-	76,663
Net appreciation (realized and unrealized)	78,349	7,450	-	85,799
Appropriation of endowment income for spending	-	(14,106)	-	(14,106)
Board authorized transfer to board designated endowment	670,835	-	-	670,835
Endowment net assets, end of year	<u>\$3,091,008</u>	<u>\$ -</u>	<u>\$ 216,009</u>	<u>\$3,307,017</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, 2017 and 2016

NOTE 6 – 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 7 – 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, 2017, the Club was in compliance with these covenants.

Bonds payable at August 31, 2017 consist of the following:

Bonds payable to the Bank	\$ 3,803,280
Bond issuance costs, net	<u>(74,196)</u>
Total bonds payable	<u>\$ 3,729,084</u>

NEIGHBORHOOD CLUB
NOTES TO FINANCIAL STATEMENTS
August 31, 2017 and 2016

NOTE 7 – BONDS PAYABLE (Continued)

Bonds payable at August 31, 2016 consist of the following:

Bonds payable to the Bank	\$ 3,923,280
Bond issuance costs, net	<u>(77,688)</u>
Total bonds payable	<u>\$ 3,845,592</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, 2017 and 2016 was \$13,096 and \$9,604, respectively.

Future minimum principal maturities of the bonds for the five years subsequent to August 31, 2017, are scheduled as follows:

<u>Year ending August 31,</u>	<u>Amount</u>
2018	\$ 120,000
2019	120,000
2020	120,000
2021	120,000
2022	120,000
Thereafter	<u>3,203,280</u>
Total future bond payments	<u>\$ 3,803,280</u>

Total principal payments were \$120,000 and \$100,000 for the years ended August 31, 2017 and 2016, 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 fixes the rate paid on the bonds payable at 3.58% until December 1, 2020 (See note 8).

NEIGHBORHOOD CLUB
NOTES TO FINANCIAL STATEMENTS
August 31, 2017 and 2016

NOTE 8 – 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.

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 (2.10% as of August 31, 2017).

As of August 31, 2017, the notional amount of the swap agreement was \$3,779,851. The change in fair value of the interest rate swap of (\$105,221) has been recognized as a gain for the year ended August 31, 2017. The Club has recorded the fair value of the interest rate swap agreement, which resulted in a liability of \$153,728 at August 31, 2017.

NOTE 9 – 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 \$19,407 and \$19,904 for the years ended August 31, 2017 and 2016, respectively, and are included in net investment return. The fair value of the Endowment Fund was \$440,621 and \$415,182 as of August 31, 2017 and 2016, respectively, as reported by the Community Foundation.

NEIGHBORHOOD CLUB
NOTES TO FINANCIAL STATEMENTS
August 31, 2017 and 2016

NOTE 10 – NET ASSETS

The Board has designated the following unrestricted net assets:

	August 31,	
	2017	2016
Long-term operations of the Club	<u>\$ 3,703,400</u>	<u>\$ 3,091,008</u>

Temporarily restricted net assets were comprised of the following:

	August 31,	
	2017	2016
Building for the future	\$ 107,362	\$ 107,362
Long term pledges	<u>7,193</u>	<u>19,129</u>
Temporarily restricted net assets	<u>\$ 114,555</u>	<u>\$ 126,491</u>

Permanently restricted net assets were comprised of the following:

	August 31,	
	2017	2016
Long-term support of youth programs	\$ 100,000	\$ 100,000
Land	<u>116,009</u>	<u>116,009</u>
Temporarily restricted net assets	<u>\$ 216,009</u>	<u>\$ 216,009</u>

NEIGHBORHOOD CLUB
NOTES TO FINANCIAL STATEMENTS
August 31, 2017 and 2016

NOTE 11 – 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, 2017:

Year ending August 31,	Amount
2018	\$ 305,549
2019	311,592
2020	317,633
2021	323,669
2022	329,712
Subsequent to 2022	<u>821,007</u>
Total future minimum lease revenue	<u>\$ 2,409,162</u>

Total rental revenue was \$366,094 and \$356,038 for the years ended August 31, 2017 and 2016, respectively. The revenues include \$69,870 and \$67,167 in reimbursed operating expenses for the years ended August 31, 2017 and 2016, respectively.

NOTE 12 – 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, 2017 and 2016 were \$29,920 and \$20,570, respectively.

NEIGHBORHOOD CLUB
NOTES TO FINANCIAL STATEMENTS
August 31, 2017 and 2016

NOTE 13 – 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 2019. 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, 2017 and 2016 was \$66,900 and \$65,325, respectively.

Minimum future rental payments under non-cancelable operating leases having initial or remaining terms in excess of one year as of August 31, 2017 for each of the next three years are:

<u>Year ending August 31,</u>	<u>Amount</u>
2018	\$ 37,577
2019	37,638
2020	<u>3,137</u>
Total future minimum lease payments	<u>\$ 78,352</u>

SUPPLEMENTARY INFORMATION

NEIGHBORHOOD CLUB
SCHEDULES OF PROGRAM REVENUE AND DIRECT EXPENSES

	August 31,			
	2017		2016	
	Program Service Revenue	Direct Expenses	Excess of Revenue Over (Under) Direct Expenses	Excess of Revenue Over (Under) Direct Expenses
Soccer	\$ 61,677	\$ 27,295	\$ 34,382	\$ 40,298
Nursery School	135,567	68,455	67,112	67,171
Basketball	91,979	45,676	46,303	42,533
Summer camps	63,570	26,476	37,094	34,493
Community education	40,894	18,155	22,739	21,149
Lacrosse	15,533	10,454	5,079	8,577
Karate	42,649	24,768	17,881	8,533
Volleyball	16,560	9,983	6,577	9,431
Rowing	20,066	7,688	12,378	10,256
Softball and t-ball	24,136	12,731	11,405	12,046
Party rentals	9,877	4,212	5,665	2,968
Football	11,381	5,035	6,346	7,515
Computer education	3,113	-	3,113	5,773
Gymnastics	21,371	7,826	13,545	8,669
Beaumont classes	2,528	-	2,528	2,354
Aerobic slimnastics	1,358	566	792	686
Adaptive recreation	2,676	1,402	1,274	2,504
Zumba	2,185	2,338	(153)	(30)
Aquatics	92,828	92,969	(141)	1,682
Building use	3,585	-	3,585	3,968
Pony pal	-	-	-	1,560
Program shared costs	-	19,712	(19,712)	(31,849)
Fitness center	200,215	367,462	(167,247)	(157,904)
Total program revenue and expenses	<u>\$ 863,748</u>	<u>\$ 753,203</u>	<u>\$ 110,545</u>	<u>\$ 102,383</u>