

# **NEIGHBORHOOD CLUB**

AUDITED FINANCIAL STATEMENTS

Years ended August 31, 2022 and 2021

# NEIGHBORHOOD CLUB

## TABLE OF CONTENTS

	<b>Page</b>
<b>Independent Auditor's Report</b>	1
<b>Financial Statements</b>	
Statements of Financial Position	4
Statements of Activities	5
Statements of Functional Expenses	6
Statements of Cash Flows	7
Notes to Financial Statements	8
<b>Supplementary Information</b>	
Schedules of Program Revenue and Direct Expenses	26

## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of  
Neighborhood Club

### **Opinion**

We have audited the accompanying financial statements of Neighborhood Club (a Michigan not-for-profit corporation, the "Club"), which comprise the statements of financial position as of August 31, 2022 and 2021, and the related statement of activities, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements.

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

### **Basis for Opinion**

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

### **Responsibilities of Management for the Financial Statements**

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

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

### **Auditor's Responsibilities for the Audit of the Financial Statements**

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

In performing an audit in accordance with generally accepted auditing standards, we:

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

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

To the Board of Directors of  
Neighborhood Club  
Page Three

### **Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of revenue and program expenses is presented for purposes 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 that reads "UHY LLP". The letters are stylized and cursive, with the "U" and "H" being particularly prominent.

Farmington Hills, Michigan  
January 16, 2023

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

	<b>August 31,</b>	
	<b>2022</b>	<b>2021</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 736,695	\$ 673,425
Other receivables	15,838	13,873
Prepaid expenses	7,965	18,821
Total current assets	<u>760,498</u>	<u>706,119</u>
<b>PROPERTY AND EQUIPMENT, net</b>	<u>7,196,866</u>	<u>7,363,336</u>
<b>OTHER ASSETS</b>		
Restricted cash	195	195
Investments	5,692,663	6,415,239
Total other assets	<u>5,692,858</u>	<u>6,415,434</u>
<b>TOTAL ASSETS</b>	<u>\$ 13,650,222</u>	<u>\$ 14,484,889</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 18,804	\$ 25,809
Accrued payroll liabilities	82,442	1,938
Deposits	33,354	-
Deferred program and membership revenue	124,305	76,133
Bonds payable, current portion	187,000	187,000
Total current liabilities	<u>445,905</u>	<u>290,880</u>
<b>LONG-TERM LIABILITIES</b>		
Bonds payable, net, less current portion	<u>2,136,854</u>	<u>2,446,980</u>
Total long-term liabilities	<u>2,136,854</u>	<u>2,446,980</u>
Total liabilities	<u>2,582,759</u>	<u>2,737,860</u>
<b>NET ASSETS</b>		
Without donor restrictions:		
Undesignated	5,302,793	5,209,428
Board designated	5,476,654	6,199,230
Total net assets without donor restrictions	<u>10,779,447</u>	<u>11,408,658</u>
With donor restrictions	<u>288,016</u>	<u>338,371</u>
Total net assets	<u>11,067,463</u>	<u>11,747,029</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 13,650,222</u>	<u>\$ 14,484,889</u>

**NEIGHBORHOOD CLUB  
STATEMENTS OF ACTIVITIES**

	Year ended August 31, 2022			Year ended August 31, 2021		
	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	\$ 1,436,584	\$ -	\$ 1,436,584	\$ 1,022,970	\$ -	\$ 1,022,970
Program fees, net	644,180	-	644,180	338,760	-	338,760
Total program service revenue	<u>2,080,764</u>	<u>-</u>	<u>2,080,764</u>	<u>1,361,730</u>	<u>-</u>	<u>1,361,730</u>
Public support:						
Annual fund contributions	113,294	-	113,294	141,456	-	141,456
Other contributions	21,050	-	21,050	20,646	15,000	35,646
Contribution - forgiven PPP loan	-	-	-	-	208,610	208,610
Contributed non-financial assets	337,700	-	337,700	257,483	-	257,483
Total public support	<u>472,044</u>	<u>-</u>	<u>472,044</u>	<u>419,585</u>	<u>223,610</u>	<u>643,195</u>
Other revenues and gains (losses):						
Thrift shop sales, net of commissions	337,766	-	337,766	257,555	-	257,555
Rental revenue	398,366	-	398,366	394,496	-	394,496
Investment return, net	(820,610)	-	(820,610)	1,082,907	-	1,082,907
Loss on sale of property and equipment	(8,947)	-	(8,947)	-	-	-
Gain on interest rate swap agreement	-	-	-	20,094	-	20,094
Other revenues	3,700	-	3,700	1,482	-	1,482
Total other revenues and gains (losses)	<u>(89,725)</u>	<u>-</u>	<u>(89,725)</u>	<u>1,756,534</u>	<u>-</u>	<u>1,756,534</u>
Net assets released from restrictions	50,355	(50,355)	-	211,130	(211,130)	-
Total revenues and public support	<u>2,513,438</u>	<u>(50,355)</u>	<u>2,463,083</u>	<u>3,748,979</u>	<u>12,480</u>	<u>3,761,459</u>
<b>FUNCTIONAL EXPENSES</b>						
Program and services	2,734,063	-	2,734,063	2,321,124	-	2,321,124
General and administrative	373,238	-	373,238	296,340	-	296,340
Fundraising	35,348	-	35,348	20,773	-	20,773
Total functional expenses	<u>3,142,649</u>	<u>-</u>	<u>3,142,649</u>	<u>2,638,237</u>	<u>-</u>	<u>2,638,237</u>
<b>CHANGE IN NET ASSETS</b>	<b>(629,211)</b>	<b>(50,355)</b>	<b>(679,566)</b>	1,110,742	12,480	1,123,222
<b>NET ASSETS</b> , Beginning of year	<u>11,408,658</u>	<u>338,371</u>	<u>11,747,029</u>	10,297,916	325,891	10,623,807
<b>NET ASSETS</b> , End of year	<u>\$ 10,779,447</u>	<u>\$ 288,016</u>	<u>\$ 11,067,463</u>	<u>\$ 11,408,658</u>	<u>\$ 338,371</u>	<u>\$ 11,747,029</u>

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

	Year ended August 31, 2022				Year ended August 31, 2021			
	Program Services	Supporting Services		Total	Program Services	Supporting Services		Total
		Management and General	Fundraising	Functional Expenses		Management and General	Fundraising	Functional Expenses
Direct program expenses	\$ 613,000	\$ -	\$ -	\$ 613,000	\$ 396,094	\$ -	\$ -	\$ 396,094
Salaries and wages	836,539	209,134	26,024	1,071,697	781,092	195,273	15,458	991,823
Payroll taxes	79,541	19,886	1,991	101,418	71,272	17,818	1,183	90,273
Employee insurance	30,942	7,736	557	39,235	41,750	10,437	557	52,744
Total direct program expenses, salaries and related expenses	1,560,022	236,756	28,572	1,825,350	1,290,208	223,528	17,198	1,530,934
Property and liability insurance	35,587	1,873	-	37,460	34,415	1,811	-	36,226
Care of building	103,416	5,443	-	108,859	85,553	4,503	-	90,056
Utilities	181,266	9,540	-	190,806	166,100	8,742	-	174,842
Payroll costs	3,383	3,383	-	6,766	3,264	3,264	-	6,528
Office supplies	24,072	1,872	802	26,746	16,211	1,261	540	18,012
Postage	3,340	1,114	-	4,454	2,812	937	-	3,749
Accounting fees	-	17,500	-	17,500	-	17,500	-	17,500
Printing	-	-	5,974	5,974	-	-	3,035	3,035
Miscellaneous	5,424	1,808	-	7,232	5,292	1,848	-	7,140
Credit card fees	66,230	-	-	66,230	38,483	-	-	38,483
Staff development	2,326	581	-	2,907	1,058	264	-	1,322
Legal fees	-	786	-	786	-	3,755	-	3,755
Professional fees	-	45,087	-	45,087	-	-	-	-
Parking	-	7,200	-	7,200	-	7,200	-	7,200
Maintenance of trucks	1,394	-	-	1,394	708	-	-	708
403(b) match	-	21,600	-	21,600	-	-	-	-
Thrift shop utilities, rent, supplies	392,395	-	-	392,395	306,436	-	-	306,436
Total expenses before interest, depreciation and amortization	2,378,855	354,543	35,348	2,768,746	1,950,540	274,613	20,773	2,245,926
Interest	76,255	4,013	-	80,268	88,458	6,878	-	95,336
Depreciation and amortization	278,953	14,682	-	293,635	282,126	14,849	-	296,975
Total expenses	<u>\$ 2,734,063</u>	<u>\$ 373,238</u>	<u>\$ 35,348</u>	<u>\$ 3,142,649</u>	<u>\$ 2,321,124</u>	<u>\$ 296,340</u>	<u>\$ 20,773</u>	<u>\$ 2,638,237</u>



**NEIGHBORHOOD CLUB  
STATEMENTS OF CASH FLOWS**

	Years ended August 31,	
	2022	2021
<b>OPERATING ACTIVITIES</b>		
Change in net assets	\$ (679,566)	\$ 1,123,222
Adjustments to reconcile change in net assets to net cash flows provided by operating activities:		
Depreciation and amortization	293,635	296,975
Net realized and unrealized (gain) loss on investments	909,480	(1,006,896)
Amortization of deferred financing costs	21,012	16,632
Loss on sale of property and equipment	8,947	-
Change in fair value of interest rate swap	-	(20,094)
Changes in:		
Other receivables	(1,965)	6,059
Prepaid expenses	10,856	(9,659)
Accounts payable	(7,005)	10,467
Accrued payroll liabilities	80,504	451
Deposits	33,354	-
Deferred program and membership revenue	48,172	42,972
Net cash provided by operating activities	<u>717,424</u>	<u>460,129</u>
<b>INVESTING ACTIVITIES</b>		
Proceeds from sale of property and equipment	9,700	-
Purchase of property and equipment	(145,812)	-
Proceeds from sale of investments	2,441,781	2,160,289
Purchases of investments	(2,628,685)	(2,239,839)
Net cash used in investing activities	<u>(323,016)</u>	<u>(79,550)</u>
<b>FINANCING ACTIVITIES</b>		
Payments for bond issuance costs	-	(42,213)
Payments on bonds payable	(331,138)	(120,000)
Net cash used in financing activities	<u>(331,138)</u>	<u>(162,213)</u>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>63,270</b>	<b>218,366</b>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u><b>673,425</b></u>	<u><b>455,059</b></u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u><u><b>\$ 736,695</b></u></u>	<u><u><b>\$ 673,425</b></u></u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Cash paid for interest	<u><u><b>\$ 59,256</b></u></u>	<u><u><b>\$ 78,704</b></u></u>

**NEIGHBORHOOD CLUB**  
**NOTES TO FINANCIAL STATEMENTS**  
**August 31, 2022 and 2021**

**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)*.

**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's management and the board of directors.

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

**NEIGHBORHOOD CLUB**  
**NOTES TO FINANCIAL STATEMENTS**  
**August 31, 2022 and 2021**

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

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. In particular, the COVID-19 pandemic and the resulting adverse impact to global economic conditions, as well as the Club's operations, may affect future estimates.

**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, 2022 and 2021.

**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. 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.

**NEIGHBORHOOD CLUB**  
**NOTES TO FINANCIAL STATEMENTS**  
**August 31, 2022 and 2021**

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

**Investments**

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

**Property and Equipment and Depreciation and Amortization**

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

**Bond Issuance Costs**

The Club presents debt issuance costs related to a recognized debt liability in the statements of financial position as a direct deduction from the carrying amount of that debt liability. See Note 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, 2022 and 2021**

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

**Revenue Recognition**

The Club's revenue under contracts with customers are comprised of membership fees and program fees for services such as training, athletic leagues and classes. The Club satisfies its performance obligations related to membership fees by providing access to the Club and its activities on a monthly basis. Program fees are billed to the members upon sign up for classes, leagues or training and are recognized at the point in time in the period that the services are performed. The Club's contracts with customers generally do not contain variable consideration.

Contract liabilities consist of deferred revenue for membership dues, fees, and deposits received in advance.

Contract balances consist of the following:

	August 31,	
	2022	2021
Contract liabilities, beginning of year	\$ 76,133	\$ 33,161
Contract liabilities, end of year	\$ 157,659	\$ 76,133

**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 have conditions which have not been substantially met or explicitly waived by the donor are reported as refundable advance until all conditions are substantially met.

**NEIGHBORHOOD CLUB**  
**NOTES TO FINANCIAL STATEMENTS**  
**August 31, 2022 and 2021**

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

**Contributed Non-Financial Assets**

Businesses, individuals, and others contribute inventory for the thrift stores toward the fulfillment of programs. To the extent that contributions of materials are objectively measurable and represent program or support expenditures that would otherwise be incurred by the Organization, they are reflected in both support service and program service expenses in the accompanying financial statements. Total revenues and expenses related to donated goods for the years ended August 31, 2022 and 2021 amount to \$337,700 and \$257,483, respectively.

**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, 2022 and 2021, 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 16, 2023, the date the financials were available to be issued.

**NEIGHBORHOOD CLUB**  
**NOTES TO FINANCIAL STATEMENTS**  
**August 31, 2022 and 2021**

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

The following reflects the Club's financial assets as of August 31, 2022. All amounts are available for general use within one year.

	August 31,	
	2022	2021
Financial assets		
Cash and cash equivalents	\$ 736,695	\$ 673,425
Receivables, net	15,838	13,873
Investments without donor restrictions	5,476,654	6,199,230
Financial assets available to meet general expenditures in one year	<u>\$ 6,229,187</u>	<u>\$ 6,886,528</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 – INVESTMENTS**

Cost and fair value of investments are as follows:

Description	August 31,			
	2022		2021	
	Cost	Fair Value	Cost	Fair Value
Cash and short-term investments	\$ 338,734	\$ 338,734	\$ 262,786	\$ 262,786
Fixed income securities	1,650,872	1,620,729	1,403,764	1,435,867
Real estate securities	46,151	37,976	16,733	29,521
Equity securities	3,288,248	3,695,224	3,402,239	4,687,065
Total	<u>\$ 5,324,005</u>	<u>\$ 5,692,663</u>	<u>\$ 5,085,522</u>	<u>\$ 6,415,239</u>

Investment income consists of the following at:

Description	August 31,	
	2022	2021
Interest and dividend income	\$ 129,574	\$ 114,552
Net realized and unrealized gain	(909,480)	1,006,896
Less: Investment expenses	<u>(40,704)</u>	<u>(38,541)</u>
Net investment return	<u>\$ (820,610)</u>	<u>\$ 1,082,907</u>

**NEIGHBORHOOD CLUB**  
**NOTES TO FINANCIAL STATEMENTS**  
**August 31, 2022 and 2021**

**NOTE 4 – PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at:

	August 31,	
	2022	2021
Land	\$ 488,026	\$ 488,026
Building	8,491,375	8,491,375
Building improvements	160,938	118,953
Furniture and fixtures	719,244	710,577
Computer software	44,161	44,161
Program equipment	157,436	157,436
Transportation equipment	38,437	38,437
	<u>10,099,617</u>	<u>10,048,965</u>
Total	10,099,617	10,048,965
Less: Accumulated depreciation and amortization	<u>2,902,751</u>	<u>2,685,629</u>
Property and equipment, net	<u>\$ 7,196,866</u>	<u>\$ 7,363,336</u>

Depreciation and amortization expense for the years ended August 31, 2022 and 2021 was \$293,635 and \$296,975, 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.



**NEIGHBORHOOD CLUB**  
**NOTES TO FINANCIAL STATEMENTS**  
**August 31, 2022 and 2021**

**NOTE 5 – 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, real estate securities and equity securities:* Valued at the closing price reported on the national active market on which the individual securities are traded.

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, 2022 and 2021**

**NOTE 5 – FAIR VALUE MEASUREMENT (Continued)**

	August 31, 2022			Total
	Level 1	Level 2	Level 3	
Fixed income securities	\$ 1,620,729	\$ -	\$ -	\$ 1,620,729
Real estate	37,976	-	-	37,976
Cash and short-term investments	338,734	-	-	338,734
Equity securities	3,695,224	-	-	3,695,224
<b>Total assets</b>	<b>\$ 5,692,663</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 5,692,663</b>

  

	August 31, 2021			Total
	Level 1	Level 2	Level 3	
Fixed income securities	\$ 1,435,867	\$ -	\$ -	\$ 1,435,867
Real estate	29,521	-	-	29,521
Cash and short-term investments	262,786	-	-	262,786
Equity securities	4,687,065	-	-	4,687,065
<b>Total assets</b>	<b>\$ 6,415,239</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 6,415,239</b>

**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, 2022 and 2021**

**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 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, 2022 is as follows:

Description	Without Donor Restrictions	With Donor Restrictions	Total
Donor restricted endowment funds	\$ -	\$ 216,009	\$ 216,009
Board designated endowment funds	<u>5,476,654</u>	<u>-</u>	<u>5,476,654</u>
Total endowment net asset composition by type of fund	<u>\$ 5,476,654</u>	<u>\$ 216,009</u>	<u>\$ 5,692,663</u>

**NEIGHBORHOOD CLUB**  
**NOTES TO FINANCIAL STATEMENTS**  
**August 31, 2022 and 2021**

**NOTE 6 – ENDOWMENT FUNDS (Continued)**

Endowment net asset composition by type of fund as of August 31, 2021 is as follows:

Description	Without Donor Restrictions	With Donor Restrictions	Total
Donor restricted endowment funds	\$ -	\$ 216,009	\$ 216,009
Board designated endowment funds	<u>6,199,230</u>	<u>-</u>	<u>6,199,230</u>
Total endowment net asset composition by type of fund	<u>\$ 6,199,230</u>	<u>\$ 216,009</u>	<u>\$ 6,415,239</u>

Changes in endowment net assets for the fiscal year ended August 31, 2022 are as follows:

Description	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 6,199,230	\$ 216,009	\$ 6,415,239
Investment return - investment income-net	85,878	2,992	88,870
Net depreciation (realized and unrealized)	(906,488)	(2,992)	(909,480)
Appropriation of endowment income for spending	-	-	-
Board authorized transfer to board designated endowment	<u>98,034</u>	<u>-</u>	<u>98,034</u>
Endowment net assets, end of year	<u>\$ 5,476,654</u>	<u>\$ 216,009</u>	<u>\$ 5,692,663</u>

**NEIGHBORHOOD CLUB**  
**NOTES TO FINANCIAL STATEMENTS**  
**August 31, 2022 and 2021**

**NOTE 6 – ENDOWMENT FUNDS (Continued)**

Changes in endowment net assets for the fiscal year ended August 31, 2021 are as follows:

Description	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 5,112,784	\$ 216,009	\$ 5,328,793
Investment return - investment income-net	72,930	3,081	76,011
Net appreciation (realized and unrealized)	966,080	40,816	1,006,896
Appropriation of endowment income for spending	-	(43,897)	(43,897)
Board authorized transfer to board designated endowment	47,436	-	47,436
Endowment net assets, end of year	\$ 6,199,230	\$ 216,009	\$ 6,415,239

**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, 2022 and 2021**

**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 were 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.

Effective December 1, 2020, the bonds were amended and extended the tender date through December 1, 2025. Under the amendment, the Club will pay \$15,583 in monthly principal payments plus interest at 0.79% times the LIBO Rate plus 210 basis points. The Agreement is collateralized by substantially all of the Club's assets and includes various restrictive covenants, such as maintaining a debt service coverage ratio and maintaining unrestricted liquid assets levels. As of August 31, 2022 and 2021, the Club was in compliance with these covenants.

Bonds payable at August 31, 2022 consist of the following:

Bonds payable to the Bank	\$ 2,392,142
Bond issuance costs, net	<u>(68,288)</u>
Total bonds payable	<u>\$ 2,323,854</u>

**NEIGHBORHOOD CLUB**  
**NOTES TO FINANCIAL STATEMENTS**  
**August 31, 2022 and 2021**

**NOTE 7 – BONDS PAYABLE (Continued)**

Bonds payable at August 31, 2021 consist of the following:

Bonds payable to the Bank	\$ 2,723,280
Bond issuance costs, net	<u>(89,300)</u>
Total bonds payable	<u>\$ 2,633,980</u>

The Club incurred bond issuance costs of \$129,505 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, 2022 and 2021 was \$43,777 and \$40,205, respectively.

Future minimum principal maturities of the bonds for the four years subsequent to August 31, 2022, are scheduled as followed:

<u>Year ending August 31,</u>	<u>Amount</u>
2023	\$ 187,000
2024	187,000
2025	187,000
2026	<u>1,831,142</u>
Total future bond payments	<u>\$ 2,392,142</u>

Total principal payments were \$331,138 and \$120,000 for years ended at August 31, 2022 and 2021, respectfully.

In conjunction with the 2013 bond purchase and continuing covenant agreement as stated above, the Club entered into an interest rate swap contract with Huntington National Bank that effectively fixed the rate paid on the bonds payable at 3.58% until December 1, 2020 (See Note 8). Effective September 1, 2018, the fixed rate on the swap agreement was increased to 4.27% as a result of corporate tax rate changes. The swap agreement was not renewed with the 2020 amendment of the bonds payable.

**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 was the interest rate swap during the year ended August 31, 2021, as discussed below.

**NEIGHBORHOOD CLUB**  
**NOTES TO FINANCIAL STATEMENTS**  
**August 31, 2022 and 2021**

**NOTE 8 – 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. 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. The swap agreement expired in December 2020 and was not renewed, and the Organization recognized a change in the fair value of the interest rate swap of \$20,094 during the year ended August 31, 2021.

**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. 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 \$21,050 and \$20,146 for the years ended August 31, 2022 and 2021, respectively. The fair value of the Endowment Fund was \$490,963 and \$563,254 as of August 31, 2022 and 2021, respectively, as reported by the Community Foundation.

**NOTE 10 – NET ASSETS**

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

	August 31,	
	2022	2021
Long-term operations of the Club	\$ 5,476,654	\$ 6,199,230



**NEIGHBORHOOD CLUB**  
**NOTES TO FINANCIAL STATEMENTS**  
**August 31, 2022 and 2021**

**NOTE 10 – NET ASSETS (Continued)**

Net assets with donor restrictions were comprised of the following:

	August 31,	
	2022	2021
Building for the future	\$ 72,007	\$ 107,362
Strategic direction	-	15,000
Long-term support of youth programs	100,000	100,000
Land	116,009	116,009
Net assets with donor restrictions	<u>\$ 288,016</u>	<u>\$ 338,371</u>

**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, 2022:

Year ending August 31,	Amount
2023	\$ 336,254
2024	342,295
2025	<u>114,770</u>
Total future minimum lease revenue	<u>\$ 793,319</u>

Total rental revenue was \$398,366 and \$394,496 for the years ended August 31, 2022 and 2021, respectively. The revenues include \$74,177 and \$74,170 in reimbursed operating expenses for the years ended August 31, 2022 and 2021, respectively.

**NEIGHBORHOOD CLUB**  
**NOTES TO FINANCIAL STATEMENTS**  
**August 31, 2022 and 2021**

**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. There were contributions to the Plan of \$21,600 and \$-0- for the years ended August 31, 2022 and 2021, respectively.

**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 2025. The lease for various programs automatically renews annually until either party cancels. 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, 2022 and 2021 was \$70,579 and \$39,144, respectively.

Minimum future rental payments under non-cancelable operating leases having initial or remaining terms in excess of one year as of August 31, 2022 for each of the next four years are:

Year ending August 31,	Amount
2023	\$ 70,709
2024	72,202
2025	72,338
2026	33,528
2027	<u>30,000</u>
Total future minimum lease payments	<u>\$ 278,777</u>

**NOTE 14 – PAYCHECK PROTECTION PROGRAM LOAN AND FORGIVENESS**

In February 2021, the Club was granted a loan in the amount of \$208,610 as a second round of funding under the Paycheck Protection Program ("PPP") administered by a Small Business Administration (SBA) approved partner. The loan is uncollateralized and is 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 recognized grant revenue in accordance 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 applied for and was granted full forgiveness of the PPP loan. In accordance with the forgiveness, the Club recognized \$208,610 as grant revenue for the year ended August 31, 2021.

**NEIGHBORHOOD CLUB**  
**NOTES TO FINANCIAL STATEMENTS**  
**August 31, 2022 and 2021**

**NOTE 14 – PAYCHECK PROTECTION PROGRAM LOAN AND FORGIVENESS**  
(Continued)

According to the rules of the SBA, the Club is required to retain PPP loan documentation for six years after the date the loan is forgiven or repaid in full, and permit authorized representatives of the SBA, including representatives of its Office of Inspector General, to access such files upon request. Should the SBA conduct such a review and reject all or some of the Club's judgments pertaining to satisfying PPP loan eligibility or forgiveness conditions, the Club may be required to adjust previously reported amounts and disclosures in the financial statements.

**SUPPLEMENTARY INFORMATION**

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

	Years ended August 31,			
	2022		2021	
	Program Service Revenue	Direct Expenses	Excess of Revenue Over (Under) Direct Expenses	Excess of Revenue Over (Under) Direct Expenses
Camps (Winter/Summer)	\$ 79,987	\$ 25,879	\$ 54,108	\$ 19,985
Preschool	88,739	44,004	44,735	13,642
Soccer	85,535	41,694	43,841	31,797
Basketball	84,614	51,754	32,860	3,038
Personal training	52,082	27,798	24,284	17,039
Specialty classes	10,533	-	10,533	4,970
Karate	31,973	22,211	9,762	8,258
T-Ball	17,070	10,412	6,658	7,499
Party rentals	6,486	877	5,609	-
Flag Football	17,087	11,927	5,160	8,644
Tennis and golf	11,381	6,775	4,606	-
Field hockey	12,537	8,094	4,443	2,883
Rowing	8,243	4,026	4,217	1,800
Volleyball	11,693	9,267	2,426	(30)
Adult Softball	14,035	13,100	935	(199)
Adaptive recreation	2,874	2,135	739	262
Computer education	300	-	300	800
Preschool activity	-	-	-	-
Gymnastics	-	-	-	(1,050)
Classes	6,071	6,233	(162)	(1,436)
Program shared costs	-	191	(191)	(3,140)
Lacrosse	12,282	13,205	(923)	265
Building use	3,308	4,961	(1,653)	(3,046)
Aquatics	55,765	65,707	(9,942)	(12,950)
Fitness center admin	31,585	242,750	(211,165)	(156,365)
<b>Total program revenue and expenses</b>	<b>\$ 644,180</b>	<b>\$ 613,000</b>	<b>\$ 31,180</b>	<b>\$ (57,334)</b>