

NEIGHBORHOOD CLUB

AUDITED FINANCIAL STATEMENTS

Years ended August 31, 2015 and 2014

NEIGHBORHOOD CLUB

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Neighborhood Club

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, 2015 and 2014, 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
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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Neighborhood Club as of August 31, 2015 and 2014, 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.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on page 25 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. To the right of 'UHY', the letters 'LLP' are written in a smaller, simpler, sans-serif font.

Farmington Hills, Michigan
November 10, 2015

NEIGHBORHOOD CLUB
STATEMENTS OF FINANCIAL POSITION

	August 31,	
	2015	2014
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 914,262	\$ 885,699
Unconditional promises to give, current portion	14,899	372,602
Other receivables	1,213	1,391
Prepaid expenses	2,682	3,851
Total current assets	933,056	1,263,543
PROPERTY AND EQUIPMENT, net	8,677,426	8,977,040
OTHER ASSETS		
Restricted cash	195	198
Investments	2,487,826	2,668,167
Unconditional promises to give, net	1,578	42,614
Bond issuance costs, net	81,181	84,673
Total other assets	2,570,780	2,795,652
TOTAL ASSETS	\$ 12,181,262	\$ 13,036,235
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 70,152	\$ 44,687
Deferred program and membership revenue	125,521	150,218
Bonds payable, current portion	90,000	110,000
Total current liabilities	285,673	304,905
LONG-TERM LIABILITIES		
Security deposit	27,839	52,001
Interest rate swap agreement	227,803	146,602
Bonds payable, less current portion	3,933,280	4,993,280
Total liabilities	4,474,595	5,496,788
NET ASSETS		
Unrestricted:		
Undesignated	5,095,002	4,366,509
Board designated	2,271,817	2,452,158
Total unrestricted net assets	7,366,819	6,818,667
Temporarily restricted	123,839	504,771
Permanently restricted	216,009	216,009
Total net assets	7,706,667	7,539,447
TOTAL LIABILITIES AND NET ASSETS	\$ 12,181,262	\$ 13,036,235

NEIGHBORHOOD CLUB

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

	Year ended August 31, 2015				Year ended August 31, 2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND PUBLIC SUPPORT								
Program service revenue:								
Membership dues, net	\$ 1,489,017	\$ -	\$ -	\$ 1,489,017	\$ 1,209,643	\$ -	\$ -	\$ 1,209,643
Program fees, net	836,972	-	-	836,972	791,425	-	-	791,425
Total program service revenue	2,325,989	-	-	2,325,989	2,001,068	-	-	2,001,068
Public support:								
Annual fund contributions	101,040	-	-	101,040	98,807	-	-	98,807
Other contributions	19,768	-	-	19,768	19,163	-	-	19,163
Restricted contributions	-	99,584	-	99,584	-	63,024	-	63,024
Donations-in-kind	206,747	-	-	206,747	223,152	-	-	223,152
Total public support	327,555	99,584	-	427,139	341,122	63,024	-	404,146
Other revenues and gains (losses):								
Thrift shop sales, net of commissions	205,997	-	-	205,997	222,757	-	-	222,757
Rental revenue	350,937	-	-	350,937	353,827	-	-	353,827
Investment return, net	(190,430)	-	-	(190,430)	316,903	45,636	-	362,539
Loss on interest rate swap agreement	(81,201)	-	-	(81,201)	(146,602)	-	-	(146,602)
Other revenues	21,936	-	-	21,936	7,247	-	-	7,247
Total other revenues	307,239	-	-	307,239	754,132	45,636	-	799,768
Net assets released from restrictions	480,516	(480,516)	-	-	356,974	(356,974)	-	-
Total revenues and public support	3,441,299	(380,932)	-	3,060,367	3,453,296	(248,314)	-	3,204,982
FUNCTIONAL EXPENSES								
Program and services	2,529,036	-	-	2,529,036	2,402,662	-	-	2,402,662
General and administrative	266,329	-	-	266,329	283,474	-	-	283,474
Fundraising	97,782	-	-	97,782	73,215	-	-	73,215
Total functional expenses	2,893,147	-	-	2,893,147	2,759,351	-	-	2,759,351
CHANGE IN NET ASSETS	548,152	(380,932)	-	167,220	693,945	(248,314)	-	445,631
NET ASSETS , Beginning of year	6,818,667	504,771	216,009	7,539,447	6,124,722	753,085	216,009	7,093,816
NET ASSETS , End of year	\$ 7,366,819	\$ 123,839	\$ 216,009	\$ 7,706,667	\$ 6,818,667	\$ 504,771	\$ 216,009	\$ 7,539,447

NEIGHBORHOOD CLUB
STATEMENTS OF FUNCTIONAL EXPENSES

	Year ended August 31, 2015				Year ended August 31, 2014			
	Program Services	Supporting Services Management and General	Fundraising	Total Functional Expenses	Program Services	Supporting Services Management and General	Fundraising	Total Functional Expenses
Direct program expenses	\$ 738,164	\$ -	\$ -	\$ 738,164	\$ 642,035	\$ -	\$ -	\$ 642,035
Salaries and wages	693,962	173,491	81,610	949,063	521,362	130,341	61,699	713,402
Payroll taxes	69,650	17,413	6,243	93,306	54,515	13,629	4,592	72,736
Employee insurance	23,852	5,963	805	30,620	21,085	4,472	799	26,356
Total direct program expenses, salaries and related expenses	1,525,628	196,867	88,658	1,811,153	1,238,997	148,442	67,090	1,454,529
Property and liability insurance	31,105	1,637	-	32,742	51,811	2,727	-	54,538
Care of building	75,353	3,966	-	79,319	56,197	2,958	-	59,155
Utilities	146,037	7,686	-	153,723	163,935	8,628	-	172,563
Payroll costs	2,274	2,275	-	4,549	1,928	1,929	-	3,857
Office supplies	26,061	2,027	869	28,957	22,132	1,722	738	24,592
Postage	5,943	1,981	-	7,924	5,862	1,954	-	7,816
Accounting fees	-	15,900	-	15,900	-	18,700	-	18,700
Telephone	4,086	215	-	4,301	6,101	321	-	6,422
Printing	-	-	8,255	8,255	-	-	5,387	5,387
Miscellaneous	2,638	1,759	-	4,397	3,532	2,349	-	5,881
Rent	-	-	-	-	-	-	-	-
Credit card fees	50,998	-	-	50,998	45,427	-	-	45,427
Staff development	2,932	733	-	3,665	784	196	-	980
Legal fees	-	4,507	-	4,507	-	957	-	957
Professional fees	40,891	-	-	40,891	2,500	-	-	2,500
Parking	-	3,150	-	3,150	-	4,800	-	4,800
Maintenance of trucks	749	-	-	749	1,398	-	-	1,398
Bad debt expense	-	-	-	-	-	59,967	-	59,967
403(b) Match	-	4,500	-	4,500	-	-	-	-
Thrift shop utilities, rent, supplies	250,959	-	-	250,959	273,409	-	-	273,409
Total expenses before interest, depreciation and amortization	2,165,654	247,203	97,782	2,510,639	1,874,013	255,650	73,215	2,202,878
Interest	60,773	3,199	-	63,972	50,384	2,652	-	53,036
Bond costs	5,154	88	-	5,242	183,219	9,643	-	192,862
Depreciation	297,455	15,839	-	313,294	295,046	15,529	-	310,575
Total expenses	<u>\$ 2,529,036</u>	<u>\$ 266,329</u>	<u>\$ 97,782</u>	<u>\$ 2,893,147</u>	<u>\$ 2,402,662</u>	<u>\$ 283,474</u>	<u>\$ 73,215</u>	<u>\$ 2,759,351</u>

NEIGHBORHOOD CLUB

STATEMENTS OF CASH FLOWS

	Years ended August 31,	
	2015	2014
OPERATING ACTIVITIES		
Change in net assets	\$ 167,220	\$ 445,631
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	313,294	310,575
Net realized and unrealized (gain) loss on investments	245,146	(317,436)
Change in present value discount	-	(10,052)
Provision for bad debts	-	15,300
Non-cash interest expense	3,492	146,319
Change in fair value of interest rate swap	81,201	146,602
Changes in:		
Other receivables	178	63,604
Prepaid expenses	1,169	(1,127)
Accounts payable	25,466	(36,954)
Deferred program and membership revenue	(24,697)	10,823
Security deposit	(24,162)	(22,999)
Net cash provided by operating activities	788,307	750,286
INVESTING ACTIVITIES		
Purchase of property and equipment	(13,681)	(13,500)
Proceeds from sale of investments	517,305	353,517
Purchases of investments	(582,110)	(408,374)
Net cash used in investing activities	(78,486)	(68,357)
FINANCING ACTIVITIES		
Decrease in restricted cash	3	472,890
Collections on unconditional promises to give	398,739	236,359
Payments of bond issuance costs	-	(87,292)
Payments on bonds payable	(1,080,000)	(1,096,720)
Net cash used in operating activities	(681,258)	(474,763)
CHANGE IN CASH AND CASH EQUIVALENTS	28,563	207,166
CASH AND CASH EQUIVALENTS, beginning of year	885,699	678,533
CASH AND CASH EQUIVALENTS, end of year	\$ 914,262	\$ 885,699
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	\$ 63,972	\$ 50,417

NEIGHBORHOOD CLUB
NOTES TO FINANCIAL STATEMENTS
August 31, 2015 and 2014

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 organization to provide education, recreation, and community service activities for the residents of Grosse Pointe, Michigan and the surrounding areas.

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, 2015 and 2014

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 and \$198 at August 31, 2015 and 2014, respectively.

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 August 31, 2015 and 2014.

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, 2015 and 2014 amount to \$206,747 and \$223,152, 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, 2015 and 2014

NOTE 1- SUMMARY OF ACCOUNTING POLICIES (Continued)

Property and Equipment and Depreciation

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

Original bond issuance costs of \$157,741, paid in 2011, were deferred and had been amortized over the life of the bonds. The bonds were refinanced during the year ended August 31, 2014 and new bond issuance costs of \$87,292 were incurred. The original bond issuance costs of \$157,741, net of accumulated amortization of \$14,041, were written off to expense during the year ended August 31, 2014. Amortization expense was \$3,492 and \$2,619 for the years ended August 31, 2015 and 2014, respectively. Accumulated amortization at August 31, 2015 and 2014 was \$6,111 and \$2,619, respectively.

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.

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.

NEIGHBORHOOD CLUB
NOTES TO FINANCIAL STATEMENTS
August 31, 2015 and 2014

NOTE 1- SUMMARY OF ACCOUNTING POLICIES (Continued)

Net Assets (Continued)

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.

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.

NEIGHBORHOOD CLUB
NOTES TO FINANCIAL STATEMENTS
August 31, 2015 and 2014

NOTE 1- SUMMARY OF ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

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, 2015 and 2014, 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. Further, it is not currently under examination by the Internal Revenue Service or state authorities, however, tax years 2012 and later remains subject to examination.

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 10, 2015, the date the financials were available to be issued.

NEIGHBORHOOD CLUB
NOTES TO FINANCIAL STATEMENTS
August 31, 2015 and 2014

NOTE 2 – UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give consist of the following:

Description	August 31,	
	2015	2014
Due in less than one year	\$ 31,995	\$ 372,602
Due in one to five years	1,600	59,732
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>\$ 16,477</u>	<u>\$ 415,216</u>

NOTE 3 – INVESTMENTS

Cost and fair value of investments are as follows:

Description	August 31,			
	2015		2014	
	Cost	Fair Value	Cost	Fair Value
Cash and short-term investments	\$ 127,936	\$ 127,936	\$ 141,425	\$ 141,425
Fixed income securities	573,470	566,509	445,449	463,607
Commodities	103,640	79,174	101,471	104,983
Real estate	142,544	139,878	97,419	107,089
Equity securities	<u>1,309,588</u>	<u>1,574,329</u>	<u>1,393,735</u>	<u>1,851,063</u>
Total	<u>\$2,257,178</u>	<u>\$2,487,826</u>	<u>\$2,179,499</u>	<u>\$2,668,167</u>

NEIGHBORHOOD CLUB
NOTES TO FINANCIAL STATEMENTS
August 31, 2015 and 2014

NOTE 3 – INVESTMENTS (Continued)

Investment income consists of the following:

Description	August 31,	
	2015	2014
Interest and dividend income	\$ 69,895	\$ 58,140
Net realized and unrealized (loss) gain	(245,146)	317,442
Less: Investment expenses	<u>(15,179)</u>	<u>(13,043)</u>
Net investment return	<u>\$ (190,430)</u>	<u>\$ 362,539</u>

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	August 31,	
	2015	2014
Land	\$ 488,026	\$ 488,026
Building	8,491,375	8,491,375
Furniture and fixtures	511,889	498,208
Computer software	44,161	44,161
Program equipment	157,436	157,436
Transportation equipment	<u>12,761</u>	<u>12,761</u>
Total	9,705,648	9,691,967
Less: Accumulated depreciation	<u>1,028,222</u>	<u>714,927</u>
Property and equipment, net	<u>\$ 8,677,426</u>	<u>\$ 8,977,040</u>

Depreciation expense for the years ended August 31, 2015 and 2014 was \$313,294 and \$310,575 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).

NEIGHBORHOOD CLUB
NOTES TO FINANCIAL STATEMENTS
August 31, 2015 and 2014

NOTE 5 - FAIR VALUE MEASUREMENT (Continued)

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;
- 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.

NEIGHBORHOOD CLUB
NOTES TO FINANCIAL STATEMENTS
August 31, 2015 and 2014

NOTE 5 - FAIR VALUE MEASUREMENT (Continued)

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.

August 31, 2015				
	Level 1	Level 2	Level 3	Total
Fixed income securities	\$ 566,509	\$ -	\$ -	\$ 566,509
Commodities	79,174	-	-	79,174
Real estate	139,878	-	-	139,878
Equity securities	1,574,329	-	-	1,574,329
Total assets	2,359,890	-	-	2,359,890
Liability - Interest rate swap	-	227,803	-	227,803
	<u>\$2,359,890</u>	<u>\$(227,803)</u>	<u>\$ -</u>	<u>\$2,132,087</u>
August 31, 2014				
	Level 1	Level 2	Level 3	Total
Fixed income securities	\$ 463,607	\$ -	\$ -	\$ 463,607
Commodities	104,983	-	-	104,983
Real estate	107,089	-	-	107,089
Equity securities	1,851,063	-	-	1,851,063
Total assets	2,526,742	-	-	2,526,742
Liability - Interest rate swap	-	146,602	-	146,602
	<u>\$2,526,742</u>	<u>\$(146,602)</u>	<u>\$ -</u>	<u>\$2,380,140</u>

NEIGHBORHOOD CLUB
NOTES TO FINANCIAL STATEMENTS
August 31, 2015 and 2014

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.

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

NEIGHBORHOOD CLUB
NOTES TO FINANCIAL STATEMENTS
August 31, 2015 and 2014

NOTE 6 - ENDOWMENT FUNDS (Continued)

Endowment net asset composition by type of fund as of August 31, 2015 is as follows:

Description	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ -	\$ -	\$ 216,009	\$ 216,009
Board designated endowment funds	<u>2,271,817</u>	<u>-</u>	<u>-</u>	<u>2,271,817</u>
Total endowment net asset composition by type of fund	<u>\$2,271,817</u>	<u>\$ -</u>	<u>\$ 216,009</u>	<u>\$2,487,826</u>

Endowment net asset composition by type of fund as of August 31, 2014 is as follows:

Description	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ -	\$ -	\$ 216,009	\$ 216,009
Board designated endowment funds	<u>2,452,158</u>	<u>-</u>	<u>-</u>	<u>2,452,158</u>
Total endowment net asset composition by type of fund	<u>\$2,452,158</u>	<u>\$ -</u>	<u>\$ 216,009</u>	<u>\$2,668,167</u>

NEIGHBORHOOD CLUB
NOTES TO FINANCIAL STATEMENTS
August 31, 2015 and 2014

NOTE 6 - ENDOWMENT FUNDS (Continued)

Changes in endowment net assets for the fiscal year ended August 31, 2015 are as follows:

<u>Description</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$2,452,158	\$ -	\$ 216,009	\$2,668,167
Investment return- investment income-net	50,286	4,430	-	54,716
Net appreciation (realized and unrealized)	(240,716)	(4,430)	-	(245,146)
Appropriation of endowment income for spending	(26,935)	-	-	(26,935)
Board authorized transfer to board designated endowment	<u>37,024</u>	<u>-</u>	<u>-</u>	<u>37,024</u>
Endowment net assets, end of year	<u>\$2,271,817</u>	<u>\$ -</u>	<u>\$ 216,009</u>	<u>\$2,487,826</u>

NEIGHBORHOOD CLUB
NOTES TO FINANCIAL STATEMENTS
August 31, 2015 and 2014

NOTE 6 - ENDOWMENT FUNDS (Continued)

Changes in endowment net assets for the fiscal year ended August 31, 2014 are as follows:

Description	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$1,500,000	\$ -	\$ 216,009	\$1,716,009
Investment return- investment income-net	49,179	5,678	-	54,857
Net appreciation (realized and unrealized)	277,478	39,958	-	317,436
Appropriation of endowment income for spending	-	(45,636)	-	(45,636)
Board authorized transfer to board designated endowment	<u>625,501</u>	<u>-</u>	<u>-</u>	<u>625,501</u>
Endowment net assets, end of year	<u>\$2,452,158</u>	<u>\$ -</u>	<u>\$ 216,009</u>	<u>\$2,668,167</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.

NEIGHBORHOOD CLUB
NOTES TO FINANCIAL STATEMENTS
August 31, 2015 and 2014

NOTE 6 - ENDOWMENT FUNDS (Continued)

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.

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, 2015, the Club was in compliance with these covenants.

NEIGHBORHOOD CLUB
NOTES TO FINANCIAL STATEMENTS
August 31, 2015 and 2014

NOTE 7 - BONDS PAYABLE (Continued)

Future minimum principal maturities of the bonds for the five years subsequent to August 31, 2015, are scheduled as follows:

Year ending August 31,	Amount
2016	\$ 90,000
2017	120,000
2018	120,000
2019	120,000
2020	120,000
Thereafter	<u>3,453,280</u>
Total future bond payments	<u><u>\$ 4,023,280</u></u>

Total principal payments were \$1,080,000 and \$1,096,720 for the years ended August 31, 2015 and 2014. Principal payments noted above for 2014 relate to amounts paid on the original bond issue prior to refinancing in 2014.

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).

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 (1.42% as of August 31, 2015).

As of August 31, 2015, the notional amount of the swap agreement was \$4,000,000. The change in fair value of the interest rate swap of \$81,201 has been recognized as a loss for the year ended August 31, 2015. The Club has recorded the fair value of the interest rate swap agreement, which resulted in a liability of \$227,803 at August 31, 2015.

NEIGHBORHOOD CLUB
NOTES TO FINANCIAL STATEMENTS
August 31, 2015 and 2014

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 \$19,768 and \$19,163 for the years ended August 31, 2015 and 2014, respectively, and are included in net investment return. The fair value of the Endowment Fund was \$407,510 and \$448,974 as of August 31, 2015 and 2014, respectively, as reported by the Community Foundation.

NOTE 10 - NET ASSETS

The Board has designated the following unrestricted net assets:

	August 31,	
	2015	2014
Long-term operations of the Club	<u>\$ 2,271,817</u>	<u>\$2,452,158</u>

Temporarily restricted net assets were comprised of the following:

	August 31,	
	2015	2014
Building for the future	\$ 107,362	\$ 91,155
Long term pledges	<u>16,477</u>	<u>413,616</u>
Temporarily restricted net assets	<u>\$ 123,839</u>	<u>\$ 504,771</u>

Permanently restricted net assets were comprised of the following:

	August 31,	
	2015	2014
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, 2015 and 2014

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, 2015:

Year ending August 31,	Amount
2016	\$ 293,465
2017	299,508
2018	305,549
2019	311,592
2020	317,633
Subsequent to 2020	<u>1,474,386</u>
Total future minimum lease revenue	<u>\$ 3,002,133</u>

Total rental revenue was \$350,937 and \$353,827 for the years ended August 31, 2015 and 2014, respectively. The revenues include \$69,142 and \$79,630 in reimbursed operating expenses for the years ended August 31, 2015 and 2014, respectively.

Collaborative Agreement

The Club and the Hospital entered into a two-year collaborative agreement that outlined additional financial terms and responsibilities of each party. Under the agreement, Beaumont was responsible for oversight and daily operations' management of the Club's fitness facility. The Hospital was required to advertise and promote the Club to all Hospital employees, physicians, volunteers and family members as a sponsored Beaumont fitness facility. In addition, the Hospital was to develop specialty classes such as: weight loss, nutrition, diabetes, and personal training services to support the Club's mission as well as to support the needs of the Club's community and Beaumont employees and families. As remuneration, the Hospital received 20% of membership fees, 50% of revenue for personal training and all of the revenue from specialty classes. The agreement was terminated in February 2014.

Total payments made to the Hospital under the agreement for the year ended August 31, 2014 was \$88,943, and are included in program expenses in the accompanying Statement of Activities.

NEIGHBORHOOD CLUB
NOTES TO FINANCIAL STATEMENTS
August 31, 2015 and 2014

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, 2015 and 2014 were \$4,500 and \$-0-, 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 2017. 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, 2015 and 2014 was \$72,000 for both years.

Minimum future rental payments under non-cancelable operating leases having initial or remaining terms in excess of one year as of August 31, 2015 for each of the next three years are:

<u>Year ending August 31,</u>	<u>Amount</u>
2016	\$ 36,900
2017	36,900
2018	<u>3,075</u>
Total future minimum lease payments	<u><u>\$ 76,875</u></u>

SUPPLEMENTARY INFORMATION

NEIGHBORHOOD CLUB
SCHEDULES OF PROGRAM REVENUE AND DIRECT EXPENSES

	August 31,			
	2015		2014	
	Program Service Revenue	Direct Expenses	Excess of Revenue Over (Under) Direct Expenses	Excess of Revenue Over (Under) Direct Expenses
Soccer	\$ 59,523	\$ 27,477	\$ 32,046	\$ 45,691
Nursery School	103,402	68,604	34,798	37,643
Basketball	80,410	46,674	33,736	32,958
Summer camps	49,685	27,322	22,363	25,491
Community education	36,091	18,072	18,019	16,667
Lacrosse	23,472	14,104	9,368	14,994
Karate	43,487	27,016	16,471	14,817
Volleyball	20,368	13,261	7,107	12,504
Rowing	22,192	10,742	11,450	12,381
Softball and t-ball	27,025	12,183	14,842	12,093
Party rentals	10,136	4,462	5,674	8,885
Football	11,526	4,607	6,919	6,572
Preschool activity	4,836	985	3,851	6,368
Computer education	5,762	-	5,762	6,351
Gymnastics	13,943	8,125	5,818	5,116
Beaumont classes	100	-	100	4,035
Tennis and golf	6,136	2,730	3,406	3,851
Fitness factory	-	-	-	3,240
Aerobic slimnastics	2,058	1,055	1,003	2,322
Adaptive recreation	3,798	1,459	2,339	2,297
Zumba	3,829	3,356	473	2,189
Aquatics	97,088	118,172	(21,084)	308
Yoga	-	-	-	130
Building use	815	-	815	(334)
Pony pal	11,083	-	11,083	(1,552)
Program shared costs	-	25,896	(25,896)	(31,795)
Fitness center	200,207	301,862	(101,655)	(93,832)
Total program revenue and expenses	<u>\$ 836,972</u>	<u>\$ 738,164</u>	<u>\$ 98,808</u>	<u>\$ 149,390</u>