

**Madison Square Boys & Girls Club, Inc. and
MSBGC-NYC Support Corporation**

Independent Auditor's Report and Consolidated Financial Statements

September 30, 2020



**Madison Square Boys & Girls Club, Inc. and MSBGC-NYC
Support Corporation
September 30, 2020**

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Independent Auditor's Report

Board of Trustees
Madison Square Boys & Girls Club, Inc. and MSBGC-NYC Support Corporation
New York, New York

We have audited the accompanying consolidated financial statements of Madison Square Boys & Girls Club, Inc. and MSBGC-NYC Support Corporation, which comprise the consolidated statement of financial position as of September 30, 2020, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Madison Square Boys & Girls Club, Inc. and MSBGC-NYC Support Corporation as of September 30, 2020, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the September 30, 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 6, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matter

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of changes in net assets with donor restrictions listed in the table of contents 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.

BKD, LLP

New York, New York
June 3, 2021

Madison Square Boys & Girls Club, Inc. and MSBGC-NYC Support Corporation

Consolidated Statement of Financial Position September 30, 2020

(With Summarized Financial Information for September 30, 2019)

	Without Donor Restrictions	With Donor Restrictions	Total	
			2020	2019
Assets				
Current Assets				
Cash and cash equivalents	\$ 750,946	\$ 1,182,201	\$ 1,933,147	\$ 534,148
Investments	15,251,437	-	15,251,437	16,136,454
Government grants receivable	171,033	-	171,033	262,529
Contributions receivable	1,501,727	21,000	1,522,727	2,519,983
Accrued interest receivable	2,604	2,314	4,918	10,476
Prepaid expenses and other assets	305,812	-	305,812	242,143
	17,983,559	1,205,515	19,189,074	19,705,733
Cash and cash equivalents	-	-	-	277,777
Investments	-	44,449,945	44,449,945	41,270,076
Contributions receivable (net of allowance of \$50,000 in 2020 and 2019)	91,819	4,917,154	5,008,973	6,886,402
Loan receivable	25,548,800	-	25,548,800	25,548,800
Beneficial interests in trusts	-	2,266,760	2,266,760	2,177,544
Limited use assets	758,942	-	758,942	945,492
Property and equipment, net	51,197,598	-	51,197,598	52,663,258
	\$ 95,580,718	\$ 52,839,374	\$ 148,420,092	\$ 149,475,082
Liabilities and Net Assets				
Current Liabilities				
Accounts payable and accrued expenses	\$ 1,432,830	\$ -	\$ 1,432,830	\$ 2,056,299
Accounts payable, construction	42,560	-	42,560	665,370
Retainage payable	102,493	-	102,493	102,493
Lines of credit	881,360	-	881,360	944,360
Refundable advances	122,564	-	122,564	151,429
	2,581,807	-	2,581,807	3,919,951
Long-term debt	38,683,849	-	38,683,849	36,326,228
	41,265,656	-	41,265,656	40,246,179
Net Assets				
Without donor restrictions	54,315,062	-	54,315,062	59,413,232
With donor restrictions				
Time and purpose	-	12,094,349	12,094,349	11,287,241
Endowment	-	40,745,025	40,745,025	38,528,430
	-	52,839,374	52,839,374	49,815,671
	54,315,062	52,839,374	107,154,436	109,228,903
	\$ 95,580,718	\$ 52,839,374	\$ 148,420,092	\$ 149,475,082

Madison Square Boys & Girls Club, Inc. and MSBGC-NYC Support Corporation

Consolidated Statement of Activities

Year Ended September 30, 2020

(With Summarized Financial Information for the Year Ended September 30, 2019)

	Without Donor Restrictions	With Donor Restrictions	Total	
			2020	2019
Revenues, Gains, and Other Support				
Contributions	\$ 3,176,889	\$ 661,230	\$ 3,838,119	\$ 3,032,396
Special events (includes in-kind contributions of \$159,160 in 2020 and \$236,244 in 2019)	2,769,159	-	2,769,159	3,372,005
Direct cost of special events	(509,495)	-	(509,495)	(894,469)
Income from trusts	34,430	-	34,430	100,924
Change in value of beneficial interest in trusts	-	89,216	89,216	(13,214)
United Way of New York City	59	-	59	326
New York State Office of Alcoholism and Substance Abuse Services	514,142	-	514,142	621,083
New York City Department of Youth and Community Development	600,000	-	600,000	450,000
New York State CACFP/Food Program	165,448	-	165,448	250,382
Boys & Girls Club of America - Office of Juvenile Delinquency Program	-	-	-	72,127
Dormitory Authority of the State of New York	148,627	-	148,627	-
Other government grants	65,156	-	65,156	273,267
Camping/program fees	23,294	-	23,294	202,976
Membership dues	7,228	-	7,228	11,633
Investment income	1,336,044	5,367,959	6,704,003	3,688,750
Loan interest income	370,969	-	370,969	370,969
Rental income	13,700	-	13,700	36,550
Net assets released from restrictions	2,094,702	(2,094,702)	-	-
Total revenues, gains, and other support	10,810,352	4,023,703	14,834,055	11,575,705
Expenses and Losses				
Program services				
Healthy Lifestyles	3,356,790	-	3,356,790	2,970,688
Good Character & Citizenship	1,820,186	-	1,820,186	1,611,906
Academic Success	4,736,155	-	4,736,155	4,328,855
Total program services	9,913,131	-	9,913,131	8,911,449
Supporting services				
Management and general	4,542,163	-	4,542,163	3,678,738
Fundraising	1,453,228	-	1,453,228	1,358,930
Total supporting services	5,995,391	-	5,995,391	5,037,668
Total expenses	15,908,522	-	15,908,522	13,949,117
Bad debt loss	-	1,000,000	1,000,000	-
Total expenses and losses	15,908,522	1,000,000	16,908,522	13,949,117
Change in Net Assets	(5,098,170)	3,023,703	(2,074,467)	(2,373,412)
Net Assets, Beginning of Year	59,413,232	49,815,671	109,228,903	111,602,315
Net Assets, End of Year	\$ 54,315,062	\$ 52,839,374	\$ 107,154,436	\$ 109,228,903

Madison Square Boys & Girls Club, Inc. and MSBGC-NYC Support Corporation
Consolidated Statement of Functional Expenses
Year Ended September 30, 2020
(With Summarized Financial Information for the Year Ended September 30, 2019)

	Program Services				Supporting Services				Total	
	Healthy Lifestyles	Good Character & Citizenship	Academic Success	Total	Management and General	Fundraising	Direct Cost of Special Events	Total	2020	2019
Salaries	\$ 1,249,324	\$ 854,697	\$ 2,562,814	\$ 4,666,835	\$ 731,269	\$ 894,062	\$ -	\$ 1,625,331	\$ 6,292,166	\$ 5,935,145
Payroll taxes and employee benefits	413,963	282,909	846,648	1,543,520	241,304	295,391	-	536,695	2,080,215	1,771,684
Total salaries and related expenses	1,663,287	1,137,606	3,409,462	6,210,355	972,573	1,189,453	-	2,162,026	8,372,381	7,706,829
Professional fees	19,283	14,956	34,851	69,090	2,225,598	17,687	-	2,243,285	2,312,375	2,443,591
Contract services	134,191	1,293	4,886	140,370	-	-	-	-	140,370	252,497
Supplies	279,679	24,287	63,265	367,231	8,222	1,219	-	9,441	376,672	493,678
Postage and shipping	491	700	1,090	2,281	1,916	738	-	2,654	4,935	6,820
Telephone	21,298	16,649	30,429	68,376	3,162	5,936	-	9,098	77,474	58,232
Occupancy	284,129	244,304	423,275	951,708	145,795	112,157	-	257,952	1,209,660	1,070,420
Insurance	73,033	55,855	99,737	228,625	162,283	83	-	162,366	390,991	242,769
Outside printing	418	459	787	1,664	2,712	28,253	-	30,965	32,629	59,019
Local transportation	7,743	6,411	11,489	25,643	418	185	-	603	26,246	37,027
Meetings and conferences	3,946	4,519	7,971	16,436	4,902	3,575	-	8,477	24,913	87,445
Subscriptions, publications and dues	12,390	15,424	25,699	53,513	196,347	5,659	-	202,006	255,519	86,022
Awards and scholarships	-	-	52,355	52,355	-	-	-	-	52,355	39,822
Staff development/training	1,264	1,627	2,567	5,458	1,641	1,140	-	2,781	8,239	46,517
Equipment rental	21,966	24,974	39,704	86,644	2,136	1,644	-	3,780	90,424	73,363
Catering, facility rental and entertainment (includes in-kind expenses of \$159,160 in 2020 and \$236,244 in 2019)	-	-	-	-	-	-	509,495	509,495	509,495	894,469
Interest and bank charges (includes interest of \$578,336 for 2020 and \$203,790 for 2019)	-	-	-	-	619,009	-	-	619,009	619,009	233,911
Bad debt expense	-	-	-	-	98,766	-	-	98,766	98,766	36,640
Depreciation	833,672	271,122	528,588	1,633,382	96,683	85,499	-	182,182	1,815,564	974,515
Total expenses	3,356,790	1,820,186	4,736,155	9,913,131	4,542,163	1,453,228	509,495	6,504,886	16,418,017	14,843,586
Less expenses deducted directly from revenues on the statement of activities	-	-	-	-	-	-	(509,495)	(509,495)	(509,495)	(894,469)
Total expenses reported by function on the statement of activities	\$ 3,356,790	\$ 1,820,186	\$ 4,736,155	\$ 9,913,131	\$ 4,542,163	\$ 1,453,228	\$ -	\$ 5,995,391	\$ 15,908,522	\$ 13,949,117

Madison Square Boys & Girls Club, Inc. and MSBGC-NYC Support Corporation

Consolidated Statement of Cash Flows Year Ended September 30, 2020

(With Summarized Financial Information for the Year Ended September 30, 2019)

	2020	2019
Operating Activities		
Change in net assets	\$ (2,074,467)	\$ (2,373,412)
Items not requiring (providing) operating cash flows		
Depreciation	1,815,564	974,515
Amortization of debt issuance costs	178,666	44,666
Net gain on investments	(6,437,023)	(3,292,405)
Provision for bad debt	1,098,766	36,640
Contributions restricted for long-term use	(298,642)	(639,927)
Change in value of beneficial interest in trusts	(89,216)	13,214
Changes in		
Government grants receivable	91,496	250,539
Contributions receivable	1,654,919	843,657
Accrued interest receivable	5,558	(49)
Prepaid expenses and other assets	(63,669)	(7,258)
Accounts payable and accrued expenses	(623,469)	654,745
Refundable advances	(28,865)	(151,098)
Net cash used in operating activities	(4,770,382)	(3,646,173)
Investing Activities		
Purchase of investments	(696,616)	(527,939)
Proceeds from sale of investments	4,838,787	6,175,502
Purchase of fixed assets	(972,714)	(11,448,498)
Net cash provided by (used in) investing activities	3,169,457	(5,800,935)
Financing Activities		
Drawdowns on lines of credit	250,000	100,000
Repayment of lines of credit	(313,000)	(200,000)
Proceeds from loans payable	2,178,955	-
Proceeds from contributions restricted for long-term use	419,642	1,449,342
Net cash provided by financing activities	2,535,597	1,349,342
Net Change in Cash and Cash Equivalents and Restricted Cash	934,672	(8,097,766)
Cash and Cash Equivalents and Restricted Cash, Beginning of Year	1,757,417	9,855,183
Cash and Cash Equivalents and Restricted Cash, End of Year	\$ 2,692,089	\$ 1,757,417

Madison Square Boys & Girls Club, Inc. and MSBGC-NYC Support Corporation

Consolidated Statement of Cash Flows (Continued)

Year Ended September 30, 2020

(With Summarized Financial Information for the Year Ended September 30, 2019)

	2020	2019
Reconciliation of Cash and Cash Equivalents and Restricted Cash		
Cash and cash equivalents - current	\$ 1,933,147	\$ 534,148
Cash and cash equivalents - long-term	-	277,777
Limited use assets - cash	758,942	945,492
Total	\$ 2,692,089	\$ 1,757,417
Supplemental Cash Flows Information		
Cash paid for interest (net of amount capitalized)	\$ 578,336	\$ 203,790
Amortization of debt issuance costs included in fixed assets as capitalized interest	\$ -	\$ 133,999
Property and equipment acquired through accounts payable construction and retainage payable (net decrease)	\$ (622,810)	\$ (2,790,608)
Payment on pledge receivable restricted for long-term use through donated securities	\$ -	\$ 4,000,000

Madison Square Boys & Girls Club, Inc. and MSBGC-NYC Support Corporation

Notes to Consolidated Financial Statements

September 30, 2020

(With Summarized Financial Information as of and for the Year Ended September 30, 2019)

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Madison Square Boys & Girls Club, Inc. (Madison) was established for the purpose of providing services to youth. These services include physical education, social and recreational, and education and guidance. The mission of Madison Square Boys and Girls Club, Inc. is to save and enhance the lives of New York City boys and girls who, by means of economic and/or social factors, are most in need of its services. Madison Square Boys and Girls Club, Inc. is supported primarily through contributions, special events, government grants, and investment income.

The extent of the COVID-19 pandemic's effect on Madison's program operations and financial condition has been and will continue to be driven by many factors, most of which are beyond the Madison's control and ability to forecast. Such factors include, but are not limited to, the scope and duration of government-imposed social distancing guidelines and regulations for Madison's programs, the related incremental expenses required for compliance with such COVID-19 guidelines and regulations, as well as the impact on the broader economy.

Because of these and other uncertainties, the organization cannot estimate the length or severity of the effect of the pandemic on the organization's business or its program operations.

MSBGC-NYC Support Corporation was established on February 17, 2017 for the purpose of supporting Madison Square Boys and Girls Club, Inc. primarily by participating in a New Markets Tax Credit (NMTC) financing transaction related to the construction of the Harlem Clubhouse (see *Note 10*). MSBGC-NYC Support Corporation began operations on May 5, 2017. Madison Square Boys and Girls Club, Inc. is the sole member of MSBGC-NYC Support Corporation.

Both entities (collectively referred to as Madison) are not-for-profit organizations exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

Basis of Consolidation

All material intercompany transactions and balances have been eliminated in the consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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, expenses gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Madison Square Boys & Girls Club, Inc. and MSBGC-NYC Support Corporation

Notes to Consolidated Financial Statements

September 30, 2020

(With Summarized Financial Information as of and for the Year Ended September 30, 2019)

Cash and Cash Equivalents

Madison considers all liquid investments with original maturities of three months or less to be cash equivalents. Uninvested cash and cash equivalents included in investment accounts are not considered to be cash and cash equivalents. At September 30, 2020 and 2019, cash equivalents consisted primarily of money market accounts with brokers.

At September 30, 2020, Madison's cash accounts exceeded federally insured limits by approximately \$1,585,000.

Summarized Financial Information

The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with Madison's financial statements for the year ended September 30, 2019, from which the summarized information was derived.

Investments and Investment Return

Investments are carried at fair value.

Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments, less external and direct internal investment expenses.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in revenue with donor restrictions and then released from restriction. Other investment return is reflected in the consolidated statement of activities with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

Madison maintains pooled investment accounts for its endowments. Investment income and realized and unrealized gains and losses from securities in the pooled investment accounts are allocated monthly to the individual endowments based on the relationship of the fair value of the interest of each endowment to the total fair value of the pooled investments accounts, as adjusted for additions to or deductions from those accounts.

Madison's investments with long-term maturities have been classified as long-term while the remaining investments have been classified as current based on the availability of these investments to fund current operations as needed.

Madison Square Boys & Girls Club, Inc. and MSBGC-NYC Support Corporation

Notes to Consolidated Financial Statements

September 30, 2020

(With Summarized Financial Information as of and for the Year Ended September 30, 2019)

Accounts and Government Grants Receivable

Accounts receivable are stated at the amount billed to customers plus any accrued and unpaid interest. Government grants receivable are recorded when services are rendered or when expenses have been incurred on grant contracts in accordance with contract terms. Interest is not charged on overdue receivables. Madison provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer.

Limited Use Assets

In accordance with the terms of the NMTC, MSBGC-NYC Support Corporation was required to establish and maintain certain construction and other funded reserve accounts (see *Note 7*). These reserves are held in cash accounts at PNC Bank. Any withdrawals require PNC Bank approval.

Property and Equipment

Property and equipment acquisitions greater than \$1,000 are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Building and improvements	5-40 years
Equipment and furnishings	5-15 years

Madison capitalizes interest costs as a component of construction in progress, based on the weighted-average rates paid for long-term borrowing. Total interest incurred each year was:

	<u>2020</u>	<u>2019</u>
Interest costs capitalized	\$ -	\$ 386,564
Interest costs charged to expense	<u>578,336</u>	<u>203,790</u>
Total interest incurred	<u>\$ 578,336</u>	<u>\$ 590,354</u>

Long-Lived Asset Impairment

Madison evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

Madison Square Boys & Girls Club, Inc. and MSBGC-NYC Support Corporation

Notes to Consolidated Financial Statements

September 30, 2020

(With Summarized Financial Information as of and for the Year Ended September 30, 2019)

No asset impairment was recognized during the years ended September 30, 2020 and 2019.

Debt Issuance Costs

Deferred issuance costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the effective interest method.

Refundable Advances

Refundable advances represent grant funds advanced by various government agencies for future periods.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor restrictions.

Net assets without donor restrictions are available for use in general operations and not subject to donor or grantor restrictions.

Net assets with donor restrictions are subject to donor or grantor restrictions. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other restrictions are perpetual in nature, where the donor or grantor stipulates that resources be maintained in perpetuity.

Contributions

Contributions are provided to Madison either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value recorded for each contribution is recognized as follows:

Nature of the Gift	Value Recognized
<i>Conditional gifts, with or without restriction</i>	
Gifts that depend on Madison overcoming a donor-imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, <i>i.e.</i> , the donor-imposed barrier is met
<i>Unconditional gifts, with or without restriction</i>	
Received at date of gift – cash and other assets	Fair value
Received at date of gift – property, equipment and long-lived assets	Estimated fair value

Madison Square Boys & Girls Club, Inc. and MSBGC-NYC Support Corporation

Notes to Consolidated Financial Statements

September 30, 2020

(With Summarized Financial Information as of and for the Year Ended September 30, 2019)

Nature of the Gift	Value Recognized
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

When a donor-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 consolidated statement of activities as net assets released from restrictions. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment and other long-lived assets are reported when those assets are placed in service.

Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period the gift is received are recorded as revenue with donor restrictions and then released from restriction.

Conditional contributions and investment income having donor stipulations which are satisfied in the period the gift is received and the investment income is earned are recorded as revenue with donor restrictions and then released from restriction.

In-Kind Contributions

In addition to receiving cash contributions, Madison receives in-kind contributions of auction items for their special events from various donors. It is the policy of Madison to record the estimated fair value of certain in-kind donations as an expense in its consolidated financial statements, and similarly increase contribution revenue by a like amount. For the years ended September 30, 2020 and 2019, \$159,160 and \$236,244, respectively, was received in in-kind contributions.

Government Grants

Support funded by grants is recognized as Madison performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

Special Events

Madison conducts special events in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event. All proceeds received are recorded as special events revenues in the accompanying consolidated statement of activities.

Madison Square Boys & Girls Club, Inc. and MSBGC-NYC Support Corporation

Notes to Consolidated Financial Statements

September 30, 2020

(With Summarized Financial Information as of and for the Year Ended September 30, 2019)

Rental Income

Rental income is reported on the straight-line basis. Accrued rental income is recorded when material.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the consolidated statement of activities. Certain costs have been allocated among the program, management and general and fund raising categories proportional to their related, directly charged expenses.

Rent Expense

Rent expense is reported on the straight-line basis, taking into account rent concessions and escalations. Deferred rent is recorded when material.

Note 2: Changes in Accounting Principles

ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash

Madison has adopted Accounting Standards Update (ASU) 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The new accounting guidance in ASU 2016-18 requires balances generally described as restricted cash or restricted cash equivalents to be included with cash and cash equivalents when reconciling beginning and end-of-period balances on the statements of cash flows.

This change was applied retrospectively to all periods presented which resulted in the following changes within the 2019 statement of cash flows:

	As Originally Reported	As Reported Under ASU 2016-18	Effect of Change
Investing activities			
Decrease in limited use assets	\$ 8,057,919	\$ -	\$ (8,057,919)
Net cash used in investing activities	2,256,984	(5,800,935)	(8,057,919)
Net change in cash and cash equivalents and restricted cash	(39,847)	(8,097,766)	(8,057,919)
Cash and cash equivalents and restricted cash beginning of year	851,772	9,855,183	9,003,411
Cash and cash equivalents and restricted cash end of year	811,925	1,757,417	945,492

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ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement

Madison has adopted ASU 2018-13, *Fair Value Measurement (Topic 820): Restricted Cash*. The standard update primarily eliminates and modifies previously required disclosures for fair value. The amendments related to changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements were adopted prospectively. All other amendments were adjusted retrospectively.

Note 3: Investments and Investment Return and Disclosures About Fair Values of Assets

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets

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Recurring Measurements

The following tables present the fair value measurements of assets recognized in the accompanying consolidated statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2020 and 2019:

	2020			
	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Unobservable Inputs (Level 3)	
Investments				
Equity securities				
Basic material	\$ 283,878	\$ 283,878	\$ -	
Consumer discretionary	3,938,871	3,938,871	-	
Consumer staples	1,163,325	1,163,325	-	
Financial	4,090,433	4,090,433	-	
Healthcare	3,555,112	3,555,112	-	
Industrial goods	2,101,948	2,101,948	-	
Technology	6,129,459	6,129,459	-	
Communications	6,909,817	6,909,817	-	
Energy	50,661	50,661	-	
Utilities	80,590	80,590	-	
Real estate	122,162	122,162	-	
Mutual funds				
Equity funds	18,819,124	18,819,124	-	
Bond funds	7,089,752	7,089,752	-	
Exchange traded funds				
Fixed income funds	1,928,802	1,928,802	-	
Equity funds	1,333,231	1,333,231	-	
Total investments reported on the fair value hierarchy	57,597,165	57,597,165	-	
Money market fund	2,104,217			
Total investments	59,701,382			
Beneficial interest in perpetual trusts	2,266,760	-	2,266,760	
Total	\$ 61,968,142	\$ 57,597,165	\$ 2,266,760	

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	2019		
	Fair Value Measurements Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Unobservable Inputs (Level 3)
Total	Total	Total	Total
Investments			
Equity securities			
Basic material	\$ 494,116	\$ 494,116	\$ -
Consumer discretionary	5,117,964	5,117,964	-
Consumer staples	1,005,372	1,005,372	-
Financial	4,372,694	4,372,694	-
Healthcare	1,862,174	1,862,174	-
Industrial goods	3,081,076	3,081,076	-
Technology	3,642,329	3,642,329	-
Communications	6,442,892	6,442,892	-
Energy	151,232	151,232	-
Utilities	87,233	87,233	-
Real estate	75,634	75,634	-
Mutual funds			
Equity funds	17,164,139	17,164,139	-
Bond funds	7,481,355	7,481,355	-
Exchange traded funds			
Fixed income funds	1,312,094	1,312,094	-
Equity funds	1,660,048	1,660,048	-
Total investments reported on the fair value hierarchy	53,950,352	53,950,352	-
Money market fund	3,456,178		
Total investments	57,406,530		
Beneficial interest in perpetual trusts	2,177,544	-	2,177,544
Total	\$ 59,584,074	\$ 53,950,352	\$ 2,177,544

The following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated statement of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the years ended September 30, 2020 and 2019.

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Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Note 4: Contributions Receivable

Contributions receivable consisted of the following:

	2020			
	Without Donor Restrictions	With Donor Restrictions		Total
		Time and Purpose	Endowment	
Due within one year	\$ 1,501,727	\$ -	\$ 21,000	\$ 1,522,727
Due in one to five years	154,504	488,022	-	642,526
Due in more than five years	-	-	5,100,000	5,100,000
	1,656,231	488,022	5,121,000	7,265,253
Less				
Allowance for uncollectible contributions	(50,000)	-	-	(50,000)
Unamortized discount	(12,683)	(4,097)	(666,773)	(683,553)
	\$ 1,593,548	\$ 483,925	\$ 4,454,227	\$ 6,531,700

	2019			
	Without Donor Restrictions	With Donor Restrictions		Total
		Time and Purpose	Endowment	
Due within one year	\$ 2,194,983	\$ 325,000	\$ -	\$ 2,519,983
Due in one to five years	1,201,750	487,500	1,000,000	2,689,250
Due in more than five years	-	-	5,100,000	5,100,000
	3,396,733	812,500	6,100,000	10,309,233
Less				
Allowance for uncollectible contributions	(50,000)	-	-	(50,000)
Unamortized discount	(28,377)	(12,683)	(811,788)	(852,848)
	\$ 3,318,356	\$ 799,817	\$ 5,288,212	\$ 9,406,385

Discount rates of two percent were used for 2020 and 2019.

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Notes to Consolidated Financial Statements September 30, 2020

(With Summarized Financial Information as of and for the Year Ended September 30, 2019)

Note 5: Grant Reimbursement Receivable and Future Commitments

Madison receives grant support through periodic claims filed with the respective funding sources, not to exceed a limit specified in the funding agreement. Since the financial statements of Madison are prepared on the accrual basis, all earned portions of the grants not yet received as of September 30, 2020 have been recorded as receivables. The following are grant commitments that extend beyond September 30, 2020:

Agency	Contract #	Term	Grant Amount	Earned / Forfeited Through 9/30/2020	Funding Available
NYS OASAS	C004354	07/01/2019-06/30/2024	\$ 3,624,709	\$ 633,383	\$ 2,991,326

Madison has received \$122,564 on this grant which is recorded as a refundable advance and expected to be earned in the next fiscal year.

Note 6: Beneficial Interest in Trusts

Under the terms of the trusts, the income generated from the trusts is payable to Madison. The contribution is classified as net assets with donor restrictions and the annual distributions from the trusts are reported as investment income that increases net assets without donor restrictions. The balance at September 30, 2020 and 2019 was \$2,266,760 and \$2,177,544, respectively. Unrealized gains of \$89,216 were recorded for the year ended September 30, 2020 and unrealized losses of \$13,214 were recorded for the year ended September 30, 2019.

Note 7: Limited Use Assets

During 2017, under the terms of the NMTC financing agreements, reserve accounts were required to be established and deposits held with a trustee to be used for construction purposes and NMTC financing related expenses. Funds will be withdrawn to satisfy expenses incurred during the construction phase of the project and to pay certain interest and fees on the NMTC loans.

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(With Summarized Financial Information as of and for the Year Ended September 30, 2019)

The following table represents limited use asset balances by source at September 30, 2020 and 2019:

	2020	2019
Construction reserve - cash	\$ 20,863	\$ 20,841
Interest reserve - cash	2	2
CDE fee reserves - cash	738,077	924,649
Total assets limited as to use	\$ 758,942	\$ 945,492

Note 8: Property and Equipment

Property and equipment at September 30, 2020 and 2019 consists of:

	2020		
	Cost	Accumulated Depreciation	Net
Land	\$ 5,672,517	\$ -	\$ 5,672,517
Building and improvements	59,783,306	15,459,143	44,324,163
Equipment and furnishings	1,681,357	480,439	1,200,918
	\$ 67,137,180	\$ 15,939,582	\$ 51,197,598
Administration	\$ 76,367	\$ 50,799	\$ 25,568
Building improvements	32,609	30,136	2,473
Bronx Club - John E. Grimm III Clubhouse	4,492,486	2,265,869	2,226,617
Bronx Club - Joel E. Smilow Clubhouse	6,983,334	4,461,339	2,521,995
Brooklyn Club - Navy Yard Clubhouse	5,105,777	4,081,227	1,024,550
Brooklyn Club - Thomas S. Murphy Clubhouse	6,651,665	3,759,184	2,892,481
Brooklyn Club - Elbaum Family Clubhouse	7,155	875	6,280
Harlem Club - Pinkerton Clubhouse	43,787,787	1,290,153	42,497,634
	\$ 67,137,180	\$ 15,939,582	\$ 51,197,598

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September 30, 2020

(With Summarized Financial Information as of and for the Year Ended September 30, 2019)

	2019		
	Cost	Accumulated Depreciation	Net
Land	\$ 5,672,517	\$ -	\$ 5,672,517
Building and improvements	59,520,281	13,864,179	45,656,102
Equipment and furnishings	1,594,478	259,839	1,334,639
	\$ 66,787,276	\$ 14,124,018	\$ 52,663,258
Administration	\$ 76,367	\$ 41,592	\$ 34,775
Building improvements	32,609	25,192	7,417
Bronx Club - Columbus building	4,474,663	2,078,300	2,396,363
Bronx Club - Joel E. Smilow Clubhouse	6,915,217	4,237,892	2,677,325
Navy Yard Boys' Club	5,035,397	3,990,081	1,045,316
Thomas S. Murphy Clubhouse	6,581,643	3,494,179	3,087,464
Elbaum Family Clubhouse	1,593	-	1,593
Harlem Club - Pinkerton Clubhouse	43,669,787	256,782	43,413,005
	\$ 66,787,276	\$ 14,124,018	\$ 52,663,258

Note 9: Line of Credit

On December 5, 2012, Madison established a line of credit with JP Morgan Chase Bank, N.A. for an amount not to exceed \$6,500,000. The line of credit was to expire on December 31, 2014 but was extended through August 31, 2020. The line of credit was further extended to May 30, 2021 at an amount not to exceed \$4,900,000. The line of credit is collateralized by the investments held by JP Morgan Chase Bank, N.A., which totaled \$9,985,809 at September 30, 2020 and \$9,505,239 at September 30, 2019. As of September 30, 2020 and 2019, Madison's outstanding balance on this account totaled \$881,360 and \$944,360, respectively. The interest rate at September 30, 2020 and 2019 is based upon the one-month LIBOR two days prior to the payment due date plus 1.40 percent. The interest rate at September 30, 2020 and 2019 was 1.59 percent and 3.46 percent, respectively, and interest expense was \$28,071 and \$40,089 for the years ended September 30, 2020 and 2019.

On June 16, 2017, Madison established a second line of credit for an amount not to exceed \$3,200,000. The line of credit is payable on demand and is collateralized by certain investments, which totaled \$7,005,606 and \$7,511,398 at September 30, 2020 and 2019, respectively. As September 30, 2020 and 2019, there were no amounts outstanding on this account. The interest rate at September 30, 2020 and 2019 is based upon the 30-day LIBOR plus two percent. The interest rate at September 30, 2020 and 2019 was 2.17 percent and four percent, respectively, and there was no interest expense for the years ended September 30, 2020 and 2019, respectively.

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Note 10: Long-Term Debt and Loan Receivable

In May 2017, Madison entered into a debt transaction to access additional funds through the NMTC program. These funds were used towards the construction of Madison's new Clubhouse in Harlem, NY. The NMTC program permits taxpayers to claim a credit against federal income taxes for Qualified Equity Investments (QEIs) in designated Community Development Entities (CDEs), such as the Harlem Clubhouse. These designated CDEs must use substantially all (85 percent) of the proceeds to make Qualified Low-Income Community Investments (QLICIs). The Investor is provided with a tax credit, which is claimed over a seven-year compliance period, in exchange for their capital contribution to the QEI. Madison has partnered with an investor, PNC Bank, to utilize the NMTC Program.

PNC Bank established a special-purpose entity called Harlem Clubhouse Investment Fund, LLC (HCIF) to raise the capital for the transaction. PNC Bank owns 99 percent of HCIF. HCIF was funded with \$12,931,200 of equity from PNC Bank, and a \$25,548,800 leverage loan from Madison. The \$25,548,800 leverage loan from Madison to HCIF requires quarterly interest-only payments at 1.452 percent until December 2024. Starting in January 2025, HCIF will make quarterly principal and interest payments to Madison in the amount of \$389,737 until September 2043. At September 30, 2020 and 2019, the balance of the note was \$25,548,800, and interest income was \$370,969. There was no accrued interest under the note as of September 30, 2020 and 2019.

The capital raised by HCIF was used to make a \$38,000,000 QEI in four separate CDEs - NFF New Markets Fund XXIX, LLC (NFF), NYCNCC Sub-CDE 2 LLC (NYNCC), Empowerment Reinvestment Fund XXV, LLC (ERF), and PNC CDE 74, LP (PNC), each owned 99.99 percent by HCIF. The CDEs then loaned these funds, net of fees paid to the CDEs, to MSBGC-NYC Support Corporation in the form of twelve loans. The loans all mature on December 31, 2051. Principal is payable in quarterly installments commencing in March 2025. Interest is payable quarterly on the loans and commenced May 2017.

Interest related to the NMTC financing was \$550,265, including \$178,665 of amortization of debt issuance costs in 2020, and \$550,265, including \$178,666 of amortization of debt issuance costs, of which \$386,564 has been capitalized as part of construction in progress in 2019. The effective interest rate was 1.5 percent in 2020 and 2019.

The seven-year compliance period for the NMTCs will end December 2025, at which time PNC Bank may exit the transaction through the exercise of a call/put agreement which it has entered into with Madison. Under the agreement, PNC Bank may "put" its interest in HCIF to Madison for a purchase price of \$1,000. In the event that PNC Bank has not exercised this put option Madison has 180 days to exercise its call option to purchase PNC Bank's entire interest in HCIF for a purchase price equal to the appraised value of PNC Bank's interest. To exercise the call option, Madison must be current on all payments under the twelve notes payable and must not owe any additional amounts to HCIF or PNC Bank. Madison will realize its savings from the NMTC transactions through the exercise of this put or call option, at which time it will control HCIF and can effectively forgive the QLICI Loan Bs. No amounts have been recorded in the accompanying consolidated financial statements related to these put and call options.

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In April 2020, Madison received a loan in the amount of \$1,428,955 under the Paycheck Protection Program (PPP). The PPP, established as part of the *Coronavirus Aid, Relief and Economic Security Act* (CARES Act), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during a specified covered period. The unforgiven portion of the PPP loan is payable over two years at an interest rate of one percent. Madison has applied for full forgiveness of the PPP loan since it believes it has used all the proceeds for purposes consistent with the PPP program. No amounts have been recorded in the accompanying consolidated financial statements related to the forgiveness of debt.

In April 2021, Madison received a second draw under the PPP in the amount of \$1,428,955. The loan is payable over five years at an interest rate of one percent.

In June 2020, Madison received a NYC COVID-19 Response & Impact Fund Loan from the Nonprofit Finance Fund in the amount of \$750,000 at zero percent interest rate. The loan term is 24 months and is to be repaid in three equal quarterly payments beginning in December 2021.

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Loans payable reflected on the consolidated statement of financial position as of September 30, 2020 and 2019 are as follows:

	Original Principal Balance	Balance as of September 30, 2020	Balance as of September 30, 2019	Interest Rate
NMTC Loans				
NFF CDE Loan A (Building)	\$ 913,617	\$ 913,617	\$ 913,617	1%
NFF CDE Loan A (Project)	5,576,383	5,576,383	5,576,383	1%
NFF CDE Loan B (Project)	3,210,000	3,210,000	3,210,000	1%
Total NFF CDE	<u>9,700,000</u>	<u>9,700,000</u>	<u>9,700,000</u>	
NYCNCC CDE Loan A (Building)	1,384,553	1,384,553	1,384,553	1%
NYCNCC CDE Loan A (Project)	9,034,447	9,034,447	9,034,447	1%
NYCNCC CDE Loan B (Project)	4,281,000	4,281,000	4,281,000	1%
Total NYCNCC CDE	<u>14,700,000</u>	<u>14,700,000</u>	<u>14,700,000</u>	
ERF CDE Loan A (Building)	542,519	542,519	542,519	1%
ERF CDE Loan A (Project)	3,445,081	3,445,081	3,445,081	1%
ERF CDE Loan B (Project)	1,772,400	1,772,400	1,772,400	1%
Total ERF CDE	<u>5,760,000</u>	<u>5,760,000</u>	<u>5,760,000</u>	
PNC CDE Loan A (Building)	659,311	659,311	659,311	1%
PNC CDE Loan A (Project)	3,992,889	3,992,889	3,992,889	1%
PNC CDE Loan B (Project)	2,347,800	2,347,800	2,347,800	1%
Total PNC CDE	<u>7,000,000</u>	<u>7,000,000</u>	<u>7,000,000</u>	
Subtotal	37,160,000	37,160,000	37,160,000	
Less unamortized debt issuance costs	<u>(1,250,657)</u>	<u>(655,106)</u>	<u>(833,772)</u>	
Subtotal NMTC loans payable	<u>35,909,343</u>	<u>36,504,894</u>	<u>36,326,228</u>	
Nonprofit Finance Fund Loan	750,000	750,000	-	0%
Paycheck Protection Program Loan	<u>1,428,955</u>	<u>1,428,955</u>	<u>-</u>	1%
Total loans payable	<u>\$ 38,088,298</u>	<u>\$ 38,683,849</u>	<u>\$ 36,326,228</u>	

Future minimum payments are as follows:

Year Ended September 30,	
2021	\$ -
2022	2,178,955
2023	-
2024	-
2025	889,617
Thereafter	<u>36,270,383</u>
	<u>\$ 39,338,955</u>

Madison Square Boys & Girls Club, Inc. and MSBGC-NYC Support Corporation

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Note 11: Net Assets

Net Assets With Donor Restrictions

Net assets with donor restrictions at September 30, 2020 and 2019 are restricted for the following purposes or periods:

	2020	2019
Subject to expenditure for specified purpose		
100th Anniversary Fund		
Clubhouse Service Fund	\$ 4,839,190	\$ 4,560,189
Remedial Education Fund	2,468,106	2,325,809
Staff Development Training Fund	173,553	163,547
Camp and Outdoor Education Fund	81,812	77,094
Scholarship funds		
Eugenia Woodward Hitt Scholarship Fund	166,233	150,191
Joseph Golding Fund	136,475	123,305
Monroe and Rose Levinger Fund	12,590	11,375
Dana, Freeman, Harkness, Maxwell, Guzman, Dibernardo Fund	283,504	256,145
Program Operating Grants	1,666,126	1,442,042
	9,827,589	9,109,697
 Endowments		
Perpetual in nature - endowment corpus	31,657,488	32,507,473
Subject to NFP endowment spending policy and appropriation		
Accumulated investment gains restricted by donors for clubhouse operations	9,087,537	6,020,957
Total endowments	40,745,025	38,528,430
 Not subject to spending policy or appropriation		
Beneficial interests in perpetual trusts	2,266,760	2,177,544
	\$ 52,839,374	\$ 49,815,671

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Net Assets Released from Restrictions

Net assets were released from donor restrictions for the year ended September 30, 2020 by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

Satisfaction of purpose restrictions		
Scholarships	\$	36,000
Clubhouse services		277,888
Remedial education		141,730
Staff development training		9,966
Camp and outdoor education		4,697
Music Program operations		126,000
Elbaum Family Clubhouse operations		161,131
Capital Campaign related costs		-
		757,412
Restricted purpose spending-rate distributions and appropriations		
Clubhouse operations		1,337,290
		1,337,290
	\$	2,094,702

Note 12: Endowment

Madison's governing body is subject to the *State of New York Prudent Management of Institutional Funds Act* (NYPMIFA). As a result, Madison classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the governing body appropriates such amounts for expenditures. Most of those net assets also are subject to purpose restrictions that must be met before being reclassified as net assets without donor restrictions.

Additionally, in accordance with NYPMIFA, Madison considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of Madison and the fund
3. General economic conditions
4. Possible effect of inflation and deflation

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5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of Madison
7. Investment policies of Madison

Madison's endowment consists of a fund established by donors to provide income to fund its future operations related to its clubhouses. As required by GAAP, net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The composition of net assets by type of endowment fund at September 30, 2020 and 2019 was:

	With Donor Restrictions	
	2020	2019
Donor-restricted endowment funds		
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ 31,657,488	\$ 32,507,473
Accumulated investment gains	9,087,537	6,020,957
Total endowment funds	\$ 40,745,025	\$ 38,528,430

Change in endowment net assets for the years ended September 30, 2020 and 2019 were:

	With Donor Restrictions	
	2020	2019
Endowment net assets, beginning of year	\$ 38,528,430	\$ 37,536,778
Investment return, net	4,403,870	2,648,406
Contributions	150,015	(710,154) *
Appropriation of endowment assets for expenditures	(1,337,290)	(946,600)
Other changes		
Bad debt loss	(1,000,000)	-
Endowment net assets, end of year	\$ 40,745,025	\$ 38,528,430

* There were \$99,261 of new contributions and a change in estimate of \$(809,415) in 2019.

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Investment and Spending Policies

The objective of Madison is to maintain the principal endowment funds at the original amount designated by the donor while generating income for Madison's programs. The investment policy to achieve this objective is to invest in a diversified investment portfolio. Investment income earned in relation to the endowment funds is recorded as net assets with donor restrictions and released from restriction upon expenditures for the programs for which the endowment was established. For the years ended September 30, 2020 and 2019, up to four percent of the five years quarterly average (or since inception if less than five years) will be drawn annually for use in operations.

Underwater Endowments

Madison does not have any underwater endowment funds.

Note 13: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of September 30, 2020 and 2019, comprise the following:

	2020	2019
Financial assets		
Cash and cash equivalents	\$ 1,933,147	\$ 811,925
Investments	59,701,382	57,406,530
Government grants receivable	171,033	262,529
Contributions receivable	6,531,700	9,406,385
Accrued interest receivable	4,918	10,476
Beneficial interests in trusts	2,266,760	2,177,544
Total financial assets	70,608,940	70,075,389
Donor-imposed restrictions		
Restricted funds	(12,094,349)	(11,287,241)
Endowments	(40,745,025)	(38,528,430)
Total donor-imposed restrictions	(52,839,374)	(49,815,671)
Financial assets available to meet cash needs for general expenditures within one year	\$ 17,769,566	\$ 20,259,718

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Notes to Consolidated Financial Statements

September 30, 2020

(With Summarized Financial Information as of and for the Year Ended September 30, 2019)

Fiscal year 2019 has been revised for an immaterial error that excluded the beneficial interest in trusts from total financial assets. The revision increased previously reported financial assets available to meet cash needs for general expenditures within one year by \$2,177,544. There were no changes to the statement of financial position, statement of activities, or statement of cash flows as a result of this correction.

Madison's endowment funds consist of donor-restricted endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

To help manage unanticipated liquidity needs, Madison has committed lines of credit in the amount of \$8,100,000 which it could draw upon.

Madison manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

Note 14: Operating Leases

On September 2, 2014, Madison entered into a lease for its administrative offices which commenced on August 12, 2014. The lease includes rent concessions at inception and rent escalations during the term of the lease. The lease is set to expire on December 30, 2021. In lieu of a security deposit, the landlord requested that Madison obtain a letter of credit. The letter is for approximately \$95,000 and expires on March 31, 2022.

Future minimum rental payments are as follows:

2021	\$	396,312
2022		<u>99,078</u>
Total	\$	<u><u>495,390</u></u>

Madison rents storage space on a month-to-month basis.

In addition, Madison leases three vehicles. The leases expire in January 2023. Lease expense for these vehicles for the years ended September 30, 2020 and 2019 was \$16,051 and \$11,648, respectively.

Madison Square Boys & Girls Club, Inc. and MSBGC-NYC Support Corporation

Notes to Consolidated Financial Statements

September 30, 2020

(With Summarized Financial Information as of and for the Year Ended September 30, 2019)

Future minimum lease payments as of September 30, 2020 are as follows:

2021	\$	7,200
2022		7,200
2023		<u>2,400</u>
Total	\$	<u>16,800</u>

Total lease and rent expense for the years ended September 30, 2020 and 2019 was \$530,298 and \$402,321, respectively.

Note 15: Pension and Other Postretirement Benefit Plans

Madison participates in the Boys and Girls Club of America Pension Trust (the Plan). The Plan is a defined contribution plan which covers substantially all full-time employees. Madison contributes 10 percent of participating employees' annual salaries. Employees are fully vested after three years of employment. Pension expense was \$504,946 and \$390,197 for the years ended September 30, 2020 and 2019, respectively.

Note 16: Significant Estimates and Concentrations

GAAP require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Investments

Madison invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying statements of financial position.

Litigation

The New York Child Victims Act (CVA), signed into law on February 14, 2019 by Governor Cuomo, created a one-year claim-revival window, which opened on August 14, 2019, during which adult survivors of child sexual abuse are permitted to file civil actions for damages resulting from such abuse, even if the statute of limitations for their claim(s) had already expired. Since the CVA's passage, the claim revival window has been extended by further legislation to two years and is currently scheduled to close on August 14, 2021. As of the date of this report, Madison has been named as a defendant in at least forty-one pending lawsuits, brought by a total of at least 100 different individuals, each alleging they were sexually abused when they were children between 1947 and 1988.

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Most of the claims allege abuse by Dr. Reginald Archibald, an endocrinologist who conducted growth disorder studies on children at Rockefeller University in the 1950s, 1960s, and 1970s. Dr. Archibald joined Madison's Board of Trustees in 1961, and appears to have been a volunteer at Madison beginning in 1940. Most of these plaintiffs claim that abuse occurred on Madison's premises; some allege that abuse occurred at Rockefeller University. Dr. Archibald has been deceased since 2007. Some plaintiffs claim abuse by other individuals at Madison between the 1940s and the 1980s.

In addition, Madison has received threatened legal actions from approximately thirteen individuals alleging similar abuse, based on communications from potential plaintiffs' counsel.

Madison is incurring substantial legal costs in connection with the defense and related issues arising from the CVA litigation. At this stage, it is impossible to predict the outcomes of these lawsuits, and Management is unable to reasonably estimate the impact such claims might have on the consolidated financial statements, but such amounts could be material.

Note 17: Capital Campaign

In connection with the purchase of the property in Harlem in 2012, Madison began a capital campaign to raise funds for the construction of a future clubhouse and to create an endowment to support Madison's activities. A total of \$75,167,779 has been raised as of September 30, 2020. A discount of \$670,870 and \$840,165 has been recorded against future contributions receivable (see *Note 4*) as of September 30, 2020 and 2019, respectively. Payments of \$68,637,940 were received as of September 30, 2020.

Madison started construction of the future Harlem Clubhouse in February 2017 and commenced operations at the clubhouse in July 2019. Retainage payable was \$102,493 at September 30, 2020 and 2019.

Note 18: Subsequent Event

Subsequent events have been evaluated through June 3, 2021, which is the date the financial statements were available to be issued.

Madison Square Boys & Girls Club, Inc. and MSBGC-NYC Support Corporation

Notes to Consolidated Financial Statements

September 30, 2020

(With Summarized Financial Information as of and for the Year Ended September 30, 2019)

Note 19: Future Changes in Accounting Principle

Revenue Recognition

The Financial Accounting Standards Board (FASB) amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for annual periods beginning after December 15, 2019 for nonpublic entities, and any interim periods within annual reporting periods that begin after December 15, 2020 for nonpublic entities. Madison is in the process of evaluating the impact the amendment will have on the financial statements.

Accounting for Leases

FASB amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the statements of financial position as both a right-of-use asset and a liability. The standard has two types of leases for statements of activities recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease-term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2021 and any interim periods within annual reporting periods that begin after December 15, 2022. Madison is evaluating the effect the standard will have on the financial statements; however, the standard is expected to have a material effect on the financial statements due to the recognition of additional assets and liabilities for operating leases.

Supplementary Information

Madison Square Boys & Girls Club, Inc. and MSBGC-NYC Support Corporation
Schedule of Changes in Net Assets with Donor Restrictions
Year Ended September 30, 2020

	Net Assets - Beginning of Year	Support and Gains	Net Assets Released from Restrictions and Losses	Net Assets - End of Year
100th Anniversary Fund				
Clubhouse Service Fund	\$ 4,560,189	\$ 556,889	\$ (277,888)	\$ 4,839,190
Remedial Education Fund	2,325,809	284,027	(141,730)	2,468,106
Staff Development Training Fund	163,547	19,972	(9,966)	173,553
Camp and Outdoor Education Fund	77,094	9,415	(4,697)	81,812
Total 100th Anniversary Fund	<u>7,126,639</u>	<u>870,303</u>	<u>(434,281)</u>	<u>7,562,661</u>
Eugenia Woodward Hitt Scholarship Fund	150,191	26,036	(9,994)	166,233
Joseph Golding Fund	123,305	21,375	(8,205)	136,475
Monroe and Rose Levinger Fund	11,375	1,972	(757)	12,590
Dana, Freeman, Harkness, Maxwell, Guzman, Dibernardo Fund	256,145	44,403	(17,044)	283,504
Total scholarship funds	<u>541,016</u>	<u>93,786</u>	<u>(36,000)</u>	<u>598,802</u>
Program operating grants	<u>1,442,042</u>	<u>511,215</u>	<u>(287,131)</u>	<u>1,666,126</u>
Endowment				
Perpetual in nature - endowment corpus	32,507,473	150,015	(1,000,000)	32,657,488
Unappropriated earnings on endowment funds	6,020,957	4,403,870	(1,337,290)	9,087,537
Total endowment	<u>38,528,430</u>	<u>4,553,885</u>	<u>(2,337,290)</u>	<u>41,745,025</u>
Perpetual trusts				
Ruby Fleming Trust	1,230,110	60,260	-	1,290,370
Glessner B. Childs Trust	947,434	28,956	-	976,390
Total perpetual trusts	<u>2,177,544</u>	<u>89,216</u>	<u>-</u>	<u>2,266,760</u>
Total net assets with donor restrictions	<u>\$ 49,815,671</u>	<u>\$ 6,118,405</u>	<u>\$ (3,094,702)</u>	<u>\$ 53,839,374</u>