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

Independent Auditor's Report and Consolidated Financial Statements

September 30, 2018

BKD
CPAs & Advisors

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

September 30, 2018

Contents

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Independent Auditor's Report

Board of Directors
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, 2018, 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 Consolidated 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, 2018, 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.

Prior Year Audited by Predecessor Accountants and Summarized Comparative Information

The 2017 consolidated financial statements, before they were revised for the matter discussed in *Note 16,* were audited by other auditors and their report thereon, dated March 29, 2018, expressed an unmodified opinion. The summarized comparative information presented herein as of and for the year ended September 30, 2017 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information for the year ended September 30, 2018 listed in the table of contents is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

BKD, LLP

New York, New York
April 17, 2019

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

Consolidated Statement of Financial Position

September 30, 2018

(With Summarized Financial Information for September 30, 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2018	Total 2017
Assets					
Current Assets					
Cash and cash equivalents	$ 559,522	$ -	$ -	$ 559,522	$ 810,848
Investments	20,503,169	-	-	20,503,169	6,561,620
Government grants receivable	513,068	-	-	513,068	961,201
Contributions receivable (net of allowance of $50,000 in 2018 and 2017)	835,877	1,856,027	4,042,739	6,734,643	7,899,832
Accrued interest receivable	1,115	9,312	-	10,427	8,189
Prepaid expenses and other assets	234,885	-	-	234,885	240,684
Total current assets	22,647,636	1,865,339	4,042,739	28,555,714	16,482,374
Cash and cash equivalents	-	292,250		292,250	2,441,361
Investments	-	12,302,258	22,956,261	35,258,519	34,887,779
Contributions receivable	-	2,142,827	6,218,627	8,361,454	14,262,643
Loan receivable	25,548,800	-	-	25,548,800	25,548,800
Beneficial interests in trusts	-	-	2,190,758	2,190,758	2,153,488
Limited use assets	9,003,411	-	-	9,003,411	26,597,716
Property and equipment, net	44,845,884	-	-	44,845,884	25,253,534
Total assets	$ 102,045,731	$ 16,602,674	$ 35,408,385	$ 154,056,790	$ 147,627,695

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

Consolidated Statement of Financial Position (Continued)

September 30, 2018

(With Summarized Financial Information for September 30, 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2018	Total 2017
Liabilities and Net Assets					
Current liabilities					
Accounts payable and accrued expenses	$ 1,401,554	$ -	$ -	$ 1,401,554	$ 1,213,641
Accounts payable, construction	2,149,506	-	-	2,149,506	2,367,497
Retainage payable	1,408,965	-	-	1,408,965	466,436
Lines of credit	1,044,360	-	-	1,044,360	1,244,360
Refundable advances	302,527	-	-	302,527	273,855
Total current iabilities	6,306,912	-	-	6,306,912	5,565,789
Long-term debt	36,147,563	-	-	36,147,563	35,968,898
Total liabilities	42,454,475	-	-	42,454,475	41,534,687
Net Assets					
Unrestricted	59,591,256	-	-	59,591,256	39,322,344
Temporarily restricted	-	16,602,674	-	16,602,674	33,486,562
Permanently restricted	-	-	35,408,385	35,408,385	33,284,102
Total net assets	59,591,256	16,602,674	35,408,385	111,602,315	106,093,008
Total liabilities and net assets	$ 102,045,731	$ 16,602,674	$ 35,408,385	$ 154,056,790	$ 147,627,695

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

Consolidated Statement of Activities

Year Ended September 30, 2018

(With Summarized Financial Information for the Year Ended September 30, 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2018	Total 2017
Revenues, Gains, Losses and Other Support					
Contributions	$ 2,646,932	$ 2,205,638	$ 87,013	$ 4,939,583	$ 7,922,699
Special events (includes in-kind contributions of $308,554)	3,658,715	-	-	3,658,715	3,372,414
Direct cost of special events	(989,462)	-	-	(989,462)	(948,345)
Income from trusts	102,480	-	-	102,480	423,313
Change in value of beneficial interest in trusts	-	-	37,270	37,270	550,782
United Way of New York City	278	-	-	278	448
New York State Office of Alcoholism and Substance Abuse Services	577,714	-	-	577,714	597,491
New York City Department of Youth and Community Development	461,786	-	-	461,786	493,386
New York State CACFP/Food Program	304,473	-	-	304,473	334,502
Boys & Girls Club of America - Office of Juvenile Delinquency Program	72,127	-	-	72,127	98,065
New York City Economic Development Corporation	47,203	-	-	47,203	583,345
Other government grants	269,973	-	-	269,973	134,652
Camping/program fees	163,452	-	-	163,452	167,983
Membership dues	12,340	-	-	12,340	15,387
Investment income	1,024,243	4,734,885	-	5,759,128	4,814,541
Loan interest income	370,969	-	-	370,969	150,448
Rental income	83,700	-	-	83,700	44,906
Net assets released from restrictions	21,824,411	(21,824,411)	-	-	-
Total revenues, gains, losses and other support	30,631,334	(14,883,888)	124,283	15,871,729	18,756,017

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

Consolidated Statement of Activities (Continued)

Year Ended September 30, 2018

(With Summarized Financial Information for the Year Ended September 30, 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2018	Total 2017
Expenses					
Program Services					
Healthy Lifestyles	$ 2,302,398	$ -	$ -	$ 2,302,398	$ 1,671,776
Good Character & Citizenship	1,869,940	-	-	1,869,940	1,859,191
Academic Success	3,548,456	-	-	3,548,456	3,855,089
Total program services	7,720,794	-	-	7,720,794	7,386,056
Supporting Services					
Management and general	1,357,986	-	-	1,357,986	1,127,845
Fund raising	1,283,642	-	-	1,283,642	1,260,728
Total supporting services	2,641,628	-	-	2,641,628	2,388,573
Total expenses	10,362,422	-	-	10,362,422	9,774,629
Change in Net Assets before reclassification	20,268,912	(14,883,888)	124,283	5,509,307	8,981,388
Reclassification (Note 11)	-	(2,000,000)	2,000,000	-	-
Change in Net Assets	20,268,912	(16,883,888)	2,124,283	5,509,307	8,981,388
Net Assets, Beginning of Year as Previously Reported	39,322,344	33,486,562	33,284,102	106,093,008	91,011,620
Revision (Note 16)	-	-	-	-	6,100,000
Net Assets, Beginning of Year Revised	39,322,344	33,486,562	33,284,102	106,093,008	97,111,620
Net Assets, End of Year	$ 59,591,256	$ 16,602,674	$ 35,408,385	$ 111,602,315	$ 106,093,008

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

Consolidated Statement of Functional Expenses

Year Ended September 30, 2018

(With Summarized Financial Information for the Year Ended September 30, 2017)

	Program Services				Supporting Services				Total	
	Healthy Lifestyles	Good Character & Citizenship	Academic Success	Total	Management and General	Fund Raising	Direct Cost of Special Events	Total	2018	2017
Salaries	$ 1,144,142	$ 1,000,649	$ 2,002,936	$ 4,147,727	$ 446,291	$ 872,272	$ -	$ 1,318,563	$ 5,466,290	$ 4,880,103
Payroll taxes and employee benefits	337,658	295,311	591,104	1,224,073	131,709	257,424	-	389,133	1,613,206	1,438,016
Total salaries and related expenses	1,481,800	1,295,960	2,594,040	5,371,800	578,000	1,129,696	-	1,707,696	7,079,496	6,318,119
Professional fees	11,600	15,466	21,266	48,332	118,356	2,656	-	121,012	169,344	558,897
Contract services	66,640	-	-	66,640	-	-	-	-	66,640	-
Supplies	323,493	31,645	81,090	436,228	3,895	3,232	-	7,127	443,355	451,119
Postage and shipping	780	1,169	1,820	3,769	1,779	1,270	-	3,049	6,818	11,847
Telephone	10,796	14,600	20,987	46,383	1,892	4,699	-	6,591	52,974	48,509
Occupancy	144,347	195,195	307,880	647,422	126,574	90,052	-	216,626	864,048	836,915
Insurance	31,980	39,944	63,051	134,975	64,434	1,237	-	65,671	200,646	207,581
Outside printing and artwork	7,487	10,096	14,177	31,760	1,661	18,867	-	20,528	52,288	72,267
Local transportation	10,625	7,735	13,252	31,612	1,119	1,052	-	2,171	33,783	115,623
Meetings and conferences	4,420	6,389	9,680	20,489	26,336	8,718	-	35,054	55,543	109,912
Subscriptions, publications and dues	7,250	10,488	15,728	33,466	11,316	8,917	-	20,233	53,699	55,001
Awards and scholarships	3,921	5,228	36,336	45,485	-	-	-		45,485	77,917
Staff development/training	6,009	8,325	12,454	26,788	3,488	4,636	-	8,124	34,912	54,673
Equipment rental	14,048	17,631	27,696	59,375	4,943	3,528	-	8,471	67,846	60,991
Investment fees	-	-	-	-	364,478	-	-	364,478	364,478	287,261
Catering, facility rental and entertainment (includes in-kind expenses of $308,554 in 2018 and $286,244 in 2017)	-	-	-	-	-	-	989,462	989,462	989,462	948,345
Interest and bank charges (includes interest of $303,240 for 2018 and $38,605 for 2017)	-	-	-	-	336,974	-	-	336,974	336,974	74,196
Bad debt expense	-	-	-	-	70,100	-		70,100	70,100	37,645
Depreciation	177,202	210,069	328,999	716,270	7,119	5,082	-	12,201	728,471	683,417
Total expenses	2,302,398	1,869,940	3,548,456	7,720,794	1,722,464	1,283,642	989,462	3,995,568	11,716,362	11,010,235
Less expenses deducted directly from revenues on the statement of activities										
Investment fees	-	-	-	-	(364,478)	-	-	(364,478)	(364,478)	(287,261)
Direct cost of special events	-	-	-	-	-	-	(989,462)	(989,462)	(989,462)	(948,345)
Total expenses reported by function on the statement of activities	$ 2,302,398	$ 1,869,940	$ 3,548,456	$ 7,720,794	$ 1,357,986	$ 1,283,642	$ -	$ 2,641,628	$ 10,362,422	$ 9,774,629

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

Consolidated Statement of Cash Flows

Year Ended September 30, 2018

(With Summarized Financial Information for the Year Ended September 30, 2017)

	2018	2017
Operating Activities		
Change in net assets	$ 5,509,307	$ 8,981,388
Items not requiring (providing) operating cash flows		
Depreciation	728,471	683,417
Net gain on investments	(5,665,860)	(4,560,020)
Contributions restricted for long-term use	(3,205,638)	(4,955,259)
Permanently restricted contributions	(87,013)	(666,149)
Change in value of beneficial interest in trusts	(37,270)	(550,782)
Changes in		
Government grants receivable	448,133	18,880
Contributions receivable	7,066,378	90,660
Beneficial interests in remainder trusts	-	7,619,899
Accrued interest receivable	(2,238)	879
Prepaid expenses and other assets	5,799	80,856
Accounts payable and accrued expenses	187,913	405,503
Refundable advances	28,672	46,105
Net cash provided by operating activities	4,976,654	7,195,377
Investing Activities		
Purchase of investments	(17,704,929)	(4,715,722)
Proceeds from sale of investments	9,058,500	10,859,453
Issuance of loan	-	(25,548,800)
Decrease in limited use assets	17,594,305	4,531,641
Purchase of fixed assets	(19,417,618)	(8,323,319)
Net cash used in investing activities	(10,469,742)	(23,196,747)

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

Consolidated Statement of Cash Flows (Continued)

Year Ended September 30, 2018

(With Summarized Financial Information for the Year Ended September 30, 2017)

	2018	2017
Financing Activities		
Proceeds from long-term debt	$ -	$ 4,779,986
Drawdowns on lines of credit	-	500,000
Repayment of lines of credit	(200,000)	(600,000)
Proceeds from permanently restricted contributions	87,013	4,854,167
Proceeds from contributions restricted for long-term use	3,205,638	8,788,610
Net cash provided by financing activities	3,092,651	18,322,763
Net Change in Cash and Cash Equivalents	(2,400,437)	2,321,393
Cash and Cash Equivalents, Beginning of Year	3,252,209	930,816
Cash and Cash Equivalents, End of Year	$ 851,772	$ 3,252,209
Supplemental Cash Flows Information		
Cash paid during the year for interest (net of amount capitalize	$ 303,240	$ 38,605
Proceeds from the New Markets Tax Credit Financing directly financed the following:		
Establish reserve accounts - limited use assets		31,129,357
Debt issuance costs		1,250,657
Amortization of debt issuance costs included in fixed assets as capitalized interest	178,665	59,555
Property and equipment acquired through AP construction and retainage payable (net increase)	724,538	2,014,554

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

Nature of Operations

Madison Square Boys & Girls Club, Inc. 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.

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 *(Note 12)*. 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 Accounting

The consolidated financial statements are prepared on the accrual basis of accounting.

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 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.

Cash and Cash Equivalents

Madison considers all liquid investments with original maturities of three months or less to be cash equivalents. At September 30, 2018 and 2017, cash equivalents consisted primarily of money market accounts with brokers.

At September 30, 2018, Madison’s cash accounts exceeded federally insured limits by approximately $9,300,000.

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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Madison's financial statements for the year ended September 30, 2017, from which the summarized information was derived.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investments in private equity funds and hedge funds are recorded at net asset value (NAV), as a practical expedient. 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.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the statements of activities as unrestricted, temporarily restricted or permanently restricted 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.

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 *(Note 6)*. These reserves are held in cash accounts at PNC Bank. Any withdrawals require PNC Bank approval.

Property and Equipment

Property and equipment 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	5-25 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:

	2018	2017
Interest costs capitalized	$ 43,151	$ 210,259
Interest costs charged to expense	268,894	-
Total interest incurred	$ 312,045	$ 210,259

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.

No asset impairment was recognized during the years ended September 30, 2018 and 2017.

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

Unrestricted net assets include funds having no restriction as to use or purpose (examples include clubhouse operations). Temporarily restricted net assets are those whose use by Madison has been limited by donors for a specific time period or for a specific purpose for some specified period. Permanently restricted assets have been restricted by donors in perpetuity for use only for designated purposes. In many cases, only the earnings on these permanently restricted assets are available to the organization, but not the principal itself. Further, in many cases the use of the earnings on restricted assets is also restricted and may not be used for any other purpose. Assets that are restricted by donors for a specific purpose are not available for use by Madison for any other purpose, including unrelated operating expenses, unrelated administrative expenses, legal fees and settlements, and any other expenses unrelated to the donors' imposed restrictions on the use of the funds.

Revenue Recognition

Contributions

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor 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 as net assets released from restrictions. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as unrestricted revenue and net assets. (Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as temporarily restricted and then released from restriction.)

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

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 financial statements, and similarly increase contribution revenue by a like amount. For the years ended September 30, 2018 and 2017, $308,554 and $286,244, 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.

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 statements 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 expense is recorded when material.

Note 2: 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

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying 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, 2018 and 2017:

		Fair Value Measurements Using	
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Unobservable Inputs (Level 3)
September 30, 2018			
Investments			
Equity securities			
Basic material	$ 336,218	$ 336,218	$ -
Consumer discretionary	8,656,425	8,656,425	-
Consumer staples	873,551	873,551	-
Financial	6,062,151	6,062,151	-
Healthcare	1,611,608	1,611,608	-
Industrial goods	2,461,687	2,461,687	-
Technology	8,411,197	8,411,197	-
Communications	754,638	754,638	-
Energy	816,970	816,970	-
Utilities	133,889	133,889	-
Real estate	196,893	196,893	-
Mutual funds			
Equity funds	12,099,175	12,099,175	-
Bond funds	4,511,958	4,511,958	-
Exchange traded funds			
Fixed income funds	1,562,974	1,562,974	-
Equity funds	3,443,905	3,443,905	-
Total investments reported on the fair value hierarchy	51,933,239	51,933,239	-
Money market fund	3,828,449		
Total investments	55,761,688		
Beneficial interest in perpetual trusts	2,190,758	-	2,190,758
Total	$ 57,952,446	$ 51,933,239	$ 2,190,758

	Total	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Unobservable Inputs (Level 3)
September 30, 2017			
Investments			
Equity securities			
Basic material	$ 277,022	$ 277,022	$ -
Consumer discretionary	6,169,575	6,169,575	-
Consumer staples	666,972	666,972	-
Financial	5,160,197	5,160,197	-
Healthcare	2,737,012	2,737,012	-
Industrial goods	1,992,109	1,992,109	-
Technology	5,481,163	5,481,163	-
Communications	221,834	221,834	-
Energy	239,713	239,713	-
Utilities	177,186	177,186	-
Real estate	61,242	61,242	-
Mutual funds			
Equity funds	12,011,242	12,011,242	-
Bond funds	3,459,698	3,459,698	-
Exchange traded funds			
Fixed income funds	220,126	220,126	-
Equity funds	29,925	29,925	-
Total investments reported on the fair value hierarchy	38,905,016	38,905,016	-
Money market fund	2,544,383		
Total investments	41,449,399		
Beneficial interest in perpetual trusts	2,153,488	-	2,153,488
Total	$ 43,602,887	$ 38,905,016	$ 2,153,488

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 statements 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 year ended September 30, 2018. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

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. See the table below for inputs and valuation techniques used for Level 3 securities.

Beneficial Interest in Perpetual Trust

Fair value is estimated at the present value of the future distributions expected to be received over the term of the agreement. Due to the nature of the valuation inputs, the interest is classified within Level 3 of the hierarchy.

Level 3 Reconciliation

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying statements of financial position using significant unobservable (Level 3) inputs:

	Beneficial Interest in Perpetual Trusts
Beneficial Interest in Perpetual Trusts	
Balance, October 1, 2016	$ 2,004,383
Change in value	149,105
Balance, September 30, 2017	2,153,488
Change in value	37,270
Balance, September 30, 2018	$ 2,190,758
Total gains or losses for the period included in change in net assets attributable to the change in unrealized gains or losses related to assets and liabilities still held at the reporting date	
Year ended September 30, 2018	$ 37,270
Year ended September 30, 2017	$ 149,105

Total investment return is comprised of the following:

	2018	2017
Interest and dividend income	$ 457,746	$ 541,782
Realized gains on investments reported at fair value	5,033,735	3,330,766
Unrealized gains on investments reported at fair value	632,125	1,229,254
	6,123,606	5,101,802
Less investment fees	(364,478)	(287,261)
	$ 5,759,128	$ 4,814,541

Note 3: Contributions Receivable

Contributions receivable consisted of the following:

	September 30, 2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Due within one year	$ 885,877	$ 1,856,027	$ 4,042,739	$ 6,784,643
Due in one to five years	-	2,202,604	121,000	2,323,604
Due in more than five years	-	-	6,100,000	6,100,000
	885,877	4,058,631	10,263,739	15,208,247
Less				
Allowance for uncollectible contributions	(50,000)	-	-	(50,000)
Unamortized discount	-	(59,777)	(2,373)	(62,150)
	$ 835,877	$ 3,998,854	$ 10,261,366	$ 15,096,097

	September 30, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Due within one year	$ 861,140	$ 3,143,786	$ 3,944,906	$ 7,949,832
Due in one to five years	-	4,024,641	4,342,000	8,366,641
Due in more than five years	-	-	6,100,000	6,100,000
	861,140	7,168,427	14,386,906	22,416,473
Less				
Allowance for uncollectible contributions	(50,000)	-	-	(50,000)
Unamortized discount	-	(89,386)	(114,612)	(203,998)
	$ 811,140	$ 7,079,041	$ 14,272,294	$ 22,162,475

Discount rates of 2% were used for 2018 and 2017, respectively.

Note 4: Grant Commitments

Madison receives its 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, 2018, have been recorded as receivables. Following are the grant commitments that extend beyond September 30, 2018:

Madison has received the following conditional promises to give at September 30 that are not recognized in the financial statements:

Grant	Term	Grant Amount	Earned as of September 30, 2018	Funding Available
Clubhouse renovations and operations	2017 - 2020	$ 1,950,000	$ 950,000	$ 1,000,000

Note 5: Beneficial Interest in Trust

Beneficial Interest in Remainder Trust

Madison obtained commitments from donors whereby the donor established a trust in which Madison had an irrevocable interest and the assets were placed under the control of a trustee other than Madison. The trustee acted as the fiduciary of the assets and, ten years after the death of the donor, the Trust terminated and the assets were transferred to Madison's control in September 2017. The balance of the Trust at the time of termination was $7,619,899.

Beneficial Interests in Perpetual Trusts

Under the terms of the trusts, the income generated from the trusts is payable to Madison. The contribution is classified as permanently restricted support and the annual distributions from the trusts are reported as investment income that increases unrestricted net assets. The balance at September 30, 2018 and 2017 was $2,190,758 and $2,153,488, respectively.

Note 6: 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.

The following table represents limited use asset balances by source at September 30, 2018 and 2017:

	2018	2017
Construction reserve - cash	$ 7,892,806	$ 24,990,561
Interest reserve - cash	2	309,746
CDE fee reserves - cash	1,110,603	1,297,409
Total assets limited as to use	$ 9,003,411	$ 26,597,716

Note 7: Property and Equipment

Property and equipment at September 30 consists of:

	2018		
	Cost	Accumulated Depreciation	Net
Land	$ 370,734	$ -	$ 370,734
Land - Future Harlem Clubhouse	5,301,783	-	5,301,783
Building and improvements	20,258,530	13,014,807	7,243,723
Equipment and furnishings	2,127,973	1,456,795	671,178
Construction in progress	31,258,466	-	31,258,466
	$ 59,317,486	$ 14,471,602	$ 44,845,884
Administration	$ 770,952	$ 746,017	$ 24,935
Building improvements	32,609	20,247	12,362
Bronx Club - Columbus building	3,804,019	2,025,643	1,778,376
Bronx Club - Joel E. Smilow Clubhouse	6,653,413	4,207,481	2,445,932
Navy Yard Boys' Club	4,918,635	4,125,476	793,159
Thomas S. Murphy Clubhouse	6,212,278	3,346,738	2,865,540
Future Harlem Clubhouse site	36,925,580	-	36,925,580
	$ 59,317,486	$ 14,471,602	$ 44,845,884

	2017		
	Cost	Accumulated Depreciation	Net
Land	$ 370,734	$ -	$ 370,734
Land - Future Harlem Clubhouse	5,301,783	-	5,301,783
Building and improvements	18,640,041	12,355,080	6,284,961
Equipment and furnishings	1,591,983	1,388,051	203,932
Construction in progress	13,092,124	-	13,092,124
	$ 38,996,665	$ 13,743,131	$ 25,253,534
Administration	$ 770,623	$ 724,923	$ 45,700
Building improvements	32,609	15,302	17,307
Bronx Club - Columbus building	3,063,862	1,905,938	1,157,924
Bronx Club - Joel E. Smilow Clubhouse	6,316,195	4,024,150	2,292,045
Navy Yard Boys' Club	4,480,382	3,954,371	526,011
Thomas S. Murphy Clubhouse	5,939,087	3,118,447	2,820,640
Future Harlem Clubhouse site	18,393,907	-	18,393,907
	$ 38,996,665	$ 13,743,131	$ 25,253,534

Note 8: 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 June 30, 2019. The line of credit is collateralized by the investments held by JP Morgan Chase Bank, N.A., which totaled $10,019,641 at September 30, 2018 and $9,451,083 at September 30, 2017. As of September 30, 2018 and 2017, Madison's unpaid balance on this account totaled $1,044,360 and $1,244,360, respectively. The interest rate at September 30, 2018 and 2017 is based upon the one-month LIBOR two days prior to the payment due date plus 1.40%. The interest rate at September 30, 2018 and 2017 was 3.65% and 2.635%, respectively, and interest expense was $34,346 and $38,605 for the years ended September 30, 2018 and 2017.

On May 5, 2017, Madison secured a bridge loan with Nonprofit Finance Fund for an amount not to exceed $2,000,000. Madison may draw down on the bridge loan, as needed, up until November 30, 2018, to provide funds for the construction of its new Harlem Clubhouse. The loan is secured by certain capital campaign pledges which totaled $13,800,000. The loan requires monthly interest payments on the unpaid principal balance at a rate of 6% per annum. Mandatory loan prepayments are required to be made as Madison receives payments on the campaign pledges. The loan fully matures on May 5, 2020, at which time any unpaid principal and interest is due. As of September 30, 2018, there were no amounts outstanding on this bridge loan, and there was no interest expense for the years ended September 30, 2018 and 2017.

On June 16, 2017, Madison established a line of credit with Brown Brothers Harriman for an amount not to exceed $3,200,000. The line of credit is payable on demand. The line of credit is collateralized by the investments held by Brown Brothers Harriman, which totaled $7,936,734 and $5,514,835 at September 30, 2018 and 2017, respectively. As of September 30, 2018 and 2017, there were no amounts outstanding on this account. The interest rate at September 30, 2018 is based upon the 30-day LIBOR plus 2%. The interest rate at September 30, 2018 and 2017 was 4.25% and 3.325%, respectively, and there was no interest expense for the years ended September 30, 2018 and 2017.

Note 9: Long-Term Debt and Loan Receivable

In May 2017, Madison entered into a debt transaction to access additional funds through the New Markets Tax Credit (NMTC) Program. These funds are being 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%) 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% 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% 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, 2018 and 2017, the balance of the note was $25,548,800, and interest income was $370,969 and $150,448 in 2018 and 2017, respectively. There was no accrued interest under the note as of September 30, 2018 and 2017.

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% 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.

Loans payable related to the NMTC financing reflected on the consolidated statements of financial position as of September 30, 2018 and 2017 are as follows:

	Original Principal Balance	Balance as of September 30, 2018	Balance as of September 30, 2017	Interest Rate
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	9,700,000	9,700,000	9,700,000	
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	14,700,000	14,700,000	14,700,000	
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	5,760,000	5,760,000	5,760,000	
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	7,000,000	7,000,000	7,000,000	
Subtotal	37,160,000	37,160,000	37,160,000	
Less: unamortized debt issuance costs	(1,250,657)	(1,012,437)	(1,191,102)	
Total loans payable	$ 35,909,343	$ 36,147,563	$ 35,968,898	

Interest related to the NMTC financing for the year ended September 30, 2018 was $550,265, including $178,665 of amortization of debt issuance costs, which has been capitalized as part of construction in progress. Interest related to the NMTC financing for the year ended September 30, 2017 was $210,259, including $59,555 of amortization of debt issuance costs, which has been capitalized as part of construction in progress.

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.

Note 10: Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets at September 30 are available for the following purposes or periods:

	2018	2017
100th Anniversary Fund		
Clubhouse Service Fund	$ 4,638,879	$ 4,344,290
Remedial Education Fund	2,365,942	2,215,694
Staff Development Training Fund	166,369	155,804
Camp and Outdoor Education Fund	78,424	73,444
Campaign for the 90s and 29th St. Property	2,677,849	2,579,517
Capital Campaign	5,622,678	23,563,202
Scholarship funds		
Eugenia Woodward Hitt Scholarship Fund	166,436	153,965
Joseph Golding Fund	136,642	126,404
Monroe and Rose Levinger Fund	12,606	11,662
Dana, Freeman, Harkness, Maxwell, Guzman, Dibernardo Fund	283,849	262,580
Program Operating Grants	453,000	-
	$ 16,602,674	$ 33,486,562

Permanently Restricted Net Assets

Permanently restricted net assets at September 30 are restricted to:

	2018	2017
General operations	$ 2,190,758	$ 2,153,488
Clubhouse operations	33,217,627	31,130,614
	$ 35,408,385	$ 33,284,102

Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

Scholarships	$	37,500
Clubhouse services		479,062
Remedial education		157,629
Staff development training		11,084
Camp and outdoor education		5,225
Music Program operations		64,000
Capital Campaign related costs		21,069,911
	$	21,824,411

Note 11: Endowment

Madison's donor restricted endowment consists of a fund established by donors to provide income to fund its future operations related to its clubhouses. As required by accounting principles generally accepted in the United States of America (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.

Madison's governing body has interpreted the State of New York Prudent Management of Institutional Funds Act (NYPMIFA) as requiring 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. As a result of this interpretation, Madison 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 donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Madison in a manner consistent with the standard of prudence prescribed by NYPMIFA. 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
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of Madison
7. Investment policies of Madison

The composition of net assets by type of endowment fund at September 30, 2018 and 2017 was:

	2018		
	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ 4,319,151	$ 33,217,627	$ 37,536,778

	2017		
	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ 918,877	$ 31,130,614	$ 32,049,491

Changes in endowment net assets for the years ended September 30 were:

	2018		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 918,877	$ 31,130,614	$ 32,049,491
Investment return			
Investment income	119,482	-	119,482
Investment fees	(168,383)	-	(168,383)
Net appreciation	3,449,175	-	3,449,175
Total investment return	3,400,274	-	3,400,274
Reclassification*	-	2,000,000	2,000,000
Contributions	-	87,013	87,013
Endowment net assets, end of year	$ 4,319,151	$ 33,217,627	$ 37,536,778

* During 2018, $2,000,000 of temporarily restricted net assets were reclassified to permanently restricted net assets based upon donor intent.

	2017		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ 30,464,465	$ 30,464,465
Investment return			
Investment income	66,094	-	66,094
Investment fees	(107,164)	-	(107,164)
Net appreciation	959,947	-	959,947
Total investment return	918,877	-	918,877
Contributions	-	666,149	666,149
Endowment net assets, end of year	$ 918,877	$ 31,130,614	$ 32,049,491

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 temporarily restricted income and released from restriction upon expenditures for the programs for which the endowment was established.

Madison does not have any funds with deficiencies.

Note 12: Operating Leases

On June 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.

Future minimum rental payments are as follows:

2019	$ 391,594
2020	396,312
2021	396,312
2022	99,078
Total	$ 1,283,296

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

In addition, Madison leases three vehicles. The leases expire in January and October of 2020. Lease expense for the years ended September 30, 2018 and 2017 was $17,315 and $18,136, respectively.

Future minimum lease payments as of September 30, 2018 are as follows:

2019	$	11,024
2020		6,811
2021		392
Total	$	18,227

Total lease and rent expense for the years ended September 30, 2018 and 2017 was $406,374 and $406,284, respectively.

Note 13: 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% of participating employees' annual salaries. Employees are fully vested after three years of employment. Pension expense was $397,549 and $289,006 for the years ended September 30, 2018 and 2017, respectively.

Note 14: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America 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 statement(s) of financial position.

Note 15: 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 $76,032,848 and $74,717,044 has been raised as of September 30, 2018 and 2017, respectively, of which $50,000 are non-enforceable pledges as of September 30, 2018 and $325,000 are non-enforceable pledges as of September 30, 2017. In accordance with generally accepted accounting principles the non-enforceable pledges are not recorded in Madison's financial statements as of September 30, 2018 and 2017. A discount of $62,150 and $203,998 has been recorded against future contributions receivable *(Note 3)* as of September 30, 2018 and 2017, respectively. Payments of $61,660,478 were received as of September 30, 2018.

Madison started construction of the future Harlem Clubhouse in February 2017 and anticipates construction to be completed in the spring of 2019. Madison's agreement with the construction manager includes a guaranteed maximum price, or GMP, of $25,458,034 for hard costs, which includes all trade costs and the construction manager's general conditions, insurance, and fee. The retainage shall be 10% of the trade costs covered by each requisition, until the work of such trade is 50% complete, and then zero percent retainage thereafter, so that the total retainage then equals 5% of the total price of each subcontract trade. Retainage payable was $1,408,965 and $466,436 at September 30, 2018 and 2017, respectively. Soft costs and other owner hard costs for the Harlem Clubhouse are estimated to be an additional cost of $10,156,000.

Note 16: Revision

The 2017 financial statements have been revised to properly reflect $6,100,000 of contributions receivable that were previously reported as conditional pledges within the notes of the financial statements. The adjustment was to the beginning of the year permanently restricted net assets.

Note 3 has been updated to include these contributions receivables with no discount or allowance applied as Madison believes such amounts to be immaterial to the overall financial statements. Additionally, Note 11 has been updated to add these amounts to the permanently restricted endowed balances as of the beginning of 2017.

The following financial statement line items for fiscal year 2017 were affected by the revision:

	As Previously Reported	As Revised	Adjustment
Balance Sheet			
Contributions receivable	$ 16,062,475	$ 22,162,475	$ 6,100,000
Total assets	141,527,695	147,627,695	6,100,000
Permanantly restricted net assets	27,184,102	33,284,102	6,100,000
total liabilities and net assets	141,527,695	147,627,695	6,100,000

Note 17: Subsequent Event

Subsequent events have been evaluated through April 17, 2019, which is the date the financial statements were available to be issued.

Litigation

On January 17, 2019, Madison received a letter from the Marsh Law Firm PLLC, stating that it represented approximately 150 men and women who claim to have been sexually abused 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 since 1940. He has been deceased since 2007. The Marsh firm's letter claimed that Dr. Archibald conducted annual medical examinations of every boy at Madison, during which sexual misconduct may have occurred. The letter did not specify how many of her clients have any connection to Madison (as opposed to having met Dr. Archibald only at Rockefeller), and the Marsh firm has not provided Madison with a list of its clients. The letter, which the Marsh firm subsequently posted publicly on its website, did not specifically threaten litigation, but demanded certain information be preserved and provided to the Marsh firm.

On March 19, 2019, Madison's outside counsel received a letter from the law firm Cuti Hecker Wang LLP, stating that it, along with Paul Mones, a lawyer based in Los Angeles, represent numerous individuals who were sexually abused when they were children by Dr. Archibald during the course of their involvement with the Madison. The letter did not identify their clients by name or specify how many there were. It demanded that Madison preserve all potentially relevant documents in anticipation of litigation.

On February 14, 2019, the New York State Governor signed the Child Victims Act (CVA) into law. The CVA, among other things, extended the statute of limitations for filing previously unexpired civil claims of sexual abuse against minors until the victim's 55th birthday, and revived such claims that had previously expired, which may be brought during a one year window beginning on August 14, 2019, regardless of when the incident may have occurred.

Madison currently has an ongoing investigation into allegations regarding Dr. Archibald. Management believes it is likely that previously expired claims may be brought against Madison during the one year "revival window." However, Management is unable to reasonably estimate the impact such claims might have on the consolidated financial statements.

Note 18: Future Change in Accounting Principle

Revenue Recognition

The Financial Accounting Standards Board 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, 2018, for nonpublic entities, and any interim periods within annual reporting periods that begin after December 15, 2019, for nonpublic entities. Madison is in the process of evaluating the impact the amendment will have on the financial statements.

Accounting for Leases

The Financial Accounting Standards Board 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 balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement 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, 2019, and any interim periods within annual reporting periods that begin after December 15, 2020. Madison is evaluating the impact the standard will have on the financial statements; however, the standard is expected to have a material impact on the financial statements due to the recognition of additional assets and liabilities for operating leases.

Accounting for Financial Instruments – Credit Losses

The Financial Accounting Standards Board amended its standards related to the accounting for credit losses on financial instruments. This amendment introduces new guidance for accounting for credit losses on instruments including trade receivables and finance receivables. The new standard is effective for annual periods beginning after December 15, 2020, and any interim periods within annual reporting periods that begin after December 15, 2021. Madison is in the process of evaluating the impact the amendment will have on the consolidated financial statements.

Supplementary Information

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

Consolidating Statement of Financial Position

September 30, 2018

	MSBGC	MSBGC-NYC	Eliminations	Total
Assets				
Current Assets				
Cash and cash equivalents	$ 219,694	$ 339,828	$ -	$ 559,522
Investments	20,503,169	-	-	20,503,169
Government grants receivable	513,068	-	-	513,068
Contributions receivable - net	6,734,643	-	-	6,734,643
Accrued interest receivable	10,427	-	-	10,427
Prepaid expenses and other assets	234,885	7,359	(7,359)	234,885
Total current assets	28,215,886	347,187	(7,359)	28,555,714
Cash and cash equivalents	292,250			292,250
Investments	35,258,519			35,258,519
Contributions receivable - net	8,361,454			8,361,454
Loan receivable	25,548,800	-	-	25,548,800
Beneficial interests in trusts	2,190,758	-	-	2,190,758
Limited use assets	-	9,003,411	-	9,003,411
Property and equipment, net	8,285,633	36,560,251	-	44,845,884
Total assets	$ 108,153,300	$ 45,910,849	$ (7,359)	$ 154,056,790
Liabilities and Net Assets				
Current Liabilities				
Accounts payable and accrued expenses	$ 1,408,913	$ -	$ (7,359)	$ 1,401,554
Accounts payable, construction	-	2,149,506	-	2,149,506
Retainage payable	-	1,408,965	-	1,408,965
Lines of credit	1,044,360	-	-	1,044,360
Refundable advances	302,527	-	-	302,527
Total current iabilities	2,755,800	3,558,471	(7,359)	6,306,912
Long-term debt	-	36,147,563	-	36,147,563
Total liabilities	2,755,800	39,706,034	(7,359)	42,454,475
Net Assets				
Unrestricted	53,386,441	6,204,815	-	59,591,256
Temporarily restricted	16,602,674	-	-	16,602,674
Permanently restricted	35,408,385	-	-	35,408,385
Total net assets	105,397,500	6,204,815	-	111,602,315
Total liabilities and net assets	$ 108,153,300	$ 45,910,849	$ (7,359)	$ 154,056,790

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

Consolidating Schedule of Activities

Year Ended September 30, 2018

	MSBGC				MSBGC-NYC					
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Eliminations	Total
Revenues, Gains and Other Support										
Contributions	$ 2,646,932	$ 2,205,638	$ 87,013	$ 4,939,583	$ -	$ -	$ -	$ -	$ -	$ 4,939,583
Special events (includes in-kind contributions of $286,244)	3,658,715	-	-	3,658,715	-	-	-	-	-	3,658,715
Direct cost of special events	(989,462)	-	-	(989,462)	-	-	-	-	-	(989,462)
Income from trusts	102,480	-	-	102,480	-	-	-	-	-	102,480
Change in value of beneficial interest in trusts	-	-	37,270	37,270	-	-	-	-	-	37,270
United Way of New York City	278	-	-	278	-	-	-	-	-	278
New York State Office of Alcoholism and Substance Abuse Services	577,714	-	-	577,714	-	-	-	-	-	577,714
New York City Department of Youth and Community Development	461,786	-	-	461,786	-	-	-	-	-	461,786
New York State CACFP/Food Program	304,473	-	-	304,473	-	-	-	-	-	304,473
Boys & Girls Club of America - Office of Juvenile Delinquency Program	72,127	-	-	72,127	-	-	-	-	-	72,127
New York City Economic Development Corporation	47,203	-	-	47,203	-	-	-	-	-	47,203
Other government grants	269,973	-	-	269,973	-	-	-	-	-	269,973
Camping/program fees	163,452	-	-	163,452	-	-	-	-	-	163,452
Membership dues	12,340	-	-	12,340	-	-	-	-	-	12,340
Investment income	1,013,891	4,734,885	-	5,748,776	10,352	-	-	10,352	-	5,759,128
Loan interest income	370,969	-	-	370,969	-	-	-	-	-	370,969
Rental income	83,700	-	-	83,700	65,500	-	-	65,500	(65,500)	83,700
Net assets released from restrictions	21,824,411	(21,824,411)	-	-	-	-	-	-	-	-
Total revenues, gains and other support	30,620,982	(14,883,888)	124,283	15,861,377	75,852	-	-	75,852	(65,500)	15,871,729
Expenses										
Program Services										
Healthy Lifestyles	2,302,398	-	-	2,302,398	-	-	-	-	-	2,302,398
Good Character & Citizenship	1,869,940	-	-	1,869,940	-	-	-	-	-	1,869,940
Academic Success	3,548,456	-	-	3,548,456	-	-	-	-	-	3,548,456
Total program services	7,720,794	-	-	7,720,794	-	-	-	-	-	7,720,794
Supporting Services										
Management and general	1,154,315	-	-	1,154,315	269,171	-	-	269,171	(65,500)	1,357,986
Fund raising	1,283,642	-	-	1,283,642	-	-	-	-	-	1,283,642
Total supporting services	2,437,957	-	-	2,437,957	269,171	-	-	269,171	(65,500)	2,641,628
Total expenses	10,158,751	-	-	10,158,751	269,171	-	-	269,171	(65,500)	10,362,422
Change in Net Assets before reclassification	20,462,231	(14,883,888)	124,283	5,702,626	(193,319)	-	-	(193,319)	-	5,509,307
Reclassification	-	(2,000,000)	2,000,000	-	-	-	-	-	-	-
Change in Net Assets	20,462,231	(16,883,888)	2,124,283	5,702,626	(193,319)	-	-	(193,319)	-	5,509,307
Net Assets, Beginning of Year	32,924,210	33,486,562	33,284,102	99,694,874	6,398,134	-	-	6,398,134	-	106,093,008
Net Assets, End of Year	$ 53,386,441	$ 16,602,674	$ 35,408,385	$ 105,397,500	$ 6,204,815	$ -	$ -	$ 6,204,815	$ -	$ 111,602,315

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

Schedule of Changes in Temporarily Restricted Net Assets

Year Ended September 30, 2018

	Net Assets - Beginning of Year	Support, Gains and Losses	Net Assets Released from Restrictions	Net Assets - End of Year
100th Anniversary Fund				
Clubhouse Service Fund	$ 4,344,290	$ 603,651	$ (309,062)	$ 4,638,879
Remedial Education Fund	2,215,694	307,877	(157,629)	2,365,942
Staff Development Training Fund	155,804	21,649	(11,084)	166,369
Camp and Outdoor Education Fund	73,444	10,205	(5,225)	78,424
Total 100th Anniversary Fund	6,789,232	943,382	(483,000)	7,249,614
Campaign for the 90s and 29th St. Property Sale	2,579,517	268,332	(170,000)	2,677,849
Capital Campaign				
Capital Campaign for building	22,644,325	1,729,113	(23,069,911)	1,303,527
Unappropriated earnings on endowment funds	918,877	3,400,274	-	4,319,151
Total Capital Campaign	23,563,202	5,129,387	(23,069,911)	5,622,678
Eugenia Woodward Hitt Scholarship Fund	153,965	22,881	(10,410)	166,436
Joseph Golding Fund	126,404	18,785	(8,547)	136,642
Monroe and Rose Levinger Fund	11,662	1,733	(789)	12,606
Dana, Freeman, Harkness, Maxwell, Guzman, Dibernardo Fund	262,580	39,023	(17,754)	283,849
Total Scholarship Funds	554,611	82,422	(37,500)	599,533
Program Operating Grants	-	517,000	(64,000)	453,000
Total	$ 33,486,562	$ 6,940,523	$(23,824,411)	$ 16,602,674

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

Schedule of Changes in Permanently Restricted Net Assets

Year Ended September 30, 2018

	Net Assets - Beginning of Year	Support, Gains and Losses	Net Assets - End of Year
Perpetual Trusts			
Ruby Fleming Trust	$ 1,190,034	$ 35,547	$ 1,225,581
Glessner B. Childs Trust	963,454	1,723	965,177
Total Perpetual Trusts	2,153,488	37,270	2,190,758
Capital Campaign endowment	31,130,614	2,087,013	33,217,627
Total	$ 33,284,102	$ 2,124,283	$ 35,408,385