Madison Square Boys & Girls Club, Inc. and Affiliates

Independent Auditor's Report and Consolidated Financial Statements

September 30, 2022

Madison Square Boys & Girls Club, Inc. and Affiliates
September 30, 2022

Contents

FORVIS

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Independent Auditor's Report

Board of Trustees
Madison Square Boys & Girls Club, Inc. and Affiliates
New York, New York

Opinion

We have audited the consolidated financial statements of Madison Square Boys & Girls Club, Inc. and Affiliates, which comprise the consolidated statement of financial position as of September 30, 2022, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Madison Square Boys & Girls Club, Inc. and Affiliates as of September 30, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Emphasis of Matter

The accompanying consolidated financial statements have been prepared assuming Madison Square Boys & Girls Club, Inc. and Affiliates will continue as a going concern. As discussed in *Note 20* to the consolidated financial statements, Madison Square Boys & Girls Club, Inc. filed a voluntary petition for relief under chapter 11 of the U.S. Bankruptcy Code in the Southern District of New York as a means to reach a comprehensive global solution to fairly and equitably compensate the claimants that filed lawsuits under *The New York Child Victims Act* (CVA) referenced in Note 16 of the consolidated financial statements, and has stated that substantial doubt exists about Madison Square Boys and Girls Club, Inc. and Affiliates' ability to continue as a going concern. Management's evaluation of the conditions and events and management's plans regarding these matters are also described in *Note 20*. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Madison Square Boys & Girls Club, Inc. and Affiliates' ability to continue as a going concern within one year after the date that these consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Madison Square Boys & Girls Club, Inc. and Affiliates' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Madison Square Boys & Girls Club, Inc. and Affiliates' ability to continue as a going concern for a reasonable period of time.

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

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 as 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.

Report on Summarized Comparative Information

We have previously audited the September 30, 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 31, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

FORVIS, LLP

New York, New York
May 3, 2023

Madison Square Boys & Girls Club, Inc. and Affiliates

Debtor-in-Possession

Consolidated Statement of Financial Position

September 30, 2022

(With Summarized Financial Information for September 30, 2021)

	2022	2021
Assets		
Current Assets		
Cash and cash equivalents	$ 1,687,358	$ 3,471,233
Investments	2,089,900	10,381,113
Government grants receivable	768,064	879,039
Contributions receivable (net of allowance of $92,000 in 2022 and $50,000 in 2021)	1,017,064	779,634
Accrued interest receivable	4,457	6,352
Due from Madison Square Boys and Girls Club Foundation	186,367	-
Prepaid expenses and other assets	333,804	351,545
Total current assets	6,087,014	15,868,916
Cash and cash equivalents - endowment	1,189,498	-
Investments	37,095,111	55,257,253
Contributions receivable	4,762,669	5,030,493
Loan receivable	25,548,800	25,548,800
Beneficial interests in trusts	2,151,863	2,822,579
Limited use assets - cash	396,839	571,699
Property and equipment, net	49,720,262	49,881,470
Total assets	$ 126,952,056	$ 154,981,210
Liabilities and Net Assets		
Liabilities Not Subject to Compromise		
Current Liabilities		
Accounts payable and accrued expenses	$ 3,524,571	$ 1,446,486
Lines of credit	-	881,360
Long-term debt, current portion	36,862,224	950,054
Due to Madison Square Boys & Girls Club, Inc.	186,367	-
Refundable advances	273,648	293,776
Total current liabilities	40,846,810	3,571,676
Long-term debt	-	37,912,460
Total liabilities not subject to compromise	40,846,810	41,484,136
Liabilities Subject to Compromise - Pre-petition Liabilities	7,857,445	-
Total liabilities	48,704,255	41,484,136
Net Assets		
Without donor restrictions	28,356,256	48,028,361
With donor restrictions		
Time and purpose	11,867,506	15,947,537
Endowment	38,024,039	49,521,176
Net assets with donor restrictions	49,891,545	65,468,713
Total net assets	78,247,801	113,497,074
Total liabilities and net assets	$ 126,952,056	$ 154,981,210

Madison Square Boys & Girls Club, Inc. and Affiliates

Debtor-in-Possession

Consolidated Statement of Activities

Year Ended September 30, 2022

(With Summarized Financial Information for the Year Ended September 30, 2021)

	Without Donor Restrictions	With Donor Restrictions	Total 2022	Total 2021
Revenues, Gains, and Other Support				
Contributions	$ 2,426,420	$ 858,703	$ 3,285,123	$ 3,275,485
Special events (includes in-kind contributions)	1,606,121	1,411,170	3,017,291	2,580,439
Direct cost of special events	(430,542)	(373,985)	(804,527)	(241,060)
In-kind contributions	135,339	-	135,339	84,645
Income from trusts	169,852	-	169,852	90,946
Change in value of beneficial interest in trusts	-	(670,716)	(670,716)	555,819
New York State Office of Children and Family Services	704,817	-	704,817	-
New York State Office of Alcoholism and Substance Abuse Services	600,000	-	600,000	551,080
New York City Department of Youth and Community Development	500,000	-	500,000	2,451,084
New York State CACFP/Food Program	184,098	-	184,098	131,922
Dormitory Authority of the State of New York	1,051,373	-	1,051,373	-
Other government grants	14,000	-	14,000	42,362
Program fees	94	-	94	3,937
Investment income (loss)	(1,221,453)	(15,561,592)	(16,783,045)	14,350,323
Loan interest income	370,968	-	370,968	370,969
Rental income	263,000	-	263,000	7,500
Net assets released from restrictions	3,740,748	(3,740,748)	-	-
Total revenues, gains, and other support	10,114,835	(18,077,168)	(7,962,333)	24,255,451
Expenses and Losses				
Program services				
Healthy Lifestyles	3,023,230	-	3,023,230	1,137,170
Good Character & Citizenship	1,885,013	-	1,885,013	1,018,373
Academic Success	4,328,883	-	4,328,883	7,200,676
Total program services	9,237,126	-	9,237,126	9,356,219
Supporting services				
Management and general	7,930,264	-	7,930,264	8,681,988
Fundraising	1,127,307	-	1,127,307	1,318,605
Total supporting services	9,057,571	-	9,057,571	10,000,593
Total expenses	18,294,697	-	18,294,697	19,356,812
Change in Net Assets Before Other Changes	(8,179,862)	(18,077,168)	(26,257,030)	4,898,639
Other Changes in Net Assets				
Loss on contingency	(7,625,000)	-	(7,625,000)	-
Change in donor intent (Note 12)	(2,500,000)	2,500,000	-	-
Forgiveness of Debt - PPP Loan	1,434,909	-	1,434,909	1,443,999
Change in Net Assets Before Reorganization Costs	(16,869,953)	(15,577,168)	(32,447,121)	6,342,638
Reorganization costs	(2,802,152)	-	(2,802,152)	-
Change in Net Assets	(19,672,105)	(15,577,168)	(35,249,273)	6,342,638
Net Assets, Beginning of Year	48,028,361	65,468,713	113,497,074	107,154,436
Net Assets, End of Year	$ 28,356,256	$ 49,891,545	$ 78,247,801	$ 113,497,074

Madison Square Boys & Girls Club, Inc. and Affiliates

Debtor-in-Possession

Consolidated Statement of Functional Expenses

Year Ended September 30, 2022

(With Summarized Financial Information for the Year Ended September 30, 2021)

	Program Services				Supporting Services				Total	
	Healthy Lifestyles	Good Character & Citizenship	Academic Success	Total	Management and General	Fundraising	Direct Cost of Special Events	Total	2022	2021
Salaries	$ 1,324,970	$ 891,375	$ 1,917,789	$ 4,134,134	$ 843,710	$ 727,989	$ -	$ 1,571,699	$ 5,705,833	$ 6,033,996
Payroll taxes and employee benefits	386,075	259,733	558,813	1,204,621	245,844	196,448	-	442,292	1,646,913	1,664,728
Total salaries and related expenses	1,711,045	1,151,108	2,476,602	5,338,755	1,089,554	924,437	-	2,013,991	7,352,746	7,698,724
Professional fees	-	-	-	-	8,229,248	-	-	8,229,248	8,229,248	6,324,388
Contract services	301,227	8,294	66,504	376,025	62,108	22,905	-	85,013	461,038	98,188
Supplies	320,003	66,242	62,669	448,914	7,509	115	-	7,624	456,538	378,334
Postage and shipping	47	44	66	157	3,770	-	-	3,770	3,927	1,842
Telephone	17,127	15,985	25,097	58,209	12,471	3,265	-	15,736	73,945	73,822
Occupancy	204,103	192,122	446,751	842,976	118,703	56,850	-	175,553	1,018,529	1,245,449
Insurance	68,239	63,689	95,534	227,462	207,523	1,019	-	208,542	436,004	403,505
Outside printing	7	5	8	20	255	18,812	-	19,067	19,087	30,508
Local transportation	7,941	7,412	14,678	30,031	5,015	3,770	-	8,785	38,816	35,799
Meetings and conferences	6,541	6,105	9,263	21,909	28,422	5,490	-	33,912	55,821	12,962
Subscriptions, publications, and dues	14,618	13,644	20,465	48,727	180,921	359	-	181,280	230,007	276,369
Awards and scholarships	-	8,430	19,492	27,922	-	-	-	-	27,922	42,366
Staff development/training	34,041	30,414	45,833	110,288	4,567	3,575	-	8,142	118,430	24,987
Equipment rental	6,298	5,878	8,817	20,993	2,167	1,667	-	3,834	24,827	32,799
Catering, facility rental, and entertainment (includes in-kind expenses of $135,339 in 2022 and $84,645 in 2021)	-	-	-	-	-	-	804,527	804,527	804,527	241,060
Interest and bank charges (includes interest of $384,286 for 2022 and $407,321 for 2021)	-	-	-	-	607,621	-	-	607,621	607,621	451,616
Bad debt expense	-	-	-	-	76,633	-	-	76,633	76,633	224,045
Depreciation	331,993	315,641	1,037,104	1,684,738	95,929	85,043	-	180,972	1,865,710	2,001,109
Total expenses	3,023,230	1,885,013	4,328,883	9,237,126	10,732,416	1,127,307	804,527	12,664,250	21,901,376	19,597,872
Less expenses deducted directly from revenues on the statement of activities										
Reorganization costs	-	-	-	-	(2,802,152)	-	-	(2,802,152)	(2,802,152)	-
Direct cost of special events	-	-	-	-	-	-	(804,527)	(804,527)	(804,527)	(241,060)
Total expenses reported by function on the statement of activities	$ 3,023,230	$ 1,885,013	$ 4,328,883	$ 9,237,126	$ 7,930,264	$ 1,127,307	$ -	$ 9,057,571	$ 18,294,697	$ 19,356,812

Madison Square Boys & Girls Club, Inc. and Affiliates

Debtor-in-Possession

Consolidated Statement of Cash Flows

Year Ended September 30, 2022

(With Summarized Financial Information for the Year Ended September 30, 2021)

	2022	2021
Operating Activities		
Change in net assets	$ (35,249,273)	$ 6,342,638
Items not requiring (providing) operating cash flows		
Depreciation	1,865,710	1,822,444
Amortization of debt issuance costs	178,665	178,665
Net (gain)/loss on investments	20,464,678	(8,973,156)
Provision for bad debt	76,633	224,045
Contributions restricted for long-term use	(100,000)	(88,665)
Change in value of beneficial interest in trusts	670,716	(555,819)
Donated stock	(25,388)	-
Forgiveness of debt	(1,428,955)	(1,428,955)
Changes in		
Government grants receivable	110,975	(708,006)
Contributions receivable	(46,239)	476,528
Accrued interest receivable	1,895	(1,434)
Prepaid expenses and other assets	17,741	(45,733)
Accounts payable and accrued expenses	2,078,085	(28,904)
Pre-petition liabilities	7,857,445	-
Retainage payable	-	(102,493)
Refundable advances	(20,128)	171,212
Net cash used in operating activities	(3,547,440)	(2,717,633)
Investing Activities		
Purchase of investments	(4,178,288)	(5,395,584)
Proceeds from sale of investments	10,192,353	8,431,756
Purchase of fixed assets	(1,704,502)	(506,316)
Net cash provided by investing activities	4,309,563	2,529,856
Financing Activities		
Repayment of lines of credit	(881,360)	-
Principal payments on loans payable	(750,000)	-
Proceeds from loans payable	-	1,428,955
Proceeds from contributions restricted for long-term use	100,000	109,665
Net cash provided by (used in) financing activities	(1,531,360)	1,538,620
Net Change in Cash and Cash Equivalents and Restricted Cash	(769,237)	1,350,843
Cash and Cash Equivalents and Restricted Cash, Beginning of Year	4,042,932	2,692,089
Cash and Cash Equivalents and Restricted Cash, End of Year	$ 3,273,695	$ 4,042,932

Madison Square Boys & Girls Club, Inc. and Affiliates

Debtor-in-Possession

Consolidated Statement of Cash Flows (Continued)

Year Ended September 30, 2022

(With Summarized Financial Information for the Year Ended September 30, 2021)

	2022	2021
Reconciliation of Cash and Cash Equivalents and Restricted Cash		
Cash and cash equivalents - current	$ 1,687,358	$ 3,471,233
Cash and cash equivalents - endowment	1,189,498	-
Limited use assets - cash	396,839	571,699
Total	$ 3,273,695	$ 4,042,932
Supplemental Cash Flows Information		
Cash paid for interest	$ 384,246	$ 407,321
Property and equipment acquired through accounts payable construction and retainage payable (net decrease)	$ -	$ (145,053)

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 (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.

Madison Square Boys & Girls Club Foundation, Inc. (the Foundation) was established on November 23, 2020 for the purpose of supporting Madison Square Boys and Girls Club, Inc. primarily through fundraising activities. The Foundation began operations on August 1, 2021. The bylaws of the Foundation require a majority of the trustees of the corporation also be trustees of Madison Square Boys & Girls Club, Inc.

As of September 30, 2022 and 2021, the Foundation owed Madison Square Boys & Girls Club, Inc. $186,367 and $67,748, respectively.

All three 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, except for intercompany receivables and payables based on chapter 11 reporting.

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.

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, 2022 and 2021, cash equivalents consisted primarily of money market accounts with brokers.

At September 30, 2022, Madison's cash accounts exceeded federally insured limits by approximately $2,550,000.

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, 2021, 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.

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

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, 2022 and 2021.

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
Conditional gifts, with or without restriction	
Gifts that depend on Madison overcoming a donor-imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, *i.e.*, the donor-imposed barrier is met
Unconditional gifts, with or without restriction	
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
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, 2022 and 2021, $135,339 and $84,645, 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 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.

Change in Net Assets Before Other Changes

Madison includes revenues and expenses related to operations of the clubhouse and its programs in changes in net assets before other changes in net assets. Losses on contingencies, changes in donor intent, and debt forgiveness on the PPP loan are not considered to be part of operations.

Note 2: Revenue from Contracts with Customers

Food Program and Special Events Revenue

Performance obligations for the food program are determined based on the nature of the services provided by Madison in accordance with the contract. Revenue for performance obligations satisfied over time is recognized ratably over the period as Madison satisfies its performance obligations. Madison believes this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Revenue from special events is reported at the amount that reflects the consideration to which the Madison expects to be entitled in exchange for the direct cost of the benefits received by the participant at the event.

Performance Obligations and Transaction Price Allocated to Remaining Performance Obligations

Performance obligations are determined based on the nature of the services provided by Madison. Revenue for performance obligations satisfied over a period of time is generally recognized when goods are provided to donors over a period of time and Madison does not believe it is required to provide additional goods or services related to that sale.

Transaction Price

Madison determines the transaction price based on standard charges for goods and services provided. For the years ended September 30, 2022 and 2021, Madison recognized revenue of $380,042 and $264,345, respectively from goods and services that transfer to the attendee over a period of time.

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

Recurring Measurements

The following tables present the fair value measurements of assets recognized in the accompanying consolidated statement 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, 2022 and 2021:

	2022		
		Fair Value Measurements Using	
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Unobservable Inputs (Level 3)
Investments			
Equity securities			
Materials	$ 82,630	$ 82,630	$ -
Consumer discretionary	1,434,806	1,434,806	-
Consumer staples	132,988	132,988	-
Financial	5,153,890	5,153,890	-
Healthcare	3,366,976	3,366,976	-
Industrial goods	1,127,620	1,127,620	-
Technology	3,134,791	3,134,791	-
Communications	5,686,668	5,686,668	-
Energy	16,028	16,028	-
Mutual funds			
Equity funds	13,687,728	13,687,728	-
Bond funds	4,464,417	4,464,417	-
Exchange traded funds			
Fixed income funds	43,995	43,995	-
Equity funds	47,932	47,932	-
Total investments reported on the fair value hierarchy	38,380,469	38,380,469	-
Money market fund	804,542		
Total investments	39,185,011		
Beneficial interest in perpetual trusts	2,151,863	-	2,151,863
Total	$ 41,336,874	$ 38,380,469	$ 2,151,863

Madison Square Boys & Girls Club, Inc. and Affiliates

Debtor-in-Possession

Notes to Consolidated Financial Statements

September 30, 2022

(With Summarized Financial Information as of and for the Year Ended September 30, 2021)

	2021		
		Fair Value Measurements Using	
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Unobservable Inputs (Level 3)
Investments			
Equity securities			
Materials	$ 378,647	$ 378,647	$ -
Consumer discretionary	5,128,533	5,128,533	-
Consumer staples	364,522	364,522	-
Financial	5,049,206	5,049,206	-
Healthcare	5,308,134	5,308,134	-
Industrial goods	2,472,705	2,472,705	-
Technology	6,073,788	6,073,788	-
Communications	10,480,382	10,480,382	-
Energy	125,617	125,617	-
Utilities	83,927	83,927	-
Real estate	141,779	141,779	-
Mutual funds			
Equity funds	21,695,245	21,695,245	-
Bond funds	5,742,069	5,742,069	-
Exchange traded funds			
Fixed income funds	96,843	96,843	-
Equity funds	75,573	75,573	-
Total investments reported on the fair value hierarchy	63,216,970	63,216,970	-
Money market fund	2,421,396		
Total investments	65,638,366		
Beneficial interest in perpetual trusts	2,822,579	-	2,822,579
Total	$ 68,460,945	$ 63,216,970	$ 2,822,579

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, 2022 and 2021.

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:

	2022			
		With Donor Restrictions		
	Without Donor Restrictions	Time and Purpose	Endowment	Total
Due within one year	$ 743,564	$ 365,500	$ -	$ 1,109,064
Due in one to five years	-	163,022	-	163,022
Due in more than five years	-	-	5,100,000	5,100,000
	743,564	528,522	5,100,000	6,372,086
Less				
Allowance for uncollectible contributions	(92,000)	-	-	(92,000)
Unamortized discount	-	(12,683)	(487,670)	(500,353)
	$ 651,564	$ 515,839	$ 4,612,330	$ 5,779,733

	2021			
		With Donor Restrictions		
	Without Donor Restrictions	Time and Purpose	Endowment	Total
Due within one year	$ 668,554	$ 161,080	$ -	$ 829,634
Due in one to five years	33,927	488,022	-	521,949
Due in more than five years	-	-	5,100,000	5,100,000
	702,481	649,102	5,100,000	6,451,583
Less				
Allowance for uncollectible contributions	(50,000)	-	-	(50,000)
Unamortized discount	(665)	(12,683)	(578,108)	(591,456)
	$ 651,816	$ 636,419	$ 4,521,892	$ 5,810,127

Discount rates of 2% were used for 2022 and 2021.

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, 2022 have been recorded as receivables. Revenue will be recognized when qualifying expenses are incurred. The following are grant commitments that extend beyond September 30, 2022:

Agency	Contract #	Term	Grant Amount	Earned/ Forfeited Through 9/30/2022	Funding Available
NYS OASAS	C004354	07/01/2019-06/30/2024	$ 3,624,709	$ 1,784,463	$ 1,840,246

Madison has received $273,648 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, 2022 and 2021 was $2,151,863 and $2,822,579, respectively. Unrealized losses of $670,716 were recorded for the year ended September 30, 2022 and unrealized gains of $555,819 were recorded for the year ended September 30, 2021.

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.

The following table represents limited use asset balances by source at September 30, 2022 and 2021:

	2022	2021
Construction reserve - cash	$ 20,865	$ 20,865
Interest reserve - cash	2	2
CDE fee reserves - cash	375,972	550,832
Total assets limited as to use	$ 396,839	$ 571,699

Note 8: Property and Equipment

Property and equipment at September 30, 2022 and 2021 consists of:

	2022		
	Cost	Accumulated Depreciation	Net
Land	$ 5,672,517	$ -	$ 5,672,517
Building and improvements	61,932,719	18,716,795	43,215,924
Equipment and furnishings	1,742,762	910,941	831,821
	$ 69,347,998	$ 19,627,736	$ 49,720,262
Administration	$ 77,427	$ 65,838	$ 11,589
Building improvements	32,609	32,609	-
Bronx Club - John E. Grimm III Clubhouse	4,833,241	2,647,640	2,185,601
Bronx Club - Joel E. Smilow Clubhouse	7,435,466	4,922,588	2,512,878
Brooklyn Club - Navy Yard Clubhouse	5,229,935	4,268,970	960,965
Brooklyn Club - Thomas S. Murphy Clubhouse	7,722,072	4,312,125	3,409,947
Brooklyn Club - Elbaum Family Clubhouse	7,155	3,737	3,418
Harlem Club - Pinkerton Clubhouse	44,010,093	3,374,229	40,635,864
	$ 69,347,998	$ 19,627,736	$ 49,720,262

	2021		
	Cost	Accumulated Depreciation	Net
Land	$ 5,672,517	$ -	$ 5,672,517
Building and improvements	60,271,254	17,062,750	43,208,504
Equipment and furnishings	1,699,725	699,276	1,000,449
	$ 67,643,496	$ 17,762,026	$ 49,881,470

	Cost	Accumulated Depreciation	Net
Administration	$ 77,426	$ 58,524	$ 18,902
Building improvements	32,609	32,609	-
Bronx Club - John E. Grimm III Clubhouse	4,630,496	2,452,622	2,177,874
Bronx Club - Joel E. Smilow Clubhouse	7,096,469	4,687,977	2,408,492
Brooklyn Club - Navy Yard Clubhouse	5,170,315	4,175,314	995,001
Brooklyn Club - Thomas S. Murphy Clubhouse	6,696,829	4,023,196	2,673,633
Brooklyn Club - Elbaum Family Clubhouse	7,155	2,306	4,849
Harlem Club - Pinkerton Clubhouse	43,932,197	2,329,478	41,602,719
	$ 67,643,496	$ 17,762,026	$ 49,881,470

Madison entered into a restrictive covenant agreements as of March 10, 2015 and December 3, 2015 as part of funding obtained for the Joel E. Smilow Clubhouse and the Thomas S. Murphy Clubhouse, respectively. The restrictive covenant requires Madison to use the two clubhouses for a term of 15 years after receipt of the certificate occupancy to use the buildings as clubhouses for the people of the City of New York.

Additionally, there is a restrictive covenant on the land under John E. Grimm III Clubhouse that is only to be used and owned by a non-profit organization and only used for non-profit community, educational, and recreational purposes.

Note 9: Lines 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 originally set to expire on December 31, 2014 but was extended at an amount not to exceed $4,500,000. The line of credit was payable on demand. Madison repaid the line of credit in full in June 2022 and the line of credit was closed. The line of credit was collateralized by the investments held by JP Morgan Chase Bank, N.A., which totaled $12,581,340 at September 30, 2021. As of September 30, 2022 and 2021, Madison’s outstanding balance on this line totaled $0 and $881,360, respectively. The interest rate was based upon the secured overnight financing rate (SOFR) two days prior to the payment due date plus 1.5%. The interest rate at September 30, 2021 was based upon the one month LIBOR two days prior to the payment due date plus 1.40%. The interest rate at September 30, 2021 was 1.53%, and interest expense was $12,646 and $14,723 for the years ended September 30, 2022 and 2021.

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%) 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, 2022 and 2021, the balance of the note was $25,548,800, and interest income was $370,968. There was no accrued interest under the note as of September 30, 2022 and 2021.

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.

Interest related to the NMTC financing was $550,265, including $178,665 of amortization of debt issuance costs in 2022 and 2021. The effective interest rate was 1.5% in 2022 and 2021.

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.

On June 29, 2022, Madison Square Boys and Girls Club, Inc. filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code which is further discussed in *Note 20*. As part of the filing, Madison, PNC Bank, and each of the CDEs, HCIF and MSBGC-NYS have executed a forbearance agreement. The Forbearance Agreement provides, among other things, that PNC and the CDE's shall forbear from exercising remedies under the NMTC documents as a result of the Chapter 11 case for an agreed upon period which currently expires on May 10, 2023. The Forbearance Agreement prevents the assertion of a secured claim during the forbearance period. Should the entity not be able to emerge from the chapter 11 reorganization or should the Forbearance Agreement not be extended past May 10, 2023, there may be accelerated repayments, penalties, and other amounts due to creditors. As a result, the NMTC loans are all reflected as current on the statement of financial position as of September 30, 2022.

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 1%. On May 7, 2021, Madison received full forgiveness of the PPP loan amount of $1,428,955 and the related accrued interest on the loan of $15,044. The forgiveness of debt has been recorded in the accompanying consolidated financial statements in 2021.

In April 2021, Madison received a second draw under the PPP in the amount of $1,428,955 under the same general terms as the first PPP loan. The loan was payable over five years at an interest rate of 1%. On May 31, 2022, Madison received full forgiveness of the PPP loan amount of $1,428,955 and the related accrued interest on the loan of $5,954. The forgiveness of debt has been recorded in the accompanying consolidated financial statements in 2022.

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 0% interest rate. The loan term was 24 months and was to be repaid in three equal quarterly payments beginning in December 2021. The final principal loan payment was made in June 2022, and there was no outstanding balance as of September 30, 2022.

Loans payable reflected on the consolidated statement of financial position as of September 30, 2022 and 2021 are as follows:

	Original Principal Balance	Balance as of September 30, 2022	Balance as of September 30, 2021	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	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)	(297,776)	(476,441)	
Subtotal NMTC loans payable	35,909,343	36,862,224	36,683,559	
Nonprofit Finance Fund Loan	750,000	-	750,000	0%
Paycheck Protection Program Loan 1	1,428,955	-	-	1%
Paycheck Protection Program Loan 2	1,428,955	-	1,428,955	1%
Total loans payable	$ 39,517,253	$ 36,862,224	$ 38,862,514	

Note 11: Net Assets

Net Assets With Donor Restrictions

Net assets with donor restrictions at September 30, 2022 and 2021 are restricted for the following purposes or periods:

	2022	2021
Subject to expenditure for specified purpose		
100th Anniversary Fund		
Clubhouse Service Fund	$ 4,098,682	$ 6,111,516
Remedial Education Fund	2,090,429	3,117,024
Staff Development Training Fund	146,995	219,183
Camp and Outdoor Education Fund	69,292	103,322
Scholarship funds		
Eugenia Woodward Hitt Scholarship Fund	159,895	197,302
Joseph Golding Fund	131,270	161,982
Monroe and Rose Levinger Fund	12,110	14,943
Dana, Freeman, Harkness, Maxwell, Guzman, Dibernardo Fund	272,691	336,491
Program Operating Funds	2,734,279	2,863,195
	9,715,643	13,124,958
Endowments		
Perpetual in nature - endowment corpus	34,436,591	31,746,153
Subject to NFP endowment spending policy and appropriation		
Accumulated investment gains restricted by donors for clubhouse operations	3,587,448	17,775,023
Total endowments	38,024,039	49,521,176
Not subject to spending policy or appropriation		
Beneficial interests in perpetual trusts	2,151,863	2,822,579
	$ 49,891,545	$ 65,468,713

Net Assets Released from Restrictions

Net assets were released from donor restrictions for the year ended September 30, 2022 by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

Satisfaction of purpose restrictions	
Scholarships	$ 19,492
Clubhouse services	268,749
Remedial education	137,069
Staff development training	9,638
Camp and outdoor education	4,544
Music program operations	259,335
Elbaum Family Clubhouse operations	82,111
Pinkerton Clubhouse operations	168,923
Teen programs	615,791
Summer programs	1,355
Time restricted	200,000
Food Pantry	14,000
Explorers Academy	15,000
Academic Success	124,900
Staff development	25,000
Technology	15,000
Bronx Clubhouses	281,868
Brooklyn Clubhouses	31,083
	2,273,858
Restricted purpose spending-rate distributions and appropriations	
Pinkerton Clubhouse operations	1,466,890
	1,466,890
	$ 3,740,748

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
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, 2022 and 2021 was:

	With Donor Restrictions	
	2022	2021
Donor-restricted endowment funds		
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	$ 34,436,591	$ 31,746,153
Accumulated investment gains	3,587,448	17,775,023
Total endowment funds	$ 38,024,039	$ 49,521,176

Change in endowment net assets for the years ended September 30, 2022 and 2021 were:

	With Donor Restrictions	
	2022	**2021**
Endowment net assets, beginning of year	$ 49,521,176	$ 40,745,025
Investment return, net	(12,720,685)	9,985,876
Contributions	190,438	88,665
Appropriation of endowment assets for expenditures	(1,466,890)	(1,298,390)
Other changes		
Change in donor intent	2,500,000	-
Endowment net assets, end of year	$ 38,024,039	$ 49,521,176

For the year ended September 30, 2022, amounts have been reclassified to endowment based upon changes in donor intent.

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, 2022 and 2021, up to 4% 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, 2022 and 2021, comprise the following:

	2022	2021
Financial assets		
Cash and cash equivalents	$ 2,876,856	$ 3,471,233
Investments	39,185,011	65,638,366
Government grants receivable	768,064	879,039
Contributions receivable, net	5,779,733	5,810,127
Accrued interest receivable	4,457	6,352
Beneficial interests in trusts	2,151,863	2,822,579
Total financial assets	50,765,984	78,627,696
Donor-imposed restrictions		
Restricted funds	(11,867,506)	(15,947,537)
Endowments	(38,024,039)	(49,521,176)
Total donor-imposed restrictions	(49,891,545)	(65,468,713)
Financial assets available to meet cash needs for general expenditures within one year	$ 874,439	$ 13,158,983

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.

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 included rent concessions at inception and rent escalations during the term of the lease. The lease expired on December 31, 2021.

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

In addition, Madison leases a vehicle. The lease expires in January 2023. Lease expense for the vehicle for the years ended September 30, 2022 and 2021 was $6,690 and $7,260, respectively.

Future minimum lease payments as of September 30, 2022 are as follows:

Year Ended September 30,	
2023	$ 2,400
Total	$ 2,400

Total lease and rent expense for the years ended September 30, 2022 and 2021 was $162,994 and $410,138, 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% of participating employees' annual salaries. Employees are fully vested after three years of employment.

The Foundation participates in the ADP TotalSource Retirement Savings Plan (the TotalSource Plan). The TotalSource Plan is a defined contribution plan and is intended to be a "multiple employer" plan as described in Section 413 of the Internal Revenue Code. The Foundation makes a 3% safe harbor contribution and may make, in its sole discretion, a discretionary profit-sharing contribution of up to 7% of eligible employees' salaries. Participants are immediately vested in the employer's contributions and all earnings thereon.

Pension expense was $409,465 and $493,909 for the years ended September 30, 2022 and 2021, 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.

Special Events

Revenue from two special event represents 88% and 94% of total special event revenue in 2022 and 2021, respectively.

Grants

Revenue from four government grants represents 94% and two grants represent 95% of total grant revenue in 2022 and 2021, respectively.

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 was extended by further legislation to two years and closed on August 14, 2021. As of the date of this report, Madison is named as a defendant in 76 pending lawsuits, brought by approximately 140 individuals alleging child sexual abuse by former employees and/or volunteers at Madison during various periods between 1941 and 1988.

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.

Madison has incurred substantial legal costs in connection with the defense and related issues arising from the CVA litigation. As a result, Madison filed a voluntary petition for relief under chapter 11 of the U.S. Bankruptcy Code in the Southern District of New York as a means to reach a comprehensive global solution of the CVA claims, as further described in *Note 20*. As of September 30, 2022, Madison estimated and accrued $7,625,000 as pre-petition liabilities related to the above litigation. However, as the evaluation of the cases are ongoing, it is at least reasonably possible that changes in the estimate could occur in the near-term and that such changes 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, 2022. A discount of $487,670 and $578,773 has been recorded against future contributions receivable (see *Note 4*) as of September 30, 2022 and 2021, respectively. Payments of $69,414,599 were received as of September 30, 2022.

Note 18: Subsequent Events

Subsequent events have been evaluated through May 3, 2023, which is the date the financial statements were available to be issued.

On November 10, 2022, Madison obtained a debtor-in-possession loan (DIP Loan) in the amount of $11,000,000 to provide financing for organizational support and other working capital and liquidity needs during Madison's chapter 11 case, as described in *Note 20*. The DIP Loan will be converted into an exit facility term loan upon the Madison's emergence from chapter 11. The initial loan term is a 2-year interest only period. If Madison has emerged from chapter 11 and a default of the Loan has not occurred, the term shall be extended for an addition 10 years, which includes monthly payments of principal and interest using a 25-year amortization period. The interest rate is 6.75% fixed rate for the first 2 years, followed by rate resets on the 2nd and 7th year anniversaries of the initial closing based on the then prevailing 5 YR FHLBNY plus 2.50% with a floor of no less than 5.75% per annum and provided that Madison emerges from chapter 11. Default interest, when (and if) payable, shall be at the otherwise applicable rate plus 6%. The loan is collateralized by a first mortgage lien on four of Madison's Clubhouses and any other unrestricted assets as permissible. The loan requires $1,500,000 to be held in debt service reserve accounts, and is also subject to certain other loan terms and conditions.

Note 19: Future Changes in Accounting Principles

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.

Accounting for Financial Instruments – Credit Losses

FASB 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 fiscal years beginning after December 15, 2022, including interim periods within those years. Madison is in the process of evaluating the effect the amendment will have on the financial statements.

Note 20: Reorganization under Chapter 11 of the U.S. Bankruptcy Code and Management's Plans

On June 29, 2022, Madison filed a voluntary petition for relief under chapter 11 of the U.S. Bankruptcy Code in the Southern District of New York as a means to reach a comprehensive global solution to fairly and equitably compensate the claimants that filed lawsuits under The New York Child Victims Act (CVA) referenced in *Note 16* of the financial statements and similar statutes. Madison has continued, and intends to continue, operations and deliver services and programming as normal throughout the restructuring process. The chapter 11 filing does not affect the Foundation or MSBGC-NYC Support Corporation.

Madison filed a series of customary "first day" motions with the bankruptcy court to ensure its operations continue uninterrupted during the restructuring process. The bankruptcy court approved these motions, ensuring that the organization can, among other things, continue paying employee wages and benefits.

To facilitate an efficient resolution with CVA claimants, Madison received bankruptcy court approval to appoint a mediator to oversee a mediation among Madison, an official committee of CVA claimants, and certain other key parties regarding all CVA-related matters. This approach was designed to accelerate negotiations while reducing expenses as the parties work toward a comprehensive solution. Upon completion of the mediation process, Madison and the CVA claimants reached an agreement "in principle" regarding settlement terms to resolve the CVA-related matters, subject to bankruptcy court approval. The documentation of the settlement terms is still being finalized as of the date of this report.

Subsequent to September 30, 2022, Madison obtained a court-approved debtor-in-possession loan (DIP Loan) in the amount of $11,000,000 to provide financing for organizational support and other working capital and liquidity needs during Madison's chapter 11 case. The terms of the DIP Loan are further described in *Note 18*.

On April 12, 2023, management filed a disclosure statement and a plan of reorganization with the bankruptcy court. The plan implements the terms of the mediated-settlement with CVA claimants and demonstrates Madison's ability to fund the settlement through a compensation trust, and successfully exit chapter 11 bankruptcy. Key terms of the plan, among others, include funding the compensation trust with $2,225,000 in cash, a $5,400,000 interest-bearing promissory note, the right to 100% of the net proceeds generated from the sale of the Madison's Navy Yard Clubhouse, and the assignment of Madison's rights, claims, interests, and benefits under or with respect to the abuse insurance policies. Madison is awaiting bankruptcy court approval of its plan as of the date of this report.

Reorganization costs consist of professional fees related to the bankruptcy filing. Direct cash flow payments related to reorganization costs for the year ended September 30, 2022 were $381,037.

Note 21: Parent Only Financial Information – Debtor-In-Possession

The following presents the financial information for Madison Square Boys and Girls Club, Inc. only as the debtor-in-possession as of September 30, 2022.

Madison Square Boys and Girls Club, Inc. Only
Debtor-in-Possession

Assets	
Current Assets	
Cash and cash equivalents	$ 975,832
Investments	2,089,900
Government grants receivable	768,064
Contributions receivable (net of allowance of $92,000)	1,017,064
Accrued interest receivable	4,457
Due from Madison Square Boys and Girls Club Foundation	186,367
Prepaid expenses and other assets	152,324
Total current assets	5,194,008
Cash and cash equivalents - endowment	1,189,498
Investments	36,996,963
Contributions receivable	4,506,169
Loan receivable	25,548,800
Beneficial interests in trusts	2,151,863
Property and equipment, net	9,620,597
Total assets	$ 85,207,898
Liabilities and Net Assets	
Liabilities Not Subject to Compromise - Current Liabilities	
Accounts payable and accrued expenses	$ 3,416,559
Refundable advances	241,148
Total liabilities not subject to compromise - current liabilities	3,657,707
Liabilities Subject to Compromise - Pre-petition liabilities	7,857,445
Total liabilities	11,515,152
Net Assets	
Without donor restrictions	24,709,431
With donor restrictions	
Time and purpose	11,057,422
Endowment	37,925,893
Net assets with donor restrictions	48,983,315
Total net assets	73,692,746
Total liabilities and net assets	$ 85,207,898

Madison Square Boys & Girls Club, Inc. and Affiliates
Debtor-in-Possession
Notes to Consolidated Financial Statements
September 30, 2022
(With Summarized Financial Information as of and for the Year Ended September 30, 2021)

Madison Square Boys and Girls Club, Inc. Only Debtor-in-Possession

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains, and Other Support			
Contributions	$ 761,216	$ 536,335	$ 1,297,551
Special events (includes in-kind contributions of $135,339)	358,737	279,617	638,354
Direct cost of special events	(8,649)	-	(8,649)
Income from trusts	-	169,852	169,852
Change in value of beneficial interest in trusts	-	(670,716)	(670,716)
New York State Office of Children and Family Services	704,817	-	704,817
New York State Office of Alcoholism and Substance Abuse Services	600,000	-	600,000
New York City Department of Youth and Community Development	500,000	-	500,000
New York State CACFP/Food Program	184,098	-	184,098
Dormitory Authority of the State of New York	1,051,373	-	1,051,373
Other government grants	14,000	-	14,000
Program fees	94	-	94
Investment income (loss)	(1,222,762)	(15,559,738)	(16,782,500)
Loan interest income	370,968	-	370,968
Income from Affiliates	2,051,819	-	2,051,819
Rental income	263,000	-	263,000
Net assets released from restrictions	3,740,748	(3,740,748)	-
Total revenues, gains, and other support	9,369,459	(18,985,398)	(9,615,939)
Expenses and Losses			
Program services			
Healthy Lifestyles	2,944,637	-	2,944,637
Good Character & Citizenship	1,806,420	-	1,806,420
Academic Success	3,700,140	-	3,700,140
Total program services	8,451,197	-	8,451,197
Supporting services			
Management and general	7,529,475	-	7,529,475
Fundraising	149,563	-	149,563
Total supporting services	7,679,038	-	7,679,038
Total expenses	16,130,235	-	16,130,235
Change in Net Assets Before Other Changes	(6,760,776)	(18,985,398)	(25,746,174)
Other Changes in Net Assets			
Loss on contingency	(7,625,000)	-	(7,625,000)
Change in donor intent (Note 12)	(2,500,000)	2,500,000	-
Forgiveness of Debt - PPP Loan	1,434,909	-	1,434,909
Change in Net Assets Before Reorganization Costs	(15,450,867)	(16,485,398)	(31,936,265)
Reorganization costs	(2,802,152)	-	(2,802,152)
Change in Net Assets	(18,253,019)	(16,485,398)	(34,738,417)
Net Assets, Beginning of Year	42,962,450	65,468,713	108,431,163
Net Assets, End of Year	$ 24,709,431	$ 48,983,315	$ 73,692,746

Madison Square Boys and Girls Club, Inc. Only
Debtor-in-Possession

Operating Activities	
Change in net assets	$ (34,738,417)
Items not requiring (providing) operating cash flows	
Depreciation	918,808
Net (gain)/loss on investments	20,464,678
Provision for bad debt	42,000
Change in value of beneficial interest in trusts	670,716
Forgiveness of debt	(1,428,955)
Changes in	
Government grants receivable	110,975
Contributions receivable	225,022
Accrued interest receivable	1,895
Prepaid expenses and other assets	199,221
Accounts payable and accrued expenses	2,035,363
Pre-petition liabilities	7,857,445
Decrease in amounts due from Foundation	481,381
Refundable advances	(52,628)
Net cash used in operating activities	(3,212,496)
Investing Activities	
Purchase of investments	(4,105,528)
Proceeds from sale of investments	10,192,353
Purchase of fixed assets	(1,704,502)
Net cash provided by investing activities	4,382,323
Financing Activities	
Repayment of lines of credit	(881,360)
Principal payments on loans payable	(750,000)
Net cash used in financing activities	(1,631,360)
Net Change in Cash and Cash Equivalents	(461,533)
Cash and Cash Equivalents, Beginning of Year	2,626,863
Cash and Cash Equivalents, End of Year	$ 2,165,330
Reconciliation of Cash and Cash Equivalents and Restricted Cash	
Cash and cash equivalents - current	$ 975,832
Cash and cash equivalents - non-current	1,189,498
Total	$ 2,165,330
Supplemental Cash Flows Information	
Cash paid for interest	$ -

Supplementary Information

Madison Square Boys & Girls Club, Inc. and Affiliates

Debtor-in-Possession

Schedule of Changes in Net Assets with Donor Restrictions

Year Ended September 30, 2022

	Net Assets - Beginning of Year	Support, Gains (Losses)	Transfers	Net Assets Released from Restrictions	Net Assets - End of Year
100th Anniversary Fund					
Clubhouse Service Fund	$ 6,111,516	$ (1,744,085)	$ -	$ (268,749)	$ 4,098,682
Remedial Education Fund	3,117,024	(889,526)	-	(137,069)	2,090,429
Staff Development Training Fund	219,183	(62,550)	-	(9,638)	146,995
Camp and Outdoor Education Fund	103,322	(29,486)	-	(4,544)	69,292
Total 100th Anniversary Fund	9,551,045	(2,725,647)	-	(420,000)	6,405,398
Scholarship Funds					
Eugenia Woodward Hitt	197,302	(31,996)	-	(5,411)	159,895
Joseph Golding Fund	161,982	(26,270)	-	(4,442)	131,270
Monroe and Rose Levinger Fund	14,943	(2,423)	-	(410)	12,110
Dana, Freeman, Harkness, Maxwell, Guzman, Dibernardo Fund	336,491	(54,571)	-	(9,229)	272,691
Total scholarship funds	710,718	(115,260)	-	(19,492)	575,966
Program Operating Funds					
Music Programs	938,182	32,500	-	(259,335)	711,347
Elbaum Family Clubhouse	642,126	85,000	-	(82,111)	645,015
Pinkerton Clubhouse	536,423	-		(168,923)	367,500
Teen Programs	546,464	999,944	-	(615,791)	930,617
Summer Programs	-	1,355	-	(1,355)	-
Time Restricted	200,000	-	-	(200,000)	-
Food Pantry	-	20,800	-	(14,000)	6,800
Explorers Academy	-	27,000	-	(15,000)	12,000
Scholarships	-	50,000	-	-	50,000
Academic Success Programs	-	124,900	-	(124,900)	-
Good Character Programs	-	11,000	-	-	11,000
Staff Development	-	25,000	-	(25,000)	-
Technology	-	15,000	-	(15,000)	-
Bronx Clubhouses	-	281,868	-	(281,868)	-
Brooklyn Clubhouses	-	31,083	-	(31,083)	-
Total program operating funds	2,863,195	1,705,450	-	(1,834,366)	2,734,279
Endowment					
Perpetual in nature - endowment corpus	31,746,153	190,438	2,500,000	-	34,436,591
Unappropriated earnings on endowment funds	17,775,023	(12,720,685)		(1,466,890)	3,587,448
Total endowment	49,521,176	(12,530,247)	2,500,000	(1,466,890)	38,024,039
Perpetual trusts					
Ruby Fleming Trust	1,755,049	(451,357)	-	-	1,303,692
Glessner B. Childs Trust	1,067,530	(219,359)	-	-	848,171
Total perpetual trusts	2,822,579	(670,716)	-	-	2,151,863
Total net assets with donor restrictions	$ 65,468,713	$(14,336,420)	$ 2,500,000	$ (3,740,748)	$ 49,891,545