

**MADISON SQUARE BOYS  
AND GIRLS CLUB, INC.**

**FINANCIAL STATEMENTS  
AND AUDITOR'S REPORT**

**SEPTEMBER 30, 2016**

**MADISON SQUARE BOYS AND GIRLS CLUB, INC.**

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## **Independent Auditor's Report**

**Board of Directors  
Madison Square Boys and Girls Club, Inc.**

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of Madison Square Boys and Girls Club, Inc., which comprise the balance sheet as of September 30, 2016, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Madison Square Boys and Girls Club, Inc. as of September 30, 2016, 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.

***Report on Summarized Comparative Information***

We have previously audited Madison Square Boys and Girls Club, Inc.'s September 30, 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 4, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

***Other Matter***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. Schedules 1 and 2 are presented for purposes of additional analysis and are 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.

*Loeb & Troper LLP*

May 4, 2017

## MADISON SQUARE BOYS AND GIRLS CLUB, INC.

## BALANCE SHEET

SEPTEMBER 30, 2016

(With Summarized Financial Information for September 30, 2015)

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 930,816	\$ 1,030,920
Investments (Notes 2 and 5)	43,033,110	31,968,673
Government grants receivable	980,081	786,676
Contributions receivable (net of allowance of \$50,000 in 2016 and 2015) (Note 4)	24,174,504	36,326,414
Accrued interest receivable	9,068	5,553
Prepaid expenses and other assets	321,540	272,151
Beneficial interests in trusts (Note 10)	9,222,605	9,049,529
Fixed assets - net (Note 3)	<u>15,539,523</u>	<u>11,526,419</u>
Total assets	<u>\$ 94,211,247</u>	<u>\$ 90,966,335</u>
<b>LIABILITIES AND NET ASSETS</b>		
Accounts payable and accrued expenses	\$ 808,138	\$ 626,800
Accounts payable - construction	819,379	868,254
Lines of credit (Note 5)	1,344,360	1,344,360
Refundable advances	<u>227,750</u>	<u>265,060</u>
Total liabilities	<u>3,199,627</u>	<u>3,104,474</u>
Net assets (Exhibit B)		
Unrestricted		
General	4,658,573	5,706,901
Land, building and equipment	<u>15,539,523</u>	<u>11,526,419</u>
Total unrestricted	20,198,096	17,233,320
Temporarily restricted (Note 7)	44,444,676	45,641,612
Permanently restricted (Notes 7 and 10)	<u>26,368,848</u>	<u>24,986,929</u>
Total net assets	<u>91,011,620</u>	<u>87,861,861</u>
Total liabilities and net assets	<u>\$ 94,211,247</u>	<u>\$ 90,966,335</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

MADISON SQUARE BOYS AND GIRLS CLUB, INC.

4.  
EXHIBIT B

STATEMENT OF ACTIVITIES

YEAR ENDED SEPTEMBER 30, 2016  
(With Summarized Financial Information  
for the Year Ended September 30, 2015)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	
				<u>2016</u>	<u>2015</u>
Revenues, gains, losses and other support					
Contributions	\$ 2,470,340	\$ 3,910,503	\$ 1,334,776	\$ 7,715,619	\$ 15,095,694
Special events (includes in-kind contributions of \$243,784)	3,137,479			3,137,479	2,936,047
Direct cost of special events	(876,835)			(876,835)	(793,027)
Income from trusts	462,432			462,432	471,224
Change in value of beneficial interest in trusts		125,933	47,143	173,076	(591,918)
United Way of New York City	2,370			2,370	589
New York State Office of Alcoholism and Substance Abuse Services	600,053			600,053	741,261
New York City Department of Youth and Community Development	388,992			388,992	312,038
New York State CACFP/Food Program	321,438			321,438	360,432
Boys & Girls Club of America - Office of Juvenile Delinquency Program	78,379			78,379	73,606
New York City Economic Development Corporation	1,232,574			1,232,574	443,903
Other government grants	104,624			104,624	21,467
Camping/program fees	201,015			201,015	191,559
Membership dues	10,122			10,122	13,659
Investment income (loss) (Note 8)	(447,694)	(1,142,107)		(1,589,801)	361,355
Gain on sale/disposal of fixed assets					789,833
Rental income	66,300			66,300	57,450
Net assets released from restrictions (Note 7)	4,091,265	(4,091,265)			
Total revenues, gains, losses and other support	<u>11,842,854</u>	<u>(1,196,936)</u>	<u>1,381,919</u>	<u>12,027,837</u>	<u>20,485,172</u>

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MADISON SQUARE BOYS AND GIRLS CLUB, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED SEPTEMBER 30, 2016  
(With Summarized Financial Information  
for the Year Ended September 30, 2015)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	
				<u>2016</u>	<u>2015</u>
Expenses (Exhibit C)					
Program services					
Physical education	\$ 1,616,418			\$ 1,616,418	\$ 1,598,933
Social and recreational	1,776,123			1,776,123	1,876,498
Education and guidance	3,566,024			3,566,024	3,802,677
Total program services	<u>6,958,565</u>			<u>6,958,565</u>	<u>7,278,108</u>
Supporting services					
Management and general	962,900			962,900	834,909
Fund raising	956,613			956,613	939,982
Total supporting services	<u>1,919,513</u>			<u>1,919,513</u>	<u>1,774,891</u>
Total expenses	<u>8,878,078</u>			<u>8,878,078</u>	<u>9,052,999</u>
Change in net assets (Exhibit D)	2,964,776	\$ (1,196,936)	\$ 1,381,919	3,149,759	11,432,173
Net assets - beginning of year	<u>17,233,320</u>	<u>45,641,612</u>	<u>24,986,929</u>	<u>87,861,861</u>	<u>76,429,688</u>
Net assets - end of year (Exhibit A)	<u>\$ 20,198,096</u>	<u>\$ 44,444,676</u>	<u>\$ 26,368,848</u>	<u>\$ 91,011,620</u>	<u>\$ 87,861,861</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

## STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED SEPTEMBER 30, 2016  
(With Summarized Financial Information  
for the Year Ended September 30, 2015)

	Program Services				Supporting Services			Total		
	Physical Education	Social and Recreational	Education and Guidance	Total	Management and General	Fund Raising	Direct Cost of Special Events	Total	2016	2015
Salaries	\$ 716,699	\$ 861,061	\$ 2,005,534	\$ 3,583,294	\$ 357,911	\$ 550,112		\$ 908,023	\$ 4,491,317	\$ 4,795,474
Payroll taxes and employee benefits	226,711	272,377	634,405	1,133,493	113,217	174,016		287,233	1,420,726	1,488,393
Total salaries and related expenses	943,410	1,133,438	2,639,939	4,716,787	471,128	724,128		1,195,256	5,912,043	6,283,867
Professional fees	7,545	9,065	21,113	37,723	98,557	84,666		183,223	220,946	190,020
Supplies	265,097	70,194	76,928	412,219	8,358	8,696		17,054	429,273	403,686
Postage and shipping	791	1,194	1,868	3,853	1,824	1,903		3,727	7,580	12,947
Telephone	10,520	13,121	20,604	44,245	2,390	5,491		7,881	52,126	52,200
Occupancy (Note 9)	133,201	177,855	279,344	590,400	124,134	84,620		208,754	799,154	913,353
Insurance	44,875	56,666	89,637	191,178	1,239	885		2,124	193,302	171,212
Outside printing and artwork	6,226	8,397	11,698	26,321	1,219	17,725		18,944	45,265	51,211
Local transportation	9,279	71,505	22,073	102,857	1,212	4,878		6,090	108,947	88,328
Meetings and conferences	3,607	5,159	7,777	16,543	35,610	4,897		40,507	57,050	15,692
Subscriptions, publications and dues	12,269	16,434	22,476	51,179	537	1,294		1,831	53,010	47,653
Awards and scholarships	3,928	5,205	44,015	53,148					53,148	33,792
Staff development/training	6,192	7,308	14,914	28,414	2,967	4,526		7,493	35,907	36,960
Equipment rental	11,626	15,026	23,666	50,318	5,274	3,765		9,039	59,357	20,098
Investment fees					230,841			230,841	230,841	253,868
Catering, facility rental and entertainment (includes in-kind expenses of \$243,784 in 2016 and \$211,972 in 2015)							\$ 876,835	876,835	876,835	793,027
Interest and bank charges (includes interest of \$26,545 for 2016 and \$68,786 for 2015)					57,152			57,152	57,152	94,042
Bad debt expense					138,495			138,495	138,495	
Depreciation	157,852	185,556	289,972	633,380	12,804	9,139		21,943	655,323	637,938
Total expenses	1,616,418	1,776,123	3,566,024	6,958,565	1,193,741	956,613	876,835	3,027,189	9,985,754	10,099,894
Less expenses deducted directly from revenues on the statement of activities										
Investment fees					(230,841)			(230,841)	(230,841)	(253,868)
Direct cost of special events							(876,835)	(876,835)	(876,835)	(793,027)
Total expenses reported by function on the statement of activities (Exhibit B)	\$ 1,616,418	\$ 1,776,123	\$ 3,566,024	\$ 6,958,565	\$ 962,900	\$ 956,613	\$ -	\$ 1,919,513	\$ 8,878,078	\$ 9,052,999

See independent auditor's report.

The accompanying notes are an integral part of these statements.



## MADISON SQUARE BOYS AND GIRLS CLUB, INC.

## STATEMENT OF CASH FLOWS

YEAR ENDED SEPTEMBER 30, 2016

Cash flows from operating activities	
Change in net assets (Exhibit B)	\$ 3,149,759
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	655,323
Net loss on investments	1,787,416
Contributions restricted for long-term use	(3,910,503)
Permanently restricted contributions	(1,334,776)
Change in value of beneficial interest in trusts	(173,076)
Decrease (increase) in assets	
Government grants receivable	(193,405)
Contributions receivable	204,514
Accrued interest receivable	(3,515)
Prepaid expenses and other assets	(49,389)
Increase (decrease) in liabilities	
Accounts payable and accrued expenses	181,338
Refundable advances	(37,310)
Net cash provided by operating activities	<u>276,376</u>
Cash flows from investing activities	
Purchase of investments	(14,628,183)
Proceeds from sale of investments	1,776,330
Purchase of fixed assets	(4,717,302)
Net cash used by investing activities	<u>(17,569,155)</u>
Cash flows from financing activities	
Proceeds from permanently restricted contributions	4,086,570
Proceeds from contributions restricted for long-term use	13,106,105
Net cash provided by financing activities	<u>17,192,675</u>
Net change in cash and cash equivalents	(100,104)
Cash and cash equivalents - beginning of year	<u>1,030,920</u>
Cash and cash equivalents - end of year	<u>\$ 930,816</u>
Supplemental disclosure of cash flow information	
Cash paid during the year for interest	<u>\$ 26,545</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

**MADISON SQUARE BOYS AND GIRLS CLUB, INC.****NOTES TO FINANCIAL STATEMENTS****SEPTEMBER 30, 2016****NOTE 1 - NATURE OF ORGANIZATION**

Madison Square Boys and Girls Club, Inc. (Madison) was established for the purpose of providing services to youth. These services include physical education, social and recreational, and education and guidance. The mission of Madison 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 is supported primarily through contributions, special events, government grants, and investment income.

Madison is a not-for-profit organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. It is a publicly supported organization under Section 509(a).

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of accounting*** - The financial statements are prepared on the accrual basis of accounting.

***Use of estimates*** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***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 the organization's financial statements for the year ended September 30, 2015, from which the summarized information was derived.

***Cash and cash equivalents*** - Madison considers highly liquid financial instruments with maturities of three months or less when acquired, other than those held in Madison's investment portfolio, to be cash equivalents.

***Investments*** - Investments are stated at fair value. Madison invests in various investments. Investments in general, are exposed to various risks such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of investments will occur in the near term, based on the markets' fluctuations, and that such changes could materially affect the amounts reported in the financial statements.

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**MADISON SQUARE BOYS AND GIRLS CLUB, INC.****NOTES TO FINANCIAL STATEMENTS****SEPTEMBER 30, 2016****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Beneficial interests in trusts*** - Beneficial interests in perpetual trusts are reported at fair value. Beneficial interests in other trusts are reported at their net present value using risk-adjusted interest rates.

***Fair Value Measurements***

*Fair Value Measurements* establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below. Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that Madison has the ability to access. Level 2 inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2016 as compared to those used at September 30, 2015.

***Equity securities, mutual funds and exchange traded funds*** - Valued at the closing price reported on the active market on which the individual securities are traded.

***Beneficial interests in perpetual trusts*** - Valued based on the fair value of the underlying assets.

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**MADISON SQUARE BOYS AND GIRLS CLUB, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2016**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Fair Value Measurements (continued)*

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Madison believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the assets at fair value as of September 30, 2016:

	<u>Level 1</u>
Equity securities	
Basic material	\$ 599,965
Consumer goods	1,078,720
Consumer discretionary	3,584,611
Consumer staples	632,992
Financial	3,787,686
Healthcare	1,536,921
Industrial goods	2,391,455
Services	203,915
Technology	2,543,635
Communications	255,148
Energy	461,549
Utilities	166,181
Real estate	<u>23,518</u>
Total equity securities	<u>17,266,296</u>

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## MADISON SQUARE BOYS AND GIRLS CLUB, INC.

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*Fair Value Measurements (continued)*

	<u>Level 1</u>
Mutual funds	
Equity funds	\$ 4,983,605
Bond funds	<u>17,891,531</u>
Total mutual funds	<u>22,875,136</u>
Exchange traded funds	
Specialty funds	<u>31,471</u>
Total Level 1 investments	40,172,903
Cash equivalents	<u>2,860,207</u>
Total investments	\$ <u>43,033,110</u>
	<u>Level 3</u>
Beneficial interest in perpetual trusts (Note 10)	\$ <u>2,004,383</u>

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## MADISON SQUARE BOYS AND GIRLS CLUB, INC.

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*Fair Value Measurements (continued)***Level 3 Gains and Losses**

The table below sets forth a summary of changes in fair value of Level 3 assets for the year ended September 30, 2016:

	<b>Beneficial Interest in Perpetual Trusts</b>
	<hr/>
Balance, beginning of year	\$ 1,957,240
Change in value	<u>47,143</u>
Balance, end of year	<u>\$ 2,004,383</u>
The amount of total gain for the period included in changes in net assets attributable to the change in unrealized gain (loss) relating to assets still held at the reporting date	<u>\$ 47,143</u>

**Government grants receivable** - 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.

**Contributions receivable** - Unconditional promises to give are recorded as receivables and revenues and are recognized when the promises are made at their net realizable value. Unconditional promises to give that are expected to be collected within one year are recorded at fair value (net of allowance for uncollectible contributions). Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured at the present value of their estimated future cash flows. The discounts on these amounts are computed using risk-adjusted interest rates. Conditional promises to give are not included as support until the conditions are substantially met.

**Allowance for doubtful accounts** - Madison's management determines whether an allowance for doubtful accounts receivable should be provided. Such estimates are based upon management's assessment of the age, current economic conditions, subsequent collections and historical information of the accounts receivable.

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**MADISON SQUARE BOYS AND GIRLS CLUB, INC.****NOTES TO FINANCIAL STATEMENTS****SEPTEMBER 30, 2016****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Fixed assets** - Fixed assets are recorded at cost. Acquisitions with a cost of \$1,000 and an estimated useful life of more than one year are subject to capitalization. Depreciation is provided over the estimated useful lives of the assets using the straight-line method.

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

**Contributions** - Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. The gifts are reported as temporarily restricted or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the organization reports the support as unrestricted.

**Grant revenue** - Revenues from reimbursement contracts are recognized when allowable reimbursable expenses are incurred under the terms of the contract. Such revenues are subject to audit by the awarding agencies. No provision for any disallowances is reflected in the financial statements, since management does not anticipate any material adjustments.

**In-kind contributions** - Contributed services are recognized as revenue if the services create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and typically need to be purchased if not provided by donation. The value of contributed services (principally goods and services) meeting the requirements for recognition in the accompanying financial statements amounted to \$243,784 in 2016. The value of the services is based on information obtained from the donors.

**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 statement of activities.

**Functional allocation of expenses** - The costs of providing services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Rent expense** - Rent expense is reported on the straight-line basis, taking into account rent concessions and escalations.

**Rental income** - Rental income is reported on the straight-line basis.

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**MADISON SQUARE BOYS AND GIRLS CLUB, INC.****NOTES TO FINANCIAL STATEMENTS****SEPTEMBER 30, 2016****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***Net Assets*

Madison's net assets consist of the following:

**Unrestricted****A. General - includes the Operating and Board Designated funds**

1. **Operating** - Represents the general activities of the organization.
2. **Board designated** - Represents funds designated by the Board of Directors to be used for capital improvements, operating lease commitments, and summer programs. The balance as of September 30, 2016 was \$2,467,662.

**B. Land, Building and Equipment** - Represents fixed assets net of accumulated depreciation.

**Unrestricted Net Assets**

Unrestricted net assets include funds having no restriction as to use or purpose imposed by donors. Resources which are set aside for board-designated purposes are unrestricted.

**Temporarily Restricted**

Temporarily restricted net assets are those whose use by the organization has been limited by donors to a specific time period or purpose.

**Permanently Restricted**

Represents net assets that are restricted in perpetuity, the income from which is subject to the restrictions of the gift instruments.

**Subsequent events** - Subsequent events have been evaluated through May 4, 2017, which is the date the financial statements were available to be issued.

**Uncertainty in income taxes** - Madison has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Periods ending September 30, 2013 and subsequent remain subject to examination by applicable taxing authorities.

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## MADISON SQUARE BOYS AND GIRLS CLUB, INC.

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

## NOTE 3 - FIXED ASSETS

	2016			
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>	<u>Estimated Useful Lives</u>
Land	\$ 370,734		\$ 370,734	
Land - Harlem Future Clubhouse	5,301,783		5,301,783	
Building and improvements	17,293,661	\$ 11,737,998	5,555,663	5 - 25 years
Equipment and furnishings	1,539,877	1,321,716	218,161	5 - 15 years
Construction in progress	<u>4,093,182</u>		<u>4,093,182</u>	
	<u>\$ 28,599,237</u>	<u>\$ 13,059,714</u>	<u>\$ 15,539,523</u>	
Administration	\$ 768,395	\$ 698,170	\$ 70,225	
Building improvements	32,609	10,357	22,252	
Bronx Club - Columbus building	2,549,512	1,812,902	736,610	
Bronx Club - Joel E. Smilow Clubhouse	6,216,110	3,850,258	2,365,852	
Navy Yard Boys' Club	4,458,560	3,773,149	685,411	
Thomas S. Murphy Clubhouse	5,179,088	2,914,878	2,264,210	
Future Harlem Clubhouse site	<u>9,394,963</u>		<u>9,394,963</u>	
	<u>\$ 28,599,237</u>	<u>\$ 13,059,714</u>	<u>\$ 15,539,523</u>	

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## MADISON SQUARE BOYS AND GIRLS CLUB, INC.

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

## NOTE 3 - FIXED ASSETS (continued)

	2015			
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>	<u>Estimated Useful Lives</u>
Land	\$ 370,734		\$ 370,734	
Land - Harlem Future Clubhouse	5,301,783		5,301,783	
Building and improvements	15,724,399	\$ 11,165,919	4,558,480	5 - 25 years
Equipment and furnishings	1,423,747	1,238,472	185,275	5 - 15 years
Construction in progress	<u>1,110,147</u>		<u>1,110,147</u>	
	<u>\$ 23,930,810</u>	<u>\$ 12,404,391</u>	<u>\$ 11,526,419</u>	
Administration	\$ 765,442	\$ 656,281	\$ 109,161	
Building improvements	32,609	5,412	27,197	
Bronx Club - Columbus building	2,402,557	1,725,354	677,203	
Bronx Club - Joel E. Smilow Clubhouse	5,249,817	3,689,489	1,560,328	
Navy Yard Boys' Club	4,438,034	3,589,996	848,038	
Thomas S. Murphy Clubhouse	4,630,421	2,737,859	1,892,562	
Future Harlem Clubhouse site	<u>6,411,930</u>		<u>6,411,930</u>	
	<u>\$ 23,930,810</u>	<u>\$ 12,404,391</u>	<u>\$ 11,526,419</u>	

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**MADISON SQUARE BOYS AND GIRLS CLUB, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2016**

**NOTE 4 - CONTRIBUTIONS RECEIVABLE**

Contributions receivable, including the capital campaign, have been recorded at present value. Those receivables that are due in more than one year have been discounted to their present value using a discount rate of 2%. Contributions receivable consist of the following:

2017 and prior	\$ 10,130,158
2018	7,264,333
2019	5,444,334
2020	<u>1,846,000</u>
	24,684,825
Less allowance for doubtful accounts	(50,000)
Less present value discount	<u>(460,321)</u>
	<u>\$ 24,174,504</u>

In 2014, Madison received a \$20,000,000 multi-year pledge, payable in five equal installments of \$4,000,000, related to its capital campaign. The present value of the pledge balance as of September 30, 2016 was \$11,936,073.

**NOTE 5 - 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 to expire on December 31, 2014 but was extended through June 30, 2017. The line of credit is collateralized by the investments held by JP Morgan Chase Bank, N.A., which totaled \$10,516,669 at September 30, 2016. As of September 30, 2016, Madison's unpaid balance on this account totaled \$1,344,360. The unused line of credit available to Madison was \$5,155,640 as of September 30, 2016. The interest rate at September 30, 2016 is based upon the one-month LIBOR two days prior to the payment due date plus 1.40%. The interest rate at September 30, 2016 was 1.92%, and interest expense was \$24,545 for the year ended September 30, 2016.

**NOTE 6 - PENSION PLAN**

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 \$374,268 in 2016 and \$272,623 in 2015.

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**MADISON SQUARE BOYS AND GIRLS CLUB, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2016**

**NOTE 7 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes:

	<u>2016</u>	<u>2015</u>
100th Anniversary Fund		
Clubhouse Service Fund	\$ 4,015,815	\$ 5,050,578
Remedial Education Fund	2,047,604	2,573,198
Staff Development Training Fund	151,423	217,123
Camp and Outdoor Education Fund	67,614	84,038
Campaign for the 90s and 29th St. Property	2,398,992	2,335,886
Capital Campaign	27,954,351	27,732,369
Scholarship funds		
Eugenia Woodward Hitt Scholarship Fund	150,091	139,119
Joseph Golding Fund	123,223	114,215
Monroe and Rose Levinger Fund	11,368	10,537
Dana, Freeman, Harkness, Maxwell, Guzman, Dibernardo Fund	255,973	237,260
Earl and Erna Ross Trust	7,218,222	7,092,289
Triple Play Program Grant	50,000	
Restricted Capital Grants		<u>55,000</u>
	<u>\$ 44,444,676</u>	<u>\$ 45,641,612</u>

During 2016 and 2015, net assets were released from donor restrictions by incurring expenses satisfying the following purposes specified by donors:

<u>Purpose Restrictions Accomplished</u>	<u>2016</u>	<u>2015</u>
Scholarships		\$ 41,446
Clubhouse services	\$ 420,612	362,401
Remedial education	213,644	184,076
Staff development training	26,706	23,010
Camp and outdoor education	6,676	5,752
Renovations and improvements	246,000	226,491
Capital Campaign related costs	<u>3,177,627</u>	<u>5,464,072</u>
	<u>\$ 4,091,265</u>	<u>\$ 6,307,248</u>

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**MADISON SQUARE BOYS AND GIRLS CLUB, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2016**

**NOTE 7 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS**  
(continued)

Permanently restricted net assets from perpetual trusts are available for investment in perpetuity, the income from which is expendable to support:

	<b>2016</b>	<b>2015</b>
Perpetual trusts		
General operations (beneficial interest in perpetual trusts) (Note 10)	\$ <u>2,004,383</u>	\$ <u>1,957,240</u>

**Permanently Restricted Net Assets (Endowment Funds)**

***General***

Madison has one donor-restricted endowment fund established to provide income to fund its future operations related to its clubhouses. As required by Generally Accepted Accounting Principles (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

***Interpretation of Relevant Law***

The Board of Directors of Madison has adopted the New York Prudent Management of Institutional Funds Act (NYPMIFA). NYPMIFA permits charities to apply a spending policy to endowments based on certain specified standards of prudence. Madison is governed by the NYPMIFA spending policy, which establishes a standard maximum prudent spending limit of 7% of the average of its previous five years' balance. 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 the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Madison in a manner consistent with the standards of prudence prescribed by NYPMIFA.

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## MADISON SQUARE BOYS AND GIRLS CLUB, INC.

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

NOTE 7 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS  
(continued)*Permanently Restricted Net Assets (Endowment Funds) (continued)**Return Objectives, Strategies Employed and Spending Policy*

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.

*Funds with Deficiencies*

Madison does not have any funds with deficiencies.

*Endowment Net Asset Composition by Type of Fund*

	<u>2016</u>	<u>2015</u>
Donor-restricted endowment fund	\$ <u>24,364,465</u>	\$ <u>23,029,689</u>

*Changes in Endowment Net Assets for the Year Ended September 30, 2016*

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 614,642	\$ 23,029,689	\$23,644,331
Contributions		1,334,776	1,334,776
Investment return*	<u>(614,642)</u>	<u>                    </u>	<u>(614,642)</u>
Endowment net assets, end of year	\$ <u>          -</u>	\$ <u>24,364,465</u>	\$ <u>24,364,465</u>

\*Investment return consists of:

Dividends and interest	\$ 34,066
Net realized and unrealized gains and losses	(583,647)
Investment fees	<u>(65,061)</u>
	\$ <u>(614,642)</u>

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**MADISON SQUARE BOYS AND GIRLS CLUB, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2016**

**NOTE 8 - INVESTMENT INCOME**

	<u>2016</u>	<u>2015</u>
Realized gain	\$ 1,296,264	\$ 776,362
Unrealized loss	(3,083,680)	(459,115)
Interest and dividends	<u>428,456</u>	<u>297,976</u>
	(1,358,960)	615,223
Less investment fees	<u>(230,841)</u>	<u>(253,868)</u>
	<u>\$ (1,589,801)</u>	<u>\$ 361,355</u>

**NOTE 9 - 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:

2017	\$ 377,440
2018	377,440
2019	391,594
2020	391,594
2021	391,594
Thereafter	<u>108,514</u>
Total	<u>\$ 2,038,176</u>

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

In addition, Madison leases three vehicles. The leases expire in March and August of 2017. Lease expense for the year ended September 30, 2016 was \$16,733.

Future minimum lease payments are as follows:

2017	<u>\$ 13,398</u>
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Total lease and rental expense for the year ended September 30, 2016 was \$403,470.

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**MADISON SQUARE BOYS AND GIRLS CLUB, INC.****NOTES TO FINANCIAL STATEMENTS****SEPTEMBER 30, 2016****NOTE 10 - BENEFICIAL INTEREST IN TRUSTS****Beneficial Interest in Remainder Trusts**

Madison obtained commitments from donors whereby the donor established a trust in which Madison has an irrevocable interest and the assets are placed under the control of a trustee other than Madison. The trustee acts as the fiduciary of the assets and, ten years after the death of the donor, the assets will be transferred to Madison. The last surviving beneficiary of the Erna Ross Trust has already expired and the assets will be transferred in September 2017. The balance at September 30, 2016 was \$7,218,222.

**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 the unrestricted net assets. The balance at September 30, 2016 was \$2,004,383.

**NOTE 11 - CONCENTRATIONS AND CONTINGENCIES**

Financial instruments which potentially subject Madison to a concentration of credit risk are cash accounts in excess of FDIC insurance limits.

**NOTE 12 - 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 \$69,546,959 has been raised as of September 30, 2016, of which \$6,100,000 are conditional pledges, and \$500,000 is a non-enforceable pledge and, in accordance with generally accepted accounting principles, are not recorded in Madison's financial statements as of September 30, 2016. A discount of \$460,321 has been recorded against future pledges receivable (Note 4). Payments of \$39,171,435 were received as of September 30, 2016. Madison started construction of the future Harlem Clubhouse in February 2017 and anticipates construction to be completed in the fall of 2018.

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**MADISON SQUARE BOYS AND GIRLS CLUB, INC.****NOTES TO FINANCIAL STATEMENTS****SEPTEMBER 30, 2016****NOTE 13 - SUBSEQUENT EVENTS**

In February 2017, Madison started construction of the future Harlem Clubhouse. 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. Soft costs and other owner hard costs for the Harlem Clubhouse are estimated to be an additional cost of \$10,156,000.

In January 2017, Madison signed reservation letters with four Community Development Entities (CDEs) to reserve allocations of New Markets Tax Credits (NMTC) totaling \$38,000,000 as part of a low-interest, leveraged financing structure for its new Harlem Clubhouse Project. The NMTC program permits taxpayers to claim a credit against federal income taxes for Qualified Equity Investments (QEIs) in designated CDEs, such as the Harlem Clubhouse. The net result of this transaction to Madison is that Madison should receive an approximate \$8 million cash benefit through this program. 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 period, in exchange for their capital contribution to the QEI. The specific terms and loan agreements of the NMTC transaction are currently under negotiations between Madison, the Investor, and the CDEs, with an anticipated closing date in May 2017.

MADISON SQUARE BOYS AND GIRLS CLUB, INC.

SCHEDULE OF CHANGES IN TEMPORARILY RESTRICTED  
NET ASSETS

YEAR ENDED SEPTEMBER 30, 2016

	<u>Net Assets - Beginning of Year</u>	<u>Support, Gains and Losses</u>	<u>Net Assets Released from Restrictions</u>	<u>Net Assets - End of Year</u>
100th Anniversary Fund				
Clubhouse Service Fund	\$ 5,050,578	\$ (614,151)	\$ (420,612)	\$ 4,015,815
Remedial Education Fund	2,573,198	(311,950)	(213,644)	2,047,604
Staff Development Training Fund	217,123	(38,994)	(26,706)	151,423
Camp and Outdoor Education Fund	84,038	(9,748)	(6,676)	67,614
Total 100th Anniversary Fund	<u>7,924,937</u>	<u>(974,843)</u>	<u>(667,638)</u>	<u>6,282,456</u>
Campaign for the 90s and 29th St. Property Sale	<u>2,335,886</u>	<u>254,106</u>	<u>(191,000)</u>	<u>2,398,992</u>
Capital Campaign				
Capital Campaign for building	27,117,727	4,014,251	(3,177,627)	27,954,351
Unappropriated earnings on endowment funds	614,642	(614,642)		
Total Capital Campaign	<u>27,732,369</u>	<u>3,399,609</u>	<u>(3,177,627)</u>	<u>27,954,351</u>
Eugenia Woodward Hitt Scholarship Fund	139,119	10,972		150,091
Joseph Golding Fund	114,215	9,008		123,223
Monroe and Rose Levinger Fund	10,537	831		11,368
Dana, Freeman, Harkness, Maxwell, Guzman, Dibernardo Fund	237,260	18,713		255,973
Total Scholarship Funds	<u>501,131</u>	<u>39,524</u>		<u>540,655</u>
Earl and Erna Ross Trust	<u>7,092,289</u>	<u>125,933</u>		<u>7,218,222</u>
Triple Play Program Grant		<u>50,000</u>		<u>50,000</u>
Restricted Capital Grants	<u>55,000</u>		<u>(55,000)</u>	<u>-</u>
Total (Exhibit B)	<u>\$ 45,641,612</u>	<u>\$ 2,894,329</u>	<u>\$ (4,091,265)</u>	<u>\$ 44,444,676</u>

See independent auditor's report.

## MADISON SQUARE BOYS AND GIRLS CLUB, INC.

SCHEDULE OF CHANGES IN PERMANENTLY RESTRICTED  
NET ASSETS

YEAR ENDED SEPTEMBER 30, 2016

	<u>Net Assets - Beginning of Year</u>	<u>Support, Gains and Losses</u>	<u>Net Assets - End of Year</u>
Perpetual Trusts			
Ruby Fleming Trust	\$ 1,042,477	\$ 41,112	\$ 1,083,589
Glessner B. Childs Trust	<u>914,763</u>	<u>6,031</u>	<u>920,794</u>
Total Perpetual Trusts	1,957,240	47,143	2,004,383
Capital Campaign endowment	<u>23,029,689</u>	<u>1,334,776</u>	<u>24,364,465</u>
Total (Exhibit B)	<u><u>\$ 24,986,929</u></u>	<u><u>\$ 1,381,919</u></u>	<u><u>\$ 26,368,848</u></u>

See independent auditor's report.