

**BOYS AND GIRLS CLUBS
OF THE MIDLANDS**

FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015
(WITH INDEPENDENT AUDITOR'S REPORT)

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Boys and Girls Clubs of the Midlands
Omaha, Nebraska:

Report on the Financial Statements

We have audited the accompanying financial statements of Boys and Girls Clubs of the Midlands (the Club), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Boys and Girls Clubs of the Midlands as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 1, 2017, on our consideration of Boys and Girls Clubs of the Midlands' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Club's internal control over financial reporting and compliance.

FRANKEL ZACHARIA LLC

June 1, 2017

BOYS AND GIRLS CLUBS OF THE MIDLANDS**STATEMENTS OF FINANCIAL POSITION**

DECEMBER 31	2016	2015
ASSETS		
Cash	\$ 1,838,578	2,206,665
Investments (Notes 2, 5 and 8)	11,900,942	7,415,955
Receivables		
United Way of the Midlands	357,600	393,600
Grants	142,207	139,617
Contributions and other	69,917	243,303
Capital campaign pledges (Note 3)	3,237,611	---
Total receivables	3,807,335	776,520
Land, buildings and equipment, net (Note 6)	8,120,424	8,140,350
Intangible assets, net (Note 7)	2,232,056	1,213,778
Other	---	18,000
TOTAL ASSETS	\$ 27,899,335	19,771,268
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 367,175	236,229
Funds held for others	91,707	181,563
Deferred revenue	362,313	912,212
Deferred insurance proceeds	133,158	145,685
Capital lease obligation (Note 15)	35,990	93,932
Total liabilities	990,343	1,569,621
Net assets (Note 8)		
Unrestricted - undesignated	11,733,486	10,392,091
Unrestricted - board-designated endowment	4,654,424	4,492,721
Total unrestricted	16,387,910	14,884,812
Temporarily restricted	10,014,632	2,810,385
Permanently restricted	506,450	506,450
Total net assets	26,908,992	18,201,647
TOTAL LIABILITIES AND NET ASSETS	\$ 27,899,335	19,771,268

See accompanying notes to financial statements.

BOYS AND GIRLS CLUBS OF THE MIDLANDS**STATEMENT OF ACTIVITIES****YEAR ENDED DECEMBER 31, 2016**

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains and other support				
Contributions	\$ 1,647,536	8,628,738	---	10,276,274
Allocated by United Way of the Midlands	---	715,200	---	715,200
Designations from United Way of the Midlands	15,282	---	---	15,282
Non-cash contributions	462,028	---	---	462,028
Membership dues, fees, and incidental charges	357,621	---	---	357,621
Investment income (Note 5)	392,666	607,964	---	1,000,630
Special events and fundraising	734,042	---	---	734,042
Rental and miscellaneous	19,653	---	---	19,653
Grants - Indirect federal	847,175	---	---	847,175
Grants - Other	2,455,858	---	---	2,455,858
Net assets released from restrictions (Note 10)	2,747,655	(2,747,655)	---	---
Total revenues, gains and other support	9,679,516	7,204,247	---	16,883,763
Functional expenses				
Program services				
Basic needs	2,501,557	---	---	2,501,557
Ready to learn	4,396,282	---	---	4,396,282
Ready to work	157,857	---	---	157,857
Total program services	7,055,696	---	---	7,055,696
Supporting services				
Management and general	625,901	---	---	625,901
Fund raising	494,821	---	---	494,821
Total supporting services	1,120,722	---	---	1,120,722
Total functional expenses	8,176,418	---	---	8,176,418
INCREASE IN NET ASSETS	1,503,098	7,204,247	---	8,707,345
Net assets at beginning of year	14,884,812	2,810,385	506,450	18,201,647
NET ASSETS AT END OF YEAR	\$ 16,387,910	10,014,632	506,450	26,908,992

See accompanying notes to financial statements.

BOYS AND GIRLS CLUBS OF THE MIDLANDS**STATEMENT OF ACTIVITIES****YEAR ENDED DECEMBER 31, 2015**

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains and other support				
Contributions	\$ 1,612,065	125,655	---	1,737,720
Allocated by United Way of the Midlands	---	787,200	---	787,200
Designations from United Way of the Midlands	22,832	---	---	22,832
Non-cash contributions	464,464	---	---	464,464
Membership dues, fees, and incidental charges	386,271	---	---	386,271
Investment loss (Note 5)	(85,930)	(61,131)	---	(147,061)
Special events and fundraising	589,015	---	---	589,015
Rental and miscellaneous	20,119	---	---	20,119
Grants - Indirect federal	885,500	---	---	885,500
Grants - Other	2,311,724	---	---	2,311,724
Net assets released from restrictions (Note 10)	1,001,451	(1,001,451)	---	---
Total revenues, gains and other support	7,207,511	(149,727)	---	7,057,784
Functional expenses				
Program services				
Basic needs	2,425,731	---	---	2,425,731
Ready to learn	4,184,213	---	---	4,184,213
Ready to work	162,917	---	---	162,917
Total program services	6,772,861	---	---	6,772,861
Supporting services				
Management and general	581,467	---	---	581,467
Fund raising	434,590	---	---	434,590
Total supporting services	1,016,057	---	---	1,016,057
Total functional expenses	7,788,918	---	---	7,788,918
DECREASE IN NET ASSETS	(581,407)	(149,727)	---	(731,134)
Net assets at beginning of year	15,466,219	2,960,112	506,450	18,932,781
NET ASSETS AT END OF YEAR	\$ 14,884,812	2,810,385	506,450	18,201,647

See accompanying notes to financial statements.

BOYS AND GIRLS CLUBS OF THE MIDLANDS

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2016

	Program Services				Supporting Services			Total Functional Expenses
	Basic Needs	Ready to Learn	Ready to Work	Total	Management and General	Fund Raising	Total	
Salaries	\$ 935,407	2,455,110	109,460	3,499,977	257,147	359,258	616,405	4,116,382
Employee benefits	122,239	284,216	9,293	415,748	37,624	55,781	93,405	509,153
Payroll taxes	79,713	207,177	11,370	298,260	21,913	30,615	52,528	350,788
Total employee compensation	1,137,359	2,946,503	130,123	4,213,985	316,684	445,654	762,338	4,976,323
Specific assistance to individuals	327,644	22,163	1,167	350,974	---	---	---	350,974
Professional fees and contract service payments	41,783	75,705	16,561	134,049	177,125	10,109	187,234	321,283
Awards and grants	11,923	170,352	3,725	186,000	4,295	524	4,819	190,819
Supplies	41,595	204,962	3,129	249,686	14,367	8,466	22,833	272,519
Telephone	8,223	22,331	628	31,182	16,096	2,363	18,459	49,641
Postage	368	604	---	972	538	3,045	3,583	4,555
Occupancy	423,530	369,766	---	793,296	25,694	---	25,694	818,990
Outside printing	3,443	5,208	---	8,651	8,021	12,610	20,631	29,282
Transportation and meetings	89,187	202,075	1,717	292,979	2,861	3,719	6,580	299,559
Conferences, conventions, meetings, and major trips	17,522	19,995	31	37,548	331	5,901	6,232	43,780
Rental and maintenance	28,718	32,239	665	61,622	11,486	927	12,413	74,035
Organizational dues	---	---	---	---	5,484	1,135	6,619	6,619
Equipment	1,676	6,024	57	7,757	1,249	152	1,401	9,158
National dues	---	---	---	---	19,008	---	19,008	19,008
Interest	865	2,921	54	3,840	2,090	216	2,306	6,146
Expenses before depreciation	2,133,836	4,080,848	157,857	6,372,541	605,329	494,821	1,100,150	7,472,691
Depreciation and amortization	367,721	315,434	---	683,155	20,572	---	20,572	703,727
Total expenses	\$ 2,501,557	4,396,282	157,857	7,055,696	625,901	494,821	1,120,722	8,176,418

See accompanying notes to financial statements.

BOYS AND GIRLS CLUBS OF THE MIDLANDS

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2015

	Program Services				Supporting Services			Total Functional Expenses
	Basic Needs	Ready to Learn	Ready to Work	Total	Management and General	Fund Raising	Total	
Salaries	\$ 876,527	2,260,809	110,588	3,247,924	241,031	312,480	553,511	3,801,435
Employee benefits	124,357	259,300	7,999	391,656	33,817	35,893	69,710	461,366
Payroll taxes	84,281	219,717	10,483	314,481	9,179	34,276	43,455	357,936
Total employee compensation	1,085,165	2,739,826	129,070	3,954,061	284,027	382,649	666,676	4,620,737
Specific assistance to individuals	314,513	16,961	1,268	332,742	---	---	---	332,742
Professional fees and contract service payments	49,722	68,278	20,238	138,238	163,034	19,390	182,424	320,662
Awards and grants	9,136	154,911	2,429	166,476	4,271	1,319	5,590	172,066
Supplies	48,005	234,346	4,857	287,208	20,676	6,715	27,391	314,599
Telephone	7,257	22,008	676	29,941	15,613	1,563	17,176	47,117
Postage	366	569	---	935	904	1,643	2,547	3,482
Occupancy	421,399	367,764	---	789,163	25,561	---	25,561	814,724
Outside printing	4,052	5,982	---	10,034	7,333	11,377	18,710	28,744
Transportation and meetings	76,558	168,301	2,111	246,970	2,784	3,618	6,402	253,372
Conferences, conventions, meetings, and major trips	19,507	26,339	---	45,846	734	4,307	5,041	50,887
Rental and maintenance	21,334	43,457	728	65,519	11,902	1,447	13,349	78,868
Organizational dues	---	75	---	75	3,857	---	3,857	3,932
Equipment	4,598	19,316	1,442	25,356	1,849	168	2,017	27,373
National dues	---	---	---	---	16,195	---	16,195	16,195
Interest	1,574	5,314	98	6,986	2,460	394	2,854	9,840
Expenses before depreciation	2,063,186	3,873,447	162,917	6,099,550	561,200	434,590	995,790	7,095,340
Depreciation and amortization	362,545	310,766	---	673,311	20,267	---	20,267	693,578
Total expenses	\$ 2,425,731	4,184,213	162,917	6,772,861	581,467	434,590	1,016,057	7,788,918

See accompanying notes to financial statements.

BOYS AND GIRLS CLUBS OF THE MIDLANDS

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31	2016	2015
Increases (decreases) in cash		
Cash flows from operating activities:		
Received directly or indirectly from the public	\$ 5,717,172	5,518,649
Received directly or indirectly from government agencies	841,568	874,175
Interest and dividends received	190,039	251,273
Interest paid	(6,146)	(9,840)
Paid to suppliers and employees	(6,957,954)	(6,466,597)
Net cash provided (used) by operating activities	(215,321)	167,660
Cash flows from investing activities:		
Acquisition of building and equipment	(582,079)	(77,933)
Payments for use agreement	(1,120,000)	---
Purchase of investments	(13,214,074)	(1,313,727)
Proceeds from sale of investments	9,539,678	1,377,000
Net cash used by investing activities	(5,376,475)	(14,660)
Cash flows from financing activities:		
Contributions restricted for building and equipment	1,331,923	125,655
Contributions restricted for scholarships	3,949,728	---
Payments on capital lease obligation	(57,942)	(53,509)
Net cash provided by financing activities	5,223,709	72,146
NET INCREASE (DECREASE) IN CASH	(368,087)	225,146
Cash at beginning of year	2,206,665	1,981,519
Cash at end of year	\$ 1,838,578	2,206,665

See accompanying notes to financial statements.

BOYS AND GIRLS CLUBS OF THE MIDLANDS**STATEMENTS OF CASH FLOWS - CONTINUED**

YEARS ENDED DECEMBER 31	2016	2015
Reconciliation of cash flows from operating activities		
Increase (decrease) in net assets	\$ 8,707,345	(731,134)
Adjustments		
Depreciation and amortization	703,727	693,578
Net realized and unrealized (gain) loss on marketable securities	(810,591)	398,334
Contributions restricted for building and equipment	(4,569,534)	(125,655)
Contributions restricted for scholarships	(3,949,728)	---
(Increase) decrease in operating assets		
Receivables:		
United Way of the Midlands	36,000	(7,870)
Grants	(2,590)	(157)
Contributions and other	173,386	(209,595)
Other	18,000	---
Increase (decrease) in operating liabilities		
Accounts payable and accrued expenses	130,946	20,651
Funds held for others	(89,856)	133,788
Deferred revenue	(549,899)	(4,280)
Deferred insurance proceeds	(12,527)	---
Net cash provided (used) by operating activities	\$ (215,321)	167,660

See accompanying notes to financial statements.

BOYS AND GIRLS CLUBS OF THE MIDLANDS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Boys and Girls Clubs of the Midlands (the Club) provides youth development programs and opportunities as Boys and Girls Clubs of Omaha, Boys and Girls Clubs of Carter Lake and Boys and Girls Clubs of Council Bluffs.

The Club is a not-for-profit organization established to inspire and enable all young people, especially those who need us most, to realize their full potential as productive, responsible, healthy and caring citizens.

The Club provides programs in three core areas:

- Basic needs – Food. Shelter. Healthcare. Safety. These are some of life’s most basic needs. Without resources to meet them, young people struggle to survive, let alone succeed. The Club provides programs that help the most vulnerable members of our community who struggle to secure these basic services. Addressing basic needs will always be a key part of our mission.
- Ready to learn – Remove the barriers that local children face in learning, and help them build skills that lead to school success.
- Ready to work – Collaborate with other community organizations to provide young adults with a choice of high-quality paths to train for and join the workforce.

1. Summary of Significant Accounting and Reporting Policies

A. Basis of Presentation

The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and specifically with Accounting Standards Codification (ASC) section 958, Not-for-Profit Entities, issued by the Financial Accounting Standards Board (FASB). Accordingly, net assets are classified as unrestricted, temporarily restricted and permanently restricted, defined as follows:

The use of unrestricted net assets is not limited by donor-imposed stipulations and are, therefore, available for general operations.

Temporarily restricted net assets result from contributions and revenues the use of which is limited by donor- or grant-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by actions of the Club pursuant to those stipulations.

Permanently restricted net assets result from contributions and revenues the use of which is limited by stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Club.

B. Estimates and Assumptions

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Estimates and assumptions affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. Because of the inherent uncertainties in this process, it is likely that actual results will vary from the estimates.

The Club invests in securities exposed to interest rate, market and credit risks. Accordingly, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statement of net assets.

BOYS AND GIRLS CLUBS OF THE MIDLANDS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2016 AND 2015

1. Summary of Significant Accounting and Reporting Policies - Continued

C. Investments

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Changes in the fair value of investments are reported in the statement of activities. Dividends and interest are recognized as earned.

D. Land, Buildings and Equipment

Land, buildings and equipment are reported at cost or the fair value of donated items at the time of donation. Assets with a cost exceeding \$2,000 and an estimated Club life of more than one year are capitalized. Depreciation is computed by the straight-line method over estimated useful lives.

E. Contributions

Contributions are recognized as revenue when an unconditional promise to give is received from a donor. Conditional promises to give, which depend upon specified future and uncertain events, are recognized as revenue when the conditions upon which they depend are substantially met.

The Club recognizes contributions as restricted support if they are subject to donor stipulations that limit the use of the donated assets. When donor restrictions are satisfied, temporarily restricted assets are reclassified to unrestricted and reported in the statement of activities as "net assets released from restrictions". Contributions received with donor-imposed restrictions that are satisfied in the same year the contribution is received are reported as temporarily restricted revenues and released from restriction in the same period.

Non-cash contributions are reported at fair value on the date received.

F. Grant Revenue

Grant revenue and related receivables are recognized in accordance with the terms of the grants, and are considered fully collectible by Club management.

G. Contributed Services

Volunteers contributed approximately 7,800 hours of services to the Club in both 2016 and 2015. The value of such services is not reported, as these services do not require specialized skills.

BOYS AND GIRLS CLUBS OF THE MIDLANDS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2016 AND 2015

1. Summary of Significant Accounting and Reporting Policies - Continued

H. Income Taxes

The Club is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no taxes are included in these financial statements.

Accounting standards require disclosure and recognition in financial statements of positions taken in a tax return about the treatment of transactions and events that more likely than not would not be sustained upon examination by tax authorities. Tax positions relative to a not-for-profit organization include activities that may endanger its exempt purpose and status as an exempt organization. The Club believes it complies with all relevant tax laws and regulations and has no significant uncertain tax positions. Therefore, no liability for uncertain taxes has been recorded in the financial statements.

I. Subsequent Events

Management evaluated transactions and events occurring subsequent to December 31, 2016, and through June 1, 2017, the date the financial statements were available to be issued, to determine whether any events should be recognized or disclosed in these statements. There were no material transactions or events in the subsequent period requiring disclosure or recognition in the statements.

2. Fair Value Measurements

Accounting standards provide the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Club 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 specific (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

BOYS AND GIRLS CLUBS OF THE MIDLANDS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2016 AND 2015

2. Fair Value Measurements - Continued

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

The following table sets forth by level, within the fair value hierarchy, the Club's assets at fair value as of December 31, 2016 and December 31, 2015.

Assets at Fair Value as of December 31, 2016

	Level 1	Level 2	Level 3	Total
Recurring measurements				
Investments:				
Money market funds	\$ 279,641	--	--	279,641
Mutual and exchange traded funds				
Bond	2,552,584	--	--	2,552,584
Domestic equity	6,729,600	--	--	6,729,600
International equity	1,141,834	--	--	1,141,834
Common stock	244,470	--	--	244,470
	<u>10,948,129</u>	--	--	<u>10,948,129</u>
Investment fund measured at net asset value (1)				<u>952,813</u>
Total investments				<u>\$ 11,900,942</u>
Nonrecurring measurements				
Capital campaign pledges receivable	\$ --	--	3,237,611	<u>3,237,611</u>

Capital campaign pledges receivable are measured at fair value by discounting anticipated future cash flows using a 3.50% discount rate.

Continued

BOYS AND GIRLS CLUBS OF THE MIDLANDS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2016 AND 2015

2. Fair Value Measurements – Continued

Assets at Fair Value as of December 31, 2015

	Level 1	Level 2	Level 3	Total
Recurring measurements				
Investments:				
Money market funds	\$ 122,613	--	--	122,613
Mutual and exchange traded funds				
Bond	1,809,348	--	--	1,809,348
Domestic equity	3,626,834	--	--	3,626,834
International equity	771,355	--	--	771,355
Common stock	198,060	--	--	198,060
	<u>6,528,210</u>	<u>--</u>	<u>--</u>	<u>6,528,210</u>
Investment fund measured at net asset value (1)				<u>887,745</u>
Total investments				<u>\$ 7,415,955</u>

(1) In accordance with FASB ASC 820-10, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to investments at fair value presented on the balance sheet.

Fair Value of Investments in Entities That Use Net Asset Value Per Share

The investment fund's investment strategy is to allocate its assets among various investment strategies in an effort to generate long-term positive returns with a low correlation to equity markets. The following table summarizes investments measured at fair value based on net asset value per share:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
<i>December 31, 2016</i>				
Investment fund	\$ 952,813	n/a	Annually	120 days
<i>December 31, 2015</i>				
Investment fund	\$ 887,745	n/a	Annually	120 days

3. Capital Campaign Pledges Receivable

During 2016, the Club initiated a capital campaign with the goal of raising approximately \$25 million to provide for the opening of three new club sites, renovation of a current club, and upkeep on existing facilities. The Club has received unconditional promises to give (pledges) for the campaign. The Club considers the pledges to be fully collectible and an allowance is unnecessary. A discount rate of 3.50%, the risk free rate of return at the time of the pledges, was used to determine present value. Capital campaign pledges receivable recognized for promises to give include the following:

Less than one year	\$ 798,833
One to five years	2,644,917
	<u>3,443,750</u>
Less discount to present value	206,139
<u>Net capital campaign pledges receivable</u>	<u>\$ 3,237,611</u>

Continued

BOYS AND GIRLS CLUBS OF THE MIDLANDS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2016 AND 2015

4. Debt

The Club has an unsecured \$600,000 revolving note payable with interest at the lenders national base rate, less 0.25%, but never less than 3.50%. The effective rate was 3.50% as of December 31, 2016. The agreement matures May 31, 2017. There was no outstanding balance at December 31, 2016 or 2015.

5. Investments

	Cost	Net Unrealized		Fair
		Gain	Loss	Value
Money market funds	\$ 279,641	--	--	279,641
Mutual and exchange traded funds				
Bond	2,605,619	--	53,035	2,552,584
Domestic equity	6,135,548	594,052	--	6,729,600
International equity	1,281,335	--	139,501	1,141,834
Common stock	86,310	158,160	--	244,470
Investment fund	900,000	52,813	--	952,813
Balance at December 31, 2016	\$ 11,288,453	805,025	192,536	11,900,942
Balance at December 31, 2015	\$ 7,586,697	111,750	282,492	7,415,955

Investment income (loss) includes the following:

	2016	2015
Net realized and unrealized gains (losses)	\$ 810,469	(398,334)
Interest and dividends	249,945	294,611
Trustee fees	(59,784)	(43,338)
Total investment income (loss)	\$ 1,000,630	(147,061)

6. Land, Buildings and Equipment

Land	\$ 691,872	691,872
Land improvements	96,299	96,299
Buildings	13,328,249	12,951,836
Furniture and fixtures	1,297,409	1,112,929
Vehicles	359,657	359,657
Equipment	268,252	268,252
Pool	270,000	270,000
Construction in Progress	21,186	--
	16,332,924	15,750,845
Less accumulated depreciation	8,212,500	7,610,495
Net land, buildings and equipment	\$ 8,120,424	8,140,350

Depreciation expense was \$602,005 and \$591,857 as of December 31, 2016 and 2015, respectively.

7. Intangible Assets

During 2007, the Club entered an agreement with Omaha Public Schools (OPS) to provide \$1,300,000 to OPS for construction of facilities at Mount View Elementary to be used by OPS and the Club. The agreement provides occupancy and use rights to the Club. If the agreement is terminated by OPS, a portion of the original payment will be refunded. The cost of facility use is being amortized over the future expected term of the agreement, 50 years, based on repayment terms. Accumulated amortization was \$550,000 and \$500,000 as of December 31, 2016 and 2015, respectively.

Continued

BOYS AND GIRLS CLUBS OF THE MIDLANDS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2016 AND 2015

7. Intangible Assets – Continued

In January 2009, the Club opened its Council Bluffs location at the Charles E. Lakin Human Services Campus (see Note 12). The Campus entities are required to participate in the cost of common property improvements. The Club's share of the common property improvements is \$665,000. The improvements are being amortized on a straight line basis over 15 years. Accumulated amortization was \$302,944 and \$251,222 at December 31, 2016 and 2015, respectively.

During 2016, the Club entered an agreement with Omaha Public Schools (OPS) to provide \$1,925,000 to OPS for construction of facilities at Florence Elementary to be used by OPS and the Club. The agreement provides occupancy and use rights to the Club. If the agreement is terminated by OPS, a portion of the original payment will be refunded. The cost of facility use will be amortized over the future expected term of the agreement, 50 years, based on repayment terms. The Club advanced \$1,120,000 on the agreement in 2016. The facility is under construction thus there is no accumulated amortization as of December 31, 2016. .

Amortization costs related to these intangible assets over the next five years is expected to be as follows:

2017	\$	101,722
2018		186,722
2019		186,722
2020		186,722
2021		186,722
Thereafter		1,383,446
	\$	<u>2,232,056</u>

8. Net Assets

A. Temporarily Restricted

	<u>2016</u>	<u>2015</u>
Purpose		
Scholarships	\$ 4,106,216	793,941
Scholarship administration	991,058	--
Acquisition of property and equipment	3,081,742	158,837
Council Bluffs club	1,345,919	1,320,579
Other	132,097	143,428
Time		
United Way	357,600	393,600
Total temporarily restricted net assets	\$ 10,014,632	2,810,385

B. Permanently Restricted

Permanently restricted net assets consist of two endowments of which restrictions stipulate the resources be retained permanently. Both of the endowments permit the Club to expend part or all of the income (or other economic benefits) for general operating purposes.

BOYS AND GIRLS CLUBS OF THE MIDLANDS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2016 AND 2015

9. Endowments

Interpretation of Relevant Law

The Board of Directors of the Club has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Club classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with UPMIFA, the Club considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the organization
- (7) The investment policies of the organization.

Return Objectives and Risk Parameters

The Club has adopted investment and spending guidelines for endowment assets that attempt to preserve the principal and purchasing power of the endowment fund. Under these guidelines, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that provide a return on investment consistent with the spending policy and sufficient to increase the long-term value of the fund net of inflation. The Club's investment goal of the endowment fund is to maintain a rate of return at least equal to the distribution rate plus a rate of return that varies depending on the type of investment. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

The Club protects assets and preserves purchasing power by earning a total rate of return for each category of funds appropriate to each category's time horizon, liquidity needs and risk tolerance. Funds designated as reserves have objectives that emphasize safety, liquidity and yield. Funds with a long-term horizon are managed with a long-term total return objective, which will build value at a rate of the Consumer Price Index plus 3%-5% depending on the asset mix of the portfolio. Assets committed to equity securities are maintained at approximately 60% of total assets, with the remaining 40% committed to fixed income securities. The Club allows for a 10% plus or minus variance with these percentages.

Spending Policy and How the Investment Objectives Relate to Spending Guidelines

The Club sets an annual distribution rate up to 5% each year, to be determined through consultation between the Finance Committee and the administration of the Club. The spending rate will take into account the historic returns and forecasted economic conditions.

BOYS AND GIRLS CLUBS OF THE MIDLANDS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2016 AND 2015

9. Endowments – Continued

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Club to retain as a fund of perpetual duration. These deficiencies may result from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions and appropriation for programs that was deemed prudent by the Board of Directors. There were no such deficiencies as of December 31, 2016.

Changes in Endowment Net Assets

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, December 31, 2014	4,796,731	2,574,381	506,450	7,877,562
Investment return:				
Net investment income	143,539	107,734	--	251,273
Net decrease in value (realized and unrealized)	(229,469)	(168,865)	--	(398,334)
Total investment return	(85,930)	(61,131)	--	(147,061)
Contributions	29,718	125,655	--	155,373
Appropriation of endowment assets for expenditure	(247,798)	(222,121)	--	(469,919)
Endowment net assets, December 31, 2015	\$ 4,492,721	2,416,784	506,450	7,415,955
Investment return:				
Net investment income	83,535	106,626	--	190,161
Net increase in value (realized and unrealized)	309,131	501,338	--	810,469
Total investment return	392,666	607,964	--	1,000,630
Contributions	--	5,021,635	--	5,021,635
Appropriation of endowment assets for expenditure	(230,963)	(1,306,315)	--	(1,537,278)
Endowment net assets, December 31, 2016	\$ 4,654,424	6,740,068	506,450	11,900,942

10. Net Assets Released from Restrictions

The following temporary restrictions were satisfied:

	2016	2015
Program or time	\$ 1,037,880	941,261
Acquisition of property and equipment	1,709,775	60,190
	\$ 2,747,655	1,001,451

Continued

BOYS AND GIRLS CLUBS OF THE MIDLANDS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2016 AND 2015

11. Retirement Plans

Employees who have completed one year of service are eligible to participate in a defined contribution plan. Eligible employees may make elective contributions to the plan. The Club made discretionary contributions in 2016 and 2015 based on 5% of participant compensation. The Club also made mandatory matching contributions on employee deferrals up to 5% of compensation. Contributions made by the Club are fully vested after six years. Retirement plan cost was \$208,126 and \$200,300 for 2016 and 2015, respectively.

12. Concentrations

The Club participates in federal and non-federal grant programs that are subject to review and audit by the grantor. Entitlement to these resources is generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditures of resources for allowable purposes. Any disallowance resulting from an audit may become a liability of the Club.

The Club receives an annual award from the United Way. Notification of its award for July 2016 through June 2017 was received in June 2016. Subsequent funding is at the discretion of the United Way and is dependent on the United Way meeting its funding goals.

A contributions of approximately \$5 million was received for a scholarship program and the capital campaign. This contribution represents 29% of total revenue, gains and other support in 2016.

The Club has approximately 24% of its investment holdings in two investment funds.

The Club has capital campaign pledges receivable recorded of which \$3,400,000 are due from four donors.

The Club regularly maintains cash balances in excess of FDIC limits.

13. Related Party Transactions

The Club has various service agreements with entities controlled by members of the Board of Directors. These agreements were entered into prior to the members' election to the Board or with complete disclosure of the relationship to the Board. In addition, revenues received from members of the Board of Directors are reflected in the statement of activities.

14. Charles E. Lakin Human Services Campus

The Club and four other local not-for-profit entities are party to a cooperative agreement related to the construction and operation of the Charles E. Lakin Human Services Campus in Council Bluffs, Iowa. The Campus offers various services for low-income individuals, including housing, emergency assistance, shelter, parenting classes and afterschool activities. The agreement governs fund-raising, development and operations related to the Campus. A separate not-for-profit entity, Legacy Family Campus, Inc., holds title to the common Campus real property. Each agency is required to share in associated maintenance costs. During 2016 and 2015, the expenses incurred were paid through endowment fund earnings held by the Charles E. Lakin Campus Foundation. Each entity owns its respective buildings and the land upon which they are constructed.

BOYS AND GIRLS CLUBS OF THE MIDLANDS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2016 AND 2015

15. Capital Lease

The Club leases office equipment under a capital lease expiring in 2017. The equipment and obligation are recorded at the present value of the minimum lease payments. The equipment is amortized over its estimated productive life of 5 years.

The following is a summary of equipment under capital lease:

	<u>2016</u>	<u>2015</u>
Equipment	\$ 268,252	268,252
Accumulated amortization	(241,427)	(187,776)
	<u>\$ 26,825</u>	<u>80,476</u>

Minimum future payments under the capital lease are as follows:

	<u>Amount</u>
2017	\$ 35,990
Amount representing interest	(964)
<u>Present value of net minimum lease payments</u>	<u>\$ 35,026</u>

BOYS AND GIRLS CLUBS OF THE MIDLANDS**SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS****YEAR ENDED DECEMBER 31, 2016****FEDERAL GRANTOR**

<i>Pass-through Grantor</i>	Federal	Pass-through	
Program Title	CFDA #	Entity	Expenditures
		Identifying #	

U.S. DEPARTMENT OF JUSTICE*Boys and Girls Clubs of America*

Juvenile Mentoring Program	16.726	OJP-2015-36625	\$ 35,000
		OJP-2015-36626	8,000
		OJP-2015-36627	20,000
		OJP-2015-36628	25,000

City of Omaha

Juvenile Mentoring Program	16.726	#2014-DJ-BX-0891	43,046
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Total U.S. Department of Justice, CFDA 16.726**\$ 131,046****U.S. DEPARTMENT OF AGRICULTURE***Nebraska Department of Education*

Child and Adult Care Food Program	10.558	2015IN109943	
		2015IN202043	
		2016IN109943	
		2016IN202043	386,869

Iowa Department of Education

Child and Adult Care Food Program	10.558	None	90,640
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Total U.S. Department of Agriculture, CFDA 10.558**\$ 477,509****U.S. DEPARTMENT OF EDUCATION***Collective for Youth*

Twenty-First Century Community Learning Centers	84.287	None	238,620
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Total U.S. Department of Education, CFDA 84.827**\$ 238,620****Total Federal Awards expended****\$ 847,175****Note to Schedule of Federal Awards**

The above Schedule of Expenditures of Federal Awards includes the Federal grant activity of Boys and Girls Clubs of the Midlands (the Club) and is presented on the accrual basis of accounting. This information is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

The Club did not elect to use the 10% de minimis indirect cost rate.

The Club did not pass through any funds from federal awards to subrecipients.

BOYS AND GIRLS CLUBS OF THE MIDLANDS

SUPPLEMENTARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2016

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued	Unmodified
Internal control over financial reporting Material weakness(es) identified?	No
Significant deficiency(ies) identified not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal Control over major programs Material weakness(es) identified?	No
Significant deficiency(ies) identified not considered to be material weaknesses?	No
Type of auditor’s report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR, Section 200.516(a)?	No

Identification of major programs

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.558	Child and Adult Care Food Program
Dollar threshold used to distinguish between Type A and Type B programs	\$ 750,000
Auditee qualified as low-risk auditee:	Yes

BOYS AND GIRLS CLUBS OF THE MIDLANDS

SUPPLEMENTARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

YEAR ENDED DECEMBER 31, 2016

Section II – Financial Statement Findings

2016-001 Preparation of Financial Statements

Criteria: Internal control procedures should provide reasonable assurance of the Club's ability to report financial data reliably in accordance with accounting principles generally accepted in the United States of America (GAAP).

Condition: Club management does not prepare financial statements and supplementary schedules in accordance with GAAP.

Cause: Management has determined it is not cost-beneficial to create a system of internal control that would allow the Club to prepare its own financial statements in accordance with GAAP.

Effect: The Club cannot, on its own, comply with regulatory requirements to prepare annual financial statements in accordance with GAAP requirements.

Response: Management agrees with the finding. However, they do not consider it cost-beneficial to implement a system of internal control to allow them to prepare their own financial statements. Corrective action plan is not considered necessary as management evaluates the cost benefit on an annual basis and no further action is required at this time.

Section III – Federal Awards Findings and Questioned Costs

No matters reported

BOYS AND GIRLS CLUBS OF THE MIDLANDS

SUPPLEMENTARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

YEAR ENDED DECEMBER 31, 2016

Section IV – Summary Schedule of Prior Audit Findings

2015-001 Preparation of Financial Statements

Criteria: Internal control procedures should provide reasonable assurance of the Club's ability to report financial data reliably in accordance with accounting principles generally accepted in the United States of America (GAAP).

Condition: Club management does not prepare financial statements and supplementary schedules in accordance with GAAP.

Cause: Management has determined it is not cost-beneficial to create a system of internal control that would allow the Club to prepare its own financial statements in accordance with GAAP.

Effect: The Club cannot, on its own, comply with regulatory requirements to prepare annual financial statements in accordance with GAAP requirements.

Response: Management agrees with the finding. However, they do not consider it cost-beneficial to implement a system of internal control to allow them to prepare their own financial statements. Corrective action plan is not considered necessary as management evaluates the cost benefit on an annual basis and no further action is required at this time.

Current year status – This finding is repeated as finding 2016-001 as management has determined it is not cost beneficial to correct.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Boys and Girls Clubs of the Midlands
Omaha, Nebraska

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Boys and Girls Clubs of the Midlands (the Club), which comprise the statement of financial position as of December 31, 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, and have issued our report thereon dated June 1, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Club's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Club's internal control. Accordingly, we do not express an opinion on the effectiveness of the Club's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as finding 2016-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Club's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Club's Responses to Findings

The Club's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Club's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

FRANKEL ZACHARIA LLC

June 1, 2017

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

The Board of Directors
Boys and Girls Clubs of the Midlands
Omaha, Nebraska

Report on Compliance for Each Major Federal Program

We have audited Boys and Girls Clubs of the Midlands' (the Club) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Club's major federal program for the year ended December 31, 2016. The Club's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Club's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Club's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Club's compliance.

Opinion on Each Major Federal Program

In our opinion, the Club complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2016.

First National Plaza
11404 West Dodge Road, Suite 700
Omaha, NE 68154-2576

tel 402.496.9100
fax 402.496.1024

Report on Internal Control Over Compliance

Management of the Club is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Club's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Club's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

FRANKEL ZACHARIA LLC

June 1, 2017