

**BOYS AND GIRLS CLUBS
OF THE MIDLANDS**

FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017
(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, 2018 and 2017, 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, 2018 and 2017, 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 audit was 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 July 31, 2019, 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 solely 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 the effectiveness of the Club's 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

July 31, 2019

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

DECEMBER 31	2018	2017
ASSETS		
Cash	\$ 1,522,845	2,056,279
Investments (Notes 3, 6 and 12)	21,888,145	19,971,902
Receivables		
United Way of the Midlands	272,500	357,600
Grants	169,979	161,282
Contributions and other	93,143	97,358
Capital campaign pledges (Note 4)	6,774,218	8,772,855
Total receivables	7,309,840	9,389,095
Land, buildings and equipment, net (Note 7)	9,024,456	8,060,547
Intangible assets, net (Note 8)	8,695,442	3,142,834
TOTAL ASSETS	\$ 48,440,728	42,620,657
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 367,918	325,934
Construction costs and retainage payable	963,902	---
Funds held for others	51,358	52,841
Deferred revenue	605,973	474,176
Payable for use agreement (Note 8)	2,494,391	---
Deferred insurance proceeds	133,158	133,158
Capital lease obligations (Note 10)	268,503	348,161
Total liabilities	4,885,203	1,334,270
Net assets		
Without donor restrictions		
Undesignated	15,246,228	12,192,309
Board-designated endowment	5,245,375	5,972,343
Total without donor restrictions	20,491,603	18,164,652
With donor restrictions (Note 11)	23,063,922	23,121,735
Total net assets	43,555,525	41,286,387
TOTAL LIABILITIES AND NET ASSETS	\$ 48,440,728	42,620,657

See accompanying notes to financial statements.

BOYS AND GIRLS CLUBS OF THE MIDLANDS**STATEMENT OF ACTIVITIES****YEAR ENDED DECEMBER 31, 2018**

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support			
Contributions	\$ 2,023,451	166,152	2,189,603
Capital campaign contributions	---	4,833,750	4,833,750
Allocated by United Way of the Midlands	---	545,000	545,000
Designations from United Way of the Midlands	31,744	---	31,744
Non-cash contributions	546,061	---	546,061
Membership dues, fees, and incidental charges	367,705	---	367,705
Investment loss, net	(396,231)	(429,460)	(825,691)
Special fundraising events (net of direct expenses of \$147,680)	786,705	---	786,705
Rental and miscellaneous	23,304	---	23,304
Grants - Indirect federal	1,068,531	---	1,068,531
Grants - Other	2,339,338	---	2,339,338
Net assets released from restrictions (Note 11)	5,173,255	(5,173,255)	---
Total revenues, gains and other support	11,963,863	(57,813)	11,906,050
Functional expenses			
Program services			
Basic needs	2,931,809	---	2,931,809
Ready to learn	5,126,782	---	5,126,782
Ready to work	192,441	---	192,441
Total program services	8,251,032	---	8,251,032
Supporting services			
Management and general	704,819	---	704,819
Fundraising	681,061	---	681,061
Total supporting services	1,385,880	---	1,385,880
Total functional expenses	9,636,912	---	9,636,912
INCREASE (DECREASE) IN NET ASSETS	2,326,951	(57,813)	2,269,138
Net assets at beginning of year	18,164,652	23,121,735	41,286,387
NET ASSETS AT END OF YEAR	\$ 20,491,603	23,063,922	43,555,525

See accompanying notes to financial statements.

BOYS AND GIRLS CLUBS OF THE MIDLANDS**STATEMENT OF ACTIVITIES****YEAR ENDED DECEMBER 31, 2017**

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support			
Contributions	\$ 2,441,630	74,850	2,516,480
Capital campaign contributions	---	13,081,963	13,081,963
Allocated by United Way of the Midlands	---	715,200	715,200
Designations from United Way of the Midlands	25,675	---	25,675
Non-cash contributions	422,662	---	422,662
Membership dues, fees, and incidental charges	359,836	---	359,836
Investment income, net	831,154	973,392	1,804,546
Special fundraising events (net of direct expenses of \$229,396)	724,241	---	724,241
Rental and miscellaneous	19,647	---	19,647
Grants - Indirect federal	904,030	---	904,030
Grants - Other	2,335,234	---	2,335,234
Net assets released from restrictions (Note 11)	2,244,752	(2,244,752)	---
Total revenues, gains and other support	10,308,861	12,600,653	22,909,514
Functional expenses			
Program services			
Basic needs	2,535,476	---	2,535,476
Ready to learn	4,523,089	---	4,523,089
Ready to work	196,241	---	196,241
Total program services	7,254,806	---	7,254,806
Supporting services			
Management and general	661,546	---	661,546
Fundraising	615,767	---	615,767
Total supporting services	1,277,313	---	1,277,313
Total functional expenses	8,532,119	---	8,532,119
INCREASE IN NET ASSETS	1,776,742	12,600,653	14,377,395
Net assets at beginning of year	16,387,910	10,521,082	26,908,992
NET ASSETS AT END OF YEAR	\$ 18,164,652	23,121,735	41,286,387

See accompanying notes to financial statements.

BOYS AND GIRLS CLUBS OF THE MIDLANDS

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2018

	Program Services				Supporting Services			Total Functional Expenses
	Basic Needs	Ready to Learn	Ready to Work	Total	Management and General	Fundraising	Total	
Salaries	\$ 1,082,300	2,761,592	135,404	3,979,296	253,688	500,821	754,509	4,733,805
Employee benefits	137,250	340,726	12,538	490,514	52,536	75,133	127,669	618,183
Payroll taxes	96,343	240,134	11,877	348,354	24,198	38,453	62,651	411,005
Total employee compensation	1,315,893	3,342,452	159,819	4,818,164	330,422	614,407	944,829	5,762,993
Specific assistance to individuals	409,626	41,542	1,929	453,097	---	---	---	453,097
Professional fees and contract service payments	44,191	91,759	15,488	151,438	217,831	14,831	232,662	384,100
Awards and grants	8,727	270,188	3,353	282,268	2,555	1,547	4,102	286,370
Supplies	69,952	202,811	3,258	276,021	16,534	12,990	29,524	305,545
Telephone	9,201	27,333	656	37,190	17,232	3,664	20,896	58,086
Postage	413	682	---	1,095	1,135	3,676	4,811	5,906
Occupancy	503,556	444,416	---	947,972	36,433	---	36,433	984,405
Printing	2,730	6,684	---	9,414	6,020	13,366	19,386	28,800
Student transportation and meetings	94,695	248,111	6,593	349,399	3,578	7,029	10,607	360,006
Conferences, conventions, meetings, and major trips	16,170	20,790	19	36,979	366	7,073	7,439	44,418
Rental and maintenance	20,945	38,900	624	60,469	15,917	1,652	17,569	78,038
Organizational dues	---	---	---	---	3,016	---	3,016	3,016
Equipment	4,317	13,171	581	18,069	4,046	502	4,548	22,617
National dues	---	---	---	---	22,941	---	22,941	22,941
Interest	1,901	6,793	121	8,815	2,588	324	2,912	11,727
Expenses before depreciation	2,502,317	4,755,632	192,441	7,450,390	680,614	681,061	1,361,675	8,812,065
Depreciation and amortization	429,492	371,150	---	800,642	24,205	---	24,205	824,847
Total expenses	\$ 2,931,809	5,126,782	192,441	8,251,032	704,819	681,061	1,385,880	9,636,912

See accompanying notes to financial statements.

BOYS AND GIRLS CLUBS OF THE MIDLANDS

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2017

	Program Services				Supporting Services			Total Functional Expenses
	Basic Needs	Ready to Learn	Ready to Work	Total	Management and General	Fundraising	Total	
Salaries	\$ 951,632	2,448,536	133,442	3,533,610	246,758	449,671	696,429	4,230,039
Employee benefits	133,186	307,527	10,629	451,342	44,657	58,761	103,418	554,760
Payroll taxes	88,049	227,360	12,386	327,795	23,884	38,537	62,421	390,216
Total employee compensation	1,172,867	2,983,423	156,457	4,312,747	315,299	546,969	862,268	5,175,015
Specific assistance to individuals	332,656	30,664	4,398	367,718	---	---	---	367,718
Professional fees and contract service payments	44,154	92,580	19,484	156,218	196,704	12,075	208,779	364,997
Awards and grants	6,825	166,231	1,539	174,595	5,838	1,690	7,528	182,123
Supplies	44,826	203,046	4,628	252,500	20,640	11,779	32,419	284,919
Telephone	8,846	22,753	726	32,325	16,595	3,187	19,782	52,107
Postage	222	309	---	531	866	1,838	2,704	3,235
Occupancy	389,307	342,579	---	731,886	23,704	---	23,704	755,590
Printing	2,368	7,000	---	9,368	6,694	22,642	29,336	38,704
Student transportation and meetings	115,878	215,941	7,432	339,251	3,582	8,805	12,387	351,638
Conferences, conventions, meetings, and major trips	16,845	9,300	279	26,424	1,196	2,791	3,987	30,411
Rental and maintenance	17,626	18,963	355	36,944	9,649	1,414	11,063	48,007
Organizational dues	---	---	---	---	5,004	140	5,144	5,144
Equipment	13,934	101,206	853	115,993	11,786	2,197	13,983	129,976
National dues	---	---	---	---	20,919	---	20,919	20,919
Interest	1,112	3,725	90	4,927	2,182	240	2,422	7,349
Expenses before depreciation	2,167,466	4,197,720	196,241	6,561,427	640,658	615,767	1,256,425	7,817,852
Depreciation and amortization	368,010	325,369	---	693,379	20,888	---	20,888	714,267
Total expenses	\$ 2,535,476	4,523,089	196,241	7,254,806	661,546	615,767	1,277,313	8,532,119

See accompanying notes to financial statements.

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

YEARS ENDED DECEMBER 31	2018	2017
Cash flows from operating activities:		
Increase in net assets	\$ 2,269,138	14,377,395
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	824,847	714,267
Net realized and unrealized (gain) loss on marketable securities	1,202,331	(1,608,466)
Contributions restricted for capital projects	(4,833,750)	(13,081,963)
Contributions restricted for scholarships	(166,152)	(74,850)
(Increase) decrease in operating assets:		
Receivables:		
United Way of the Midlands	85,100	---
Grants	(8,697)	(19,075)
Contributions and other	4,215	(27,441)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	41,984	(41,241)
Funds held for others	(1,483)	(38,866)
Deferred revenue	131,797	111,863
Net cash provided (used) by operating activities	(450,670)	311,623
Cash flows from investing activities:		
Acquisition of building and equipment	(1,162,024)	(185,707)
Payments for use agreement	(2,721,047)	(1,012,500)
Purchase of investments	(26,494,708)	(14,689,044)
Proceeds from sale of investments	23,376,134	8,226,550
Net cash used by investing activities	(7,001,645)	(7,660,701)
Cash flows from financing activities:		
Contributions restricted for capital projects	6,832,387	7,546,719
Contributions restricted for scholarships	166,152	74,850
Payments on capital lease obligation	(79,658)	(54,790)
Net cash provided by financing activities	6,918,881	7,566,779
NET INCREASE (DECREASE) IN CASH	(533,434)	217,701
Cash at beginning of year	2,056,279	1,838,578
Cash at end of year	\$ 1,522,845	2,056,279
Non-cash investing and financing activity:		
Equipment acquired by capital lease	\$ ---	366,961
Building and equipment in construction costs and retainage payable	437,664	---
Intangible assets in construction costs and retainage payable	526,238	---
Intangible assets in payable for use agreement	2,494,391	---
Supplemental data:		
Interest paid	11,727	7,349

See accompanying notes to financial statements.

BOYS AND GIRLS CLUBS OF THE MIDLANDS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

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). During 2018, the Agency adopted the provisions of Accounting Standards Update (ASU) 2016-14: Not-for-Profit-Entities (Topic 958) Presentation of Financial Statements of Not-for-Profit Entities, which improves the current net asset classification and the related information presented in the financial statements and provides additional disclosures about the Club’s liquidity, financial performance, and cash flows. The standard was retrospectively adopted for 2017 resulting in previously reported temporarily and permanently restricted net assets combined for presentation as net assets with donor restrictions. No other reclassifications or restatements were made to the financial statements. Net assets are classified as without donor restrictions and with donor restrictions, defined as follows:

The use of net assets without donor restrictions is not limited by donor-imposed stipulations and are, therefore, available for general operations.

Net assets with donor restrictions result from contributions and revenues the use of which is limited by donor or grant-imposed stipulations that are more specific than broad limits resulting from 1) the nature of the not-for-profit entity; 2) the environment in which it operates; and 3) the purposes specified in its articles of incorporation or by-laws or comparable documents.

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.

Continued

BOYS AND GIRLS CLUBS OF THE MIDLANDS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2018 AND 2017

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 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 support with donor restrictions if they are subject to donor stipulations that limit the use of the donated assets. When donor restrictions are satisfied, net assets with donor restrictions are reclassified to without donor restrictions 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 revenues with donor restrictions and released from restriction in the same period.

Non-cash contributions, including in-kind rent for use of facilities, 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 8,000 and 7,900 hours of services to the Club in 2018 and 2017, respectively. The value of such services is not reported, as these services do not require specialized skills.

H. Functional Expenses

The financial statements report expenses that are attributable to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses are allocated on the basis of estimates of time and effort spent by personnel in the various program and supporting services. In addition, building and technology costs are allocated based on usage of space and equipment.

Continued

BOYS AND GIRLS CLUBS OF THE MIDLANDS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2018 AND 2017

1. Summary of Significant Accounting and Reporting Policies - Continued

I. 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.

J. Subsequent Events

Management evaluated transactions and events occurring subsequent to December 31, 2018, and through July 31, 2019, 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, except those discussed in Notes 8 and 9.

2. Liquidity and Availability of Funds

The Club's financial assets available for general expenditure within one year of the statement of financial position date, are as follows:

	2018	2017
Total assets at year end	\$47,821,071	42,620,657
Less:		
Investments including:		
Board-designated endowment	(5,245,375)	(5,972,343)
Other endowments	(7,227,225)	(7,981,225)
Restricted for capital projects	(8,953,912)	(6,018,334)
Capital campaign pledges receivable	(6,774,218)	(8,772,855)
Land, buildings and equipment, net	(9,024,456)	(8,060,547)
Intangible assets, net	(8,075,785)	(3,142,834)
Total financial assets available for general expenditures as of year end	\$ 2,520,100	2,672,519

The Club's endowment funds consist primarily of donor-restricted endowments to support Club activities and operations. Income from all endowment funds is subject to appropriation by the board.

As part of the Club's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To help manage unanticipated liquidity needs, the Club has a borrowing capacity on its line of credit in the amount of \$600,000, which it could draw upon. Additionally, the Club has board-designated endowment funds of \$5.2 million at December 31, 2018. Although the Club does not intend to spend from its board-designated endowment funds other than amounts appropriated for general expenditure as part of its annual appropriation process, amounts from its board-designated endowment could be made available if necessary.

Continued

BOYS AND GIRLS CLUBS OF THE MIDLANDS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2018 AND 2017

3. 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.

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, 2018 and December 31, 2017.

BOYS AND GIRLS CLUBS OF THE MIDLANDS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2018 AND 2017

3. Fair Value Measurements - Continued

Assets at Fair Value as of December 31, 2018

	Level 1	Level 2	Level 3	Total
Recurring measurements				
Investments:				
Money market funds	\$ 6,704,314	--	--	6,704,314
Mutual and exchange traded funds				
Bond	2,966,437	--	--	2,966,437
Domestic equity	6,548,926	--	--	6,548,926
International equity	1,695,011	--	--	1,695,011
Common stock	306,270	--	--	306,270
U.S. Treasury securities	2,195,674	--	--	2,195,674
Corporate bonds	450,804	--	--	450,804
	<u>20,867,436</u>	<u>--</u>	<u>--</u>	<u>20,867,436</u>
Investment fund measured at net asset value (1)				<u>1,020,709</u>
Total investments				<u>\$ 21,888,145</u>
Nonrecurring measurements				
New capital campaign pledges receivable	\$ --	--	1,494,440	1,494,440

Assets at Fair Value as of December 31, 2017

	Level 1	Level 2	Level 3	Total
Recurring measurements				
Investments:				
Money market funds	\$ 2,099,280	--	--	2,099,280
Mutual and exchange traded funds				
Bond	3,112,500	--	--	3,112,500
Domestic equity	7,460,787	--	--	7,460,787
International equity	1,917,152	--	--	1,917,152
Common stock	297,330	--	--	297,330
U.S. Treasury securities	2,845,968	--	--	2,845,968
Corporate bonds	1,206,398	--	--	1,206,398
	<u>18,939,415</u>	<u>--</u>	<u>--</u>	<u>18,939,415</u>
Investment fund measured at net asset value (1)				<u>1,032,487</u>
Total investments				<u>\$ 19,971,902</u>
Nonrecurring measurements				
New capital campaign pledges receivable	\$ --	--	5,940,831	5,940,831

New capital campaign pledges receivable are measured at fair value as of December 31, 2018 and 2017 by discounting anticipated future cash flows using a 3.50% discount rate.

(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.

Continued

BOYS AND GIRLS CLUBS OF THE MIDLANDS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2018 AND 2017

3. Fair Value Measurements – Continued

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, 2018</i>				
Investment fund	\$ 1,020,709	n/a	Annually	120 days
<i>December 31, 2017</i>				
Investment fund	\$ 1,032,487	n/a	Annually	120 days

4. 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%, which approximates an appropriate risk-free rate adjusted for risks related to collection 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	\$ 4,545,525
One to five years	2,345,334
	6,890,859
<u>Less discount to present value</u>	<u>116,641</u>
<u>Net capital campaign pledges receivable</u>	<u>\$ 6,774,218</u>

5. Conditional Promises to Give

The Club received conditional promises to give during 2017 for \$3,500,000. The contributions are conditioned upon completion of the Florence Elementary, Millard Middle and Bryan Middle Clubs, and renovation of the Westbrook Club. Payments of \$750,000 were received in 2018, and a receivable of \$750,000 was recorded as conditions were met in 2018. The remaining revenue will be recognized when the conditions are met.

Continued

BOYS AND GIRLS CLUBS OF THE MIDLANDS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2018 AND 2017

6. Investments

	Cost	Net Unrealized		Fair Value
		Gain	Loss	
Money market funds	\$ 6,704,314	--	--	6,704,314
Mutual and exchange traded funds				
Bond	3,070,592	--	104,155	2,966,437
Domestic equity	5,833,949	714,977	--	6,548,926
International equity	1,828,907	--	133,896	1,695,011
Common stock	86,310	219,960	--	306,270
U.S. Treasury securities	2,189,822	5,852	--	2,195,674
Corporate bonds	452,614	--	1,810	450,804
Investment fund	900,000	120,709	--	1,020,709
Balance at December 31, 2018	\$ 21,066,508	1,061,498	239,861	21,888,145
Balance at December 31, 2017	\$ 17,910,077	2,099,799	37,974	19,971,902

7. Land, Buildings and Equipment

	2018	2017
Land	\$ 691,872	691,872
Land improvements	96,299	96,299
Buildings	13,328,249	13,328,249
Furniture and fixtures	2,258,683	1,451,654
Vehicles	369,409	369,409
Equipment	635,213	635,213
Pool	270,000	270,000
Construction in Progress	835,555	42,896
	18,485,280	16,885,592
Less accumulated depreciation	9,460,824	8,825,045
Net land, buildings and equipment	\$ 9,024,456	8,060,547

Depreciation expense was \$635,779 and \$612,545 as of December 31, 2018 and 2017, respectively.

8. 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 \$650,000 and \$600,000 as of December 31, 2018 and 2017, respectively.

In January 2009, the Club opened its Council Bluffs location at the Charles E. Lakin Human Services Campus (see Note 17). 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 \$406,388 and \$354,666 at December 31, 2018 and 2017, respectively.

Continued

BOYS AND GIRLS CLUBS OF THE MIDLANDS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2018 AND 2017

8. Intangible Assets – Continued

During 2016, the Club entered an agreement with Omaha Public Schools (OPS) to provide \$2,175,000 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. In addition, the Club is responsible for certain construction management fees. The cost of facility use, along with \$48,306 of construction management fees, are being amortized over the future expected term of the agreement, 50 years, based on repayment terms. The facility was completed and opened for operations in 2018. Accumulated amortization was \$32,370 as of December 31, 2018.

During 2017, the Club entered an agreement with the Millard School District (District) for construction of facilities at Central Middle School to be used by the District and the Club. The agreement provides occupancy and use rights to the Club. If the agreement is terminated by the District, a portion of the original payment will be refunded. In addition, the Club is responsible for certain construction management fees. The cost of facility use is being amortized over the future expected term of the agreement, 50 years, based on repayment terms. The Club paid \$1,058,747 on the agreement and construction management fees as of December 31, 2018. The unpaid balance of \$2,494,391 is due in three equal annual installments beginning one year after the date of substantial completion, July 31, 2018. The facility opened for operations in 2018. Accumulated amortization was \$54,976 as of December 31, 2018.

During 2017, the Club entered an agreement with the Westside School District (Westside) to provide up to approximately \$3,919,500 to the Westside for construction of facilities at Westbrook Elementary School to be used by Westside and the Club. The agreement provides occupancy and use rights to the Club. If the agreement is terminated by either party, 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, based on repayment terms of 25 years with the non-refundable portion of the payment of \$195,975 being amortized over the same 25 year period. The Club incurred \$2,093,127 of costs on the agreement as of December 31, 2018. The facility is under construction thus there is no accumulated amortization as of December 31, 2018.

In May 2019, the Club entered an agreement with Omaha Public Schools (OPS) to provide \$2,775,000 to OPS for construction of facilities at Bryan Middle School 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. In addition, the Club is responsible for certain construction management fees. The cost of facility use will be amortized over the future expected term of the agreement, 50 years, based on repayment terms. The Club incurred \$4,605 of construction management costs as of December 31, 2018 and advanced \$1,790,000 to OPS after December 31, 2018 in accordance with the terms of the agreement. The facility is under construction thus there is no accumulated amortization as of December 31, 2018.

Net intangible assets as of December 31, 2018 as described above are as follows:

Mount View Elementary	\$ 650,000
Council Bluffs	258,612
Florence Elementary	2,190,936
Central Middle School	3,498,162
Westbrook Elementary	2,093,127
<u>Bryan Middle School</u>	<u>4,605</u>
	<u>\$ 8,695,442</u>

Continued

BOYS AND GIRLS CLUBS OF THE MIDLANDS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2018 AND 2017

8. Intangible Assets – Continued

Amortization expense was \$189,068 and \$101,722 for the years ended December 31, 2018 and 2017, respectively.

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

2019	\$	397,109
2020		449,988
2021		449,988
2022		449,988
2023		428,811
Thereafter		6,519,558
	\$	8,695,442

9. 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 5.25% as of December 31, 2018. The agreement matured on May 31, 2019, but the term was subsequently extended until July 31, 2019. There was no outstanding balance at December 31, 2018 or 2017.

10. Capital Lease Obligations

The Club leases office equipment under capital leases. The equipment and obligations are recorded at the present value of the minimum lease payments. The equipment is amortized over their estimated productive lives.

The following is a summary of equipment under capital leases:

	<u>2018</u>	<u>2017</u>
Equipment	\$ 635,213	635,213
Accumulated amortization	(381,034)	(300,041)
	\$ 254,179	335,172

Minimum future payments under the capital leases are as follows:

	<u>Amount</u>
2019	\$ 91,385
2020	91,385
2021	75,113
2022	31,338
	289,221
Amount representing interest	(20,718)
Present value of net minimum lease payments	\$ 268,503

Continued

BOYS AND GIRLS CLUBS OF THE MIDLANDS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2018 AND 2017

11. Net Assets With Donor Restrictions

Net assets with donor restrictions are as follows:

	<u>2018</u>	<u>2017</u>
Subject to expenditure for a specific purpose:		
Capital campaign	\$ 15,563,758	14,782,921
Subject to the passage of time:		
United Way	272,500	357,600
Subject to the Club's spending policy and appropriation:		
Scholarships	4,344,939	4,689,431
Scholarship administration	763,904	1,003,591
Council Bluffs club	1,326,348	1,462,505
Capital projects	176,384	186,746
Other	109,639	132,491
<u>Endowment funds restricted in perpetuity</u>	<u>506,450</u>	<u>506,450</u>
	<u>\$ 23,063,922</u>	<u>23,121,735</u>

The following restrictions were satisfied:

	<u>2018</u>	<u>2017</u>
Purpose	\$ 4,543,155	1,529,552
Time	630,100	715,200
	<u>\$ 5,173,255</u>	<u>2,244,752</u>

12. Endowments

Interpretation of Relevant Law

The Board of Directors of the Club has interpreted the Nebraska Uniform Prudent Management of Institutional Funds Act (NUPMIFA) 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 net assets with donor restrictions (a) the original value of initial and subsequent gift amounts donated to the donor-restricted endowment funds, and (b) any accumulations to the donor-restricted endowment funds that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Club has interpreted NUPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. In accordance with NUPMIFA, 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.

Continued

BOYS AND GIRLS CLUBS OF THE MIDLANDS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2018 AND 2017

12. Endowments – Continued

Endowment Net Asset Composition by Type of Fund

	December 31, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds:			
Perpetual in duration – original gift amount	\$ --	506,450	506,450
Other		6,720,775	6,720,775
Board-designated endowment funds	5,245,375	--	5,245,375
Total funds	\$ 5,245,375	7,227,225	12,472,600

	December 31, 2017		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds:			
Perpetual in duration – original gift amount	\$ --	506,450	506,450
Other	--	7,474,775	7,474,775
Board-designated endowment funds	5,972,343	--	5,972,343
Total funds	\$ 5,972,343	7,981,225	13,953,568

Changes in Endowment Net Assets

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, December 31, 2016	\$ 4,654,424	7,246,518	11,900,942
Investment return, net	831,154	991,226	1,822,380
Contributions	762,265	74,850	837,115
Appropriation of endowment assets for expenditure	(275,500)	(331,369)	(606,869)
Endowment net assets, December 31, 2017	\$ 5,972,343	7,981,225	13,953,568
Investment return, net	(423,250)	(458,742)	(881,992)
Contributions	11,282	166,152	177,434
Appropriation of endowment assets for expenditure	(315,000)	(461,410)	(776,410)
Endowment net assets, December 31, 2018	\$ 5,245,375	7,227,225	12,472,600

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.

Continued

BOYS AND GIRLS CLUBS OF THE MIDLANDS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2018 AND 2017

12. Endowments – Continued

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.

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.

Underwater Endowment Funds

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 NUPMIFA 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 donor-restricted endowment funds and appropriation for programs that was deemed prudent by the Board of Directors. There were no such deficiencies as of December 31, 2018.

Board Designations

Board-designated endowment funds are presented as net assets without donor restrictions. These funds are designated to support operations as needed.

13. 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 2018 and 2017 based on 5% of participant compensation. The Club also made mandatory matching contributions on employee deferrals up to 5% of compensation. Total Club contributions were \$258,995 and \$240,046 for 2018 and 2017, respectively.

14. Construction Commitments

As part of the capital campaign, renovations are in progress at existing club facilities. The Club has entered into construction contracts of approximately \$2.2 million. The costs incurred at December 31, 2018 on these contracts were \$400,000.

Continued

BOYS AND GIRLS CLUBS OF THE MIDLANDS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2018 AND 2017

15. 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 2018 through June 2020 was received in June 2018. Subsequent funding is at the discretion of the United Way and is dependent on the United Way meeting its funding goals.

The Club recorded capital campaign contributions of \$2,500,000 from two donors in 2018. In addition, capital campaign pledges receivable include \$4,250,000 due from five donors.

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

16. 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.

17. 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. The expenses incurred are paid through endowment fund earnings held by the Charles E. Lakin Campus Foundation. If costs exceed the earnings, assessments for the remaining costs are provided to each agency for payment. Each entity owns its respective buildings and the land upon which they are constructed.

18. Recently Issued Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02 *Leases (Topic 842)*. Under this standard, operating and finance leases with a lease term of more than 12 months will be recorded in the balance sheet as right-of-use assets with offsetting lease liabilities based on the present value of future lease payments. The standard also requires qualitative and quantitative disclosures designed to assess the amount, timing, and uncertainty of cash flows arising from leases. This standard is effective for the Club's year ending December 31, 2020 with earlier adoption permitted. Management has not completed evaluation of the impact of the adoption of this standard on our financial statements.

BOYS AND GIRLS CLUBS OF THE MIDLANDS

SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2018

<u>FEDERAL GRANTOR</u>			
<i>Pass-through Grantor</i>	Federal	Pass-through	Total
Program Title	CFDA #	Entity Identifying #	Expenditures
<u>U.S. DEPARTMENT OF JUSTICE</u>			
<i>Boys and Girls Clubs of America</i>			
Juvenile Mentoring Program	16.726	OJP-2017-41942 OJP-2017-41941 OJP-2017-41940	\$ 56,485
<i>City of Omaha</i>			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2016-DJ-BX-0270 2017-DJ-BX-0315	76,472
Total U.S. Department of Justice, CFDA 16.726 & 16.738			\$ <u>132,957</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
<i>Nebraska Department of Education</i>			
Child and Adult Care Food Program	10.558	2018IN109943 2018IN202043 2019IN109943 2019IN202043	\$ 389,545
<i>Iowa Department of Education</i>			
Child and Adult Care Food Program	10.558	None	<u>102,064</u>
	Subtotal	CFDA #10.558	491,609
<i>Nebraska Department of Education</i>			
Summer Food Program	10.559	None	75,777
Total U.S. Department of Agriculture, CFDA 10.558 & CFDA 10.559			\$ <u>567,386</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
<i>Collective for Youth</i>			
Twenty-First Century Community Learning Centers	84.287	None	368,188
Total U.S. Department of Education, CFDA 84.827			\$ <u>368,188</u>
Total Federal Awards expended			\$ <u>1,068,531</u>

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.

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, 2018, 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 July 31, 2019.

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 have not been 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 a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-001 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 Response 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

July 31, 2019

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, 2018. 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, 2018.

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 a 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

July 31, 2019

BOYS AND GIRLS CLUBS OF THE MIDLANDS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2018

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>
84.287	Twenty-First Century Community Learning Centers
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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

YEAR ENDED DECEMBER 31, 2018

Section II – Financial Statement Findings

2018-001 Accounting Transactions

Criteria: Internal controls should be in operation that provide reasonable assurance of the Club's ability to report financial data reliably in accordance with generally accepted accounting principles (GAAP).

Condition: The Club's accounting personnel must review and record all transactions related to the current period in the general ledger in accordance with GAAP.

Cause: The Club did not review all transactions to identify and record significant payables in its general ledger.

Effect: The Club had significant unrecorded transactions related to construction contracts and use agreements.

Response: See Corrective Action Plan.

Section III – Federal Awards Findings and Questioned Costs

No matters reported

Section IV – Summary Schedule of Prior Audit Findings

No matters reported



BOYS & GIRLS CLUB
OF THE MIDLANDS
OMAHA • CARTER LAKE • COUNCIL BLUFFS

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Tel 402-342-1600
Fax 402-345-3154

Corrective Action Plan

1. Finding 2018-001

a. Comments on the Finding

We concur with the finding and agree that we should review and record all transactions related to the current period in the general ledger in accordance with U.S. Generally Accepted Accounting Principles (GAAP).

b. Action(s) Taken or Planned on the Finding

Our plan to accurately account for transactions is as follows:

- 1.) We will implement utilizing a 13th period at year end to track and record transactions received after the year end close date.
- 2.) We will review all transactions after the year end date related to the prior year, for a period of 2 months prior to the annual financial audit.

This will allow us more time to accurately account for transactions and to remain in accordance with U.S. GAAP. This corrective action plan will be reviewed annually to ensure compliance.

c. Anticipated Completion Date

We will implement these new procedures immediately.

Responsible Party:

Pauli Bishop
Chief Financial Officer

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