

**BOYS AND GIRLS CLUBS
OF THE MIDLANDS**

FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018
(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, 2019 and 2018, 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, 2019 and 2018, 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 27, 2020, 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 27, 2020

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

DECEMBER 31	2019	2018
ASSETS		
Cash	\$ 1,583,397	1,522,845
Investments (Notes 3, 6 and 12)	18,593,150	21,888,145
Receivables		
United Way of the Midlands	272,500	272,500
Grants	828,625	169,979
Contributions and other	217,033	93,143
Capital campaign pledges (Note 4)	4,050,126	6,774,218
Total receivables	5,368,284	7,309,840
Land, buildings and equipment, net (Note 7)	11,327,292	9,024,456
Intangible assets, net (Note 8)	13,523,670	8,695,442
Other	32,264	---
TOTAL ASSETS	\$ 50,428,057	48,440,728
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 455,113	367,918
Construction and retainage payable	319,805	963,902
Funds held for others	58,175	51,358
Refundable advances	512,735	605,973
Payable for use agreement (Note 8)	1,642,927	2,494,391
Deferred insurance proceeds	133,158	133,158
Capital lease obligations (Note 10)	189,260	268,503
Total liabilities	3,311,173	4,885,203
Net assets		
Without donor restrictions		
Undesignated	23,958,706	15,246,228
Board-designated endowment	6,043,335	5,245,375
Total without donor restrictions	30,002,041	20,491,603
With donor restrictions (Note 11)	17,114,843	23,063,922
Total net assets	47,116,884	43,555,525
TOTAL LIABILITIES AND NET ASSETS	\$ 50,428,057	48,440,728

See accompanying notes to financial statements.

BOYS AND GIRLS CLUBS OF THE MIDLANDS**STATEMENT OF ACTIVITIES****YEAR ENDED DECEMBER 31, 2019**

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support			
Contributions	\$ 2,567,091	252,052	2,819,143
Capital campaign contributions	---	2,300,902	2,300,902
Grants - Indirect federal	1,148,781	---	1,148,781
Grants - Other	2,242,048	703,960	2,946,008
Allocated by United Way of the Midlands	272,500	272,501	545,001
Designations from United Way of the Midlands	31,099	---	31,099
Non-cash contributions	739,298	---	739,298
Membership dues, fees, and incidental charges	389,411	---	389,411
Investment income, net	1,091,658	1,515,825	2,607,483
Special fundraising events (net of direct expenses of \$137,093)	858,550	---	858,550
Rental and miscellaneous	20,363	---	20,363
Total revenues, gains and other support	9,360,799	5,045,240	14,406,039
Net assets released from restrictions (Note 11)	10,994,319	(10,994,319)	---
Functional expenses			
Program services			
Basic needs	3,536,863	---	3,536,863
Ready to learn	5,500,154	---	5,500,154
Ready to work	181,335	---	181,335
Total program services	9,218,352	---	9,218,352
Supporting services			
Management and general	880,544	---	880,544
Fundraising	745,784	---	745,784
Total supporting services	1,626,328	---	1,626,328
Total functional expenses	10,844,680	---	10,844,680
INCREASE (DECREASE) IN NET ASSETS	9,510,438	(5,949,079)	3,561,359
Net assets at beginning of year	20,491,603	23,063,922	43,555,525
NET ASSETS AT END OF YEAR	\$ 30,002,041	17,114,843	47,116,884

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
Grants - Indirect federal	1,068,531	---	1,068,531
Grants - Other	2,339,338	---	2,339,338
Allocated by United Way of the Midlands	272,500	272,500	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
Total revenues, gains and other support	7,063,108	4,842,942	11,906,050
Net assets released from restrictions (Note 11)	4,900,755	(4,900,755)	---
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 FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2019

	Program Services				Supporting Services			Total Functional Expenses
	Basic Needs	Ready to Learn	Ready to Work	Total	Management and General	Fundraising	Total	
Salaries	\$ 1,196,459	2,890,666	127,501	4,214,626	338,721	546,326	885,047	5,099,673
Employee benefits	151,988	337,319	8,603	497,910	27,973	78,883	106,856	604,766
Payroll taxes	100,937	246,154	11,716	358,807	42,134	43,673	85,807	444,614
Total employee compensation	1,449,384	3,474,139	147,820	5,071,343	408,828	668,882	1,077,710	6,149,053
Specific assistance to individuals	528,292	38,345	3,012	569,649	---	---	---	569,649
Professional fees and contract service payments	25,028	102,300	4,015	131,343	274,782	29,113	303,895	435,238
Awards and grants	4,351	295,263	14,632	314,246	8,414	3,302	11,716	325,962
Supplies	50,866	152,100	3,858	206,824	38,119	5,591	43,710	250,534
Telephone	10,608	32,761	590	43,959	18,083	4,328	22,411	66,370
Postage	185	405	---	590	1,493	2,275	3,768	4,358
Occupancy	600,495	519,153	---	1,119,648	35,185	---	35,185	1,154,833
Printing	3,234	11,148	---	14,382	5,857	10,308	16,165	30,547
Student transportation and meetings	152,213	235,606	5,876	393,695	5,776	6,498	12,274	405,969
Conferences, conventions, meetings, and major trips	23,970	8,182	20	32,172	1,483	5,953	7,436	39,608
Rental and maintenance	20,127	31,201	255	51,583	10,228	753	10,981	62,564
Organizational dues	---	---	---	---	1,444	1,574	3,018	3,018
Equipment	13,818	25,066	1,133	40,017	7,577	6,864	14,441	54,458
National dues	---	---	---	---	22,954	---	22,954	22,954
Interest	1,962	7,036	124	9,122	3,311	343	3,654	12,776
Expenses before depreciation	2,884,533	4,932,705	181,335	7,998,573	843,534	745,784	1,589,318	9,587,891
Depreciation and amortization	652,330	567,449	---	1,219,779	37,010	---	37,010	1,256,789
Total expenses	\$ 3,536,863	5,500,154	181,335	9,218,352	880,544	745,784	1,626,328	10,844,680

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

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31	2019	2018
Cash flows from operating activities:		
Increase in net assets	\$ 3,561,359	2,269,138
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	1,256,789	824,847
Net realized and unrealized (gain) loss on investments	(2,167,842)	1,202,331
Contributions restricted for capital projects	(2,300,902)	(4,833,750)
Contributions restricted for scholarships	(207,052)	(166,152)
(Increase) decrease in operating assets:		
Receivables:		
United Way of the Midlands	---	85,100
Grants	(658,646)	(8,697)
Contributions and other	(123,890)	4,215
Other	(32,264)	---
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	87,195	41,984
Funds held for others	6,817	(1,483)
Refundable advances	(93,238)	131,797
Net cash used by operating activities	(671,674)	(450,670)
Cash flows from investing activities:		
Acquisition of building and equipment	(3,420,419)	(1,162,024)
Payments for use agreement	(6,462,995)	(2,721,047)
Purchase of investments	(17,845,933)	(26,494,708)
Proceeds from sale of investments	23,308,770	23,376,134
Net cash used by investing activities	(4,420,577)	(7,001,645)
Cash flows from financing activities:		
Contributions restricted for capital projects	5,024,994	6,832,387
Contributions restricted for scholarships	207,052	166,152
Payments on capital lease obligation	(79,243)	(79,658)
Net cash provided by financing activities	5,152,803	6,918,881
NET INCREASE (DECREASE) IN CASH	60,552	(533,434)
Cash at beginning of year	1,522,845	2,056,279
Cash at end of year	\$ 1,583,397	1,522,845
Non-cash investing and financing activity:		
Building and equipment in construction and retainage payable	\$ 142,632	437,664
Intangible assets in construction and retainage payable	177,173	526,238
Intangible assets in payable for use agreement	1,642,927	2,494,391
Supplemental data:		
Interest paid	12,776	11,727

See accompanying notes to financial statements.

BOYS AND GIRLS CLUBS OF THE MIDLANDS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

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). 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 financial position.

BOYS AND GIRLS CLUBS OF THE MIDLANDS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2019 AND 2018

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.

Land improvements	10 to 15 years
Buildings and improvements	5 to 50 years
Furniture, fixtures, and equipment	3 to 15 years
Automobiles	5 years

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 without donor restrictions.

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 is recognized in accordance with grant terms. Cost reimbursement grants are considered conditional contributions and revenue is recognized as the Club incurs expenses and bills the respective grantor. Unearned grant advances are presented as refundable advances. All grant receivables are considered fully collectible by Club management.

G. Contributed Services

Volunteers contributed approximately 4,000 and 8,000 hours of services to the Club in 2019 and 2018, respectively. The value of such services is not reported, as these services do not require specialized skills.

Continued

BOYS AND GIRLS CLUBS OF THE MIDLANDS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2019 AND 2018

1. Summary of Significant Accounting and Reporting Policies - Continued

H. Exchange Transaction Revenue

The Club recognizes exchange transaction revenue from the following sources:

- Membership dues, fees, and incidental charges
- Special fundraising events

The Club charges school-aged youth annual membership dues of \$30 which are due in January. In addition, the Club charges fees for early arrival at the facility after school, summer camp, sports, and other activities which are recognized at the point in time the service is provided. Refunds are provided as determined necessary. The performance obligation for each service is completed within the same reporting period, thus there are no receivables, prepaid membership dues or fees that would be considered a liability.

Special fundraising events are held throughout the year in which a portion of the gross proceeds received from participants represents payment for the direct cost of benefits received by event participants. Generally, the fair value of the direct benefit received is measured at the actual direct cost to the Club. The event fee is set by Club management on a per event basis and the proceeds net of direct expenses are presented in total revenues, gains and other support.

I. 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.

J. 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.

K. Subsequent Events

Management evaluated transactions and events occurring subsequent to December 31, 2019, and through July 27, 2020, 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 9 and 17.

Continued

BOYS AND GIRLS CLUBS OF THE MIDLANDS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2019 AND 2018

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:

	2019	2018
Total assets at year-end	\$ 50,428,057	48,440,728
Less:		
Investments including:		
Board-designated endowment	(6,043,335)	(5,245,375)
Other endowments	(8,207,795)	(7,227,225)
Restricted for capital projects	(3,535,163)	(8,953,912)
Capital campaign pledges receivable	(4,050,126)	(6,774,218)
Land, buildings and equipment, net	(11,327,292)	(9,024,456)
<u>Intangible assets, net</u>	<u>(13,523,670)</u>	<u>(8,695,442)</u>
<u>Total financial assets available for general expenditures as of year-end</u>	<u>\$ 3,740,676</u>	<u>2,520,100</u>

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 \$6.0 million at December 31, 2019. 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.

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.

Continued

BOYS AND GIRLS CLUBS OF THE MIDLANDS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2019 AND 2018

3. 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 tables set forth by level, within the fair value hierarchy, the Club's assets at fair value as of December 31, 2019 and December 31, 2018.

Assets at Fair Value as of December 31, 2019

	Level 1	Level 2	Level 3	Total
Recurring measurements				
Investments:				
Money market funds	\$ 4,313,403	--	--	4,313,403
Mutual and exchange traded funds				
Bond	3,148,058	--	--	3,148,058
Domestic equity	7,709,727	--	--	7,709,727
International equity	1,987,052	--	--	1,987,052
Common stock	339,750	--	--	339,750
	<u>17,497,990</u>	<u>--</u>	<u>--</u>	<u>17,497,990</u>
Investment fund measured at net asset value (1)				<u>1,095,160</u>
Total investments				<u>\$ 18,593,150</u>
Nonrecurring measurements				
<u>New capital campaign pledges receivable</u> \$	<u>--</u>	<u>--</u>	<u>983,092</u>	<u>983,092</u>

Continued

BOYS AND GIRLS CLUBS OF THE MIDLANDS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2019 AND 2018

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>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	<u>1,494,440</u>

New capital campaign pledges receivable are measured at fair value as of December 31, 2019 and 2018 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.

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, 2019</i>				
Investment fund	\$ 1,095,160	n/a	Annually	120 days
<i>December 31, 2018</i>				
Investment fund	\$ 1,020,709	n/a	Annually	120 days

Continued

BOYS AND GIRLS CLUBS OF THE MIDLANDS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2019 AND 2018

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	\$ 2,704,671
One to five years	1,401,000
	<u>4,105,671</u>
Less discount to present value	55,545
<u>Net capital campaign pledges receivable</u>	<u>\$ 4,050,126</u>

5. Conditional Contributions

As of December 31, 2019, there were conditional contributions of \$1,000,000 and \$170,000 for “The Club” Teen Center Program and Pottawattamie County, Iowa operations, respectively. In addition, approximately \$375,000 is available under current cost-reimbursement grants for future expenses.

6. Investments

	Cost	Net Unrealized		Fair Value
		Gain	Loss	
Money market funds	\$ 4,313,403	--	--	4,313,403
Mutual and exchange traded funds				
Bond	3,097,132	50,926	--	3,148,058
Domestic equity	5,581,275	2,128,452	--	7,709,727
International equity	1,864,311	122,741	--	1,987,052
Common stock	86,310	253,440	--	339,750
Investment fund	900,000	195,160	--	1,095,160
<u>Balance at December 31, 2019</u>	<u>\$ 15,842,431</u>	<u>2,750,719</u>	<u>--</u>	<u>18,593,150</u>
<u>Balance at December 31, 2018</u>	<u>\$ 21,066,508</u>	<u>1,061,498</u>	<u>239,861</u>	<u>21,888,145</u>

Continued

BOYS AND GIRLS CLUBS OF THE MIDLANDS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2019 AND 2018

7. Land, Buildings and Equipment

	2019	2018
Land	\$ 691,872	691,872
Land improvements	96,299	96,299
Buildings	15,853,516	13,328,249
Furniture and fixtures	2,995,157	2,258,683
Vehicles	580,103	369,409
Equipment	1,109,823	635,213
Pool	270,000	270,000
Construction in Progress	13,897	835,555
	21,610,667	18,485,280
Less accumulated depreciation	10,283,375	9,460,824
Net land, buildings and equipment	\$ 11,327,292	9,024,456

Depreciation expense was \$822,551 and \$635,779 for the years ended December 31, 2019 and 2018, respectively.

8. Intangible Assets

In January 2009, the Club opened its Council Bluffs location at the Charles E. Lakin Human Services Campus (see Note 16). 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.

The Club has various agreements with area school districts whereby the Club contributed to the cost of construction of the facilities and was given occupancy and use rights of the property in exchange. If the agreements are terminated by the owners, a portion of the original cost, that decreases over time, will be refunded. The costs of facility use are being amortized over the expected term of the agreements based on the applicable termination payment schedules. The intangible assets related to the agreements with Omaha Public Schools (OPS), Millard School District (Millard), and Westside School District (Westside) are summarized below.

	Expiration Year	2019			2018 Net
		Cost	Accumulated Amortization	Net	
Council Bluffs Lakin Campus	2024	\$ 665,000	458,110	206,890	258,612
OPS Mount View Elementary	2057	1,300,000	700,000	600,000	650,000
OPS Florence Elementary	2067	2,223,306	129,480	2,093,826	2,190,936
Millard Central Middle School	2067	3,524,946	218,663	3,306,283	3,498,162
Westside Westbrook Elementary	2043	4,464,666	31,331	4,433,335	2,093,127
OPS Bryan Middle School	2068	2,923,723	40,387	2,883,336	4,605
				\$ 13,523,670	8,695,442

Amortization expense was \$434,239 and \$189,068 for the years ended December 31, 2019 and 2018, respectively.

The agreement for the Millard Central Middle School provided for delayed payments of the Club's portion of construction costs. The unpaid balance as of December 31, 2019 of \$1,642,927 is due in two equal installments due July 31, 2020 and 2021.

Continued

BOYS AND GIRLS CLUBS OF THE MIDLANDS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2019 AND 2018

8. Intangible Assets – Continued

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

2020	\$	577,676
2021		577,676
2022		577,676
2023		556,483
2024		672,089
Thereafter		10,562,070
	\$	13,523,670

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 3.75%. The effective rate was 4.50% as of December 31, 2019. The agreement matured on May 31, 2020, but the term was subsequently extended until July 31, 2020. There was no outstanding balance at December 31, 2019 or 2018.

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>2019</u>	<u>2018</u>
Equipment	\$ 635,213	635,213
Accumulated amortization	(462,026)	(381,034)
	\$ 173,187	254,179

Minimum future payments under the capital leases are as follows:

	<u>Amount</u>
2020	\$ 92,022
2021	76,592
2022	31,338
	199,952
Amount representing interest	(10,692)
Present value of net minimum lease payments	\$ 189,260

Continued

BOYS AND GIRLS CLUBS OF THE MIDLANDS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2019 AND 2018

11. Net Assets With Donor Restrictions

Net assets with donor restrictions are as follows:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for a specific purpose:		
Capital campaign	\$ 7,885,590	15,563,758
Ready to learn programs	616,866	--
Teen program	132,093	--
Subject to the passage of time:		
United Way	272,500	272,500
Subject to the Club's spending policy and appropriation:		
Scholarships	5,163,159	4,344,939
Scholarship administration	725,984	763,904
Council Bluffs club	1,502,187	1,326,348
Capital projects	197,205	176,384
Other	112,809	109,639
Endowment funds restricted in perpetuity	506,450	506,450
	<u>\$ 17,114,843</u>	<u>23,063,922</u>

The following restrictions were satisfied:

	<u>2019</u>	<u>2018</u>
Purpose	\$ 10,721,819	4,543,155
Time	272,500	357,600
	<u>\$ 10,994,319</u>	<u>4,900,755</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, 2019 AND 2018

12. Endowments – Continued

Endowment Net Asset Composition by Type of Fund

	December 31, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds:			
Perpetual in duration – original gift amount	\$ --	506,450	506,450
Other		7,701,345	7,701,345
Board-designated endowment funds	6,043,335	--	6,043,335
Total funds	\$ 6,043,335	8,207,795	14,251,130

	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

Changes in Endowment Net Assets

	Without Donor Restrictions	With Donor Restrictions	Total
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
Investment return, net	1,089,877	1,393,959	2,483,836
Contributions	23,083	207,052	230,135
Appropriation of endowment assets for expenditure	(315,000)	(620,441)	(935,441)
Endowment net assets, December 31, 2019	\$ 6,043,335	8,207,795	14,251,130

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, 2019 AND 2018

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, 2019.

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 2019 and 2018 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 \$244,405 and \$258,995 for 2019 and 2018, respectively.

BOYS AND GIRLS CLUBS OF THE MIDLANDS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2019 AND 2018

14. 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 \$2,000,000 from one donor in 2019. In addition, capital campaign pledges receivable include \$3,000,000 due from four donors.

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

15. 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.

16. 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.

17. Subsequent Events

As a result of the ongoing outbreak of the coronavirus disease (COVID-19) which was declared a pandemic by the World Health Organization in March 2020, economic and operating uncertainties have arisen, which may negatively impact the Club, and has caused the Club to temporarily close Club facilities and furlough some part time employees. The ultimate financial impact of such cannot be reasonably estimated at this time.

In April 2020, the Club applied for and received a U.S. Small Business Administration loan in the amount of \$1,003,334 under the Payroll Protection Program (PPP) of the Coronavirus Aid Relief and Economic Security (CARES) Act. This loan accrues interest at 1%, requires monthly interest payments starting six months after issuance, and matures two years after issuance. Under the PPP, up to 100% of the loan may be forgiven if certain conditions are satisfied. Management expects forgiveness of a significant portion of the loan amount.

Continued

BOYS AND GIRLS CLUBS OF THE MIDLANDS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2019 AND 2018

18. Adoption of New Accounting Standards

As of January 1, 2019, the Club adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606), as amended. ASU 2014-09 applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition. Results for reporting the year ending December 31, 2019 are presented under FASB ASC Topic 606. The ASU has been retrospectively applied to all periods presented, with no effect on net assets previously reported in the financial statements.

During the year, the Club also adopted the provisions of FASB ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* (Topic 958). This accounting standard is meant to help not-for-profit entities evaluate whether transactions should be accounted for as contributions or as exchange transactions, and if the transaction is identified as a contribution, whether it is conditional or unconditional. ASU 2018-08 clarifies how an organization determines whether a resource provider is receiving commensurate value in return for a grant. Results for reporting the year ending December 31, 2019 are presented under FASB ASC Topic 958. The comparative information continues to be reported under the accounting standards in effect for those reporting periods. Management reviewed its funding sources and agreements and recorded additional unconditional contributions as a result of adoption.

19. 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, 2022 with earlier adoption permitted. Management has not completed evaluation of the impact of the adoption of this standard on our financial statements.

20. Reclassifications

Reclassifications have been made to the presentation of 2018 balances to conform to the current year presentation. There were no resulting changes to net assets.

BOYS AND GIRLS CLUBS OF THE MIDLANDS**SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS****YEAR ENDED DECEMBER 31, 2019****FEDERAL GRANTOR***Pass-through Grantor*

Program Title

Federal
CFDA #Pass-through
Entity
Identifying #Total
Expenditures**U.S. DEPARTMENT OF JUSTICE***Boys and Girls Clubs of America*

Juvenile Mentoring Program

16.726

OJP-2018-44076
OJP-2018-44077
OJP-2018-44078

\$ 56,485

*City of Omaha*Edward Byrne Memorial Justice Assistance
Grant Program

16.738

2017-DJ-BX-0315
2018-DJ-BX-0171

80,716

Total U.S. Department of Justice, CFDA 16.726 & 16.738**\$ 137,201****U.S. DEPARTMENT OF AGRICULTURE***Nebraska Department of Education*

Child and Adult Care Food Program

10.558

2019IN109943
2019IN202043
2020IN109943
2020IN202043

\$ 432,396

Iowa Department of Education

Child and Adult Care Food Program

10.558

None

97,156

Subtotal

CFDA #10.558

529,552

Nebraska Department of Education

Summer Food Service Program for Children

10.559

2019IN109943

72,357

Total U.S. Department of Agriculture, CFDA 10.558 & CFDA 10.559**\$ 601,909****U.S. DEPARTMENT OF EDUCATION***Collective for Youth*

Twenty-First Century Community Learning Centers

84.287

None

409,671

Total U.S. Department of Education, CFDA 84.287**\$ 409,671****Total Federal Awards expended****\$ 1,148,781****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, 2019, 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 27, 2020.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

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 27, 2020

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, 2019. 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, 2019.

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 27, 2020

BOYS AND GIRLS CLUBS OF THE MIDLANDS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2019

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?	No
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

Continued

BOYS AND GIRLS CLUBS OF THE MIDLANDS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

YEAR ENDED DECEMBER 31, 2019

Section II – Financial Statement Findings

No matters reported

Section III – Federal Awards Findings and Questioned Costs

No matters reported

Section IV – Summary Schedule of Prior Audit 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: Management agrees with the finding and plans to utilize a 13th period at year end to track and record transactions received after the year end close date and review transactions for a two-month period after the year end date related to the prior year. This will allow more time to accurately account for transactions and to remain in accordance with GAAP.

Current Year Status – As planned, transactions were reviewed by accounting personnel for two months following year end to identify any significant unrecorded items. Appropriate internal controls are in place to identify and ensure significant transactions are recorded in the proper period.
