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ANNUAL AUDITED REPORT FORM X-17A-5 PART III

OMB APPROVAL OMB Number: 3235-0123 Expires: May 31, 2017 Estimated average burden hours per response... 12.00

SEC FILE NUMBER 8-0094

8-00094

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Information Required of Brokers and Dealers Pursuant to Section 17 of the Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/16 AND ENDING 12/31/16 MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: B.C. Ziegler & company

OFFICIAL USE ONLY

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

FIRM I.D. NO.

200 South Wacker Drive, Suite 2000

(No. and Street)

Chicago

Illinois

60606

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Jeffrey C Vredenburg, Senior Managing Director/CFO

312-596-1685

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Grant Thornton, LLP

(Name - if individual, state last, first, middle name)

171 North Clark, Suite 200

Chicago

Illinois

60601

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:



Certified Public Accountant



Public Accountant



Accountant not resident in United States or any of its possessions.

FOR OFFICIAL USE ONLY

*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

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B. C. ZIEGLER AND COMPANY
(SEC File Number 8-00094)

Financial Statements

December 31, 2016

(with Independent Registered Public Accounting Firm Report Thereon)



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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Board of Directors and Stockholder
B.C. Ziegler and Company

We have audited the accompanying statement of financial condition of B.C. Ziegler and Company (a Wisconsin corporation and wholly owned subsidiary of The Ziegler Companies, Inc.) (the "Company") as of December 31, 2016, that is pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial position of B.C. Ziegler and Company as of December 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Chicago, Illinois
March 24, 2017

B. C. ZIEGLER AND COMPANY

STATEMENT OF FINANCIAL CONDITION

December 31, 2016

(in thousands except share amounts)

ASSETS

Cash and cash equivalents	\$ 21,421
Net receivable for unsettled trades	12,135
Receivables, net of reserve of \$201	4,004
Financial instruments owned, at fair value	44,632
Notes receivable, net of reserve of \$26	690
Furniture, equipment and leasehold improvements, net	3,460
Deferred tax assets	1,274
Income tax receivable from parent	187
Other assets	<u>2,397</u>
Total assets	<u>\$ 90,200</u>

LIABILITIES AND STOCKHOLDER'S EQUITY

Drafts payable	\$ 833
Payable to clearing broker	20,000
Financial instruments sold, not yet purchased, at fair value	977
Accrued compensation	28,562
Accounts payable, accrued expenses and other liabilities	<u>4,472</u>

Total liabilities 54,844

Commitments and contingencies -

Stockholder's equity:

Common stock

Class A--\$1 par, 1,150,000 shares authorized and issued	1,150
Class B--\$1 par (nonvoting), 480,000 shares authorized; 402,000 shares issued	402
Additional paid-in capital	14,908
Retained earnings	19,091
Less- Treasury stock, at cost, 1,691 shares Class A, 63,237 shares Class B	<u>(195)</u>

Total stockholder's equity 35,356

Total liabilities and stockholder's equity \$ 90,200

See accompanying notes to financial statements.

B. C. ZIEGLER AND COMPANY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

(Dollars in thousands)

(1) Organization and Nature of Business

B. C. Ziegler and Company (the "Company") is a broker-dealer registered with the Securities and Exchange Commission (the "SEC") and is a member of the Financial Industry Regulatory Authority ("FINRA"). The Company is a Wisconsin corporation and is a wholly-owned subsidiary of The Ziegler Companies, Inc. (the "Parent"). The Company is engaged in specialty investment banking for the senior living, healthcare, religion and education sectors as well as general municipal and structured finance. The Company provides bond financing, corporate finance, financial advisory, risk management advisory, investment advisory, merger and acquisition advisory, asset management, retail brokerage, fixed income institutional sales and trading, private placement, seed capital, private equity, venture capital and related financial services. These services are provided to institutions, businesses, and individuals throughout the United States.

(2) Significant Accounting Policies

Investment Banking

Deferred expenses on investment banking transactions not yet completed were \$398 at December 31, 2016 and are included in other assets.

Financial Instruments Owned

Proprietary securities transactions are recorded on the trade date, as if they had settled. In the normal course of business, the Company, like other firms in the securities industry, purchases and sells securities as a principal. If another party to the transaction fails to perform as agreed, the Company may incur a loss if the market value of the security is different from the contract amount of the transaction.

Amounts receivable and payable for securities transactions that have not reached their contractual settlement date are recorded net on the Statement of Financial Condition.

Securities positions, are recorded at fair value in accordance with generally accepted accounting principles.

Receivables

Receivables includes amounts due the Company from third parties for underwriting, remarketing, and sales fees, amounts due for accrued interest on securities owned, amounts due for financial advisory and merger and acquisition transactions and services, and amounts due from affiliates and related parties. The Company reviews receivables and establishes an allowance for losses on balances which management has deemed collection is unlikely.

Drafts Payable

Drafts payable represent amounts drawn by the Company against a bank under a sweep agreement with that bank.

Use of Estimates

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

(3) 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. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value.

Certain of the Company's financial instruments, primarily financial instruments owned, are carried at fair value. To differentiate between the approach to fair value measurements, a three level hierarchy which prioritizes the inputs to valuation techniques is used to classify fair value measurements:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access on the measurement date.
- Level 2 inputs are observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data, either directly or indirectly.
- Level 3 fair value measurements are based on unobservable inputs for the asset or liability. Unobservable inputs are used to measure fair value. Unobservable inputs reflect the Company's own assumptions about the inputs that market participants would use in pricing the asset or liability.

In valuing financial assets and liabilities, the Company uses techniques believed to be appropriate for each particular financial asset or liability to estimate fair value. These techniques require some degree of judgment and utilize assumptions that market participants would use in pricing the asset or liability. The price transparency of financial instruments is a key determinant of the degree of judgment involved in determining the fair value of the Company's financial instruments. Financial instruments for which actively quoted prices or pricing parameters are available will generally have a higher degree of price transparency than financial instruments that are thinly traded or not quoted. The criteria used to determine whether the market for a financial instrument is active or inactive is based on the particular asset or liability. The following valuation techniques are considered for the financial assets and liabilities of the Company.

- Cash equivalents include cash held in banks and investments in money market mutual funds. The money market mutual funds are classified within Level 1 of the fair value hierarchy.
- Fixed and variable rate municipal securities are classified Level 2 in the fair value hierarchy. The securities are generally valued using quoted prices from external data providers and market participants. Valuation information provided by external data providers and market participants generally includes a derived fair value utilizing a model where inputs to the model are directly observed by the market, or can be derived principally from or corroborated by observable market data, or fair value using other financial instruments, the parameters of which can be directly observed.
- Preferred equity securities traded by the Company are generally classified as Level 1 in the fair value hierarchy when included in securities owned. The fair value of the preferred equity securities is based on the closing price on the exchange on which the preferred equity securities are traded. In the event that a preferred equity security would be subject to very limited or no

market trading, such preferred equity securities could be classified as Level 2 or Level 3 in the fair value hierarchy.

- Corporate debt securities primarily include unrated taxable debt securities underwritten by the Company for religious institutions and private schools. The Company prices the corporate debt securities for sale at the par value based upon the required interest rate using observable market inputs. The Company also participates in limited secondary trading in these corporate debt securities and will price the debt securities at fair value using current prevailing market interest rates compared to the stated interest rate on the debt securities. Accordingly, corporate debt securities are classified as Level 2 in the fair value hierarchy.
- Other securities consist primarily of mutual funds and equities which are actively traded in public markets and are valued daily. Such investments are classified as Level 1 in the fair value hierarchy.
- U.S. Government securities consist of treasury securities, primarily treasury notes, which are actively traded in public markets and are valued daily. Such investments are classified as Level 1 in the fair value hierarchy.

The following table presents the valuation of the Company's financial instruments measured at fair value on a recurring basis as of December 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>ASSETS</u>			
Money market mutual funds	<u>\$ 20,072</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Financial Instruments Owned</u>			
Municipal Securities			
Fixed Rate	\$ -	\$ 40,706	\$ -
Variable Rate	-	-	-
Corporate Debt Securities	-	1,897	-
Preferred Equity Securities	120	-	-
Other Securities	<u>1,909</u>	<u>-</u>	<u>-</u>
Total financial instruments owned measured at fair value on a recurring basis	<u>\$ 2,029</u>	<u>\$ 42,603</u>	<u>\$ -</u>
<u>LIABILITIES</u>			
Financial instruments sold, not yet purchased			
U.S. Government Securities	<u>\$ 977</u>	<u>\$ -</u>	<u>\$ -</u>

(4) Financial Instruments Owned

Financial instruments owned consists of the trading securities at market value, as follows:

Municipal securities - fixed rate	\$ 40,706
Corporate debt securities	1,897
Preferred equity securities	120
Other securities	<u>1,909</u>
	<u>\$ 44,632</u>

Financial instruments owned includes \$43,508 of securities held by the clearing broker and \$1,124 of securities held directly with the issuers.

(5) Furniture, equipment and leasehold improvements, net

Furniture, equipment and leasehold improvements consists of the following:

Computers and equipment	\$ 5,396
Leasehold improvements	6,947
Furniture	<u>4,766</u>
Furniture, equipment and leasehold improvements, at cost	17,109
Less accumulated depreciation and amortization	<u>(13,649)</u>
Furniture, equipment and leasehold improvements, net	<u>\$ 3,460</u>

(6) Payable to and Receivable from Clearing Broker

The Company clears its proprietary and customer transactions through a clearing broker on a fully disclosed basis. The relationship with the Company's clearing broker results in net amounts payable for financial instrument purchases, transaction processing, and losses on securities transactions offset by financial instrument sales, commissions earned, fees earned, and profits on securities transactions. The amount payable to the clearing broker totals \$20,000 at December 31, 2016. Securities held by the Company at the clearing broker with a market value of \$43,508 were available to collateralize the amount payable to the clearing broker. The interest rate on this financing arrangement is approximately 2.2% at December 31, 2016.

(7) Related Party Transactions

The Company has an unsecured financing arrangement with the Parent whereby the Company can borrow up to \$10,000 on a continuous basis to fund its operations. Interest on such borrowings is variable at the prime rate which was 3.75% at December 31, 2016. The Company had no amounts outstanding under this financing arrangement at December 31, 2016.

As permitted by the SEC's Uniform Net Capital Rule (the "Rule") 15c3-1, in order to enable the Company to complete specific underwritings, the Company has the ability to borrow from the Parent under a Temporary Subordinated Loan Agreement (the "Agreement"). The Company may borrow up to \$20,000 under this Agreement. Interest on such borrowings is variable at the prime rate. Principal and interest payments on these loans are subordinate to all claims of present and future creditors of the Company. These loans are outstanding 45 days or less under the terms of the financing arrangement.

The Company extends financing to the Parent whereby the Company will lend up to \$5,000 to the Parent on a continuous basis. Interest on this financing arrangement is variable at the prime rate. The Company had no outstanding balances due from the Parent under this arrangement at December 31, 2016.

The Company provides administrative support and/or marketing services to the Parent and Ziegler Financing Corporation, a wholly-owned subsidiary of the Parent. Amounts due to the Company for these services and other settlements were \$594 at December 31, 2016 and are included in Receivables on the Statement of Financial Condition.

The Company earns accounting, management and origination fees from private equity entities sponsored by the Parent and managed by the Company. Amounts receivable from these partnerships for all fees were \$92 at December 31, 2016 and are included in Receivables on the Statement of Financial Condition.

The Company has extended credit to certain employees. The credit is in the form of notes signed by the employees. The Company has \$716 of notes outstanding at December 31, 2016. The notes mature between 2019 and 2023, are at a market rate of interest, and are included in Notes Receivable in the Statement of Financial Condition.

(8) Line of Credit

The Company shares a bank line of credit with the Parent and Ziegler Financing Corporation totaling \$20,000 as of December 31, 2016. The Company does not guarantee nor is it liable for draws made by the Parent or Ziegler Financing Corporation. In accordance with normal banking practices, this line of credit may be withdrawn at the discretion of the lender. The interest rate is 2.9% at December 31, 2016. The Company and Ziegler Financing Corporation had no amounts outstanding under this line of credit agreement on December 31, 2016. The Parent had \$1,825 outstanding under this line of credit agreement on December 31, 2016.

(9) Income Taxes

The tax effects of temporary differences that give rise to significant elements of the deferred tax assets and deferred tax liabilities at December 31, 2016 are as follows:

Deferred tax assets:	
Deferred compensation	\$ 801
Tax credit carryovers	114
Deferred rent	786
Other	<u>145</u>
Total deferred tax assets	<u>1,846</u>
Deferred tax liabilities:	
Fixed assets	(526)
Other	<u>(46)</u>
Total deferred tax liabilities	<u>(572)</u>
Net deferred tax assets	<u><u>\$ 1,274</u></u>

The Company has deferred tax assets generated from federal alternative minimum tax credit carryovers of \$114, which have no expiration date.

The Company accounts for uncertain tax positions in accordance with ASC 740-10. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

Balance at January 1, 2016	\$ 64
Increases for tax positions related to the current year	16
Reductions for the lapse of the statute of limitations	<u>(20)</u>
Balance at December 31, 2016	<u><u>\$ 60</u></u>

Tax years that remain subject to examination by major tax jurisdictions include 2012 through 2016.

(10) Net Capital Requirements

As a registered broker-dealer the Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (the "Rule"), which requires the maintenance of minimum net regulatory capital. The Company has elected to use the alternative method permitted by the Rule, which requires that the Company maintain minimum net regulatory capital, as defined, equal to the greater of \$250 or 2% of aggregate debit balances arising from customer transactions, as defined. At December 31, 2016 the Company had net regulatory capital of \$16,295 which was \$16,045 in excess of its required minimum net regulatory capital. Such net regulatory capital requirements could restrict the ability of the Company to pay dividends to its Parent.

(11) Commitments and Contingent Liabilities

In the normal course of business, the Company is the subject of customer complaints and claims, which are regularly reviewed, and is named as a defendant in various legal actions arising from the securities and other businesses. The Company is a defendant in lawsuits incidental to its sales of securities and other financial services businesses. The Company has established accruals for losses determined to be probable as a result of these customer complaints, claims, and legal actions. Although the outcome of litigation is always uncertain, especially in the early stages of a complaint or legal action, based on its understanding of the facts and the advice of legal counsel, management believes that resolution of these known actions will not result in a material adverse effect on the financial condition or results of operations of the Company. However, if during any period any adverse complaint, claim, or legal action should become probable or be resolved, the financial condition or results of operations could be materially affected.

In the normal course of business, the Company enters into firm underwriting commitments for the purchase of debt securities. These commitments require the Company to purchase debt securities at a specified price. The Company had a commitment to purchase debt securities totaling \$15,172 at December 31, 2016. The transaction relating to the commitment was subsequently settled after the end of the year and had no material effect on the financial statements as of December 31, 2016.

In the normal course of business, the Company serves as the remarketing agent on certain municipal variable-rate demand notes that can be tendered back to the respective issuers, generally upon seven days advance notice, by the holders. In its role as remarketing agent, the Company may purchase the tendered notes into its own securities inventory. The Company finances the purchase of municipal variable-rate demand notes through its clearing broker.

(13) Subsequent Events

The Company evaluates subsequent events that have occurred after the balance sheet date, but before the financial statements are issued. The Company is not aware of any subsequent events which would require recognition or disclosure in the financial statements.