

**Lutheran Family Services of Nebraska, Inc.  
and Affiliates**

**Consolidated Financial Statements  
December 31, 2015, with Comparative Totals for 2014  
and Supplementary Information  
December 31, 2015**

**Together with Independent Auditor's Report**

# Lutheran Family Services of Nebraska, Inc. and Affiliates

## Table of Contents

---

	<u>Page</u>
Independent Auditor's Report.....	1 – 2
Consolidated Financial Statements:	
Consolidated Statement of Financial Position December 31, 2015, with Comparative Totals for 2014 .....	3
Consolidated Statement of Activities For the Year Ended December 31, 2015, with Comparative Totals for 2014 .....	4 – 5
Consolidated Statement of Cash Flows For the Year Ended December 31, 2015, with Comparative Totals for 2014 .....	6
Consolidated Statement of Functional Expenses For the Year Ended December 31, 2015, with Comparative Totals for 2014 .....	7
Notes to Consolidated Financial Statements December 31, 2015, with Comparative Totals for 2014 .....	8 – 21
Supplementary Information:	
Exhibit 1 - Consolidating Statement of Financial Position December 31, 2015.....	22 – 23
Exhibit 2 - Consolidating Statement of Activities For the Year Ended December 31, 2015 .....	24 – 26
Exhibit 3 - Lutheran Family Services of Nebraska, Inc. Statement of Activities by Core Competencies For the Year Ended December 31, 2015 .....	27
Schedule of Expenditures of Federal Awards December 31, 2015 .....	28 – 29
Notes to Schedule of Expenditures of Federal Awards December 31, 2015 .....	30
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.....	31 – 32
Independent Auditor's Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance .....	33 – 34
Schedule of Findings and Questioned Costs For the Year Ended December 31, 2015.....	35

## Independent Auditor's Report

To the Board of Directors of  
Lutheran Family Services of Nebraska, Inc.  
Omaha, Nebraska:

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Lutheran Family Services of Nebraska, Inc. and Affiliates (the Organization), which comprise the consolidated statement of financial position as of December 31, 2015, and the related consolidated statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. The financial statements of Omaha Church Center, Inc., Lutheran Family Services Foundation, Inc., and LFS 25<sup>th</sup> Avenue Apartments, LLC were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of December 31, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Report on Summarized Comparative Information**

We have previously audited the Organization's 2014 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated May 7, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

## **Other Matters**

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information included in Exhibits 1 and 2 is presented for purposes of additional analysis rather than to present the financial position, changes in net assets, and cash flows of the individual entities and is not a required part of the consolidated financial statements. The accompanying supplementary information in Exhibit 3 and 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* (Uniform Guidance), is presented for additional analysis and is not a required part of the consolidated 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 consolidated 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 May 2, 2016 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

*SEEM JOHNSON, LLP*

Omaha, Nebraska,  
May 2, 2016.

## Lutheran Family Services of Nebraska, Inc. and Affiliates

### Consolidated Statement of Financial Position December 31, 2015, with Comparative Totals for 2014

	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,621,860	1,572,463
Short-term investments	1,357,815	2,274,147
Receivables -		
Service accounts, net of allowance for uncollectible accounts and contractual adjustments of \$80,000 in 2015 and \$70,000 in 2014	1,221,905	933,919
Unrestricted pledges, net	176,381	88,860
Restricted pledges for specific purposes	1,098,329	752,680
Grants and bequests	1,047,095	1,041,682
Other	21,396	11,317
Prepaid expenses	134,498	149,109
Total current assets	<u>6,679,279</u>	<u>6,824,177</u>
Investment in Josiah Place, Inc.	4,652	4,652
Interest in Fremont Area Community Foundation	498,511	502,998
Unrestricted pledges, less current portion	13,278	26,298
Restricted pledges for specific purposes, less current portion	351,400	156,000
Beneficial interest in perpetual trust	1,085,963	1,045,991
Beneficial interest in charitable remainder trust	131,504	--
Assets limited as to use for specific purposes and endowment	2,505,095	1,288,918
Property and equipment, net	5,367,343	5,118,822
Total assets	<u>\$ 16,637,025</u>	<u>14,967,856</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Current portion of long-term debt	\$ 272,193	273,387
Accounts payable	445,297	602,480
Accrued salaries, wages, vacation and payroll taxes payable	1,074,537	1,263,213
Retirement plan payable	43,091	38,084
Deferred revenue	1,676,137	1,874,747
Total current liabilities	<u>3,511,255</u>	<u>4,051,911</u>
Long term debt, net of current portion	--	272,193
Deferred compensation liability	260,205	240,258
Total liabilities	<u>3,771,460</u>	<u>4,564,362</u>
Commitments		
Net assets:		
Unrestricted net assets	7,761,566	7,098,366
Temporarily restricted net assets	3,170,980	1,412,081
Permanently restricted net assets	1,933,019	1,893,047
Total net assets	<u>12,865,565</u>	<u>10,403,494</u>
Total liabilities and net assets	<u>\$ 16,637,025</u>	<u>14,967,856</u>

See notes to consolidated financial statements

**Lutheran Family Services of Nebraska, Inc. and Affiliates**

**Consolidated Statement of Activities**

**For the Year Ended December 31, 2015, with Comparative Totals for 2014**

	2015			Total	2014
	Unrestricted	Temporarily Restricted	Permanently Restricted		
REVENUE, GAINS AND OTHER SUPPORT:					
Public support -					
Congregations and individuals	\$ 1,952,335	1,907,079	--	3,859,414	1,920,429
United Ways	578,996	615,133	--	1,194,129	1,060,079
LCMS - Nebraska District	94,399	--	--	94,399	103,215
ELCA - Nebraska Synod	182,568	--	--	182,568	182,568
Private grants	1,882,036	--	--	1,882,036	1,618,926
Government grants	4,856,080	--	--	4,856,080	5,614,795
Net assets released from restrictions, including United Ways of \$545,680 in 2015 and \$463,750 in 2014	754,280	(754,280)	--	--	--
Individual gifts and bequests, net	810,295	--	--	810,295	897,744
Total public support	<u>11,110,989</u>	<u>1,767,932</u>	<u>--</u>	<u>12,878,921</u>	<u>11,397,756</u>
Program service revenue -					
Program service fees, net	4,763,054	--	--	4,763,054	3,964,784
Purchase of service contracts	6,304,372	--	--	6,304,372	5,209,510
Total program service revenue, net	<u>11,067,426</u>	<u>--</u>	<u>--</u>	<u>11,067,426</u>	<u>9,174,294</u>
Other -					
Investment income and other, net	108,696	12,059	--	120,755	865,544
Rental income	183,792	--	--	183,792	189,028
Loss on disposal of property and equipment	(18,597)	--	--	(18,597)	--
Total other, net	<u>273,891</u>	<u>12,059</u>	<u>--</u>	<u>285,950</u>	<u>1,054,572</u>
Total revenue, gains and other support	<u>\$ 22,452,306</u>	<u>1,779,991</u>	<u>--</u>	<u>24,232,297</u>	<u>21,626,622</u>

*See notes to consolidated financial statements*

## Lutheran Family Services of Nebraska, Inc. and Affiliates

### Consolidated Statement of Activities (Continued) For the Year Ended December 31, 2015, with Comparative Totals for 2014

	2015			Total	2014
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Total revenue, gains and other support - forward	\$ 22,452,306	1,779,991	--	24,232,297	21,626,622
EXPENSES:					
Operating expenses -					
Salaries	11,617,062	--	--	11,617,062	10,885,834
Employee benefits	1,325,360	--	--	1,325,360	1,146,575
Payroll taxes	868,077	--	--	868,077	833,392
Total salaries and related expenses	13,810,499	--	--	13,810,499	12,865,801
Legal and accounting fees	61,501	--	--	61,501	91,037
Professional fees	1,373,822	--	--	1,373,822	1,398,183
Foster parent fees	919,156	--	--	919,156	684,520
Supplies	810,323	--	--	810,323	641,173
Telephone	441,264	--	--	441,264	434,489
Postage and shipping	44,579	--	--	44,579	56,238
Occupancy cost	1,094,662	--	--	1,094,662	963,289
Travel expense	533,859	--	--	533,859	449,275
Conference expense	236,249	--	--	236,249	137,155
Assistance to individuals	990,750	--	--	990,750	1,059,970
Equipment and maintenance	419,841	--	--	419,841	450,715
Insurance	140,517	--	--	140,517	122,865
Printing	210,186	--	--	210,186	199,315
Subscriptions and publications	11,786	--	--	11,786	7,058
Board expense	2,763	--	--	2,763	3,734
Organization dues	60,749	--	--	60,749	53,611
Uncollectible accounts	142,480	--	--	142,480	72,577
Miscellaneous	38,507	--	--	38,507	29,524
Interest expense	1,573	--	--	1,573	2,600
Grants to other organizations	19,100	--	--	19,100	52,527
Depreciation	365,873	--	--	365,873	342,476
Total expenses	21,730,039	--	--	21,730,039	20,118,132
EXCESS OF REVENUE OVER EXPENSES	722,267	1,779,991	--	2,502,258	1,508,490
CHANGE IN VALUE OF BENEFICIAL INTEREST IN PERPETUAL TRUST	--	--	39,972	39,972	120,277
CHANGES IN UNREALIZED LOSSES ON OTHER THAN TRADING SECURITIES, NET	(59,067)	(21,092)	--	(80,159)	(554,143)
CHANGE IN NET ASSETS	663,200	1,758,899	39,972	2,462,071	1,074,624
NET ASSETS, beginning of year	7,098,366	1,412,081	1,893,047	10,403,494	9,328,870
NET ASSETS, end of year	\$ 7,761,566	3,170,980	1,933,019	12,865,565	10,403,494

See notes to consolidated financial statements

## Lutheran Family Services of Nebraska, Inc. and Affiliates

### Consolidated Statement of Cash Flows For the Year Ended December 31, 2015, with Comparative Totals for 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 2,462,071	1,074,624
Adjustments to reconcile change in net assets to net cash provided by operating activities -		
Depreciation expense	365,873	342,476
Changes in unrealized gains on other than trading securities, net	80,159	554,143
Change in value of beneficial interest in perpetual trust	(39,972)	(120,277)
Contribution of beneficial interest in charitable remainder trust	(131,504)	--
Loss on disposal of property and equipment	18,597	--
(Increase) decrease in assets -		
Receivables -		
Service accounts	(287,986)	(194,032)
Unrestricted pledges, net	(74,501)	74,453
Restricted pledges for specific purposes	(541,049)	(352,430)
Grants and bequests	(5,413)	(140,041)
Other	(10,079)	(3,283)
Prepaid expenses	14,611	8,580
Increase (decrease) in current liabilities -		
Accounts payable	(157,183)	219,687
Accrued salaries, wages, vacation and payroll taxes payable	(188,676)	171,749
Retirement plan payable	5,007	(955)
Deferred revenue	(198,610)	86,566
Net cash provided by operating activities	<u>1,311,345</u>	<u>1,721,260</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment, net	(632,991)	(215,799)
Change in interest in Fremont Area Community Foundation	4,487	(25,713)
Withdrawals from (deposits to) short term investments, net	836,173	(27,881)
Deposits to assets limited to use for specific purposes and endowment, net	<u>(1,196,230)</u>	<u>(39,724)</u>
Net cash used in investing activities	<u>(988,561)</u>	<u>(309,117)</u>
CASH FLOWS FROM FINANCING ACTIVITIES,		
Payments on long-term debt	<u>(273,387)</u>	<u>(522,360)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	49,397	889,783
CASH AND CASH EQUIVALENTS:		
Beginning of year	<u>1,572,463</u>	<u>682,680</u>
End of year	<u>\$ 1,621,860</u>	<u>1,572,463</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Cash paid for interest	<u>\$ 1,573</u>	<u>2,600</u>

See notes to consolidated financial statements

# Lutheran Family Services of Nebraska, Inc. and Affiliates

## Consolidated Statement of Functional Expenses For the Year Ended December 31, 2015, with Comparative Totals for 2014

Lutheran Family Services of Nebraska, Inc.

	Program Services				Support Services			Affiliates	Eliminations	Total Expenses	
	Behavioral Health Services	Children Services	Community Services	Total Program Services	Agency Management	Fund Raising/ Public Relations	Total Support Services			2015	2014
Salaries	\$ 4,425,943	2,948,970	2,118,776	9,493,689	1,449,144	666,424	2,115,568	111,217	(103,412)	11,617,062	10,885,834
Employee benefits	553,312	314,575	199,756	1,067,643	184,703	73,014	257,717	20,675	(20,675)	1,325,360	1,146,575
Payroll taxes	330,907	222,847	162,080	715,834	106,440	45,672	152,112	8,404	(8,273)	868,077	833,392
Total salaries and related expenses	5,310,162	3,486,392	2,480,612	11,277,166	1,740,287	785,110	2,525,397	140,296	(132,360)	13,810,499	12,865,801
Legal and accounting fees	--	--	--	--	57,903	--	57,903	26,314	(22,716)	61,501	91,037
Professional fees	604,625	105,734	256,600	966,959	313,746	60,444	374,190	32,673	--	1,373,822	1,398,183
Foster parent fees	--	919,156	--	919,156	--	--	--	--	--	919,156	684,520
Supplies	114,479	290,948	244,067	649,494	31,380	119,557	150,937	9,892	--	810,323	641,173
Telephone	90,884	66,912	22,265	180,061	255,427	4,315	259,742	1,461	--	441,264	434,489
Postage and shipping	6,664	8,442	7,634	22,740	7,280	14,559	21,839	--	--	44,579	56,238
Occupancy cost	529,688	240,674	367,518	1,137,880	158,337	24,935	183,272	123,138	(349,628)	1,094,662	963,289
Travel expenses	172,394	191,557	111,596	475,547	35,615	22,552	58,167	145	--	533,859	449,275
Conference expense	27,729	97,952	37,900	163,581	18,640	54,028	72,668	--	--	236,249	137,155
Assistance to individuals	48,042	14,252	928,456	990,750	--	--	--	--	--	990,750	1,059,970
Equipment and maintenance	62,936	26,663	35,621	125,220	161,503	28,504	190,007	104,614	--	419,841	450,715
Insurance	43,625	29,066	22,287	94,978	13,832	6,569	20,401	25,138	--	140,517	122,865
Printing	24,854	49,755	4,982	79,591	10,708	117,816	128,524	2,071	--	210,186	199,315
Subscriptions and publications	639	1,629	257	2,525	7,457	1,804	9,261	--	--	11,786	7,058
Board expense	--	--	--	--	2,763	--	2,763	--	--	2,763	3,734
Organization dues	5,809	3,276	3,325	12,410	47,220	1,119	48,339	--	--	60,749	53,611
Uncollectible accounts	106,889	35,245	76	142,210	--	--	--	270	--	142,480	72,577
Miscellaneous	120	5,566	2,469	8,155	888	2,309	3,197	27,155	--	38,507	29,524
Interest expense	--	--	--	--	1,573	--	1,573	--	--	1,573	2,600
Grants to affiliates and other organizations	--	--	--	--	--	--	--	425,540	(406,440)	19,100	52,527
Total expense before depreciation	7,149,539	5,573,219	4,525,665	17,248,423	2,864,559	1,243,621	4,108,180	918,707	(911,144)	21,364,166	19,775,656
Depreciation expense	62,819	43,301	28,732	134,852	21,279	9,785	31,064	199,957	--	365,873	342,476
Total expenses	\$ 7,212,358	5,616,520	4,554,397	17,383,275	2,885,838	1,253,406	4,139,244	1,118,664	(911,144)	21,730,039	20,118,132

See notes to consolidated financial statements

# Lutheran Family Services of Nebraska, Inc. and Affiliates

## Notes to Consolidated Financial Statements December 31, 2015, with Comparative Totals for 2014

---

### (1) Description of Organization

The consolidated financial statements include the accounts of Lutheran Family Services of Nebraska, Inc. and its affiliates (the Organization). These affiliates are Omaha Church Center, Inc., Lutheran Family Services Foundation, Inc., and LFS 25th Avenue Apartments, LLC. Lutheran Family Services of Nebraska, Inc. is the sole voting member of Lutheran Family Services Foundation, Inc. and Omaha Church Center, Inc. The LFS 25th Avenue Apartments, LLC is a limited liability company wholly owned by Lutheran Family Services of Nebraska, Inc. All organizations are organized under the laws of the State of Nebraska. Lutheran Family Services of Nebraska, Inc., Lutheran Family Services Foundation, Inc. and Omaha Church Center, Inc. are also exempt from federal income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code.

Lutheran Family Services of Nebraska, Inc. is a multi-service organization whose purpose is to build and strengthen individual, family and community life across Nebraska. The Organization offers major outpatient services and assistance to individuals through multiple office locations. Many of Lutheran Family Services of Nebraska, Inc. programs are offered on a sliding-fee "ability to pay" basis. The Organization's corporate members are the Evangelical Lutheran Church of America - Nebraska Synod and the Lutheran Church Missouri Synod - Nebraska District.

Omaha Church Center, Inc. provides rental space to Lutheran Family Services of Nebraska, Inc.

Lutheran Family Services Foundation, Inc.'s purpose is to manage and distribute funds, solicited from the statewide Lutheran constituency and the general public, in order to further the services of Lutheran Family Services of Nebraska, Inc. and the operations of Omaha Church Center, Inc.

Lutheran Family Services of Nebraska, Inc. organized LFS 25th Avenue Apartments, LLC. in connection with the purchase and operation of an apartment building on its campus.

### (2) Summary of Significant Accounting Policies

These policies are in accordance with the accounting principles generally accepted in the United States of America (GAAP).

#### A. *Basis of Accounting and Presentation*

The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with GAAP. Revenue is recorded when earned and expenses are recorded when incurred. Financial statement presentation follows the recommendations of FASB ASC 958-205, *Not-for-Profit Entities, Presentation of Financial Statements*. Under FASB ASC 958-205, the Organization is required to report information regarding its financial position and activities according to three classes of net assets:

- Unrestricted net assets include those net assets whose use is not restricted by donors, even though their use may be limited in other respects, such as by contract or by board designation. As of December 31, 2015 and 2014, the Organization had board designated net assets in the amount of \$306,598 and \$201,201 for specific program purposes.
- Temporarily restricted net assets are those net assets whose use by the Organization has been limited by donors to later periods of time or after specified dates, or to specified purposes.
- Permanently restricted net assets are those net assets whose use by the Organization has donor-imposed restrictions that stipulate resources be maintained permanently, but permits the Organization to use or expend part or all of the income (or economic benefits) derived from the donated assets.

## Lutheran Family Services of Nebraska, Inc. and Affiliates

### Notes to Consolidated Financial Statements December 31, 2015, with Comparative Totals for 2014

---

*B. Use of Estimates*

The presentation of consolidated financial statements in conformity with GAAP 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 consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

*C. Cash and Cash Equivalents*

Cash and cash equivalents for purposes of the statement of cash flows includes investments in highly liquid debt instruments with original maturities of three months or less and exclude cash and cash equivalents included in short-term investments or assets limited as to use for specific purposes and endowment.

*D. Service Accounts Receivable, Net*

Net service accounts receivable consist of fees due from clients and their insurance companies and amounts due on various contracts reduced by a valuation allowance for uncollectible accounts and contractual adjustments from third party payors. These receivables are unsecured. The allowances reflect management's estimate of amounts that will not be collected in the future and are based on reviews of account balances by payor classes. Percentages are applied to each payor class based on contractual agreements and historical collection and recovery information to determine the net realizable value of the service accounts receivable.

Payment for services is expected within thirty days of receipt of the billing. Any amounts deemed uncollectible are written off on a monthly basis. The Organization does not charge interest on outstanding balances owed.

*E. Investments*

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated statement of financial position. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in excess of revenue over expenses unless the income or loss is restricted by donor or law. Changes in unrealized gains and losses on investments are excluded from excess of revenue over expenses unless the investments are trading securities.

*F. Assets Limited as to Use*

Assets limited as to use primarily include assets with donor restrictions and designated assets set aside by the Board of Directors for specific purposes, over which the Board retains control and may at its discretion subsequently use for other purposes.

*G. Beneficial Interest in Perpetual Trust*

In 2010, the Organization became a beneficiary of a donor created trust in which the donor established a trust from their estate. The Organization will receive 40% of the trust's net income annually to be used for fulfilling their charitable purposes.

## Lutheran Family Services of Nebraska, Inc. and Affiliates

### Notes to Consolidated Financial Statements December 31, 2015, with Comparative Totals for 2014

---

#### *H. Beneficial Interest in Charitable Remainder Trust*

The Organization is the irrevocable partial beneficiary of a non-perpetual charitable remainder unitrust held by a third-party trustee. The trust was created independently of the Organization and is neither in the possession nor under the control of the Organization. The trust is administered by a third-party trustee as designated by the donor. The Organization records its partial interest in the trust at fair value as measured by the present value of the estimated future distributions to be received by the Organization over the term of the agreement, discounted at the rate commensurate with the risks involved.

The beneficial interest in charitable remainder trust is recognized as revenue when the Organization is notified that it has been named as an irrevocable beneficiary and has sufficient information to make a reasonable estimate of the fair value of its interest. The value of the beneficial interest in charitable remainder trust is adjusted annually for the change in fair value. The change in value is reported as a change in temporarily restricted net assets. Upon the termination date specified by the trust, the partial interest in trust assets will be distributed to the Organization by the trustee under the provisions of the trust agreement and the net assets will be reclassified from temporarily restricted to unrestricted.

#### *I. Property and Equipment, Net*

Property and equipment are stated at cost. Depreciation is provided over the estimated useful lives of each class of depreciable assets and is computed using the straight-line method. The Organization maintains a capitalization policy of \$5,000. The useful lives of property and equipment for purposes of computing depreciation are:

Land improvements	7 – 10 Years
Building	5 – 40 Years
Building improvements	7 – 10 Years
Furniture and equipment	3 – 20 Years
Vehicles	2 – 5 Years

When property and equipment are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts, and any resulting gain or loss on disposition is reflected in operations. Repairs and maintenance are expensed as incurred; expenditures for additions, improvements and replacements are capitalized.

Gifts of long-lived assets such as land, buildings or equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

# Lutheran Family Services of Nebraska, Inc. and Affiliates

## Notes to Consolidated Financial Statements December 31, 2015, with Comparative Totals for 2014

---

### J. *Deferred Revenue*

Deferred revenue consists primarily of revenue received to fund future program activities. Deferred revenue consists of the following:

	<u>2015</u>	<u>2014</u>
Children services	\$ 686,917	963,998
Behavioral health	378,883	262,563
Community services	164,527	202,272
Disaster relief	82,259	101,532
Technology	33,200	33,200
General program services	330,351	311,182
	<u>\$ 1,676,137</u>	<u>1,874,747</u>

### K. *Endowments*

The Organization's endowments consist of funds established to invest permanently restricted donations. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. As of December 31, 2015, the Organization had no Board designated endowments.

The Board of Directors of the Organization 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 Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by NUPMIFA. In accordance with NUPMIFA, the Organization 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

### L. *Donor-Restricted Gifts*

Unconditional promises to give cash and other assets to the Organization are reported at fair value at the date the promise is received or given. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose of restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

## Lutheran Family Services of Nebraska, Inc. and Affiliates

### Notes to Consolidated Financial Statements December 31, 2015, with Comparative Totals for 2014

---

*M. Advertising*

The Organization expenses advertising costs as incurred. At December 31, 2015 and 2014 advertising expense of \$83,711 and \$72,979, respectively, is included in printing expense in the consolidated statement of activities.

*N. Functional Allocation of Expenses*

The costs of providing the various programs and other activities of the Organization have been summarized on a functional basis in the consolidated statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

*O. Excess of Revenue Over Expenses*

The statement of activities includes excess of revenue over expenses as a performance indicator. Changes in net assets which are excluded from the performance indicator include change in unrealized gains and losses on other than trading securities and changes in the value of interest in perpetual trust.

*P. Fair Value of Financial Instruments*

The carrying amounts of all financial instruments approximate estimated fair value. Cash and cash equivalents, receivables and payables are reasonable estimates of their fair values due to their short term nature. Fair values for short-term investments, assets limited as to use, interest in Fremont Area Community Foundation, beneficial interest in perpetual trust and beneficial interest in charitable remainder trust are stated at fair value as discussed in Note 5. The carrying value of long-term debt approximates fair value since the interest rates closely reflect current market rates.

*Q. Income Taxes*

Lutheran Family Services of Nebraska, Inc., Omaha Church Center, Inc. and Lutheran Family Services Foundation, Inc. are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code. All entities have received determination letters that they are exempt from federal income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code. The Internal Revenue Service has established standards to be met to maintain the Organization's tax-exempt status.

LFS 25<sup>th</sup> Avenue Apartments, LLC is a limited liability company wholly owned by Lutheran Family Services of Nebraska, Inc.

The Organization accounts for uncertainties in accounting for income tax assets and liabilities using guidance included in Financial Accounting Standards Board, Accounting Standards Codification (FASB ASC) Topic 740, *Income Taxes*. The Organization recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. At December 31, 2015 and 2014, the Organization had no uncertain tax positions accrued.

*R. Comparative Amounts*

The amounts shown for 2014 in the accompanying consolidated financial statements are included to provide a basis for comparison with 2015, and are not intended to present all information necessary for a fair presentation of the 2014 consolidated financial statements in conformity with accounting principles generally accepted in the United States of America.

## Lutheran Family Services of Nebraska, Inc. and Affiliates

### Notes to Consolidated Financial Statements December 31, 2015, with Comparative Totals for 2014

#### S. *Reclassification*

Certain amounts in the 2014 financial statements have been reclassified to conform to the 2015 reporting format.

#### T. *Subsequent Events*

The Organization considered events occurring through May 2, 2016 for recognition or disclosure in the consolidated financial statements as subsequent events. That date is the date the financial statements were available to be issued.

### (3) Pledges Receivable

Promises to give outstanding as of December 31, 2015, which have been reflected in the consolidated financial statements as unrestricted and restricted pledges receivable, are due as follows:

<u>Year Ended December 31:</u>	<u>Unrestricted</u>	<u>Restricted</u>
2016	\$ 176,381	1,098,329
2017	13,278	178,200
2018	--	173,200
Pledges receivable	189,659	1,449,729
Less current portion	<u>(176,381)</u>	<u>(1,098,329)</u>
Pledges receivable, net of current portion	<u>\$ 13,278</u>	<u>351,400</u>

### (4) Investments, Including Assets Limited as to Use

The composition of investments, including assets limited as to use, at December 31, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Short-term investments	\$ <u>1,357,815</u>	<u>2,274,147</u>
Assets limited as to use –		
By donor	1,938,292	847,459
By Board	306,598	201,201
Deferred compensation	<u>260,205</u>	<u>240,258</u>
Total assets limited as to use	<u>\$ 2,505,095</u>	<u>1,288,918</u>

The Organization has outsourced the management of a majority of their investment portfolios to third-party investment managers. Third-party investment managers follow the Organization's investment policies; however, no restrictions on buying or selling specific securities are imposed. Therefore, the Organization does not consider any impairment loss to be temporary. Impairment losses are included with investment income and other, net, and a new cost basis is established for each security for which an impairment loss is recognized. During the years ended December 31, 2015 and 2014, there were no impairment losses.

## Lutheran Family Services of Nebraska, Inc. and Affiliates

### Notes to Consolidated Financial Statements December 31, 2015, with Comparative Totals for 2014

---

Investment return for the years ended December 31, 2015 and 2014 is summarized as follows:

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 91,316	104,379
Net realized gains (losses)	(11,145)	719,187
Change in unrealized losses	<u>(80,159)</u>	<u>(554,143)</u>
Total investment return	<u>\$ 12</u>	<u>269,423</u>

#### (5) Fair Value

##### Fair Value Hierarchy

The Organization applies FASB ASC Topic 820 for fair value measurements of financial assets and financial liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. FASB ASC Topic 820 establishes 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 measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 inputs are quoted market prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly through either corroboration or observable market data.

Level 3 inputs are inputs are unobservable for the asset or liability. Therefore, unobservable inputs shall reflect the entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk) developed based on the best information available in the circumstances.

The following methods and assumptions were used to estimate the fair value for each class of financial instrument measured at fair value:

*Cash and cash equivalents* – The fair value of cash and cash equivalents, consisting primarily of money market funds, is classified as Level 1 as these funds are valued using quoted market prices.

*Mutual funds* – The fair value of mutual funds are classified as Level 1 as the market values based on quoted market prices, when available, or market prices provided by recognized broker dealers.

*Corporate stocks* – Corporate stocks are classified as Level 1 as they are traded in an active market for which closing prices are readily available.

*Fixed income securities* – Investments in fixed income securities are comprised of mortgage backed securities and corporate bonds and notes. Fixed income securities are classified as Level 2 based on multiple sources of information, which may include market data and/or quoted market prices from either markets that are not active or are for the same or similar assets in active markets.

*Interest in Fremont Area Community Foundation* – The interest in Fremont Area Community Foundation is classified as Level 3 as the fair value of the interest is valued based on the Fremont Area Community Foundation's underlying assets which are unobservable to market participants.

## Lutheran Family Services of Nebraska, Inc. and Affiliates

### Notes to Consolidated Financial Statements December 31, 2015, with Comparative Totals for 2014

*Beneficial interest in perpetual trust* – The fair value of the beneficial interest in perpetual trust is classified as Level 3 as the beneficial interest is valued based on the trust’s underlying assets which are unobservable to market participants and the Organization will never receive the perpetual trust’s assets. The underlying assets consist of cash and cash equivalents, domestic and international stocks corporate and government obligations, and real estate.

*Beneficial interest in charitable remainder trust* – The valuation of the beneficial interest in charitable remainder trust is classified as level 3 as there are no significant observable inputs, as they trade infrequently or not at all. The trust valuation is based on assumptions about the present value of distributions to be received from the trust, which generally include the current market value of the underlying assets using observable market inputs based on its beneficial interest in the trust discounted for present value using market rates.

The following tables present the financial instruments that are measured at fair value on a recurring basis (including items that are required to be measured at fair value) at December 31, 2015 and 2014:

	2015			
	Total	Level 1	Level 2	Level 3
Investments, including assets limited as to use presented at fair value:				
Cash & cash equivalents	\$ 550,255	550,255	--	--
Mutual funds -				
Domestic	105,763	105,763	--	--
International	109,235	109,235	--	--
Corporate stocks -				
Domestic	1,333,280	1,333,280	--	--
International	436,929	436,929	--	--
Fixed income -				
Corporate bonds	1,020,479	--	1,020,479	--
Interest in Fremont Area Community Foundation	498,511	--	--	498,511
Beneficial interest in perpetual trust	1,085,963	--	--	1,085,963
Beneficial interest in charitable remainder trust	131,504	--	--	131,504
	<u>\$ 5,271,919</u>	<u>2,535,462</u>	<u>1,020,479</u>	<u>1,715,978</u>
Investments, including assets limited as to use - other, Cash surrender value of life insurance	<u>306,969</u>			
Total investments, including assets limited as to use	<u>\$ 5,578,888</u>			

# Lutheran Family Services of Nebraska, Inc. and Affiliates

## Notes to Consolidated Financial Statements December 31, 2015, with Comparative Totals for 2014

	2014			
	Total	Level 1	Level 2	Level 3
Investments, including assets limited as to use presented at fair value:				
Cash & cash equivalents	\$ 692,020	692,020	--	--
Mutual funds -				
Domestic	27,534	27,534		
International	27,255	27,255		
Corporate stocks -				
Domestic	1,223,538	1,223,538	--	--
International	407,915	407,915	--	--
Fixed income -				
Corporate bonds	901,766	--	901,766	--
Interest in Fremont Area Community Foundation	502,998	--	--	502,998
Beneficial interest in perpetual trust	1,045,991	--	--	1,045,991
	<u>\$ 4,829,017</u>	<u>2,378,262</u>	<u>901,766</u>	<u>1,548,989</u>
Investments, including assets limited as to use - other, Cash surrender value of life insurance	<u>283,037</u>			
Total investments, including assets limited as to use	<u>\$ 5,112,054</u>			

Reconciliation of Level 3 assets for the year ended December 31, 2015 is as follows:

Balance, December 31, 2014	\$ 1,548,989
Change in value of beneficial interest in perpetual trust	39,972
Contribution of beneficial interest in charitable remainder trust	131,504
Change in interest in Fremont Area Community Foundation	<u>(4,487)</u>
Balance, December 31, 2015	<u>\$ 1,715,978</u>

### (6) Investment in Josiah Place, Inc.

The Organization is the sponsor of Josiah Place, Inc., a Nebraska not-for-profit Agency. Josiah Place, Inc. was incorporated in December 2004 for the purpose of constructing and operating very low income independent living housing for persons with chronic mental illnesses. The housing project was funded by the U.S. Department of Housing and Urban Development Section 811 capital advance.

### (7) Interest in Fremont Area Community Foundation

In 2008, the Organization established an interest in the Fremont Area Community Foundation (FACF) for the purpose of supporting programs and services in the Fremont Area Center for Healthy Families (CHF). Because the Organization does not have the authority to appoint a majority of the Board Members of the FACF, the consolidated financial statements do not include the accounts of this organization. All funds raised, except funds required for administrative fees incurred by the FACF, are to be distributed, or held for the purpose of supporting the programs and services of the CHF, or as required to comply with the purposes specified by donors.

The Organization has recognized its transfers to the FACF and net assets of the FACF restricted for the Organization's use as an interest in the foundation in the accompanying consolidated statement of financial position. Increases and decreases in the Organization's interest in FACF relating to investment income and contributions are recognized with investment income and other, net, in the accompanying consolidated financial statements.

## Lutheran Family Services of Nebraska, Inc. and Affiliates

### Notes to Consolidated Financial Statements December 31, 2015, with Comparative Totals for 2014

#### (8) Property and Equipment, Net

A summary of property and equipment at December 31, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Land and improvements	\$ 1,227,166	1,243,890
Land held for future use	500,000	500,000
Building	2,615,894	2,585,841
Building improvements	2,560,886	2,543,626
Furniture and equipment	1,215,432	1,240,094
Vehicles	47,868	47,868
Construction in progress	<u>655,463</u>	<u>106,861</u>
	8,822,709	8,268,180
Less accumulated depreciation	<u>(3,455,366)</u>	<u>(3,149,358)</u>
	<u>\$ 5,367,343</u>	<u>5,118,822</u>

Depreciation expense of \$365,873 and \$342,476 in 2015 and 2014, respectively, is included in the accompanying consolidated statement of activities.

As of December 31, 2015 the Organization incurred costs of \$517,518 for the build out of a new office location in Lincoln, Nebraska. The project is estimated to be completed in April of 2016. The total estimated remaining costs are \$1.1 million which will be financed through private donations and grants. The balance of construction in progress at December 31, 2015 relates to the acquisition and remodeling of property on the Organization's campus.

#### (9) Long-Term Debt

Long-term debt as of December 31, 2015, consists of the following:

	<u>2015</u>	<u>2014</u>
0%, \$1,250,000 note payable to LDI Holdings, LLC. First payment of \$500,000 due on March 1, 2014 with payments of \$250,000 due annually thereafter until March 1, 2016. Note is collateralized by building (included in LFS 25th Avenue Apartments, LLC.).	250,000	500,000
4.50%, \$91,000 capital lease in monthly payments of \$2,080, including principal and interest through December 2016 to CSC Leasing Company, secured by equipment under lease.	<u>22,193</u>	<u>45,580</u>
	272,193	545,580
Less current portion	<u>272,193</u>	<u>273,387</u>
Total long-term debt	<u>\$ --</u>	<u>272,193</u>

## Lutheran Family Services of Nebraska, Inc. and Affiliates

### Notes to Consolidated Financial Statements December 31, 2015, with Comparative Totals for 2014

#### (10) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Refugee services	\$ 1,000,000	--
Pledges receivable, future general program services	626,500	45,000
United Way allocations for program services	615,133	545,680
Primus Building and Campus	229,949	379,473
Capital projects	203,584	8,000
Grace Hansen Children's Fund	183,971	92,827
Fremont Area Center for Healthy Families	143,494	152,527
Education Leadership and Development	88,336	90,636
Prison ministry	43,419	61,344
Children services	36,594	36,594
	<u>\$ 3,170,980</u>	<u>1,412,081</u>

Permanently restricted net assets have been restricted by donors to be maintained in perpetuity. Permanently restricted net assets of the Organization at December 31, 2015 and 2014, are restricted to:

	<u>2015</u>	<u>2014</u>
Beneficial interest in perpetual trust	\$ 1,085,963	1,045,991
Support of general operations	485,327	485,327
Fremont Area Center for Healthy Families	361,729	361,729
	<u>\$ 1,933,019</u>	<u>1,893,047</u>

#### (11) United Ways Support

The following is the detail of "United Ways" support included in unrestricted activities in the accompanying consolidated statement of activities:

	<u>2015</u>	<u>2014</u>
United Way of the Midlands	\$ 796,972	656,563
United Way of the Midlands (International Center)	206,724	210,349
Fremont Area United Way	70,000	75,000
Heartland United Way, Inc.	36,219	22,244
Lexington United Way	8,000	6,000
Mid-Plains United Way	3,000	2,500
Cozad United Way, Inc.	2,000	2,000
United Way of McCook	1,080	1,080
United Way of Lincoln and Lancaster County	681	1,743
United Way of the Kearney Area	--	670
	<u>\$ 1,124,676</u>	<u>978,149</u>

## Lutheran Family Services of Nebraska, Inc. and Affiliates

### Notes to Consolidated Financial Statements December 31, 2015, with Comparative Totals for 2014

---

#### (12) Contributions

Contributions are included in the consolidated statement of activities. Total contributions recognized for the years ended December 31, 2015 and 2014 were:

	<u>2015</u>	<u>2014</u>
Unrestricted contributions -		
Congregations and individuals (including in-kind contributions)	\$ 1,952,335	1,557,626
LCMS – Nebraska District	94,399	103,215
ELCA – Nebraska Synod	182,568	182,568
Individual gifts and bequests, net	<u>810,295</u>	<u>897,744</u>
Total unrestricted contributions	3,039,597	2,741,153
Temporarily restricted contributions	<u>2,522,212</u>	<u>908,483</u>
Total contributions	<u>\$ 5,561,809</u>	<u>3,649,636</u>

Donated professional services, space and other in-kind contributions are reported at fair value when received and reported in the consolidated statement of activities. The value of these contributions is as follows:

	<u>2015</u>	<u>2014</u>
Supplies and other	\$ 355,422	297,467
Occupancy costs	251,697	90,157
Professional fees	243,205	173,662
Legal and accounting fees	<u>36,392</u>	<u>40,126</u>
	<u>\$ 886,716</u>	<u>601,412</u>

The Organization also received donated clerical services during the year to benefit existing programs and activities. These contributions were not recognized as revenue in the consolidated statement of activities since they did not meet the recognition requirements of FASB ASC Topic 958 Subtopic 605, *Revenue Recognition*. The fair value of these contributions amounted to \$47,275 in 2015 and \$54,489 in 2014.

## Lutheran Family Services of Nebraska, Inc. and Affiliates

### Notes to Consolidated Financial Statements December 31, 2015, with Comparative Totals for 2014

#### (13) Government Service Contracts and Grants

The following is a detail of government grants and purchase of service contracts included in the accompanying consolidated statement of activities:

	<u>2015</u>	<u>2014</u>
<u>Grants:</u>		
Nebraska Health and Human Services	1,154,130	1,041,372
Church World Services	\$ 1,061,071	1,050,570
Lutheran Immigration and Refugee Service	700,867	918,932
NHHS – Refugee Education and Employability Partnership	470,766	462,948
Learning Community of Douglas and Sarpy Counties	410,896	630,312
AmeriCorps	343,932	334,488
Nebraska Families Collaborative	282,436	234,240
Douglas County Home Visitation	193,847	229,256
Lancaster County, Nebraska	--	450,000
Other	238,135	262,677
	<u>\$ 4,856,080</u>	<u>5,614,795</u>
<u>Purchase of Service Contracts:</u>		
Region 6 Behavioral Healthcare	\$ 3,710,093	3,362,971
Region V	2,196,951	1,517,340
Region II and Region III	177,294	186,320
Other	220,034	142,879
	<u>\$ 6,304,372</u>	<u>5,209,510</u>

#### (14) Joint Ventures

##### *Right Turn, LLC*

The Organization is one of two corporate members of Right Turn, LLC, which was formed as a joint venture between Lutheran Family Services of Nebraska, Inc. and Nebraska Children's Home Society in December 2009. Right Turn, LLC was organized solely to administer a contract with the Nebraska Department of Health and Human Services for the post adoption/guardianship program to enhance adoption services statewide through education of professionals and adoptive parents, and to heighten public awareness of adoption.

The Organization recognized revenue for services rendered to Right Turn, LLC in the amount of \$679,142 and 536,807 for the years ended December 31, 2015 and 2014, respectively.

The Organization has not made any capital contributions to Right Turn, LLC. Due to lack of expected future economic benefit, the Organization has not recognized any equity interest in Right Turn, LLC. in the consolidated financial statements.

##### *Health360 Integrated Care Project*

In December 2014, The Organization entered into a Health 360 Integrated Care Agreement (Agreement) with a federally qualified health center (FQHC) in Lincoln, Nebraska to provide health services under an integrated care model, in which the FQHC provides primary care services and the Organization will provide behavioral health services. The Organization received a grant from the Community Health Endowment of Lincoln in an amount up to \$1,255,856 through December 31, 2017 to assist with funding the project.

The Organization recognized revenue in the amount of \$146,382 in 2015 related to this grant for its share of services performed under the integrated care services agreement in the accompanying statements of activities.

## Lutheran Family Services of Nebraska, Inc. and Affiliates

### Notes to Consolidated Financial Statements December 31, 2015, with Comparative Totals for 2014

---

#### (15) Lease Commitments

The Organization leases its various office facilities, equipment and vehicles under operating lease arrangements ranging in duration from one to five years. Rental expense relating to these leases amounted to \$499,962 and \$594,883 for the years ended December 31, 2015 and 2014, respectively.

The following is a schedule by years of future minimum rental commitments under non-cancelable leases as of December 31, 2015:

<u>Year Ending December 31</u>	<u>Total</u>
2016	\$ 471,945
2017	520,934
2018	502,333
2019	487,349
2020	489,237

#### (16) Pension Plan

The Organization has an Employer's Profit Sharing Plan created in accordance with Internal Revenue Code Section 401(k). Substantially all employees of the Organization are eligible to participate in the 401(k) plan. Employer contributions to the 401(k) plan are made based on the length of service of individual employees and range from 50% to 100% match of employee contributions up to 5% of eligible salaries. Total pension expense included in the consolidated statement of activities for the years ended December 31, 2015 and 2014, was \$206,581 and \$181,198, respectively.

#### (17) 457(b) Deferred Compensation Plan

The Organization has established a deferred compensation plan for a select group of management or highly compensated employees in accordance with Internal Revenue Code 457(b). The plan permits eligible employees to defer a portion of their salaries until future years. The deferred compensation is not available to the employees until retirement, separation from employment, death, unforeseeable emergency or attaining age 65. The employer is the beneficial owner of all assets the employee places in the plan. The employee is fully vested in all amounts credited to his or her account. The Organization made contributions of \$22,697 and \$22,357 to the plan on behalf of participants for the year ended December 31, 2015 and 2014, respectively.

#### (18) Concentrations of Credit Risk

The Organization has locations throughout the State of Nebraska. The Organization grants credit without collateral to its clients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from clients and third-party payors at December 31, 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Medicare and Medicaid	25%	29%
Other state/governmental funding	55	44
Client and other payors	20	27
	<u>100%</u>	<u>100%</u>

The Organization, at times, maintains cash deposits in excess of Federal Deposit Insurance Corporation insurance limits. Management believes the risk relating to these deposits is minimal.

Lutheran Family Services of Nebraska, Inc. and Affiliates

Exhibit 1

Consolidating Statement of Financial Position  
December 31, 2015

ASSETS	Lutheran Family Services of Nebraska, Inc.	Omaha Church Center, Inc.	Lutheran Family Services Foundation, Inc.	LFS 25th Avenue Apartments, LLC	Eliminations	Consolidated
Current assets:						
Cash and cash equivalents	\$ 1,044,027	12,023	415,723	150,087	--	1,621,860
Short-term investments	60,505	106,699	1,190,611	--	--	1,357,815
Receivables -						
Service accounts, net of allowance for uncollectible accounts and contractual adjustments of \$80,000	1,221,905	--	--	--	--	1,221,905
Unrestricted pledges, net	176,381	--	--	--	--	176,381
Restricted pledges for specific purposes	896,633	51,696	150,000	--	--	1,098,329
Grants and bequests	1,047,095	--	--	--	--	1,047,095
Affiliates	343,240	126,543	--	--	(469,783)	--
Other	20,195	200	--	1,001	--	21,396
Prepaid expenses	126,137	--	2,414	5,947	--	134,498
Total current assets	4,936,118	297,161	1,758,748	157,035	(469,783)	6,679,279
Investment in Josiah Place, Inc.	--	4,652	--	--	--	4,652
Investment in 25th Avenue Apartments, LLC	1,067,439	--	--	--	(1,067,439)	--
Interest in Fremont Area Community Foundation	--	--	498,511	--	--	498,511
Unrestricted pledges, less current portion	13,278	--	--	--	--	13,278
Restricted pledges for specific purposes, less current portion	345,000	6,400	--	--	--	351,400
Beneficial interest in perpetual trust	--	--	1,085,963	--	--	1,085,963
Beneficial interest in charitable remainder trust	--	--	131,504	--	--	131,504
Assets limited as to use for specific purposes and endowment	260,205	145,488	2,099,402	--	--	2,505,095
Property and equipment, net	366,337	3,827,572	--	1,173,434	--	5,367,343
Total assets	\$ 6,988,377	4,281,273	5,574,128	1,330,469	(1,537,222)	16,637,025

**Consolidating Statement of Financial Position (continued)**  
**December 31, 2015**

LIABILITIES, NET ASSETS AND MEMBER'S EQUITY	Lutheran Family Services of Nebraska, Inc.	Omaha Church Center, Inc.	Lutheran Family Services Foundation, Inc.	LFS 25th Avenue Apartments, LLC	Eliminations	Consolidated
Current liabilities:						
Current portion of long-term debt	\$ 22,193	--	--	250,000	--	272,193
Payables -						
Trade	420,674	18,884	2,280	3,459	--	445,297
Affiliates	--	--	469,783	--	(469,783)	--
Accrued salaries, wages, vacation and payroll taxes payable	1,074,537	--	--	--	--	1,074,537
Retirement plan payable	43,091	--	--	--	--	43,091
Deferred revenue	1,988,259	6,595	--	9,571	(328,288)	1,676,137
Total current liabilities	3,548,754	25,479	472,063	263,030	(798,071)	3,511,255
Deferred compensation liability	260,205	--	--	--	--	260,205
Total liabilities	3,808,959	25,479	472,063	263,030	(798,071)	3,771,460
Commitments						
Net assets and member's equity:						
Member's equity	--	--	--	1,067,439	(1,067,439)	--
Unrestricted net assets	1,937,785	4,052,210	1,443,283	--	328,288	7,761,566
Temporarily restricted net assets	1,241,633	203,584	1,725,763	--	--	3,170,980
Permanently restricted net assets	--	--	1,933,019	--	--	1,933,019
Total net assets	3,179,418	4,255,794	5,102,065	1,067,439	(739,151)	12,865,565
Total liabilities and net assets	\$ 6,988,377	4,281,273	5,574,128	1,330,469	(1,537,222)	16,637,025

**Consolidating Statement of Activities  
For the Year Ended December 31, 2015**

	Lutheran Family Services of Nebraska, Inc.	Omaha Church Center, Inc.	Lutheran Family Services Foundation, Inc.	LFS 25th Avenue Apartments, LLC	Eliminations	Consolidated
<b>UNRESTRICTED REVENUE:</b>						
Public support -						
Congregations and individuals	\$ 1,984,348	--	1,791	--	(33,804)	1,952,335
United Ways	578,996	--	--	--	--	578,996
LCMS - Nebraska District	94,399	--	--	--	--	94,399
ELCA - Nebraska Synod	182,568	--	--	--	--	182,568
Grants from affiliate	90,864	--	--	250,000	(340,864)	--
Private grants	1,882,036	--	--	--	--	1,882,036
Government grants	4,856,080	--	--	--	--	4,856,080
Net assets released from restrictions, including United Ways of \$545,680	580,680	2,000	171,600	--	--	754,280
Individual gifts and bequests, net	--	518,819	291,476	--	--	810,295
Total public support	<u>10,249,971</u>	<u>520,819</u>	<u>464,867</u>	<u>250,000</u>	<u>(374,668)</u>	<u>11,110,989</u>
Program service revenue -						
Program service fees, net	4,763,054	--	--	--	--	4,763,054
Purchase of service contracts	6,475,756	--	--	--	(171,384)	6,304,372
Total program service revenue, net	<u>11,238,810</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(171,384)</u>	<u>11,067,426</u>
Other -						
Investment income and other, net	35,106	2,304	65,792	5,494	--	108,696
Change in investment in 25th Avenue Apartments, LLC	296,832	--	--	--	(296,832)	--
Rental income	--	333,320	--	183,792	(333,320)	183,792
Loss on disposal of property and equipment	(8,383)	(10,214)	--	--	--	(18,597)
Total other, net	<u>323,555</u>	<u>325,410</u>	<u>65,792</u>	<u>189,286</u>	<u>(630,152)</u>	<u>273,891</u>
Total unrestricted revenue, gains and other support	<u>\$ 21,812,336</u>	<u>846,229</u>	<u>530,659</u>	<u>439,286</u>	<u>(1,176,204)</u>	<u>22,452,306</u>

**Lutheran Family Services of Nebraska, Inc. and Affiliates**

**Exhibit 2**

**Consolidating Statement of Activities (continued)  
For the Year Ended December 31, 2015**

	Lutheran Family Services of Nebraska, Inc.	Omaha Church Center, Inc.	Lutheran Family Services Foundation, Inc.	LFS 25th Avenue Apartments, LLC	Eliminations	Consolidated
Total unrestricted revenue, gains and other support - forward	\$ 21,812,336	846,229	530,659	439,286	(1,176,204)	22,452,306
EXPENSES:						
Operating expenses -						
Salaries	11,609,257	--	103,412	7,805	(103,412)	11,617,062
Employee benefits	1,325,360	--	20,675	--	(20,675)	1,325,360
Payroll taxes	867,946	--	8,273	131	(8,273)	868,077
Total salaries and related expenses	13,802,563	--	132,360	7,936	(132,360)	13,810,499
Legal and accounting fees	57,903	14,820	11,494	--	(22,716)	61,501
Professional fees	1,341,149	5,719	23,529	3,425	--	1,373,822
Foster parent fees	919,156	--	--	--	--	919,156
Supplies	800,431	6,001	--	3,891	--	810,323
Telephone	439,803	--	--	1,461	--	441,264
Postage and shipping	44,579	--	--	--	--	44,579
Occupancy cost	1,321,152	69,103	4,668	49,367	(349,628)	1,094,662
Travel expense	533,714	--	--	145	--	533,859
Conference expense	236,249	--	--	--	--	236,249
Assistance to individuals	990,750	--	--	--	--	990,750
Equipment and maintenance	315,227	84,074	--	20,540	--	419,841
Insurance	115,379	21,675	--	3,463	--	140,517
Printing	208,115	--	--	2,071	--	210,186
Subscriptions and publications	11,786	--	--	--	--	11,786
Board expense	2,763	--	--	--	--	2,763
Organization dues	60,749	--	--	--	--	60,749
Uncollectible accounts	142,210	--	--	270	--	142,480
Miscellaneous	11,352	--	27,155	--	--	38,507
Interest expense	1,573	--	--	--	--	1,573
Grants to affiliates and other organizations	--	18,012	407,528	--	(406,440)	19,100
Depreciation	165,916	150,072	--	49,885	--	365,873
Total expenses	21,522,519	369,476	606,734	142,454	(911,144)	21,730,039
EXCESS OF REVENUE OVER (UNDER) EXPENSES	289,817	476,753	(76,075)	296,832	(265,060)	722,267
CHANGES IN UNREALIZED LOSSES ON OTHER THAN TRADING SECURITIES, NET	--	--	(59,067)	--	--	(59,067)
CHANGE IN UNRESTRICTED NET ASSETS AND MEMBER'S EQUITY	\$ 289,817	476,753	(135,142)	296,832	(265,060)	663,200

**Consolidating Statement of Activities (continued)**  
**For the Year Ended December 31, 2015**

	Lutheran Family Services of Nebraska, Inc.	Omaha Church Center, Inc.	Lutheran Family Services Foundation, Inc.	LFS 25th Avenue Apartments, LLC	Eliminations	Consolidated
Change in unrestricted net assets and member's equity - forward	\$ 289,817	476,753	(135,142)	296,832	(265,060)	663,200
TEMPORARILY RESTRICTED NET ASSETS:						
Contributions, grants and bequests	616,500	197,584	1,092,995	--	--	1,907,079
United Ways	615,133	--	--	--	--	615,133
Investment income, net	--	--	12,059	--	--	12,059
Change in unrealized gains on other than trading securities, net	--	--	(21,092)	--	--	(21,092)
Net assets released from restrictions	(580,680)	(2,000)	(171,600)	--	--	(754,280)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	650,953	195,584	912,362	--	--	1,758,899
PERMANENTLY RESTRICTED NET ASSETS,						
Change in value of interest in perpetual trust	--	--	39,972	--	--	39,972
CHANGE IN NET ASSETS AND MEMBER'S EQUITY	940,770	672,337	817,192	296,832	(265,060)	2,462,071
NET ASSETS AND MEMBER'S EQUITY:						
Beginning of year	2,238,648	3,583,457	4,284,873	770,607	(474,091)	10,403,494
End of year	\$ 3,179,418	4,255,794	5,102,065	1,067,439	(739,151)	12,865,565

**Statement of Activities by Core Competencies  
For the Year Ended December 31, 2015**

	Agency Management	Fund Raising/ Public Relations	Behavioral Health Services	Children Services	Community Services	Total
<b>SUPPORT AND REVENUE</b>						
Contributions	\$ 100,000	718,772	30,906	434,475	125,446	1,409,599
In-Kind Contributions, including unrecorded, footnote disclosed in-kind contributions in the amount of \$47,275	35,813	91,103	45,016	117,443	644,616	933,991
LFS Foundation Grants	12,500	--	--	78,364	--	90,864
Private Grants	9,948	100,000	591,492	1,006,492	174,104	1,882,036
Government Grants	--	--	70,526	1,636,038	3,149,516	4,856,080
United Ways	--	81,820	153,251	491,462	398,143	1,124,676
Program Service Fees	--	--	1,674,744	2,992,654	95,656	4,763,054
Purchase of Service Contracts	68,776	132,360	5,981,381	91,496	201,743	6,475,756
Interest and Other	302,237	497	8,011	7,414	5,396	323,555
Total Support and Revenue	<u>529,274</u>	<u>1,124,552</u>	<u>8,555,327</u>	<u>6,855,838</u>	<u>4,794,620</u>	<u>21,859,611</u>
<b>EXPENSES</b>						
Personnel	1,740,287	785,110	5,310,162	3,486,392	2,480,612	13,802,563
Professional Fees, including unrecorded, footnote disclosed in-kind contributions in the amount of \$47,275	371,649	60,444	626,818	1,049,972	256,600	2,365,483
Occupancy Costs	158,337	24,935	529,688	240,674	367,518	1,321,152
Travel and Conference Expenses	54,255	76,580	200,123	289,509	149,496	769,963
Other Operating Expenses	538,458	296,552	456,899	517,502	342,983	2,152,394
Specific Assistance to Individuals	--	--	48,042	14,252	928,456	990,750
Interest Expense	1,573	--	--	--	--	1,573
Depreciation Expense	21,279	9,785	62,819	43,301	28,732	165,916
Administration Allocation	(2,512,222)	(313,588)	1,209,133	965,293	651,384	--
Total Expenses	<u>373,616</u>	<u>939,818</u>	<u>8,443,684</u>	<u>6,606,895</u>	<u>5,205,781</u>	<u>21,569,794</u>
<b>CHANGE IN UNRESTRICTED NET ASSETS</b>	<u>\$ 155,658</u>	<u>184,734</u>	<u>111,643</u>	<u>248,943</u>	<u>(411,161)</u>	<u>289,817</u>

# Lutheran Family Services of Nebraska, Inc. and Affiliates

## Schedule of Expenditures of Federal Awards December 31, 2015

Federal Agency / Pass-Through Entity	Federal Grant / Program	Federal CFDA Number	Pass through Entity Identifying Number	Expenditures
<b>U.S. Department of Health and Human Services</b>				
Passed through the Nebraska Department of Health and Human Services	Personal Responsibility Education Program	93.092	0G1301NEPREP	<u>30,275</u>
Passed through the Nebraska Department of Health and Human Services	Refugee TAG Formula	93.584	1401NERTAG 1501NERTAG	<u>237,896</u>
Passed through the Nebraska Department of Health and Human Services Passed through Douglas County Health Department	Maternal, Infant and Early Childhood Home Visiting - FY12 Competitive Grant	93.505	D89MC25209 X02MC28232	<u>193,847</u>
Passed through Administration for Children and Families:				
Passed through Nebraska Department of Health and Human Services Passed through Douglas County Health Department	Refugee and Entrant Assistance - Refugee Preventative Health	93.576	90RX0241-02-00	4,350
	Refugee and Entrant Assistance - Discretionary Grants	93.576	0G90RT016802	29,210
Passed through Church World Services	Refugee and Entrant Assistance - Preferred Placement	93.576	90RP0092-03-01 90RP0103	<u>114,281</u>
	Total Refugee and Entrant Assistance - Discretionary Grants			<u>147,841</u>
Passed through Lutheran Immigration and Refugee Service	Services for Unaccompanied Alien Children	93.676	90ZU0103/02 90ZU0103/03	<u>98,409</u>
Passed through Lutheran Immigration and Refugee Service	Refugee and Entrant Assistance - Voluntary Agency Programs	93.567	90RV0071/01 90ZU0067/03	72,200
Passed through Church World Services	Refugee and Entrant Assistance - Voluntary Agency Programs	93.567	90RV0056-03 90RV0069	<u>96,775</u>
	Total Refugee and Entrant Assistance - Voluntary Agency Programs			<u>168,975</u>
Passed through Nebraska Families Collaborative	Nebraska Adoption Project	93.625	90CO1125-01	<u>24,063</u>
Passed through Region 6 Behavioral Healthcare	Child Care and Development Block Grant	93.575	OG0601NECCDF	<u>15,362</u>
Passed through Nebraska Department of Health and Human Services	Refugee Social Services Program	93.566	0G1401NERSOC 0G1501NERCMA 0G1601NERCMA	<u>470,767</u>
Passed through Region 6 Behavioral Healthcare	Block Grant for Community Mental Health Services	93.958	R6 15-16	<u>242,694</u>
Passed through Region 6 Behavioral Healthcare	Block Grants for Prevention and Treatment of Substance Abuse	93.959	R6 15-16	3,783
Passed through Region V	Block Grants for Prevention and Treatment of Substance Abuse	93.959	R5 15-16	<u>32,492</u>
	Total Block Grants for Prevention and Treatment of Substance Abuse			<u>36,275</u>
Passed through Nebraska Department of Health and Human Services	Temporary Assistance for Needy Families (TANF)	93.558	N/A	<u>155,932</u>
Passed through Nebraska Department of Health and Human Services	Foster Care Title IV-E	93.658	0G1301NE1401	<u>266,936</u>
Subtotal				\$ 2,089,272

The accompanying notes are an integral part of this schedule

# Lutheran Family Services of Nebraska, Inc. and Affiliates

## Schedule of Expenditures of Federal Awards (Continued) December 31, 2015

Federal Agency / Pass-Through Entity	Federal Grant / Program	Federal CFDA Number	Pass through Entity Identifying Number	Expenditures
<b>U.S. Department of Health and Human Services</b>				
Passed through the Nebraska Department of Health and Human Services	Personal Responsibility Education Program	93.092	0G1301NEPREP	<u>30,275</u>
Passed through the Nebraska Department of Health and Human Services	Refugee TAG Formula	93.584	1401NERTAG 1501NERTAG	<u>237,896</u>
Passed through the Nebraska Department of Health and Human Services Passed through Douglas County Health Department	Maternal, Infant and Early Childhood Home Visiting - FY12 Competitive Grant	93.505	D89MC25209 X02MC28232	<u>193,847</u>
Passed through Administration for Children and Families: Passed through Nebraska Department of Health and Human Services Passed through Douglas County Health Department	Refugee and Entrant Assistance - Refugee Preventative Health	93.576	90RX0241-02-00	4,350
	Refugee and Entrant Assistance - Discretionary Grants	93.576	0G90RT016802	29,210
Passed through Church World Services	Refugee and Entrant Assistance - Preferred Placement	93.576	90RP0092-03-01 90RP0103	<u>114,281</u>
	Total Refugee and Entrant Assistance - Discretionary Grants			<u>147,841</u>
Passed through Lutheran Immigration and Refugee Service	Services for Unaccompanied Alien Children	93.676	90ZU0103/02 90ZU0103/03	<u>98,409</u>
Passed through Lutheran Immigration and Refugee Service	Refugee and Entrant Assistance - Voluntary Agency Programs	93.567	90RV0071/01 90ZU0067/03	72,200
Passed through Church World Services	Refugee and Entrant Assistance - Voluntary Agency Programs	93.567	90RV0056-03 90RV0069	<u>96,775</u>
	Total Refugee and Entrant Assistance - Voluntary Agency Programs			<u>168,975</u>
Passed through Nebraska Families Collaborative	Nebraska Adoption Project	93.652	90CO1125-01	<u>24,063</u>
Passed through Region 6 Behavioral Healthcare	Child Care and Development Block Grant	93.575	OG0601NECCDF	<u>15,362</u>
Passed through Nebraska Department of Health and Human Services	Refugee Social Services Program	93.566	0G1401NERSOC 0G1501NERCMA 0G1601NERCMA	<u>470,767</u>
Passed through Region 6 Behavioral Healthcare	Block Grant for Community Mental Health Services	93.958	R6 15-16	<u>242,694</u>
Passed through Region 6 Behavioral Healthcare	Block Grants for Prevention and Treatment of Substance Abuse	93.959	R6 15-16	3,783
Passed through Region V	Block Grants for Prevention and Treatment of Substance Abuse	93.959	R5 15-16	<u>32,492</u>
	Total Block Grants for Prevention and Treatment of Substance Abuse			<u>36,275</u>
Passed through Nebraska Department of Health and Human Services	Temporary Assistance for Needy Families (TANF)	93.558	N/A	<u>155,932</u>
Passed through Nebraska Department of Health and Human Services	Foster Care Title IV-E	93.658	0G1301NE1401	<u>266,936</u>
Subtotal				\$ 2,089,272

The accompanying notes are an integral part of this schedule

## **Lutheran Family Services of Nebraska, Inc. and Affiliates**

### **Notes to Schedule of Expenditures of Federal Awards December 31, 2015**

---

#### **Note 1: Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Organization under the programs of the federal government for the year ended December 31, 2015. The information in this schedule is presented in accordance with the 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). Because the schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Organization.

#### **Note 2: Summary of Significant Accounting Policies**

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following as applicable, either the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Organization has elected not to use the 10-percent de-minimus indirect cost rate allowed under the Uniform Guidance.

**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 of  
Lutheran Family Services of Nebraska, Inc.  
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 consolidated financial statements of Lutheran Family Services of Nebraska, Inc. (the Organization), which comprise the consolidated statement of financial position as of December 31, 2015, and the related consolidated statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated May 2, 2016. The financial statements of Omaha Church Center, Inc., Lutheran Family Services Foundation, Inc., and LFS 25<sup>th</sup> Avenue Apartments, LLC were not audited in accordance with *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered the Organization'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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or 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 were not identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Organization's consolidated 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 consolidated 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 results 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.

SEEM JOHNSON, LLP

Omaha, Nebraska,  
May 2, 2016.

**Independent Auditor's Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance**

To the Board of Directors  
Lutheran Family Services of Nebraska, Inc.  
Omaha, Nebraska:

**Report on Compliance for Each Major Federal Program**

We have audited Lutheran Family Services of Nebraska, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Lutheran Family Services of Nebraska, Inc.'s major federal programs for the year ended December 31, 2015. Lutheran Family Services of Nebraska, Inc.'s major federal programs are 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 each of Lutheran Family Services of Nebraska, Inc.'s major federal programs 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 Lutheran Family Services of Nebraska, Inc.'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 each major federal program. However, our audit does not provide a legal determination of Lutheran Family Services of Nebraska, Inc.'s compliance.

**Opinion on Each Major Federal Program**

In our opinion, Lutheran Family Services of Nebraska, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2015.

**Report on Internal Control Over Compliance**

Management of Lutheran Family Services of Nebraska, Inc. 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 Lutheran Family Services of Nebraska, Inc.'s internal

control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each 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 Lutheran Family Services of Nebraska, Inc.'s internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of the 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 that we consider to be material weaknesses. However, material weaknesses may exist that were 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.

*SEEM JOHNSON, LLP*

Omaha, Nebraska,  
May 2, 2016.

**Lutheran Family Services of Nebraska, Inc. and Affiliates**

**Schedule of Findings and Questioned Costs  
For the Year Ended December 31, 2015**

---

**I. SUMMARY OF INDEPENDENT AUDITOR'S RESULTS**

*Financial Statements*

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?            Yes       x       No
- Significant deficiency(ies) identified?            Yes       x       None Reported

Noncompliance material to consolidated financial statements noted?

           Yes       x       No

*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified?            Yes       x       No
- Significant deficiency(ies) identified?            Yes       x       None Reported

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 200.516(a)?            Yes       x       No

Identification of major federal program:

CFDA Number(s)	Names of Federal Program or Cluster
19.510	Reception and Placement Program

Dollar threshold used to distinguish between type A and type B programs

          \$750,000          

Auditee qualified as low-risk auditee?

      x       Yes            No

**II. FINANCIAL STATEMENT FINDINGS**

There were no financial statement findings reported.

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

No findings or questioned costs for federal awards were reported.