

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

Report to the Board of Directors

**As of and for the Year Ended
December 31, 2016**

Lutheran Family Services of Nebraska, Inc. and Affiliates

Table of Contents

	<u>Page</u>
Letter to the Board of Directors	1
Required Communications	2 – 3
Summary of Accounting Estimates	4
Summary of Audit Adjustment Entries.....	5
Quality Review	6
Exhibit A:	
Letter Communicating Internal Control Related Matters and Constructive Suggestions	7 – 10

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

Dear Board of Directors:

We are pleased to present this report related to our audit of the consolidated financial statements of Lutheran Family Services of Nebraska, Inc. and Affiliates (the Organization) as of and for the year ended December 31, 2016. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the Organization's financial reporting process.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have regarding this report. We appreciate the opportunity to continue to be of service to the Organization.

SEIM JOHNSON, LLP

Omaha, Nebraska,
May 1, 2017.

Lutheran Family Services of Nebraska, Inc. and Affiliates

Required Communications

As of and for the Year Ended December 31, 2016

Generally accepted auditing standards (AU-C 260, *The Auditor's Communication with Those Charged with Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial reporting process.

Our Responsibility With Regard to the Financial Statement Audit

Our responsibilities under 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, have been described to you in our arrangement letter dated October 25, 2016. Our audit of the consolidated financial statements does not relieve management or those charged with governance of their responsibilities which are also described in that letter.

Overview of the Planned Scope and Timing of the Financial Statement Audit

We have issued a separate communication regarding the planned scope and timing of our audit and have discussed with you our identification of and planned audit response to significant risks of material misstatement.

The following individuals were assigned to your audit and spend most of their professional time serving healthcare and not-for-profit industry clients:

	<u>Years of Service</u>
Darren R. Osten	22
Justin M. Hope	14
John M. Shurtliff	4
Jordan C. Jewell	2
Nicole L. Cooper	1

Accounting Policies and Practices

Preferability of Accounting Policies and Practices

Under accounting principles generally accepted in the United States of America, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.

Adoption of, or Changes in, Accounting Policies

Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Organization. The Organization did not adopt any significant new accounting policies, nor have there been any changes in existing policies during the current period.

Significant or Unusual Transactions

We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

During the audit we did review transactions that could be considered unusual and infrequent. These transactions would be related to the recognition and disclosure of the contribution of shares of a real estate investment trust.

Management's Judgments and Accounting Estimates

Summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates is in the attached "Summary of Accounting Estimates."

Audit Adjustments

There was one audit adjustment provided by management made to the original trial balance presented to us to begin our audit. The adjustments are included in the accompanying "Summary of Recorded Audit Adjustments."

Several reclassifications were made for reporting purposes.

Lutheran Family Services of Nebraska, Inc. and Affiliates

Required Communications

As of and for the Year Ended December 31, 2016

Uncorrected Misstatements

We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial.

Disagreements with Management

We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the consolidated financial statements.

Consultation with Other Accountants

We are not aware of any consultations management had with other accountants about accounting or auditing matters.

Significant Issues Discussed with Management

No significant issues arising from the audit were discussed or were the subject of correspondence with management.

Significant Difficulties Encountered in Performing the Audit

We did not encounter any difficulties in dealing with management during the audit.

Letter Communicating Internal Control Related Matters

Please refer to the internal control related matters letter attached as Exhibit A.

Certain Written Communications Between Management and Seim Johnson, LLP

In connection with our audit we received a representation letter from management confirming it has the primary responsibility for the fair presentation in the financial statements in conformity with accounting principles generally accepted in the United States of America. The representation letter reduces to writing the more significant oral representations made by management during the course of the audit. A copy of this representation letter can be provided upon request.

Other Items

A copy of our most recent quality review is attached to this correspondence.

Lutheran Family Services of Nebraska, Inc. and Affiliates

Summary of Accounting Estimates As of and for the Year Ended December 31, 2016

Accounting estimates are an integral part of the preparation of consolidated financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. You may wish to monitor throughout the year the process used to compute and record these accounting estimates. The following describes the significant accounting estimates reflected in the Organization's December 31, 2016 consolidated financial statements:

Allowance for Uncollectible Accounts and Third-Party Payor Adjustments:

Accounting Policy: The Organization evaluates the collectability of accounts receivable at the end of the fiscal year and establishes an allowance for bad debts for all accounts or portions thereof considered uncollectible. The Organization also evaluates the net realizable value of accounts receivable at the end of the fiscal year and establishes an allowance for third-party payor adjustments.

Estimation Process: The Organization establishes an allowance for uncollectible accounts based on analysis of outstanding accounts, considering payor types, the aging of accounts and historical performance. The Organization establishes an allowance for third-party payor adjustments using estimated contractual rates based on historical performance.

Comments: Based on our testing, the allowance for uncollectible accounts and allowance for third-party payor adjustments appear reasonable.

Fair Value

Accounting Policy: The Organization records investments and beneficial interests in charitable and perpetual trusts at their estimated fair values.

Estimation Process: Securities traded on a national or international exchange are valued based on quoted market prices or market prices provided by recognized broker dealers. The fair value of beneficial interest in perpetual trust is based on the trust's underlying assets which are unobservable to market participants. The fair value of the beneficial interest in a non-perpetual charitable remainder unitrust held by a third-party trustee is measured as 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 fair value of interest in Fremont Area Community Foundation is based on fair value of the underlying assets in the trust.

Comments: Based on our testing, the estimated fair values of investments and beneficial interests in charitable and perpetual trusts appear reasonable.

Depreciation Expense:

Accounting Policy: Property and equipment acquisitions are stated at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method.

Estimation Process: The Organization uses general industry data and historical experience to determine useful life for depreciation purposes.

Comments: Based on our testing, the calculation for depreciation expense appears reasonable.

Self-Funded Health Insurance:

Accounting Policy: The Organization evaluates its self-insured employee group health program, up to certain limits, and includes a provision for premiums for excess coverage and payments for claims in the consolidated statement of activities.

Estimation Process: The Organization performs an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported at year end.

Comments: Based on our testing, the self-funded health insurance appears reasonable.

Lutheran Family Services of Nebraska, Inc. and Affiliates

**Summary of Audit Adjustment Entries
As of and for the Year Ended December 31, 2016**

Number	Date	Name	Account No	Debit	Credit
CJE 1	12/31/2016	Investment in LFS 25th Avenue Apartments, LLC	11570 LFS		1,023.00
CJE 1	12/31/2016	Pledges Receivable	14600 LFS	80,000.00	
CJE 1	12/31/2016	Deferred Revenue	25100 LFS		80,000.00
CJE 1	12/31/2016	Change in Investment of LFS 25th Avenue Apartments	49400 LFS	1,023.00	

Client provided journal entry to
properly state deferred revenue and pledges receivable.

Quality Review

As of and for the Year Ended December 31, 2016




System Review Report

To the Partners of Seim Johnson, LLP and the
Peer Review Committee of the Nevada Society of Certified Public Accountants

We have reviewed the system of quality control for the accounting and auditing practice of Seim Johnson, LLP (the firm) in effect for the year ended June 30, 2014. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. As a part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards* and audits of employee benefit plans.

In our opinion, the system of quality control for the accounting and auditing practice of Seim Johnson, LLP in effect for the year ended June 30, 2014, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Seim Johnson, LLP has received a peer review rating of *pass*.


Brady, Martz and Associates, P.C.
December 4, 2014

BRADY, MARTZ & ASSOCIATES, P.C.
401 Demers Avenue Suite 300 P.O. Box 14296
Grand Forks, ND 58208-4296 (701) 775-4685 Fax (701) 795-7498
www.bradyartz.com

An Independently Owned Member
MCGGLADREY ALLIANCE  McGladrey

**Letter Communicating Internal Control Related Matters and Constructive Suggestions
As of and for the Year Ended December 31, 2016**

Internal Control Related Matters Letter

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

In planning and performing our audit of the consolidated financial statements of Lutheran Family Services of Nebraska, Inc. and Affiliates (the Organization) as of and for the year ended December 31, 2016 in accordance with auditing standards generally accepted in the United States of America, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing auditing 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 deficiency in design exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or 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.

The following is a description of identified control deficiencies that we determined did not constitute significant deficiencies or material weaknesses:

Contributions and Promises to Give

Conditional promises to give cash or other assets (such as securities or property and equipment) should be recognized as contribution revenue and receivables when the conditions are substantially met. Unconditional promises to give should be recognized as contribution revenue and receivables in the period in which the promise is received. Depending on the existence and nature of donor-imposed restrictions, unconditional promises to give should be reported either as unrestricted support that increases unrestricted net assets or as restricted support that increases permanently restricted or temporarily restricted net assets. Unconditional promises to give that are due in future periods generally increase temporarily restricted net assets, rather than unrestricted net assets. If, however, the donor explicitly stipulates that the promise to give is to support current-period activities or if other circumstances surrounding the promise make it clear that the donor's intention is to support current-period activities, unconditional promises to give should be reported as unrestricted support that increases unrestricted net assets.

Management is familiar with the recognition and recording principles related to promises to give and pledges receivable as it relates to unrestricted and temporarily restricted contributions. However, management records certain pledges receivable recognized during the year that are due in future periods as unrestricted net assets for internal reporting purposes rather than as increases in temporarily restricted net assets. A reclassification entry was made to the net asset classifications reported in the consolidated financial statements. We recommend that management review their internal reporting procedures and consider reporting promises to give and pledges receivable in the manner described above.

The following items are offered as constructive suggestions for the consideration of management as part of the ongoing process of modifying and improving the Organization's practices and procedures:

Revenue Recognition

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, in an effort to converge standards between accounting principles generally accepted in the United States of America and the International Financial Reporting System. The guidance supersedes revenue recognition requirements in general and in most industry guidance. Guidance for exchange transactions for not-for-profit entities will now be held within Topic 606 as part of this update. Contributions are not affected by this update and will continue to be accounted for using guidance from the not-for-profit industry specific guidance.

The AICPA has created task forces for many different industries, including not-for-profit, which will issue guidance related to specific implementation issues. We will monitor their issuances and will continue to give you more detailed guidance in upcoming discussions with management and during future audits. The standard is applicable to public entities, including not-for-profits that have issued, or are conduit bond obligors for, securities that are publicly traded, listed, or quoted, for annual periods beginning after December 15, 2017. For all other entities, it will be effective for annual periods beginning after December 15, 2018. Effectively, this will be applicable for your entity for fiscal years ending on or after December 31, 2019.

Not-For-Profit Financial Reporting

On August 18, 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new standard changes presentation and disclosure requirements with the intention of helping not-for-profits provide more relevant information about their resources — and the changes in those resources — to donors, grantors, creditors, and other financial statement users. The main provisions of the update are:

- Consolidating from three classes of net assets to two – those with donor restrictions and those without
- Requires reporting and enhanced disclosures about underwater endowments
- Requires qualitative information on how the organization manages its liquid available resources and liquidity risks
- Requires reporting and analysis of expenses by function and nature

The ASU will be effective for fiscal years beginning after December 15, 2017, but early adoption is permitted. We recommend that management become familiar with the ASU in order to ensure that the Organization is prepared for any upcoming changes.

Accounting for Leases

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The update's main provisions require recognition of lease assets and lease liabilities for all leases with terms longer than 12 months. Lessee accounting for leases will require significant changes as a result of this update. Lessees will recognize a lease liability and a right-of-use asset. The lease liability should include optional period payments if the lessee is reasonably certain to exercise an option to extend the lease or not terminate the lease.

Requirements related to finance leases include:

- Recognition of a right-of-use asset and a lease liability, measured at the present value of the lease payments
- Recognition of interest separately from amortization of the right-of-use asset
- Inclusion of repayments of lease liabilities in financing activities and inclusion of interest on the lease liability in operating activities in the statement of cash flows

Requirements related to operating leases include:

- Recognition of a right-of-use asset and a lease liability, measured at the present value of the lease payments
- Recognition of a single lease cost on a straight-line basis
- Inclusion of all cash payments within operating activities in the statement of cash flows

Preparing for implementation will be imperative for a smooth transition and management should consider the impact on existing leases and future financing options. This standard will be effective for your entity for fiscal years ending on or after December 31, 2020. Lessees will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach which includes available practical expedients.

The recommendations that we have outlined above are for management's use only and are not intended to be part of a formal report, which would customarily be delivered to outside lenders, third-party payers, etc. We would be pleased to answer any questions you may have regarding the comments and suggestions contained in the preceding paragraphs.

SEEM JOHNSON, LLP

Omaha, Nebraska,
May 1, 2017.

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

Omaha, Nebraska

**Consolidated Financial Statements
December 31, 2016, with Comparative Totals for 2015
and Supplementary Information
December 31, 2016**

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, 2016, with Comparative Totals for 2015	3
Consolidated Statement of Activities For the Year Ended December 31, 2016, with Comparative Totals for 2015	4 – 5
Consolidated Statement of Cash Flows For the Year Ended December 31, 2016, with Comparative Totals for 2015	6
Consolidated Statement of Functional Expenses For the Year Ended December 31, 2016, with Comparative Totals for 2015	7
Notes to Consolidated Financial Statements December 31, 2016, with Comparative Totals for 2015	8 – 23
Supplementary Information:	
Exhibit 1 - Consolidating Statement of Financial Position December 31, 2016.....	24 – 25
Exhibit 2 - Consolidating Statement of Activities For the Year Ended December 31, 2016	26 – 28
Exhibit 3 – Statement of Activities by Core Competencies Lutheran Family Services of Nebraska, Inc. For the Year Ended December 31, 2016	29
Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2016.....	30 – 31
Notes to Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2016.....	32
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 <i>Government Auditing Standards</i>	33 – 34
Independent Auditor's Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance	35 – 36
Schedule of Findings and Questioned Costs For the Year Ended December 31, 2016.....	37

Independent Auditor's Report

To the Board of Directors of
Lutheran Family Services of Nebraska, Inc. and Affiliates
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, 2016, 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. 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 25th 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, 2016, 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 2015 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated May 7, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 1, 2017 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 1, 2017.

Lutheran Family Services of Nebraska, Inc. and Affiliates

Consolidated Statement of Financial Position December 31, 2016, with Comparative Totals for 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,866,539	1,728,559
Short-term investments	1,257,394	1,251,116
Receivables -		
Service accounts, net of allowance for uncollectible accounts and contractual adjustments of \$80,000 in 2016 and 2015	863,413	1,221,905
Pledges	2,467,589	1,274,710
Grants	1,586,660	1,047,095
Other	5,118	21,396
Prepaid expenses	133,927	134,498
Total current assets	<u>8,180,640</u>	<u>6,679,279</u>
Investment in Josiah Place, Inc.	4,652	4,652
Interest in Fremont Area Community Foundation	635,617	498,511
Pledges receivable, less current portion	341,142	364,678
Beneficial interest in perpetual trust	1,103,467	1,085,963
Beneficial interest in charitable remainder trust	137,954	131,504
Assets limited as to use	3,170,531	2,505,095
Property and equipment, net	5,584,213	5,367,343
Total assets	<u>\$ 19,158,216</u>	<u>16,637,025</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term debt	\$ --	272,193
Accounts payable	475,246	445,297
Accrued salaries, wages, vacation and payroll taxes payable	1,129,937	1,074,537
Retirement plan payable	41,508	43,091
Deferred revenue	1,374,455	1,676,137
Total current liabilities	<u>3,021,146</u>	<u>3,511,255</u>
Deferred compensation liability	303,888	260,205
Total liabilities	<u>3,325,034</u>	<u>3,771,460</u>
Commitments		
Net assets:		
Unrestricted	8,803,976	7,761,566
Temporarily restricted	5,078,683	3,170,980
Permanently restricted	1,950,523	1,933,019
Total net assets	<u>15,833,182</u>	<u>12,865,565</u>
Total liabilities and net assets	<u>\$ 19,158,216</u>	<u>16,637,025</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, 2016, with Comparative Totals for 2015

	2016			Total	2015
	Unrestricted	Temporarily Restricted	Permanently Restricted		
REVENUE, GAINS AND OTHER SUPPORT:					
Public support -					
Congregations and individuals	\$ 2,385,843	2,695,377	--	5,081,220	3,859,414
United Ways	545,822	522,850	--	1,068,672	1,194,129
LCMS - Nebraska District	118,431	--	--	118,431	94,399
ELCA - Nebraska Synod	180,475	--	--	180,475	182,568
Private grants	1,789,156	--	--	1,789,156	1,882,036
Government grants	6,104,998	--	--	6,104,998	4,856,080
Net assets released from restrictions, including United Ways of \$615,133 in 2016 and \$545,680 in 2015	1,305,009	(1,305,009)	--	--	--
Individual gifts and bequests, net	1,050,145	--	--	1,050,145	810,295
Total public support	13,479,879	1,913,218	--	15,393,097	12,878,921
Program service revenue -					
Program service fees, net	4,588,035	--	--	4,588,035	4,763,054
Purchase of service contracts	5,970,767	--	--	5,970,767	6,304,372
Total program service revenue, net	10,558,802	--	--	10,558,802	11,067,426
Other -					
Investment income, net	75,034	4,338	--	79,372	80,171
Changes in unrealized gains (losses), net	172,537	(16,303)	--	156,234	(80,159)
Change in value of beneficial interest in perpetual trust	--	--	17,504	17,504	39,972
Change in value of beneficial interest in charitable remainder trust	--	6,450	--	6,450	--
Rental income	194,606	--	--	194,606	183,792
Other revenue	89,164	--	--	89,164	40,584
Gain (loss) on disposal of property and equipment, net	4,735	--	--	4,735	(18,597)
Total other, net	536,076	(5,515)	17,504	548,065	245,763
Total revenue, gains and other support	\$ 24,574,757	1,907,703	17,504	26,499,964	24,192,110

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, 2016, with Comparative Totals for 2015

	2016			2015	
	Unrestricted	Temporarily Restricted	Permanently Restricted		Total
Total revenue, gains and other support - forward	\$ 24,574,757	1,907,703	17,504	26,499,964	24,192,110
EXPENSES:					
Operating expenses -					
Salaries	12,218,862	--	--	12,218,862	11,617,062
Employee benefits	1,240,642	--	--	1,240,642	1,325,360
Payroll taxes	918,679	--	--	918,679	868,077
Total salaries and related expenses	14,378,183	--	--	14,378,183	13,810,499
Legal and accounting fees	85,748	--	--	85,748	61,501
Professional fees	1,643,522	--	--	1,643,522	1,389,542
Foster parent fees	810,120	--	--	810,120	919,156
Supplies	804,636	--	--	804,636	810,323
Telephone	414,428	--	--	414,428	441,264
Postage and shipping	41,819	--	--	41,819	44,579
Occupancy cost	1,253,543	--	--	1,253,543	1,078,942
Travel expense	538,267	--	--	538,267	533,859
Conference expense	227,142	--	--	227,142	236,249
Assistance to individuals	1,660,480	--	--	1,660,480	990,750
Equipment and maintenance	634,089	--	--	634,089	419,841
Insurance	171,638	--	--	171,638	140,517
Printing	166,002	--	--	166,002	210,186
Subscriptions and publications	26,086	--	--	26,086	11,786
Board expense	3,319	--	--	3,319	2,763
Organization dues	69,378	--	--	69,378	60,749
Uncollectible accounts	146,704	--	--	146,704	142,480
Miscellaneous	43,213	--	--	43,213	38,507
Interest expense	499	--	--	499	1,573
Grants to other organizations	22,500	--	--	22,500	19,100
Depreciation	391,031	--	--	391,031	365,873
Total expenses	23,532,347	--	--	23,532,347	21,730,039
CHANGE IN NET ASSETS	1,042,410	1,907,703	17,504	2,967,617	2,462,071
NET ASSETS, beginning of year	7,761,566	3,170,980	1,933,019	12,865,565	10,403,494
NET ASSETS, end of year	\$ 8,803,976	5,078,683	1,950,523	15,833,182	12,865,565

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, 2016, with Comparative Totals for 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 2,967,617	2,462,071
Adjustments to reconcile change in net assets to net cash provided by operating activities -		
Depreciation expense	391,031	365,873
Changes in unrealized gains (losses), net	(156,234)	80,159
Change in interest in Fremont Area Community Foundation	(137,106)	4,487
Change in value of beneficial interest in perpetual trust	(17,504)	(39,972)
Change in value of beneficial interest in charitable remainder trust	(6,450)	(131,504)
Contribution of investment in real estate investment trust	(521,500)	--
(Gain) loss on disposal of property and equipment	(4,735)	18,597
(Increase) decrease in assets -		
Receivables -		
Service accounts	358,492	(287,986)
Pledges	(1,169,343)	(615,550)
Grants	(539,565)	(5,413)
Other	16,278	(10,079)
Prepaid expenses	571	14,611
Increase (decrease) in current liabilities -		
Accounts payable	29,949	(157,183)
Accrued salaries, wages, vacation and payroll taxes payable	55,400	(188,676)
Retirement plan payable	(1,583)	5,007
Deferred revenue	(301,682)	(198,610)
Net cash provided by operating activities	<u>963,636</u>	<u>1,315,832</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment, net	(603,166)	(632,991)
Withdrawals from short term investments, net	149,956	580,800
Deposits to assets limited to use, net	(100,253)	(1,196,230)
Net cash used in investing activities	<u>(553,463)</u>	<u>(1,248,421)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on long-term debt	(272,193)	(273,387)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	137,980	(205,976)
CASH AND CASH EQUIVALENTS:		
Beginning of year	<u>1,728,559</u>	<u>1,934,535</u>
End of year	<u>\$ 1,866,539</u>	<u>1,728,559</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Cash paid for interest	\$ 499	1,573
Contribution of investment in real estate investment trust	\$ 521,500	--

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, 2016, with Comparative Totals for 2015

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			2016	2015
Salaries	\$ 4,540,772	3,134,030	2,310,936	9,985,738	1,472,547	753,050	2,225,597	114,027	(106,500)	12,218,862	11,617,062
Employee benefits	507,307	329,404	164,826	1,001,537	172,656	66,023	238,679	21,726	(21,300)	1,240,642	1,325,360
Payroll taxes	342,009	236,867	182,406	761,282	103,759	52,526	156,285	9,632	(8,520)	918,679	868,077
Total salaries and related expenses	5,390,088	3,700,301	2,658,168	11,748,557	1,748,962	871,599	2,620,561	145,385	(136,320)	14,378,183	13,810,499
Legal and accounting fees	--	--	--	--	82,152	--	82,152	26,996	(23,400)	85,748	61,501
Professional fees	607,269	63,217	588,833	1,259,319	301,111	50,934	352,045	93,958	(61,800)	1,643,522	1,373,822
Foster parent fees	--	810,120	--	810,120	--	--	--	--	--	810,120	919,156
Supplies	133,032	294,791	245,050	672,873	27,437	95,215	122,652	9,111	--	804,636	810,323
Telephone	117,466	54,230	27,516	199,212	210,805	2,916	213,721	1,495	--	414,428	441,264
Postage and shipping	3,015	6,895	6,078	15,988	7,460	18,371	25,831	--	--	41,819	44,579
Occupancy cost	687,045	274,507	282,647	1,244,199	204,233	29,295	233,528	113,800	(337,984)	1,253,543	1,094,662
Travel expenses	172,674	174,867	123,763	471,304	35,265	31,583	66,848	115	--	538,267	533,859
Conference expense	15,856	103,213	33,913	152,982	19,633	54,527	74,160	--	--	227,142	236,249
Assistance to individuals	45,973	15,429	1,599,078	1,660,480	--	--	--	--	--	1,660,480	990,750
Equipment and maintenance	76,580	38,332	17,223	132,135	151,426	265,253	416,679	85,275	--	634,089	419,841
Insurance	51,656	35,514	26,234	113,404	16,866	8,567	25,433	32,801	--	171,638	140,517
Printing	19,934	21,951	7,012	48,897	10,052	104,709	114,761	2,344	--	166,002	210,186
Subscriptions and publications	1,316	4,761	3,167	9,244	14,764	2,078	16,842	--	--	26,086	11,786
Board expense	--	--	--	--	3,319	--	3,319	--	--	3,319	2,763
Organization dues	10,395	5,664	1,917	17,976	47,990	3,412	51,402	--	--	69,378	60,749
Uncollectible accounts	127,232	15,037	3,271	145,540	--	--	--	1,164	--	146,704	142,480
Miscellaneous	146	5,443	1,335	6,924	1,633	633	2,266	34,023	--	43,213	38,507
Interest expense	--	--	--	--	499	--	499	--	--	499	1,573
Grants to affiliates and other organizations	--	--	--	--	--	--	--	694,575	(672,075)	22,500	19,100
Total expense before depreciation	7,459,677	5,624,272	5,625,205	18,709,154	2,883,607	1,539,092	4,422,699	1,241,042	(1,231,579)	23,141,316	21,364,166
Depreciation expense	48,723	34,606	21,432	104,761	16,124	8,291	24,415	261,855	--	391,031	365,873
Total expenses	\$ 7,508,400	5,658,878	5,646,637	18,813,915	2,899,731	1,547,383	4,447,114	1,502,897	(1,231,579)	23,532,347	21,730,039

See notes to consolidated financial statements

Lutheran Family Services of Nebraska, Inc. and Affiliates

Notes to Consolidated Financial Statements December 31, 2016, with Comparative Totals for 2015

(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, 2016 and 2015, the Organization had board designated net assets in the amount of \$345,371 and \$306,598 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, 2016, with Comparative Totals for 2015

B. Industry Environment

The Organization is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursements for services, and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Organization is in compliance with applicable government laws and regulations as they apply to the areas of fraud and abuse. While no regulatory inquiries have been made which are expected to have a material effect on the Organization's consolidated financial statements, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

C. 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.

D. 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 excludes cash and cash equivalents included in short-term investments or assets limited as to use for specific purposes and endowment.

E. 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.

F. 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 unrestricted revenue, gains and other support, unless the income or loss is restricted by donor or law.

The Organization also holds an investment in a real estate investment trust. This investment has a fair value that is determined using net asset value (NAV). NAV is a practical expedient to determine the fair value of investments that do not have readily determinable fair values and prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company.

Lutheran Family Services of Nebraska, Inc. and Affiliates

Notes to Consolidated Financial Statements December 31, 2016, with Comparative Totals for 2015

G. *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.

H. *Beneficial Interest in Perpetual Trust*

The Organization is a beneficiary of a donor created perpetual trust and annually receives income from this trust. The Organization will receive 40% of the trust's net income annually to be used for fulfilling its charitable purpose. The beneficial interest is recognized at fair value and the income from the trust is reported as public support in the consolidated statement of activities. Change in the value of the beneficial interest in the perpetual trust is included separately as changes in permanently restricted net assets.

I. *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 recognized 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 value of the beneficial interest in charitable remainder unitrust is adjusted annually for the change in fair value. The change in value is reported separately as changes 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.

J. *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, 2016, with Comparative Totals for 2015

K. *Deferred Revenue*

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

	<u>2016</u>	<u>2015</u>
Children services	\$ 364,699	686,917
Behavioral health	312,393	378,883
Community services	305,237	164,527
Disaster relief	81,259	82,259
Technology	33,200	33,200
General program services	<u>277,667</u>	<u>330,351</u>
	<u>\$ 1,374,455</u>	<u>1,676,137</u>

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.

M. *Advertising*

The Organization expenses advertising costs as incurred. At December 31, 2016 and 2015 advertising expense of \$63,149 and \$83,711, respectively, is included in printing expense in the consolidated statement of activities.

N. *Group Health Insurance Costs*

The Organization is self-insured under its employee group health program, up to certain limits. Included in the accompanying consolidated statement of activities is a provision for premiums for excess coverage and payments for claims, including estimates of the ultimate costs for both reported claims and claims incurred but not yet reported at year end.

O. *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.

P. *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.

Lutheran Family Services of Nebraska, Inc. and Affiliates

Notes to Consolidated Financial Statements December 31, 2016, with Comparative Totals for 2015

LFS 25th Avenue Apartments, LLC is a limited liability company wholly owned by Lutheran Family Services of Nebraska, Inc. and is a disregarded entity for income tax purposes.

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, 2016 and 2015, the Organization had no uncertain tax positions accrued.

Q. *Comparative Amounts*

The amounts shown for 2015 in the accompanying consolidated financial statements are included to provide a basis for comparison with 2016, and are not intended to present all information necessary for a fair presentation of the 2015 consolidated financial statements in conformity with accounting principles generally accepted in the United States of America.

R. *Reclassification*

Certain amounts in the 2015 financial statements have been reclassified to conform to the 2016 reporting format.

S. *Recent Accounting Pronouncements*

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases* (Topic 842). The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Organization is currently evaluating the impact of the pending adoption of the new standard on the consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in accounting principles generally accepted in the United States of America when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. The Organization has not yet selected a transition method and is currently evaluating the effect that the standard will have on the consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. The new standard changes presentation and disclosure requirements with the intention of helping not-for-profits provide more relevant information about their resources - and the changes in those resources - to donors, grantors, creditors, and other financial statement users. This ASU will be effective for the Organization for fiscal years beginning after December 15, 2017. The Organization is currently evaluating the effect that the standard will have on the consolidated financial statements.

T. *Subsequent Events*

The Organization considered events occurring through May 1, 2017 for recognition or disclosure in the consolidated financial statements as subsequent events. That date is the date the consolidated financial statements were available to be issued.

Lutheran Family Services of Nebraska, Inc. and Affiliates

Notes to Consolidated Financial Statements December 31, 2016, with Comparative Totals for 2015

(3) Pledges Receivable

Pledges receivable as of December 31, 2016 are due as follows:

	<u>Year Ended December 31:</u>
2017	\$ 2,467,589
2018	270,092
2019	37,950
2020	16,600
2021	<u>16,500</u>
Total	2,808,731
Less current portion	<u>(2,467,589)</u>
Pledges receivable, net of current portion	<u>\$ 341,142</u>

(4) Investments, Including Assets Limited as to Use

The composition of investments, including assets limited as to use, at December 31, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Short-term investments	\$ <u>1,257,394</u>	<u>1,251,116</u>
Assets limited as to use –		
By donor	2,521,181	1,938,292
By Board	345,371	306,598
Deferred compensation	<u>303,888</u>	<u>260,205</u>
Total assets limited as to use	\$ <u>3,170,531</u>	<u>2,505,095</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, 2016 and 2015, there were no impairment losses.

Investment return for the years ended December 31, 2016 and 2015 is summarized as follows:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 111,072	91,316
Net realized losses	(31,700)	(11,145)
Change in unrealized gains (losses)	<u>156,234</u>	<u>(80,159)</u>
Total investment return	\$ <u>235,606</u>	<u>12</u>
Included in investment income, net	\$ 79,372	80,171
Reported separately as a change in unrestricted net assets	<u>156,234</u>	<u>(80,159)</u>
Total investment return	\$ <u>235,606</u>	<u>12</u>

Lutheran Family Services of Nebraska, Inc. and Affiliates

Notes to Consolidated Financial Statements December 31, 2016, with Comparative Totals for 2015

(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 level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

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 corporate bonds. 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.

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.

Lutheran Family Services of Nebraska, Inc. and Affiliates

Notes to Consolidated Financial Statements December 31, 2016, with Comparative Totals for 2015

For the years ended December 31, 2016 and 2015, the application of valuation techniques applied to similar assets and liabilities has been consistent.

The following tables present the financial instruments that are measured at fair value on a recurring basis (including items that are not required to be measured at fair value) at December 31, 2016 and 2015:

	2016			
	Total	Level 1	Level 2	Level 3
Investments, including assets limited as to use presented at fair value:				
Cash & cash equivalents	\$ 323,129	323,129	--	--
Mutual funds -				
International	167,579	167,579	--	--
Corporate stocks -				
Domestic	1,469,689	1,469,689	--	--
International	490,360	490,360	--	--
Fixed income -				
Corporate bonds	1,100,957	--	1,100,957	--
Interest in Fremont Area				
Community Foundation	635,617	--	--	635,617
Beneficial interest in perpetual trust	1,103,467	--	--	1,103,467
Beneficial interest in charitable remainder trust	137,954	--	--	137,954
	<u>\$ 5,428,751</u>	<u>2,450,756</u>	<u>1,100,957</u>	<u>1,877,038</u>
Investments, including assets limited as to use - other:				
Investments valued at net asset value -				
Investment in real estate investment trust	521,500			
Cash surrender value of life insurance	354,712			
Total investments, including assets limited as to use	<u>\$ 6,304,963</u>			
	2015			
	Total	Level 1	Level 2	Level 3
Investments, including assets limited as to use presented at fair value:				
Cash & cash equivalents	\$ 443,556	443,556	--	--
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>\$ 5,165,220</u>	<u>2,428,763</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	306,969			
Total investments, including assets limited as to use	<u>\$ 5,472,189</u>			

Lutheran Family Services of Nebraska, Inc. and Affiliates

Notes to Consolidated Financial Statements December 31, 2016, with Comparative Totals for 2015

Reconciliation of Level 3 assets for the years ended December 31, 2016 and 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>

Balance, December 31, 2015	\$ 1,715,978
Change in value of beneficial interest in perpetual trust	17,504
Change in value of beneficial interest in charitable remainder trust	6,450
Change in interest in Fremont Area Community Foundation	<u>137,106</u>
Balance, December 31, 2016	<u>\$ 1,877,038</u>

(6) Investments Valued at Net Asset Value

The Organization applies ASU 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*, which states investments in affiliated and private investment funds valued at net asset value (NAV) are no longer required to be included in the fair value hierarchy. For the Organization's investment in a real estate investment trust (REIT), the carrying amount is determined using the calculated NAV provided by the trust. Where no fair value is readily available, the fund or investment manager may determine, in good faith, the fair value using models that take into account relevant information considered material. Real asset investments are priced using valuation techniques that include income market, and cost approaches. Significant inputs include contract and market rents, operating expenses, capitalization rates, discount rates, sales of comparable properties, and market rent growth trends, as well as the use of the value of property plus the cost of building a similar structure of equal utility. Although the underlying investment managers use their best judgment in estimating the fair value of investments in these funds, there are inherent limitations in any estimation technique. Accordingly, the estimated net asset value may differ significantly from values that would have been used had a ready market existed for these investments, and differences could be material.

The following identifies attributes relating to the nature and risk of investments carried at NAV as of December 31, 2016:

	<u>2016</u>	
	<u>Net Asset Value</u>	<u>Unfunded Commitments</u>
Real Estate Investment Trust	\$ <u>521,500</u>	<u>--</u>

According to the partnership agreement, the Organization must hold shares of the REIT for one year before they are able to be sold or transferred.

(7) 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.

Lutheran Family Services of Nebraska, Inc. and Affiliates

Notes to Consolidated Financial Statements December 31, 2016, with Comparative Totals for 2015

(8) 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 held by FACF for the benefit of the CHF, 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 FACF 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.

(9) Property and Equipment, Net

A summary of property and equipment at December 31, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Land and improvements	\$ 1,274,189	1,257,166
Land held for future use	500,000	500,000
Building	2,596,264	2,585,294
Building improvements	3,067,861	2,560,886
Furniture and equipment	1,627,965	1,215,432
Vehicles	53,271	47,868
Construction in progress	137,945	655,463
	<u>9,257,495</u>	<u>8,822,709</u>
Less accumulated depreciation	<u>(3,673,282)</u>	<u>(3,455,366)</u>
	<u>\$ 5,584,213</u>	<u>5,367,343</u>

Depreciation expense of \$391,031 and \$365,873 in 2016 and 2015, respectively, is included in the accompanying consolidated statement of activities.

The balance of construction in progress at December 31, 2016 relates to the master facilities plan for the Organization's campus.

(10) 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, 2016, 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

Lutheran Family Services of Nebraska, Inc. and Affiliates

Notes to Consolidated Financial Statements December 31, 2016, with Comparative Totals for 2015

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

The change in endowment net assets for the years ended December 31, 2016 and 2015 are as follows:

	2016		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ --	847,056	847,056
Investment return:			
Interest and dividends, net	15,043	--	15,043
Net appreciation (realized and unrealized)	11,218	--	11,218
Total investment return	26,261	--	26,261
Contributions	548,174	--	548,174
Appropriations of endowment assets for expenditure	(26,261)	--	(26,261)
Endowment net assets, end of year	<u>\$ 548,174</u>	<u>847,056</u>	<u>1,395,230</u>
	2015		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ --	847,056	847,056
Investment return:			
Interest and dividends, net	6,555	--	6,555
Net appreciation (depreciation) (realized and unrealized)	(6,555)	--	(6,555)
Total investment return	--	--	--
Endowment net assets, end of year	<u>\$ --</u>	<u>847,056</u>	<u>847,056</u>

Lutheran Family Services of Nebraska, Inc. and Affiliates

Notes to Consolidated Financial Statements December 31, 2016, with Comparative Totals for 2015

Return Objectives and Risk Parameters

The Organization has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while complying with all donor-imposed restrictions. Under this policy, as approved by the Board, the endowment assets are invested in a manner that maximizes total returns over long periods of time primarily through capital appreciation. A minimum of 30% of endowment assets are to be invested in cash, cash equivalents and fixed income securities.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved primarily through the purchase of securities of high quality.

Appropriation Policy and How the Investment Objectives Relate to Appropriation Policy

The Organization preserves the whole dollar value of the original gift as of the gift date of donor-restricted endowments, absent explicit donor stipulations to the contrary. Interest, dividends and net appreciation of the donor-restricted endowment funds are deemed appropriated for expenditure when earned.

(11) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Pledges receivable for future general program services	\$ 1,195,921	626,500
24 th Street Campus	1,122,949	229,949
Refugee services	791,512	1,000,000
Veterans services	548,174	--
United Way allocations for program services	522,850	615,133
Capital projects	391,275	203,584
Fremont Area Center for Healthy Families	211,529	143,494
Grace Hansen Children's Fund	151,282	183,971
Education Leadership and Development	79,886	88,336
Children services	37,811	36,594
Prison ministry	25,494	43,419
	<u>\$ 5,078,683</u>	<u>3,170,980</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, 2016 and 2015, are restricted to:

	<u>2016</u>	<u>2015</u>
Beneficial interest in perpetual trust	\$ 1,103,467	1,085,963
Support of general operations	485,327	485,327
Fremont Area Center for Healthy Families	361,729	361,729
	<u>\$ 1,950,523</u>	<u>1,933,019</u>

Lutheran Family Services of Nebraska, Inc. and Affiliates

Notes to Consolidated Financial Statements December 31, 2016, with Comparative Totals for 2015

(12) United Ways Support

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

	<u>2016</u>	<u>2015</u>
United Way of the Midlands	\$ 767,299	796,972
United Way of the Midlands (International Center)	208,044	206,724
Fremont Area United Way	85,000	70,000
Heartland United Way, Inc.	71,667	36,219
Hastings United Way	13,200	--
Lexington United Way	7,000	8,000
Mid-Plains United Way	5,000	3,000
Cozad United Way, Inc.	2,000	2,000
United Way of McCook	1,350	1,080
United Way of Lincoln and Lancaster County	244	681
United Way of the Kearney Area	151	--
	<u>\$ 1,160,955</u>	<u>1,124,676</u>

(13) Contributions

Contributions are included in the consolidated statement of activities. Total contributions recognized for the years ended December 31, 2016 and 2015 were:

	<u>2016</u>	<u>2015</u>
Unrestricted contributions -		
Congregations and individuals (including in-kind contributions)	\$ 2,385,843	1,952,335
LCMS – Nebraska District	118,431	94,399
ELCA – Nebraska Synod	180,475	182,568
Individual gifts and bequests, net	<u>1,050,145</u>	<u>810,295</u>
Total unrestricted contributions	3,734,894	3,039,597
Temporarily restricted contributions	<u>3,218,227</u>	<u>2,522,212</u>
Total contributions	<u>\$ 6,953,121</u>	<u>5,561,809</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>2016</u>	<u>2015</u>
Professional fees	\$ 581,343	243,205
Supplies and other	343,510	355,422
Occupancy costs	146,956	251,697
Legal and accounting fees	<u>25,086</u>	<u>36,392</u>
	<u>\$ 1,096,895</u>	<u>886,716</u>

Lutheran Family Services of Nebraska, Inc. and Affiliates

Notes to Consolidated Financial Statements December 31, 2016, with Comparative Totals for 2015

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 \$55,626 in 2016 and \$47,275 in 2015.

(14) 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>2016</u>	<u>2015</u>
<u>Grants:</u>		
Church World Services	\$ 1,935,358	1,061,071
Nebraska Health and Human Services	1,247,185	1,154,130
Lutheran Immigration and Refugee Service	1,066,690	700,867
NHHS – Refugee Education and Employability Partnership	463,047	470,766
Learning Community of Douglas and Sarpy Counties	379,933	410,896
Nebraska Families Collaborative	322,868	282,436
AmeriCorps	270,942	343,932
Douglas County Home Visitation	129,546	193,847
Other	289,429	238,135
	<u>\$ 6,104,998</u>	<u>4,856,080</u>
<u>Purchase of Service Contracts:</u>		
Region 6 Behavioral Healthcare	\$ 3,302,315	3,710,093
Region V	2,203,695	2,196,951
Region II and Region III	173,418	177,294
Other	291,339	220,034
	<u>\$ 5,970,767</u>	<u>6,304,372</u>

(15) 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 \$653,088 and \$679,142 for the years ended December 31, 2016 and 2015, 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.

Lutheran Family Services of Nebraska, Inc. and Affiliates

Notes to Consolidated Financial Statements December 31, 2016, with Comparative Totals for 2015

Health360 Integrated Care Project

In December 2015, 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 \$53,035 and \$146,382 in 2016 and 2015, respectively, related to this grant for its share of services performed under the integrated care services agreement in the accompanying statements of activities.

(16) 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 \$748,739 and \$499,962 for the years ended December 31, 2016 and 2015, respectively.

The following is a schedule by years of future minimum rental commitments under non-cancelable leases as of December 31, 2016:

<u>Year Ending December 31</u>	<u>Total</u>
2017	\$ 567,473
2018	490,229
2019	487,349
2020	489,237
2021	514,721

In March, 2017, the Organization entered into a new lease agreement for office space. The term of the noncancellable lease agreement is for five years, with options to renew for two additional five year terms, with annual rental payments amounting to \$30,255 per year.

(17) 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, 2016 and 2015, was \$216,016 and \$206,581, respectively.

(18) 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 \$23,104 and \$22,697 to the plan on behalf of participants for the year ended December 31, 2016 and 2015, respectively.

The deferred compensation assets related to this plan in the amounts of \$303,048 and \$260,205 as of December 31, 2016 and 2015, respectively, are included within the accompanying consolidated balance sheets as assets limited as to use. A liability of \$303,888 and \$260,205 as of December 31, 2016 and 2015, respectively, based on the fair value of the investments, has also been included within the accompanying consolidated balance sheets as deferred compensation liabilities.

Lutheran Family Services of Nebraska, Inc. and Affiliates

Notes to Consolidated Financial Statements December 31, 2016, with Comparative Totals for 2015

(19) 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, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Medicare and Medicaid	21%	25%
Other state/governmental funding	55	55
Client and other payors	<u>24</u>	<u>20</u>
	<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.

(20) Risks and Uncertainties

The Organization receives a substantial portion of its funding for program services from federal and state agencies. As such, the Organization's ability to operate and administer these programs in the future is dependent on the funding received.

Due to the recent Presidential Executive Orders 13769 and 13780 placing limits on travel to the United States from certain countries, there have been significant reductions in funding for refugee resettlement programs by Federal awarding agencies. Subsequent to year end, the Organization received a \$500,000 contribution from a private donor to assist with the funding to maintain refugee program services.

Litigation

The Organization is involved in litigation and regulatory investigations arising from the normal course of business. Nearly all of these claims are covered under policies of their current insurance carrier. After consultation with legal counsel, management estimates these matters will be resolved without material adverse affect on the Organization's future financial position or results from operations.

Lutheran Family Services of Nebraska, Inc. and Affiliates

Exhibit 1

Consolidating Statement of Financial Position
December 31, 2016

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	\$ 666,644	303,252	771,803	124,840	--	1,866,539
Short-term investments	143,607	--	1,113,787	--	--	1,257,394
Receivables -						
Service accounts, net of allowance for uncollectible accounts and contractual adjustments of \$80,000	863,413	--	--	--	--	863,413
Pledges	1,672,167	261,675	533,747	--	--	2,467,589
Grants	1,586,660	--	--	--	--	1,586,660
Affiliates	278,478	161,771	--	--	(440,249)	--
Other	2,405	--	--	2,713	--	5,118
Prepaid expenses	123,636	--	3,843	6,448	--	133,927
Total current assets	5,337,010	726,698	2,423,180	134,001	(440,249)	8,180,640
Investment in Josiah Place, Inc.	--	4,652	--	--	--	4,652
Investment in 25th Avenue Apartments, LLC	1,254,360	--	--	--	(1,254,360)	--
Interest in Fremont Area Community Foundation	--	--	635,617	--	--	635,617
Pledges receivable, less current portion	212,442	128,700	--	--	--	341,142
Beneficial interest in perpetual trust	--	--	1,103,467	--	--	1,103,467
Beneficial interest in charitable remainder trust	--	--	137,954	--	--	137,954
Assets limited as to use	303,888	900	2,865,743	--	--	3,170,531
Property and equipment, net	274,415	4,170,801	--	1,138,997	--	5,584,213
Total assets	\$ 7,382,115	5,031,751	7,165,961	1,272,998	(1,694,609)	19,158,216

Lutheran Family Services of Nebraska, Inc. and Affiliates

Exhibit 1

Consolidating Statement of Financial Position (continued)
December 31, 2016

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:						
Accounts payable -						
Trade	\$ 443,251	23,170	1,343	7,482	--	475,246
Affiliates	--	--	439,249	1,000	(440,249)	--
Accrued salaries, wages, vacation and payroll taxes payable	1,129,937	--	--	--	--	1,129,937
Retirement plan payable	41,508	--	--	--	--	41,508
Deferred revenue	1,664,977	--	--	10,156	(300,678)	1,374,455
Total current liabilities	<u>3,279,673</u>	<u>23,170</u>	<u>440,592</u>	<u>18,638</u>	<u>(740,927)</u>	<u>3,021,146</u>
Deferred compensation liability	<u>303,888</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>303,888</u>
Total liabilities	<u>3,583,561</u>	<u>23,170</u>	<u>440,592</u>	<u>18,638</u>	<u>(740,927)</u>	<u>3,325,034</u>
Commitments						
Net assets and member's equity:						
Member's equity	--	--	--	1,254,360	(1,254,360)	--
Unrestricted net assets	2,079,783	4,617,306	1,806,209	--	300,678	8,803,976
Temporarily restricted net assets	1,718,771	391,275	2,968,637	--	--	5,078,683
Permanently restricted net assets	--	--	1,950,523	--	--	1,950,523
Total net assets	<u>3,798,554</u>	<u>5,008,581</u>	<u>6,725,369</u>	<u>1,254,360</u>	<u>(953,682)</u>	<u>15,833,182</u>
Total liabilities and net assets	<u>\$ 7,382,115</u>	<u>5,031,751</u>	<u>7,165,961</u>	<u>1,272,998</u>	<u>(1,694,609)</u>	<u>19,158,216</u>

**Consolidating Statement of Activities
For the Year Ended December 31, 2016**

	Lutheran Family Services of Nebraska, Inc.	Omaha Church Center, Inc.	Lutheran Family Services Foundation, Inc.	LFS 25th Avenue Apartments, LLC	Eliminations	Consolidated
UNRESTRICTED REVENUE GAINS AND OTHER SUPPORT:						
Public support -						
Congregations and individuals	\$ 2,252,623	--	152,520	--	(19,300)	2,385,843
United Ways	545,822	--	--	--	--	545,822
LCMS - Nebraska District	118,431	--	--	--	--	118,431
ELCA - Nebraska Synod	180,475	--	--	--	--	180,475
Grants from affiliate	530,385	--	--	150,000	(680,385)	--
Private grants	1,789,156	--	--	--	--	1,789,156
Government grants	6,104,998	--	--	--	--	6,104,998
Net assets released from restrictions, including United Ways of \$615,133	833,637	196,384	274,988	--	--	1,305,009
Individual gifts and bequests, net	--	482,037	568,108	--	--	1,050,145
Total public support	12,355,527	678,421	995,616	150,000	(699,685)	13,479,879
Program service revenue -						
Program service fees, net	4,588,035	--	--	--	--	4,588,035
Purchase of service contracts	6,192,287	--	--	--	(221,520)	5,970,767
Total program service revenue, net	10,780,322	--	--	--	(221,520)	10,558,802
Other -						
Investment income, net	334	2,346	72,354	--	--	75,034
Changes in unrealized gains (losses), net	--	--	172,537	--	--	172,537
Change in investment in 25th Avenue Apartments, LLC	186,921	--	--	--	(186,921)	--
Rental income	--	337,982	--	194,608	(337,984)	194,606
Other revenue	81,171	--	--	7,993	--	89,164
Gain (loss) on disposal of property and equipment, net	(1,248)	5,983	--	--	--	4,735
Total other, net	267,178	346,311	244,891	202,601	(524,905)	536,076
Total unrestricted revenue, gains and other support	\$ 23,403,027	1,024,732	1,240,507	352,601	(1,446,110)	24,574,757

Lutheran Family Services of Nebraska, Inc. and Affiliates

Exhibit 2

Consolidating Statement of Activities (continued)
For the Year Ended December 31, 2016

	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	\$ 23,403,027	1,024,732	1,240,507	352,601	(1,446,110)	24,574,757
EXPENSES:						
Operating expenses -						
Salaries	12,211,335	--	106,500	7,527	(106,500)	12,218,862
Employee benefits	1,240,216	--	21,300	426	(21,300)	1,240,642
Payroll taxes	917,567	--	8,520	1,112	(8,520)	918,679
Total salaries and related expenses	14,369,118	--	136,320	9,065	(136,320)	14,378,183
Legal and accounting fees	82,152	15,261	11,735	--	(23,400)	85,748
Professional fees	1,611,364	65,050	24,382	4,526	(61,800)	1,643,522
Foster parent fees	810,120	--	--	--	--	810,120
Supplies	795,525	4,555	--	4,556	--	804,636
Telephone	412,933	--	--	1,495	--	414,428
Postage and shipping	41,819	--	--	--	--	41,819
Occupancy cost	1,477,727	54,710	4,800	54,290	(337,984)	1,253,543
Travel expense	538,152	--	--	115	--	538,267
Conference expense	227,142	--	--	--	--	227,142
Assistance to individuals	1,660,480	--	--	--	--	1,660,480
Equipment and maintenance	548,814	61,568	--	23,707	--	634,089
Insurance	138,837	22,410	--	10,391	--	171,638
Printing	163,658	--	--	2,344	--	166,002
Subscriptions and publications	26,086	--	--	--	--	26,086
Board expense	3,319	--	--	--	--	3,319
Organization dues	69,378	--	--	--	--	69,378
Uncollectible accounts	145,540	--	--	1,164	--	146,704
Miscellaneous	9,190	50	30,389	3,584	--	43,213
Interest expense	499	--	--	--	--	499
Grants to affiliates and other organizations	--	24,620	669,955	--	(672,075)	22,500
Depreciation	129,176	211,412	--	50,443	--	391,031
Total expenses	23,261,029	459,636	877,581	165,680	(1,231,579)	23,532,347
CHANGE IN UNRESTRICTED NET ASSETS AND MEMBER'S EQUITY	\$ 141,998	565,096	362,926	186,921	(214,531)	1,042,410

Consolidating Statement of Activities (continued)
For the Year Ended December 31, 2016

	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	\$ 141,998	565,096	362,926	186,921	(214,531)	1,042,410
TEMPORARILY RESTRICTED NET ASSETS:						
Contributions, grants and bequests	787,925	384,075	1,523,377	--	--	2,695,377
United Ways	522,850	--	--	--	--	522,850
Investment income, net	--	--	4,338	--	--	4,338
Change in unrealized gains (losses), net	--	--	(16,303)	--	--	(16,303)
Change in value of beneficial interest in charitable remainder trust	--	--	6,450	--	--	6,450
Net assets released from restrictions	(833,637)	(196,384)	(274,988)	--	--	(1,305,009)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	477,138	187,691	1,242,874	--	--	1,907,703
PERMANENTLY RESTRICTED NET ASSETS,						
Change in value of beneficial interest in perpetual trust	--	--	17,504	--	--	17,504
CHANGE IN NET ASSETS AND MEMBER'S EQUITY	619,136	752,787	1,623,304	186,921	(214,531)	2,967,617
NET ASSETS AND MEMBER'S EQUITY:						
Beginning of year	3,179,418	4,255,794	5,102,065	1,067,439	(739,151)	12,865,565
End of year	\$ 3,798,554	5,008,581	6,725,369	1,254,360	(953,682)	15,833,182

Statement of Activities by Core Competencies
Lutheran Family Services of Nebraska, Inc.
For the Year Ended December 31, 2016

	Agency Management	Fund Raising/ Public Relations	Behavioral Health Services	Children Services	Community Services	Total
SUPPORT AND REVENUE						
Contributions	\$ 82,415	937,606	152,266	487,144	94,878	1,754,309
In-Kind contributions, including unrecognized, footnote disclosed in-kind contributions in the amount of \$55,626	36,324	75,946	60,208	136,859	843,184	1,152,521
LFS Foundation grants	127,277	116,608	--	78,012	208,488	530,385
Private grants	--	228,118	408,613	1,028,792	123,633	1,789,156
Government grants	--	--	106,543	1,595,016	4,403,439	6,104,998
United Ways	--	73,112	233,146	517,699	336,998	1,160,955
Program service fees	--	--	1,744,264	2,801,412	42,359	4,588,035
Purchase of service contracts	107,440	136,320	5,636,190	92,562	219,775	6,192,287
Interest and other	171,362	224	3,248	5,578	5,595	186,007
	<u>524,818</u>	<u>1,567,934</u>	<u>8,344,478</u>	<u>6,743,074</u>	<u>6,278,349</u>	<u>23,458,653</u>
EXPENSES						
Personnel	1,748,962	871,599	5,390,088	3,700,301	2,658,168	14,369,118
Professional fees, including unrecognized, footnote disclosed in-kind contributions in the amount of \$55,626	386,971	50,934	632,680	899,844	588,833	2,559,262
Occupancy costs	204,233	29,295	687,045	274,507	282,647	1,477,727
Travel and conference expenses	54,898	86,110	188,530	278,080	157,676	765,294
Other operating expenses	491,752	501,154	540,772	482,618	338,803	2,355,099
Specific assistance to individuals	--	--	45,973	15,429	1,599,078	1,660,480
Interest expense	499	--	--	--	--	499
Depreciation expense	16,124	8,291	48,723	34,606	21,432	129,176
Administration allocation	(2,620,524)	(316,083)	1,244,084	973,371	719,152	--
	<u>282,915</u>	<u>1,231,300</u>	<u>8,777,895</u>	<u>6,658,756</u>	<u>6,365,789</u>	<u>23,316,655</u>
CHANGE IN UNRESTRICTED NET ASSETS						
	<u>\$ 241,903</u>	<u>336,634</u>	<u>(433,417)</u>	<u>84,318</u>	<u>(87,440)</u>	<u>141,998</u>

Lutheran Family Services of Nebraska, Inc. and Affiliates

Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2016

Federal Grantor / Pass-Through Grantor	Federal Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Total Federal Expenditures
U.S. Department of Health and Human Services				
Passed through the Nebraska Department of Health and Human Services	Personal Responsibility Education Program	93.092	OG1401NEPREP	\$ 18,152
Passed through the Nebraska Department of Health and Human Services	Refugee TAG Formula	93.584	1501NERTAG 1601NERTAG	<u>325,609</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>129,546</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	18,195
	Refugee and Entrant Assistance - Discretionary Grants	93.576	OG90RT016803	59,059
Passed through Church World Services	Refugee and Entrant Assistance - Preferred Placement	93.576	90RP0092-03-01 90RP0103	<u>87,273</u>
	Total Refugee and Entrant Assistance - Discretionary Grants			<u>164,527</u>
Passed through Lutheran Immigration and Refugee Service	Services for Unaccompanied Alien Children	93.676	90ZU0103/03	<u>69,013</u>
Passed through Lutheran Immigration and Refugee Service	Refugee and Entrant Assistance - Voluntary Agency Programs	93.567	90RV0071/01/00 90RV0071/02/00	165,100
Passed through Church World Services	Refugee and Entrant Assistance - Voluntary Agency Programs	93.567	90RV0056-03 90RV0069	<u>196,375</u>
	Total Refugee and Entrant Assistance - Voluntary Agency Programs			<u>361,475</u>
Passed through Nebraska Families Collaborative	Nebraska Adoption Project	93.652	90CO1125-01	<u>14,825</u>
Passed through Region 6 Behavioral Healthcare	Child Care and Development Block Grant	93.575	G1501NECCDF	<u>22,371</u>
Passed through Nebraska Department of Health and Human Services	Refugee Social Services Program	93.566	OG1501NERSOC OG1601NERCMA OG12AANE7110	<u>459,037</u>
Passed through Region 6 Behavioral Healthcare	Block Grant for Community Mental Health Services	93.958	R6 16-17	<u>45,239</u>
Passed through Region 6 Behavioral Healthcare	Block Grants for Prevention and Treatment of Substance Abuse	93.959	R6 16-17	10,032
Passed through Region V	Block Grants for Prevention and Treatment of Substance Abuse	93.959	R5 15-16 R5 16-17	<u>21,588</u>
	Total Block Grants for Prevention and Treatment of Substance Abuse			<u>31,620</u>
Passed through Nebraska Department of Health and Human Services	Temporary Assistance for Needy Families (TANF)	93.558	OG1402NETANF OG1502NETANF	<u>165,433</u>
Passed through Nebraska Department of Health and Human Services	Foster Care Title IV-E	93.658	OG1701NEFOST	<u>276,876</u>
Subtotal				\$ 2,083,723

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) For the Year Ended December 31, 2016

Federal Grantor / Pass-Through Grantor	Federal Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Total Federal Expenditures
Balance forward				\$ 2,083,723
<u>U.S. Department of Health and Human Services (Continued)</u>				
Passed through the Centers for Disease Control and Prevention:				
Passed through the Nebraska Department of Health and Human Services	HIV Care Formula Grants	93.917	15X07HA00042 16X07HA00042	34,903
Passed through the U.S. Committee for Refugees and Immigrants	National Human Trafficking Victim Assistance	93.598	90ZV0101/01	8,400
Total U.S. Department of Health and Human Services				<u>2,127,026</u>
<u>U.S. Department of State</u>				
Passed through Church World Services	Reception and Placement Program	19.510	SPRMC013CA1022 SPRMC014CA1010	1,651,711
Passed through Lutheran Immigration and Refugee Service	Reception and Placement Program	19.510	SPRMC016CA1002 SPRMC017CA1010	802,577
Total U.S. Department of State				<u>2,454,288</u>
<u>U.S. Department of Justice</u>				
Passed through the Nebraska Crime Commission	Victims of Crime Act	16.575	16VA0256	28,113
Passed through the Nebraska Crime Commission	Justice Assistance Grant	16.738	2015-DJ-BX-0748	51,939
Total U.S. Department of Justice				<u>80,052</u>
<u>Corporation for National and Community Services</u>				
Passed through the Nebraska Volunteer Service Commission	AmeriCorps	94.006	12ACHNE001 15ACHNE001 16AFHNE001	240,165
Passed through the Nebraska Volunteer Service Commission	VetsSuccess Program	94.006	14AFHNE001	11,548
Passed through the Nebraska Volunteer Service Commission	Veterans Corps Program	94.006	13AFHNE0010012	19,229
Total Cooperation for National and Community Services				<u>270,942</u>
Total Expenditures of Federal Awards				<u>\$ 4,932,308</u>

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, 2016

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, 2016. 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 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.

Note 3: Indirect Cost Rate

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. and Affiliates
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, 2016, 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 1, 2017. The financial statements of Omaha Church Center, Inc., Lutheran Family Services Foundation, Inc., and LFS 25th Avenue Apartments, LLC were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Omaha Church Center, Inc., Lutheran Family Services Foundation, Inc., or LFS 25th Avenue Apartments, LLC.

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 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 1, 2017.

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. and Affiliates
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, 2016. 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, 2016.

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 1, 2017.

Lutheran Family Services of Nebraska, Inc. and Affiliates

**Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2016**

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 programs:

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.