Lutheran Family Services of Nebraska, Inc. and Affiliates

Omaha, Nebraska

Consolidated Financial Statements
December 31, 2017, with Comparative Totals for 2016
and Supplementary Information
December 31, 2017

Together with Independent Auditor's Report

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SEIM JOHNSON

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, 2017, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 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 financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2017, 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 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 1, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the 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 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 14, 2018 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 the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Seim Johnson, LLP

Omaha, Nebraska,
May 14, 2018.

Lutheran Family Services of Nebraska, Inc. and Affiliates

Consolidated Statement of Financial Position
December 31, 2017, with Comparative Totals for 2016

		2017	2016
ASSETS			
Current assets:			
Cash and cash equivalents	$	2,123,019	1,866,539
Short-term investments		1,940,693	1,257,394
Receivables -			
Service accounts, net of allowance for uncollectible accounts and contractual adjustments of $80,000 in 2017 and 2016		985,899	863,413
Pledges		1,733,819	2,467,589
Grants		1,452,198	1,586,660
Other		18,451	5,118
Prepaid expenses		159,610	133,927
Total current assets		8,413,689	8,180,640
Investment in Josiah Place, Inc.		4,652	4,652
Interest in Fremont Area Community Foundation		719,358	635,617
Pledges receivable, less current portion		89,150	341,142
Beneficial interest in perpetual trust		1,113,639	1,103,467
Beneficial interest in charitable remainder trust		144,174	137,954
Assets limited as to use		3,794,222	3,170,531
Property and equipment, net		5,570,701	5,584,213
Total assets	$	19,849,585	19,158,216
LIABILITIES AND NET ASSETS			
Current liabilities:			
Accounts payable	$	523,237	475,246
Accrued salaries, wages, vacation and payroll taxes payable		1,215,116	1,129,937
Retirement plan payable		51,478	41,508
Deferred revenue		1,433,938	1,374,455
Total current liabilities		3,223,769	3,021,146
Deferred compensation liability		374,628	303,888
Total liabilities		3,598,397	3,325,034
Commitments and contingencies			
Net assets:			
Unrestricted		9,520,400	8,803,976
Temporarily restricted		4,770,093	5,078,683
Permanently restricted		1,960,695	1,950,523
Total net assets		16,251,188	15,833,182
Total liabilities and net assets	$	19,849,585	19,158,216

See notes to consolidated financial statements

Lutheran Family Services of Nebraska, Inc. and Affiliates

Consolidated Statement of Activities
For the Year Ended December 31, 2017, with Comparative Totals for 2016

	2017				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2016
REVENUE, GAINS AND OTHER SUPPORT:					
Public support -					
Congregations and individuals	$ 2,368,572	891,458	--	3,260,030	5,081,220
United Ways	579,468	508,780	--	1,088,248	1,068,672
LCMS - Nebraska District	102,239	--	--	102,239	118,431
ELCA - Nebraska Synod	178,596	--	--	178,596	180,475
Private grants	1,253,965	--	--	1,253,965	1,789,156
Government grants	4,366,480	--	--	4,366,480	6,104,998
Net assets released from restrictions, including United Ways of $522,850 in 2017 and $615,133 in 2016	1,792,185	(1,792,185)	--	--	--
Individual gifts and bequests	607,500	--	--	607,500	1,050,145
Total public support	11,249,005	(391,947)	--	10,857,058	15,393,097
Program service revenue -					
Program service fees, net	4,455,209	--	--	4,455,209	4,588,035
Purchase of service contracts	6,473,188	--	--	6,473,188	5,970,767
Total program service revenue, net	10,928,397	--	--	10,928,397	10,558,802
Other -					
Investment income, net	547,298	77,137	--	624,435	235,606
Change in value of beneficial interest in perpetual trust	--	--	10,172	10,172	17,504
Change in value of beneficial interest in charitable remainder trust	--	6,220	--	6,220	6,450
Rental income	199,800	--	--	199,800	194,606
Other revenue	222,718	--	--	222,718	89,164
Gain on disposal of property and equipment, net	--	--	--	--	4,735
Total other, net	969,816	83,357	10,172	1,063,345	548,065
Total revenue, gains and other support	$ 23,147,218	(308,590)	10,172	22,848,800	26,499,964

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, 2017, with Comparative Totals for 2016

	2017				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2016
Total revenue, gains and other support - forward	$ 23,147,218	(308,590)	10,172	22,848,800	26,499,964
EXPENSES:					
Operating expenses -					
Salaries	12,082,836	--	--	12,082,836	12,219,787
Employee benefits	1,370,876	--	--	1,370,876	1,240,642
Payroll taxes	940,670	--	--	940,670	918,679
Total salaries and related expenses	14,394,382	--	--	14,394,382	14,379,108
Legal and accounting fees	104,486	--	--	104,486	85,748
Professional fees	1,982,138	--	--	1,982,138	1,648,883
Foster parent fees	684,321	--	--	684,321	810,120
Supplies	529,165	--	--	529,165	803,711
Telephone	320,707	--	--	320,707	414,428
Postage and shipping	41,551	--	--	41,551	41,819
Occupancy cost	1,305,567	--	--	1,305,567	1,253,543
Travel expense	491,434	--	--	491,434	538,267
Conference expense	220,725	--	--	220,725	227,142
Assistance to individuals	961,782	--	--	961,782	1,660,480
Equipment and maintenance	429,437	--	--	429,437	634,089
Insurance	176,086	--	--	176,086	171,638
Printing	127,529	--	--	127,529	166,002
Subscriptions and publications	12,830	--	--	12,830	26,086
Board expense	2,917	--	--	2,917	3,319
Organization dues	47,156	--	--	47,156	69,378
Uncollectible accounts	116,460	--	--	116,460	146,704
Miscellaneous	38,411	--	--	38,411	37,852
Interest expense	--	--	--	--	499
Grants to other organizations	17,999	--	--	17,999	22,500
Depreciation	425,711	--	--	425,711	391,031
Total expenses	22,430,794	--	--	22,430,794	23,532,347
CHANGE IN NET ASSETS	716,424	(308,590)	10,172	418,006	2,967,617
NET ASSETS, beginning of year	8,803,976	5,078,683	1,950,523	15,833,182	12,865,565
NET ASSETS, end of year	$ 9,520,400	4,770,093	1,960,695	16,251,188	15,833,182

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, 2017, with Comparative Totals for 2016

	Lutheran Family Services of Nebraska, Inc.										
	Program Services				Support Services						
	Behavioral Health Services	Children Services	Community Services	Total Program Services	Agency Management	Fund Raising/ Public Relations	Total Support Services	Affiliates	Eliminations	Total Expenses 2017	Total Expenses 2016
Salaries	$ 4,996,323	2,725,770	2,139,275	9,861,368	1,536,022	675,085	2,211,107	120,048	(109,687)	12,082,836	12,219,787
Employee benefits	619,601	308,027	187,163	1,114,791	190,666	64,120	254,786	23,237	(21,938)	1,370,876	1,240,642
Payroll taxes	388,829	215,389	170,242	774,460	115,264	49,622	164,886	10,099	(8,775)	940,670	918,679
Total salaries and related expenses	6,004,753	3,249,186	2,496,680	11,750,619	1,841,952	788,827	2,630,779	153,384	(140,400)	14,394,382	14,379,108
Legal and accounting fees	--	--	--	--	99,429	--	99,429	29,177	(24,120)	104,486	85,748
Professional fees	778,043	65,551	495,370	1,338,964	422,181	187,500	609,681	97,093	(63,600)	1,982,138	1,648,883
Foster parent fees	--	684,321	--	684,321	--	--	--	--	--	684,321	810,120
Supplies	119,837	163,840	155,226	438,903	36,189	47,041	83,230	7,032	--	529,165	803,711
Telephone	104,969	40,990	28,086	174,045	143,048	2,321	145,369	1,293	--	320,707	414,428
Postage and shipping	4,981	3,784	3,133	11,898	7,011	22,642	29,653	--	--	41,551	41,819
Occupancy cost	738,209	288,932	155,776	1,182,917	339,070	31,752	370,822	117,420	(365,592)	1,305,567	1,253,543
Travel expenses	167,274	141,862	120,384	429,520	32,863	28,926	61,789	125	--	491,434	538,267
Conference expense	16,502	63,282	18,765	98,549	18,080	104,096	122,176	--	--	220,725	227,142
Assistance to individuals	49,193	5,284	907,305	961,782	--	--	--	--	--	961,782	1,660,480
Equipment and maintenance	74,089	40,670	22,924	137,683	149,067	35,965	185,032	106,722	--	429,437	634,089
Insurance	60,665	33,945	26,564	121,174	12,671	8,245	20,916	33,996	--	176,086	171,638
Printing	12,694	13,050	4,759	30,503	10,731	84,256	94,987	2,039	--	127,529	166,002
Subscriptions and publications	1,046	736	3,048	4,830	6,842	1,158	8,000	--	--	12,830	26,086
Board expense	--	--	--	--	2,917	--	2,917	--	--	2,917	3,319
Organization dues	7,525	5,785	950	14,260	30,180	2,716	32,896	--	--	47,156	69,378
Uncollectible accounts	85,244	19,337	9,424	114,005	--	--	--	2,455	--	116,460	146,704
Miscellaneous	44	2,576	2,011	4,631	124	629	753	33,027	--	38,411	37,852
Interest expense	--	--	--	--	--	--	--	--	--	--	499
Grants to affiliates and other organizations	--	--	--	--	--	--	--	868,196	(850,197)	17,999	22,500
Total expense before depreciation	8,225,068	4,823,131	4,450,405	17,498,604	3,152,355	1,346,074	4,498,429	1,451,959	(1,443,909)	22,005,083	23,141,316
Depreciation expense	--	--	--	--	96,907	--	96,907	328,804	--	425,711	391,031
Total expenses	$ 8,225,068	4,823,131	4,450,405	17,498,604	3,249,262	1,346,074	4,595,336	1,780,763	(1,443,909)	22,430,794	23,532,347

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, 2017, with Comparative Totals for 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 418,006	2,967,617
Adjustments to reconcile change in net assets to net cash provided by operating activities -		
Depreciation expense	425,711	391,031
Changes in unrealized gains, net	(303,516)	(156,234)
Change in interest in Fremont Area Community Foundation	(83,741)	(137,106)
Change in value of beneficial interest in perpetual trust	(10,172)	(17,504)
Change in value of beneficial interest in charitable remainder trust	(6,220)	(6,450)
Contribution of investment in real estate investment trust	(521,500)	(521,500)
Gain on disposal of property and equipment	--	(4,735)
(Increase) decrease in assets -		
Receivables -		
Service accounts	(122,486)	358,492
Pledges	985,762	(1,169,343)
Grants	134,462	(539,565)
Other	(13,333)	16,278
Prepaid expenses	(25,683)	571
Increase (decrease) in current liabilities -		
Accounts payable	47,991	29,949
Accrued salaries, wages, vacation and payroll taxes payable	85,179	55,400
Retirement plan payable	9,970	(1,583)
Deferred revenue	59,483	(301,682)
Net cash provided by operating activities	1,079,913	963,636
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment, net	(412,199)	(603,166)
Withdrawals from (deposits to) short-term investments, net	(379,783)	149,956
Deposits to assets limited to use, net	(31,451)	(100,253)
Net cash used in investing activities	(823,433)	(553,463)
CASH FLOWS FROM FINANCING ACTIVITIES,		
Payments on long-term debt	--	(272,193)
NET INCREASE IN CASH AND CASH EQUIVALENTS	256,480	137,980
CASH AND CASH EQUIVALENTS:		
Beginning of year	1,866,539	1,728,559
End of year	$ 2,123,019	1,866,539
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Cash paid for interest	$ --	499
Contribution of investment in real estate investment trust	$ 521,500	521,500

See notes to consolidated financial statements

(1) Description of Organization and Principles of Consolidation

The 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.

The financial statements include the accounts of these organizations. All significant intercompany accounts and transactions have been eliminated in consolidation.

(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 financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with GAAP. Revenue is recognized when earned and expenses are recognized when incurred. Financial statement presentation follows the recommendations of Financial Accounting Standards Board (FASB) Accounting Standards Codification (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, 2017 and 2016, the Organization had board designated net assets in the amount of $365,413 and $345,371 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.

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 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 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 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 consolidated 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 and unrealized 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.

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.

K. *Deferred Revenue*

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

		2017	2016
Children services	$	569,422	364,699
Behavioral health		278,157	312,393
Community services		256,049	305,237
Disaster relief		81,414	81,259
Technology		33,200	33,200
General program services		215,696	277,667
	$	1,433,938	1,374,455

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 financial statements.

M. *In-Kind Contributions*

The Organization receives donated services, space and other in-kind contributions. Contributions of services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. When the value of donated services is ascertainable, they are reflected at fair value in the consolidated statement of activities as revenue and expenses.

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 $25,110 in 2017 and $55,626 in 2016.

N. *Advertising*

The Organization expenses advertising costs as incurred. At December 31, 2017 and 2016 advertising expense of $32,012 and $63,149, respectively, is included in printing expense in the consolidated statement of activities.

O. *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.

P. 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.

Q. Income Taxes

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

LFS 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, 2017 and 2016, the Organization had no uncertain tax positions accrued.

R. Comparative Amounts

The amounts shown for 2016 in the accompanying financial statements are included to provide a basis for comparison with 2017, and are not intended to present all information necessary for a fair presentation of the 2016 financial statements in conformity with accounting principles generally accepted in the United States of America.

S. Reclassification

Certain amounts in the 2016 financial statements have been reclassified to conform to the 2017 reporting format.

T. Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 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 financial statements.

In February 2016, the FASB issued 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 statement of financial position 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 financial statements.

U. Subsequent Events

The Organization considered events occurring through May 14, 2018 for recognition or disclosure in the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

(3) Pledges Receivable

Pledges receivable as of December 31, 2017 are due as follows:

Year Ended December 31:	
2018	$ 1,733,819
2019	44,450
2020	26,600
2021	18,100
Total	1,822,969
Less current portion	(1,733,819)
Pledges receivable, net of current portion	$ 89,150

(4) Investments, Including Assets Limited as to Use

The composition of investments, including assets limited as to use, at December 31, 2017 and 2016 is as follows:

	2017	**2016**
Short-term investments	$ 1,940,693	1,257,394
Assets limited as to use –		
By donor	$ 3,054,181	2,521,272
By Board	365,413	345,371
Deferred compensation	374,628	303,888
Total assets limited as to use	$ 3,794,222	3,170,531

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, net, and a new cost basis is established for each security for which an impairment loss is recognized. During the years ended December 31, 2017 and 2016, there were no impairment losses.

Investment return for the years ended December 31, 2017 and 2016 is summarized as follows:

		2017	2016
Interest and dividends	$	178,657	111,072
Realized and unrealized gains, net		445,778	124,534
Total investment return	$	624,435	235,606

(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.

For the years ended December 31, 2017 and 2016, 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, 2017 and 2016:

	2017			
	Total	Level 1	Level 2	Level 3
Investments, including assets limited as to use presented at fair value:				
Cash and cash equivalents	$ 478,440	478,440	--	--
Mutual funds -				
International	261,392	261,392	--	--
Corporate stocks -				
Domestic	1,719,248	1,719,248	--	--
International	588,095	588,095	--	--
Fixed income -				
Corporate bonds	1,214,321	--	1,214,321	--
Interest in Fremont Area Community Foundation	719,358	--	--	719,358
Beneficial interest in perpetual trust	1,113,639	--	--	1,113,639
Beneficial interest in charitable remainder trust	144,174	--	--	144,174
	$ 6,238,667	3,047,175	1,214,321	1,977,171
Investments, including assets limited as to use - other:				
Investments valued at net asset value -				
Investment in real estate investment trust	1,043,000			
Cash surrender value of life insurance	430,419			
Total investments, including assets limited as to use	$ 7,712,086			

	2016			
	Total	**Level 1**	**Level 2**	**Level 3**
Investments, including assets limited as to use presented at fair value:				
Cash and cash equivalents	$ 323,128	323,128	--	--
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
	$ 5,428,751	2,450,756	1,100,957	1,877,038
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	$ 6,304,963			

Reconciliation of Level 3 assets for the years ended December 31, 2017 and 2016 is as follows:

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	137,106
Balance, December 31, 2016	$ 1,877,038

Balance, December 31, 2016	$ 1,877,038
Change in value of beneficial interest in perpetual trust	10,172
Change in value of beneficial interest in charitable remainder trust	6,220
Change in interest in Fremont Area Community Foundation	83,741
Balance, December 31, 2017	$ 1,977,171

(6) Investments Valued at Net Asset Value

The Organization applies the provisions of ASC 820, *Fair Value Measurement* to its investment in a real estate investment trust. Certain provisions of ASC 820 state that investments in affiliated and private investment funds valued at net asset value (NAV) are not 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. When 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, 2017 and 2016:

	2017	
	Net Asset Value	Unfunded Commitments
Real Estate Investment Trust	$ 1,043,000	--

	2016	
	Net Asset Value	Unfunded Commitments
Real Estate Investment Trust	$ 521,500	--

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.

(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 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, net, in the accompanying financial statements.

(9) Property and Equipment, Net

A summary of property and equipment at December 31, 2017 and 2016 is as follows:

		2017	2016
Land and improvements	$	1,274,189	1,274,189
Land held for future use		500,000	500,000
Building		2,593,209	2,596,264
Building improvements		3,413,831	3,067,861
Furniture and equipment		1,671,654	1,627,965
Vehicles		53,271	53,271
Construction in progress		137,945	137,945
		9,644,099	9,257,495
Less accumulated depreciation		(4,073,398)	(3,673,282)
	$	5,570,701	5,584,213

Depreciation expense of $425,711 and $391,031 in 2017 and 2016, respectively, is included in the accompanying consolidated statement of activities.

The balance of construction in progress at December 31, 2017 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, 2017, the Organization had no Board designated endowments.

The Board of Directors of the Organization has interpreted the Nebraska Uniform Prudent Management of Institutional Funds Act (NUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by NUPMIFA. In accordance with NUPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Organization
7. The investment policies of the Organization

The change in endowment net assets for the years ended December 31, 2017 and 2016 are as follows:

		2017	
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 548,174	847,056	1,395,230
Investment return:			
Interest and dividends, net	42,119	--	42,119
Net appreciation (realized and unrealized)	7,326	--	7,326
Total investment return	49,445	--	49,445
Contributions	--	--	--
Appropriations of endowment assets for expenditure	(98,910)	--	(98,910)
Endowment net assets, end of year	$ 498,709	847,056	1,345,765

		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	$ 548,174	847,056	1,395,230

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, 2017 and 2016:

	2017	2016
Refugee services	$ 1,223,445	791,512
24th Street Campus	1,122,949	1,122,949
Pledges receivable for future general program services	663,996	1,195,921
United Ways allocations for program services	508,780	522,850
Veterans services	498,709	548,174
Fremont Area Center for Healthy Families	258,666	211,529
Capital projects	223,983	391,275
Grace Hansen Children's Fund	144,174	151,282
Education Leadership and Development	80,086	79,886
Children services	37,811	37,811
Prison ministry	7,494	25,494
	$ 4,770,093	5,078,683

Permanently restricted net assets have been restricted by donors to be maintained in perpetuity. Permanently restricted net assets of the Organization at December 31, 2017 and 2016, are restricted to:

	2017	2016
Beneficial interest in perpetual trust	$ 1,113,639	1,103,467
Support of general operations	485,327	485,327
Fremont Area Center for Healthy Families	361,729	361,729
	$ 1,960,695	1,950,523

(12) United Ways Support

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

	2017	2016
United Way of the Midlands	$ 708,388	767,299
United Way of the Midlands (International Center)	216,096	208,044
Fremont Area United Way	85,000	85,000
Heartland United Way, Inc.	63,554	71,667
Hastings United Way	13,930	13,200
United Way of Lincoln and Lancaster County	5,000	244
Lexington United Way	4,500	7,000
Mid-Plains United Way	3,750	5,000
Cozad United Way, Inc.	2,000	2,000
United Way of McCook	100	1,350
United Way of the Kearney Area	--	151
	$ 1,102,318	1,160,955

(13) Contributions

Contributions are included in the consolidated statement of activities. Total contributions recognized for the years ended December 31, 2017 and 2016 were:

		2017	2016
Unrestricted contributions -			
Congregations and individuals (including in-kind contributions)	$	2,368,572	2,385,843
LCMS – Nebraska District		102,239	118,431
ELCA – Nebraska Synod		178,596	180,475
Individual gifts and bequests		607,500	1,050,145
Total unrestricted contributions		3,256,907	3,734,894
Temporarily restricted contributions		1,400,238	3,218,227
Total contributions	$	4,657,145	6,953,121

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:

		2017	2016
Professional fees	$	546,511	581,343
Supplies and other		182,889	343,510
Legal and accounting fees		49,404	25,086
Occupancy costs		41,028	146,956
	$	819,832	1,096,895

(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:

		2017	2016
Grants:			
Church World Services	$	1,102,385	1,935,358
Nebraska Health and Human Services		1,038,783	1,247,185
Lutheran Immigration and Refugee Service		667,620	1,066,690
NHHS – Refugee Education and Employability Partnership		591,472	463,047
Promise Ship		309,709	322,868
Learning Community of Douglas and Sarpy Counties		240,848	379,933
AmeriCorps		68,077	270,942
Douglas County Home Visitation		--	129,546
Other		347,586	289,429
	$	4,366,480	6,104,998
Purchase of Service Contracts:			
Region 6 Behavioral Healthcare	$	3,065,271	3,302,315
Region V		2,505,876	2,203,695
Region II and Region III		193,396	173,418
Bluestem Health		498,562	49,325
Other		210,083	242,013
	$	6,473,188	5,970,767

(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 $368,145 and $653,088 for the years ended December 31, 2017 and 2016, 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 financial statements.

Health360 Integrated Care Project

In December 2015, the Organization entered into a Health 360 Integrated Care Agreement (Agreement) with Bluestem Health, 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 $85,416 and $53,035 in 2017 and 2016, 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 $925,258 and $748,739 for the years ended December 31, 2017 and 2016, respectively.

The following is a schedule by years of future minimum rental commitments under non-cancelable leases as of December 31, 2017:

Year Ending December 31	Total
2018	$ 645,909
2019	628,554
2020	577,015
2021	555,433
2022	1,021,129

(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, 2017 and 2016, was $199,516 and $216,016, respectively.

Effective January 1, 2018, the Organization transitioned its Employer's Profit Sharing Plan to a 403(b) Plan.

(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 $23,130 and $23,104 to the plan on behalf of participants for the year ended December 31, 2017 and 2016, respectively.

The deferred compensation assets related to this plan in the amounts of $374,628 and $303,888 as of December 31, 2017 and 2016, respectively, are included within the accompanying consolidated statement of financial position as assets limited as to use. A liability of $374,628 and $303,888 as of December 31, 2017 and 2016, respectively, based on the fair value of the investments, has also been included within the accompanying consolidated statement of financial position as deferred compensation liability.

(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, 2017 and 2016 were as follows:

	2017	2016
Medicare and Medicaid	20%	21%
Other state/governmental funding	56	55
Client and other payors	24	24
	100%	100%

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 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. During 2017, the Organization received an $800,000 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.

Consolidating Statement of Financial Position
December 31, 2017

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	$	837,432	247,469	847,240	190,878	--	2,123,019
Short-term investments		398,270	--	1,542,423	--	--	1,940,693
Receivables -							
Service accounts, net of allowance for uncollectible accounts and contractual adjustments of $80,000		985,899	--	--	--	--	985,899
Pledges		1,283,581	116,800	333,438	--	--	1,733,819
Grants		1,452,198	--	--	--	--	1,452,198
Affiliates		123,955	521,586	--	1,521	(647,062)	--
Other		2,690	--	13,325	2,436	--	18,451
Prepaid expenses		148,637	--	4,475	6,498	--	159,610
Total current assets		5,232,662	885,855	2,740,901	201,333	(647,062)	8,413,689
Investment in Josiah Place, Inc.		--	4,652	--	--	--	4,652
Investment in LFS 25th Avenue Apartments, LLC		1,292,305	--	--	--	(1,292,305)	--
Interest in Fremont Area Community Foundation		--	--	719,358	--	--	719,358
Pledges receivable, less current portion		--	89,150	--	--	--	89,150
Beneficial interest in perpetual trust		--	--	1,113,639	--	--	1,113,639
Beneficial interest in charitable remainder trust		--	--	144,174	--	--	144,174
Assets limited as to use		374,628	18,033	3,401,561	--	--	3,794,222
Property and equipment, net		215,274	4,240,661	--	1,114,766	--	5,570,701
Total assets	$	7,114,869	5,238,351	8,119,633	1,316,099	(1,939,367)	19,849,585

Consolidating Statement of Financial Position (continued)
December 31, 2017

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	$	431,013	78,542	495	13,187	--	523,237
Affiliates		--	--	647,062	--	(647,062)	--
Accrued salaries, wages, vacation and payroll taxes payable		1,215,116	--	--	--	--	1,215,116
Retirement plan payable		51,478	--	--	--	--	51,478
Deferred revenue		1,919,497	--	--	10,607	(496,166)	1,433,938
Total current liabilities		3,617,104	78,542	647,557	23,794	(1,143,228)	3,223,769
Deferred compensation liability		374,628	--	--	--	--	374,628
Total liabilities		3,991,732	78,542	647,557	23,794	(1,143,228)	3,598,397
Commitments and contingencies							
Net assets and member's equity:							
Member's equity		--	--	--	1,292,305	(1,292,305)	--
Unrestricted net assets		1,950,361	4,935,826	2,138,047	--	496,166	9,520,400
Temporarily restricted net assets		1,172,776	223,983	3,373,334	--	--	4,770,093
Permanently restricted net assets		--	--	1,960,695	--	--	1,960,695
Total net assets		3,123,137	5,159,809	7,472,076	1,292,305	(796,139)	16,251,188
Total liabilities and net assets	$	7,114,869	5,238,351	8,119,633	1,316,099	(1,939,367)	19,849,585

Lutheran Family Services of Nebraska, Inc. and Affiliates

Exhibit 2

Consolidating Statement of Activities
For the Year Ended December 31, 2017

	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	$ 1,976,847	--	391,725	--	--	2,368,572
United Ways	579,468	--	--	--	--	579,468
LCMS - Nebraska District	102,239	--	--	--	--	102,239
ELCA - Nebraska Synod	178,596	--	--	--	--	178,596
Grants from affiliate	629,709	25,000	--	--	(654,709)	--
Private grants	1,253,965	--	--	--	--	1,253,965
Government grants	4,366,480	--	--	--	--	4,366,480
Net assets released from restrictions, including United Ways of $522,850	1,489,775	191,617	110,793	--	--	1,792,185
Individual gifts and bequests	--	254,797	352,703	--	--	607,500
Total public support	10,577,079	471,414	855,221	--	(654,709)	11,249,005
Program service revenue -						
Program service fees, net	4,455,209	--	--	--	--	4,455,209
Purchase of service contracts	6,701,308	--	--	--	(228,120)	6,473,188
Total program service revenue, net	11,156,517	--	--	--	(228,120)	10,928,397
Other -						
Investment income, net	306	3,368	543,624	--	--	547,298
Change in investment in LFS 25th Avenue Apartments, LLC	37,945	--	--	--	(37,945)	--
Rental income	--	365,592	--	199,800	(365,592)	199,800
Other revenue	192,671	22,677	--	7,370	--	222,718
Total other, net	230,922	391,637	543,624	207,170	(403,537)	969,816
Total unrestricted revenue, gains and other support	$ 21,964,518	863,051	1,398,845	207,170	(1,286,366)	23,147,218

Lutheran Family Services of Nebraska, Inc. and Affiliates

Exhibit 2

Consolidating Statement of Activities (continued)
For the Year Ended December 31, 2017

	Lutheran Family Services of Nebraska, Inc.	Omaha Church Center, Inc.	Lutheran Family Services Foundation, Inc.	LFS 25th Avenue Apartments, LLC	Eliminations	Consolidated
Total unrestricted revenue, gains and other support - forward	$ 21,964,518	863,051	1,398,845	207,170	(1,286,366)	23,147,218
EXPENSES:						
Operating expenses -						
Salaries	12,072,475	--	109,687	10,361	(109,687)	12,082,836
Employee benefits	1,369,577	--	21,938	1,299	(21,938)	1,370,876
Payroll taxes	939,346	--	8,775	1,324	(8,775)	940,670
Total salaries and related expenses	14,381,398	--	140,400	12,984	(140,400)	14,394,382
Legal and accounting fees	99,429	15,720	13,457	--	(24,120)	104,486
Professional fees	1,948,645	65,267	25,079	6,747	(63,600)	1,982,138
Foster parent fees	684,321	--	--	--	--	684,321
Supplies	522,133	3,125	--	3,907	--	529,165
Telephone	319,414	--	--	1,293	--	320,707
Postage and shipping	41,551	--	--	--	--	41,551
Occupancy cost	1,553,739	54,472	4,860	58,088	(365,592)	1,305,567
Travel expense	491,309	--	--	125	--	491,434
Conference expense	220,725	--	--	--	--	220,725
Assistance to individuals	961,782	--	--	--	--	961,782
Equipment and maintenance	322,715	88,731	--	17,991	--	429,437
Insurance	142,090	23,094	--	10,902	--	176,086
Printing	125,490	--	--	2,039	--	127,529
Subscriptions and publications	12,830	--	--	--	--	12,830
Board expense	2,917	--	--	--	--	2,917
Organization dues	47,156	--	--	--	--	47,156
Uncollectible accounts	114,005	--	--	2,455	--	116,460
Miscellaneous	5,384	--	33,027	--	--	38,411
Grants to affiliates and other organizations	--	18,012	850,184	--	(850,197)	17,999
Depreciation	96,907	276,110	--	52,694	--	425,711
Total expenses	22,093,940	544,531	1,067,007	169,225	(1,443,909)	22,430,794
CHANGE IN UNRESTRICTED NET ASSETS AND MEMBER'S EQUITY	$ (129,422)	318,520	331,838	37,945	157,543	716,424

Consolidating Statement of Activities (continued)
For the Year Ended December 31, 2017

	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	$ (129,422)	318,520	331,838	37,945	157,543	716,424
TEMPORARILY RESTRICTED NET ASSETS:						
Contributions, grants and bequests	435,000	24,325	432,133	--	--	891,458
United Ways	508,780	--	--	--	--	508,780
Investment income, net	--	--	77,137	--	--	77,137
Change in value of beneficial interest in charitable remainder trust	--	--	6,220	--	--	6,220
Net assets released from restrictions	(1,489,775)	(191,617)	(110,793)	--	--	(1,792,185)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	(545,995)	(167,292)	404,697	--	--	(308,590)
PERMANENTLY RESTRICTED NET ASSETS,						
Change in value of beneficial interest in perpetual trust	--	--	10,172	--	--	10,172
CHANGE IN NET ASSETS AND MEMBER'S EQUITY	(675,417)	151,228	746,707	37,945	157,543	418,006
NET ASSETS AND MEMBER'S EQUITY:						
Beginning of year	3,798,554	5,008,581	6,725,369	1,254,360	(953,682)	15,833,182
End of year	$ 3,123,137	5,159,809	7,472,076	1,292,305	(796,139)	16,251,188

Lutheran Family Services of Nebraska, Inc. and Affiliates **Exhibit 3**

Statement of Activities by Core Competencies
Lutheran Family Services of Nebraska, Inc.
For the Year Ended December 31, 2017

		Agency Management	Fund Raising/ Public Relations	Behavioral Health Services	Children Services	Community Services	Total
SUPPORT AND REVENUE							
Contributions	$	3,500	986,729	30,870	325,710	111,217	1,458,026
In-Kind contributions, including unrecognized, footnote disclosed in-kind contributions in the amount of $25,110		47,334	21,993	91,414	79,706	604,495	844,942
LFS Foundation grants		83,763	1,500	49,465	92,914	402,067	629,709
Private grants		--	410,725	651,868	943,171	194,950	2,200,714
Government grants		2,214	--	43,188	1,069,437	3,251,641	4,366,480
United Ways		--	55,370	162,039	558,115	326,794	1,102,318
Program service fees		--	--	1,964,342	2,474,352	16,515	4,455,209
Purchase of service contracts		113,460	140,400	6,203,184	44,059	200,205	6,701,308
Interest and other		223,378	300	4,054	1,409	1,781	230,922
Total support and revenue		473,649	1,617,017	9,200,424	5,588,873	5,109,665	21,989,628
EXPENSES							
Personnel		1,841,952	788,827	6,004,753	3,249,186	2,496,680	14,381,398
Professional fees, including unrecognized, footnote disclosed in-kind contributions in the amount of $25,110		521,796	187,500	783,828	769,011	495,370	2,757,505
Occupancy costs		339,070	31,752	738,209	288,932	155,776	1,553,739
Travel and conference expenses		50,943	133,022	183,776	205,144	139,149	712,034
Other operating expenses		398,780	204,973	471,094	324,713	256,125	1,655,685
Specific assistance to individuals		--	--	49,193	5,284	907,305	961,782
Depreciation expense		96,907	--	--	--	--	96,907
Administration allocation		(2,381,413)	(289,145)	1,279,140	799,831	591,587	--
Total expenses		868,035	1,056,929	9,509,993	5,642,101	5,041,992	22,119,050
CHANGE IN UNRESTRICTED NET ASSETS	$	(394,386)	560,088	(309,569)	(53,228)	67,673	(129,422)

Lutheran Family Services of Nebraska, Inc. and Affiliates

Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2017

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	OG1501NEPREP	$ 21,118
Passed through the Nebraska Department of Health and Human Services	Refugee TAG Formula	93.584	1601NERTAG	271,581
Passed through Administration for Children and Families:				
Passed through Nebraska Department of Health and Human Services	Refugee and Entrant Assistance - Discretionary Grants	93.576	90RT0195-01-00 90RT0195-01-02	198,928
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	22,501
Passed through Church World Services	Refugee and Entrant Assistance - Preferred Placement	93.576	90RP0103	50,497
	Total Refugee and Entrant Assistance - Discretionary Grants			271,926
Passed through Lutheran Immigration and Refugee Service	Services for Unaccompanied Alien Children	93.676	90ZU0182-01 90ZU0103/03	70,020
Passed through Lutheran Immigration and Refugee Service	Refugee and Entrant Assistance - Voluntary Agency Programs	93.567	90RV0071/02/00 1802MDRVMG	133,200
Passed through Church World Services	Refugee and Entrant Assistance - Voluntary Agency Programs	93.567	90RV0069	161,100
	Total Refugee and Entrant Assistance - Voluntary Agency Programs			294,300
Passed through PromiseShip	Nebraska Adoption Project	93.652	90CO1125-01	2,665
Passed through Region 6 Behavioral Healthcare	Child Care and Development Fund (CCDF) Cluster			
	Child Care and Development Block Grant	93.575	G1501NECCDF	16,909
	Total CCDF Cluster			16,909
Passed through Nebraska Department of Health and Human Services	Refugee Social Services Program	93.566	OG1601NERSOC OG1701NERCMA	527,649
Passed through Region 6 Behavioral Healthcare	Block Grant for Community Mental Health Services	93.958	R6 17-18	195,722
Passed through Region 6 Behavioral Healthcare	Block Grants for Prevention and Treatment of Substance Abuse	93.959	R6 17-18	21,382
Passed through Region V	Block Grants for Prevention and Treatment of Substance Abuse	93.959	R5 16-17 R5 17-18	26,413
	Total Block Grants for Prevention and Treatment of Substance Abuse			47,795
Passed through Nebraska Department of Health and Human Services	Temprary Assistance for Needy Families (TANF) Cluster			
	Temporary Assistance for Needy Families	93.558	OG1502NETANF OG1601NETANF	164,610
	Total TANF Cluster			164,610
Subtotal				$ 1,884,295

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, 2017

Federal Grantor / Pass-Through Grantor	Federal Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Total Federal Expenditures
Balance forward				$ 1,884,295
U.S. Department of Health and Human Services (Continued)				
Passed through PromiseShip	Foster Care Title IV-E	93.658	N/A	215,798
Passed through Nebraska Department of Health and Human Services	Foster Care Title IV-E	93.658	0G1701NEFOST 0G1801NEFOST	24,835
	Total Foster Care Title IV-E			240,633
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	16X07HA00042 16X07HA29238 17X07HA00042	38,158
Passed through the U.S. Committee for Refugees and Immigrants	National Human Trafficking Victim Assistance	93.598	90ZV0123	(2,124)
Total U.S. Department of Health and Human Services				$ 2,160,962
U.S. Department of State				
Passed through Church World Services	Reception and Placement Program	19.510	SPRMCO14CA1010	$ 890,788
Passed through Lutheran Immigration and Refugee Service	Reception and Placement Program	19.510	SPRMCO17CA1010 SPRMC018CA0003	464,400
Total U.S. Department of State				$ 1,355,188
U.S. Department of Justice				
Passed through the Nebraska Crime Commission	Victims of Crime Act	16.575	16VA0256 17VA0247	$ 73,088
Passed through the Nebraska Crime Commission	Justice Assistance Grant	16.738	2015-DJ-BX-0748	43,653
Total U.S. Department of Justice				$ 116,741
Corporation for National and Community Services				
Passed through the Nebraska Volunteer Service Commission	AmeriCorps	94.006	16AC184585	$ 68,077
Total Expenditures of Federal Awards				$ 3,700,968

The accompanying notes are an integral part of this schedule

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Lutheran Family Services of Nebraska, Inc. (the Agency) under the programs of the federal government for the year ended December 31, 2017. 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 Agency, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Agency.

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 the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Note 3: Indirect Cost Rate

The Agency has elected not to use the 10-percent de-minimis 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 financial statements of Lutheran Family Services of Nebraska, Inc. (the Organization), which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 14, 2018. 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 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 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 financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

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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.

Seim Johnson, LLP

Omaha, Nebraska,
May 14, 2018.

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, 2017. 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, 2017.

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

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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.

Seim Johnson, LLP

Omaha, Nebraska,
May 14, 2018.

Lutheran Family Services of Nebraska, Inc. and Affiliates

Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2017

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 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 federal 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
93.566	Refugee Social Services 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.