Nebraska Synod of the Evangelical Lutheran Church in America

Omaha, Nebraska

Report to the Council

As of and for the Year Ended
January 31, 2018

Nebraska Synod of the
Evangelical Lutheran Church in America

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SEIM JOHNSON

To the Council
Nebraska Synod of the
Evangelical Lutheran Church in America
Omaha, Nebraska:

Dear Council:

We are pleased to present this report related to our audit of the financial statements of Nebraska Synod of the Evangelical Lutheran Church in America (the Synod), as of and for the year ended January 31, 2018. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the Synod's financial reporting process.

This report is intended solely for the information and use of the Council 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 Synod.

Seim Johnson, LLP

Omaha, Nebraska,
July 26, 2018.

Seim Johnson, LLP › 18081 Burt Street, Suite 200 › Omaha, NE 68022-4722 › Tel: 402.330.2660 › Fax: 402.330.5108 › SeimJohnson.com

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 responsibility under auditing standards generally accepted in the United States of America has been described to you in our arrangement letter dated November 30, 2017. Our audit of the 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 dated November 30, 2017 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.

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 Synod. The Synod did not adopt any significant new accounting policies, nor have there been any changes in existing significant 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.

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 were eight audit adjustments made to the original trial balances presented to us at the beginning of our audit, including three client journal entries provided to us during audit fieldwork. The adjusting entries are summarized in the attached schedule.

Uncorrected Misstatements

We accumulated four uncorrected misstatements (passed audit adjustments) which were discussed with management, and determined by management to be immaterial to the financial statements taken as a whole. Therefore, the adjustments to correct the financial statements were not made. The uncorrected misstatements are summarized in the accompanying schedule.

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 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 significant difficulties in dealing with management during the audit.

Letter Communicating Internal Control Related Matters and Constructive Suggestions

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.

Quality Review

A copy of our most recent quality review is included in this correspondence.

Summary of Accounting Estimates
As of and for the Year Ended January 31, 2018

Accounting estimates are an integral part of the preparation of 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 Synod’s January 31, 2018 financial statements:

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 Synod uses general industry data and historical experience to help determine useful life for depreciation purposes.

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

Fair Value of Investments

Accounting Policy: Investments are recorded at their estimated fair values.

Estimation Process: Investments in marketable securities are recorded at fair value using quoted market prices.

Comments: Based on our testing, the estimated fair values of investments appear reasonable.

Nebraska Synod of the
Evangelical Lutheran Church in America

Summary of Audit Adjustments
As of and for the Year Ended January 31, 2018

Number	Date	Name	Account No	Debit	Credit
1	1/31/2018	Deferred Rev Spiritual Direction	2100000149-E E	34,734.00	
1	1/31/2018	Spiritual Direction Events	4328200149-E E	348.00	
1	1/31/2018	Spirit Direct Scholarships	3100199999-E E		25,082.00
1	1/31/2018	Imm Vision Fdn Spiritual Direction	3100100149-E E		10,000.00
		To adjust spirit deferred revenue to temp restricted net assets			
2	1/31/2018	Miscellaneous Receivable	1132600000-E E	56,711.00	
2	1/31/2018	Operating Fund Cash	1110100000-E E		56,711.00
		To record FY18 contributions received after year end as accounts receivable			
3	1/31/2018	Program Staff Salaries	5111101011-E E	578.00	
3	1/31/2018	Video Library	4284800148-E E		98.00
3	1/31/2018	Women in Ministry	5666600158-E E		478.00
3	1/31/2018	NE Synod Endowment - DO NOT USE	3100100304-E E		2.00
		To remove negative fund balances in net assets			
4	1/31/2018	General Fund Balance	3000000000-P P	1,801.00	
4	1/31/2018	Temp Restricted Net Assets	3200000000-P P		1,801.00
		To reclass opening LPGS TRNA			
5	1/31/2018	Deferred Revenue	2120600000-E E	44,500.00	
5	1/31/2018	Mission Field NE - Temp Rest Rev	4220600124-E E		44,500.00
		To record deferred revenue with restrictions as temporarily restricted			
CJE 1	1/31/2018	Spiritual Direction Events	4328200149-E E	5,705.00	
CJE 1	1/31/2018	Deferred Rev Spiritual Direction	2100000149-E E		5,705.00
		To adjust Spiritual Direction Deferred Revenue			
CJE 2	1/31/2018	Westwood B Co Des Endow - Seg 1 Inv	1110001320-E E		9,971.00
CJE 2	1/31/2018	Westwood B Per Res Gft - Seg 1 Inv	1110001321-E E		275.00
CJE 2	1/31/2018	Westwood B Co Des Endow - Seg 3 Inv	1110001323-E E		18,231.00
CJE 2	1/31/2018	Westwood B Seg 1 Dist Earn Inv	1110001324-E E	10,246.00	
CJE 2	1/31/2018	Westwood B Seg 3 Dist Earn Inv	1110001325-E E	18,231.00	
CJE 2	1/31/2018	Westwood B Seg 1 Dist Earnings	4100100324-E E		10,246.00
CJE 2	1/31/2018	Westwood B Seg 3 Dist Earnings	4100100325-E E		18,231.00
CJE 2	1/31/2018	Westwood B Co Des End - Seg 1 Distr	5100100320-E E	9,971.00	
CJE 2	1/31/2018	Westwood B Per Res Gft - Seg 1 Dist	5100100321-E E	275.00	
CJE 2	1/31/2018	Westwodo B Co Des End - Seq 3 Distr	5100300323-E E	18,231.00	
CJE 2	1/31/2018	Westwood B Co Des End - Seg 1 Ckg	1110100320-E E	20,000.00	
CJE 2	1/31/2018	Westwood B Co Des Endow - Seg 3 Ckg	1110100323-E E		20,000.00
CJE 2	1/31/2018	Westwood B Co Des Endo - Seg 1 Trfr	4100300320-E E		20,000.00
CJE 2	1/31/2018	Westwood B Co Des Endo - Seg 3 Trfr	4100300323-E E	20,000.00	
		Client entry to reclassify endowment distributable earnings			

Nebraska Synod of the
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Summary of Audit Adjustments
As of and for the Year Ended January 31, 2018

Number	Date	Name	Account No	Debit	Credit
CJE 3	1/31/2018	Westwood B Co Des Endow - Seg 1 Inv	1110001320-E E	20,000.00	
CJE 3	1/31/2018	Westwood B Co Des Endow - Seg 3 Inv	1110001323-E E		20,000.00
CJE 3	1/31/2018	Westwood B Co Des End - Seg 1 Ckg	1110100320-E E		20,000.00
CJE 3	1/31/2018	Westwood B Co Des Endow - Seg 3 Ckg	1110100323-E E	20,000.00	
		To reclass cash balances to investment accounts			

Nebraska Synod of the Evangelical Lutheran Church in America

Summary of Uncorrected Misstatements
As of and for the Year Ended January 31, 2018

During the course of our audit, we accumulated uncorrected misstatements that were determined by management to be immaterial, both individually and in the aggregate, to the statements of financial position, changes in net assets, and cash flows and to the related financial statement disclosures. Following is a summary of those differences.

	Increase/(Decrease)				
Description	Assets	Liabilities	Net Assets	Revenue	Expenses
To record prepaid rent	2,900	--	--	--	(2,900)
To remove SJ estimate of PTO accrual in PY	--	--	24,619	--	(24,619)
To record projected accounts payable misstatement	--	(7,021)	7,021	--	7,021
To write off aged items from bank statement reconciliation	(5,800)	--	--	--	5,800
	$ (2,900)	(7,021)	31,640	--	(14,698)

Quality Review

BRADY MARTZ
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

REPORT ON THE FIRM'S SYSTEM OF QUALITY CONTROL

December 14, 2017

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, 2017. 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 (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review as described in the Standards may be found at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

Firm's Responsibility

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. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

Peer Reviewer's Responsibility

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.

Required Selections and Considerations

Engagements selected for review included engagements performed under *Government Auditing Standards*, including compliance audits under the Single Audit Act; and audits of employee benefit plans.

www.bradymartz.com

Quality Review

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

Opinion

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, 2017, 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

Brady Martz and Associates, P.C.

BRADY, MARTZ & ASSOCIATES, P.C.

Internal Control Related Matters Letter

SEIM JOHNSON

July 26, 2018

To the Council
Nebraska Synod of the
Evangelical Lutheran Church in America
Omaha, Nebraska:

In planning and performing our audit of the financial statements of Nebraska Synod of the Evangelical Lutheran Church in America (Synod) as of and for the year ended January 31, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the Synod's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 Synod's internal control. Accordingly, we do not express an opinion on the effectiveness of the Synod's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in the Synod's internal control to be a significant deficiency:

Cash Cutoff

Appropriate cash cutoff procedures ensure that only valid transactions that have occurred prior to the Synod's year end are recorded in the financial statements.

During procedures over the Synod's cash accounts and bank reconciliations, we noted deposits that had been recorded as received in the financial statements and bank reconciliations when the cash was not received and deposited into the bank account until after year end. This caused cash balances to be incorrect, and for receivables to be understated as related to deposits.

This resulted in an adjusting journal entry to correctly state the balance of cash and cash equivalents in the financial statements.

We recommend that Synod staff closely monitor transactions occurring near year end to ensure that appropriate cutoff is achieved in the financial statements.

Following are description of other identified deficiencies in internal control that we determined did not constitute significant deficiencies or material weaknesses:

Segregation of Duties Over Financial Reporting

One important aspect of internal control is segregation of duties among employees to prevent an individual employee the ability to circumvent the system of internal control. In reviewing the financial reporting preparation process and controls, due to a limited number of personnel, a lack of segregation of duties exists. In order to have proper segregation of duties, ideally, the following four items should be performed by separate individuals:

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- *Authorization* – the process of reviewing and approving transactions.
- *Custody* – having access to or control over any physical asset (cash, checks, equipment, supplies, or materials) and intangible assets such as computer systems and data.
- *Recordkeeping* – the process of creating and maintaining departmental records (e.g. revenues, expenditures, etc.). These may be manual records or records maintained in automated computer systems.
- *Reconciliation* – verifying the processing or recording of transactions to ensure that all transactions are valid, properly authorized, and properly recorded on a timely basis. This includes following-up on any differences or discrepancies identified.

Proper segregation of duties ensures an adequate internal control structure and, without this segregation, a greater risk of fraud and defalcation may exist.

While we realize that it is not always economically feasible to employ additional personnel for the purpose of greater segregation of duties, we recommend the Synod continue to review internal control policies and procedures and job assignments to ensure an adequate internal control structure.

The following item is offered as a constructive suggestion for the consideration of management as part of the ongoing process of modifying and improving the Synod's procedures:

Donor Restrictions and Council Designated Funds

Funds received from donors with specified purposes or uses should be tracked and recorded as temporarily restricted net assets to ensure that compliance with the donor's intent is achieved.

During procedures over net assets, we noted instances where management recorded temporarily restricted contributions from donors in council designated funds. Upon further inspection and inquiry, it was determined that a particular fund that had previously been reported as council designated should have been reported as temporarily (donor) restricted.

We recommend that Synod staff closely review contributions received for donor restrictions and develop a process to more readily determine what constitutes council designations and donor restrictions.

Vacation Accrual

During our audit procedures over accrued vacation, we noted that the paid time off (PTO) policy did not include a maximum amount of hours employees can accrual. The current PTO policy only states the amount of hours employees are allowed to accrue per year. Management should update the employee policy for a maximum amount of accrued PTO. For example, the maximum accumulation of PTO hours may be no more than 8 weeks (320 hours).

Accounting for Leases

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 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. We recommend that management create a team to work on implementation in the near future and review debt covenants and any legal agreements that may be impacted. The standard will be effective for fiscal years beginning after December 15, 2018 for public business entities, certain not-for-profits, and employee benefit plans that file with the SEC. For all other entities, the standard is effective for fiscal years beginning after December 15, 2019. 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.

Not-For-Profit Financial Reporting

On August 18, 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. The main provisions of the update are:

- Converting 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 update will be effective for fiscal years beginning after December 15, 2017, but early adoption of the update is permitted.

This communication is intended solely for the information and use of the Council, management and others within the organization and is not intended to be and should not be used by anyone other than these specified parties. We would be pleased to answer any questions you may have regarding the comments and suggestions contained in the preceding paragraphs.

We would like to thank you and your staff for all the cooperation extended to us during the audit.

Sincerely,

SEIM JOHNSON, LLP

Roger E Thompson

Roger E. Thompson