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Board of Directors, Finance Committee and Management
People's City Mission
Lincoln, Nebraska

As part of our audit of the consolidated financial statements of People's City Mission as of and for the year ended December 31, 2015, we wish to communicate the following to you.

AUDIT SCOPE AND RESULTS

Auditor's Responsibility Under Auditing Standards Generally Accepted in the United States of America

An audit performed in accordance with auditing standards generally accepted in the United States of America is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing auditing procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction. Our engagement letter more specifically describes our responsibilities.

These standards require communication of significant matters related to the financial statement audit that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Such matters are communicated in the remainder of this letter or have previously been communicated during other phases of the audit. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.

An audit of the financial statements does not relieve management or those charged with governance of their responsibilities. Our engagement letter more specifically describes your responsibilities.

Qualitative Aspects of Significant Accounting Policies and Practices

Significant Accounting Policies

The Organization's significant accounting policies are described in Note 1 of the audited financial statements.

Alternative Accounting Treatments

No matters are reportable.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. The following areas involve significant estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates:

- Valuation of in-kind contributions
- Valuation of inventory

Financial Statement Disclosures

The following areas involve particularly sensitive financial statement disclosures for which we are prepared to discuss the issues involved and related judgments made in formulating those disclosures:

- Significant estimates and concentrations

Audit Adjustments

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments which, in its judgment, are required to prevent the financial statements from being materially misstated. One adjustment proposed was not recorded because the effect is not currently material; however, it involves areas in which adjustments in the future could be material, individually or in the aggregate.

Areas in which adjustments were proposed include:

Proposed Audit Adjustments Recorded

- Investment in Curtis Center
- Beneficial interest in charitable trust

Proposed Audit Adjustments Not Recorded

- Attached is a summary of the uncorrected misstatement we identified during the current engagement and pertaining to the latest period presented that was determined by management to be immaterial to the financial statements as a whole.

Auditor's Judgments About the Quality of the Organization's Accounting Principles

No matters are reportable.

Other Material Written Communications

Listed below is another material written communication between management and us related to the audit:

- Management representation letter (attached)

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the consolidated financial statements of People’s City Mission as of and for the year ended December 31, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the Organization’s internal control over financial reporting (internal control) as a basis for designing 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 Organization’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization’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 significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control that we consider to be a significant deficiency.

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 of the Organization’s financial statements on a timely basis. A deficiency in design exists when a control necessary to meet a control objective is missing or an existing control is not properly designed so that, even if the control operates as designed, a control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization’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.

We observed the following matters that we consider to be a deficiency and a significant deficiency.

Significant Deficiency

Audit Adjustments

During the course of the audit, two adjustments were proposed in regard to the classification of a donation of assets and the recognition of a beneficial interest in a charitable trust. Both adjustments were adjusted as recommended. Recording revenue in the correct period and capturing in-kind donations as additional investments in Curtis Center Housing, LP are necessary to prevent material misstatements. We encourage management to continue to improve procedures that can assist in identifying adjustments like those mentioned to help to insure the accurate accounting of future receipts the Mission will receive.

Deficiency

Segregation of Duties

Management is responsible for establishing and maintaining effective internal control over financial reporting. The Accounting Manager has the ability to perform access, recording and monitoring duties within the cash disbursements cycle. Duties within this transaction cycle are not adequately segregated to safeguard the Organization's assets or prevent misstatement in the financial statements. To help mitigate the risk of misstatement due to error or fraud, the Organization requires two signatures on all checks over $2,500 and the Executive Director reviews monthly bank reconciliations and related enclosures. In addition, the Board of Directors reviews monthly budget to actual comparisons. The Financial Director agrees information on checks to invoices or other supporting documentation prior to signing the checks. Signed checks are then returned to the Accounting Manager to be mailed. We recommend that signed checks be given to someone other than the Accounting Manager to be mailed to strengthen this area.

OTHER MATTERS

Although not considered material weaknesses, significant deficiencies or deficiencies in internal control over financial reporting, we observed the following matters and offer these comments and suggestions with respect to matters which came to our attention during the course of the audit of the financial statements. Our audit procedures are designed primarily to enable us to form an opinion on the financial statements and, therefore, may not bring to light all weaknesses in policies and procedures that may exist. However, these matters are offered as constructive suggestions for the consideration of management as part of the ongoing process of modifying and improving financial and administrative practices and procedures. We can discuss these matters further at your convenience and may provide implementation assistance for changes or improvements.

FASB Proposes Significant Changes to NFP Financial Reporting

In April 2015, the Financial Accounting Standards Board (FASB) proposed significant changes to not-for-profit financial reporting by issuing proposed Accounting Standards Update (ASU), Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954): Presentation of

Financial Statements of Not-for-Profit Entities. The objective of this project is to re-examine existing standards for financial statement presentation by not-for-profit (NFP) entities, with a focus on improving net asset classification requirements and information provided in financial statements and notes about liquidity, financial performance and cash flows. The comment period ended in August 2015. Since then, FASB has conducted outreach roundtable sessions, summarized the feedback and developed a two-phased redeliberation plan.

The first phase of redeliberations is expected to be completed by June 30, 2016. Resolutions made by the board during the first phase, thus far, include the following:

- Combining temporarily and permanently restricted net assets into one category called net assets with donor restrictions and renaming unrestricted net assets to net assets without donor restrictions.
- Disclosing amounts and purposes of board-designated net assets either on the face of the financial statements or in the notes.
- Classifying the underwater portions of donor endowments in net assets with donor restrictions rather than the current unrestricted category. In addition, several new disclosures for underwater endowments have been added.
- Requiring the placed-in-service approach and eliminating the over-time approach for expirations of restrictions to acquire or construct long-lived assets.
- Requiring presentation of all expenses by both functional and natural classification in one location in the financial statements or footnotes.

The effective date of the first phase is expected to be January 1, 2018, and interim periods thereafter with early adoption permitted. Entities will be required to apply the guidance retrospectively for all periods presented.

The second workstream includes redeliberation of other proposed changes that involve consideration of alternatives suggested by stakeholders the board did not previously consider or are related to similar issues being addressed in other projects. FASB has not posted an estimated completion date for the second workstream, which includes:

- Statement of cash flows – realignment of certain line items
- Operating measures – all other elements of the proposal

New Lease Accounting Standard

On February 25, 2016, FASB issued Accounting Standards Update (ASU) 2016-02, Leases (Topic 842), the long-awaited new standard on lease accounting.

Under the new ASU, lessees will recognize lease assets and liabilities on their statement of financial position for all leases with terms of more than 12 months. The new lease accounting model retains two types of leases, and is consistent with the lessee accounting model under existing GAAP. One type of lease (finance leases) will be accounted for in substantially the same manner as capital leases are accounted for today. The other type of lease (operating leases) will be accounted for (both in the statement of activities and statement of cash flows) in a manner consistent with today's operating leases. Lessor accounting under the new standard is fundamentally consistent with existing GAAP.

Lessees and lessors would be required to provide additional qualitative and quantitative disclosures to help financial statement users assess the amount, timing, and uncertainty of cash flows arising from leases. These disclosures are intended to supplement the amounts recorded in the financial statements so that users can understand more about the nature of an organization's leasing activities.

For nonpublic companies, the lease standard will be effective for fiscal years beginning after December 15, 2019, and interim periods thereafter. Earlier application is permitted.

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This communication is intended solely for the information and use of management, the Finance Committee, the Board of Directors, and others within the Organization and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

April 28, 2016