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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, 2018, 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 consolidated financial statements. In performing auditing procedures, we establish scopes of audit tests in relation to the consolidated 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 consolidated 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 consolidated 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

Consolidated Financial Statement Disclosures

The following area involves particularly sensitive financial statement disclosures for which we are prepared to discuss the issues involved and related judgments made in formulating this disclosure:

- 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 consolidated financial statements from being materially misstated. No audit adjustments were proposed as a result of the audit engagement.

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

No matters are reportable.

Disagreements with Management

No matters are reportable.

Other Material Communication

Listed below is another material 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, 2018, 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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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.

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 consolidated 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 consolidated financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We observed the following matter that we consider to be a deficiency.

Deficiencies

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. Additionally, there is no review of journal entries being prepared by the Accounting Manager. To help mitigate these risks 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 Executive Director agrees information on checks to invoices or other supporting documentation prior to signing the checks. Signed checks are then returned to an individual outside of the cash outflows process for mailing.

We also observed other matters that we consider to be deficiencies that we communicated to management orally.

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 consolidated financial statements. Our audit procedures are designed primarily to enable us to form an opinion on the consolidated 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 Issues 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 balance sheet for all leases with terms of more than 12 months. The new lessee 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 income statement 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.

The new leases standard will be effective for the Organization's fiscal year ending December 31, 2020.

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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 24, 2019

April 24, 2019

BKD, LLP
Certified Public Accountants
1248 O Street, Suite 1040
Lincoln, NE 68508-1493

We are providing this letter in connection with your audits of our consolidated financial statements as of and for the years ended December 31, 2018 and 2017. We confirm that we are responsible for the fair presentation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, operations and compliance, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following:

1. We have fulfilled our responsibilities, as set out in the terms of our engagement letter dated September 25, 2018, for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America.

2. We acknowledge our responsibility for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

3. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

4. We acknowledge the Organization is not a conduit debt obligor whose debt securities are listed, quoted or traded on an exchange or an over-the-counter market. As a result, we acknowledge the Organization does not meet the definition of a "public entity" under generally accepted accounting principles for certain accounting standards.

5. We have reviewed and approved a draft of the consolidated financial statements and related notes referred to above, which you prepared in connection with your audit of our consolidated financial statements. We acknowledge that we are responsible for the fair presentation of the consolidated financial statements and related notes.

6. We have provided you with:

   (a) Access to all information of which we are aware that is relevant to the preparation and fair presentation of the consolidated financial statements such as records, documentation and other matters.

   (b) Additional information that you have requested from us for the purpose of the audit.

   (c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

   (d) All minutes of directors' meetings held through the date of this letter.

   (e) All significant contracts and grants.

7. All transactions have been recorded in the accounting records and are reflected in the consolidated financial statements.

8. We have informed you of all current risks of a material amount that are not adequately prevented or detected by Organization procedures with respect to:

   (a) Misappropriation of assets.

   (b) Misrepresented or misstated assets, liabilities or net assets.

9. We understand the potential penalties for failure to disclose reportable tax transactions to the taxing authorities and have fully disclosed to BKD any and all known reportable tax transactions.

10. We have no knowledge of any known or suspected:

   (a) Fraudulent financial reporting or misappropriation of assets involving management or employees who have significant roles in internal control.

   (b) Fraudulent financial reporting or misappropriation of assets involving others that could have a material effect on the consolidated financial statements.

11. We have no knowledge of any allegations of fraud or suspected fraud affecting the Organization received in communications from employees, customers, regulators, suppliers or others.

12. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America. We understand that the term related party refers to an affiliate; management, and members of their immediate families, subsidiaries accounted for by the equity method; and any other party with which the Organization may deal if the Organization can significantly influence, or be influenced by, the management or operating policies of the other. The term affiliate refers to a party that directly or indirectly controls, or is controlled by, or is under common control with, the Organization.

13. Except as reflected in the consolidated financial statements, there are no:

    (a) Plans or intentions that may materially affect carrying values or classifications of assets and liabilities.

    (b) Material transactions omitted or improperly recorded in the financial records.

    (c) Material gain/loss contingencies requiring accrual or disclosure, including those arising from environmental remediation obligations.

    (d) Events occurring subsequent to the statement of financial position date through the date of this letter requiring adjustment or disclosure in the consolidated financial statements.

    (e) Agreements to purchase assets previously sold.

    (f) Restrictions on cash balances or compensating balance agreements.

    (g) Guarantees, whether written or oral, under which the Organization is contingently liable.

14. We have disclosed to you all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing consolidated financial statements.

15. We have no reason to believe the Organization owes any penalties or payments under the Employer Shared Responsibility Provisions of the Patient Protection and Affordable Care Act nor have we received any correspondence from the IRS or other agencies indicating such payments may be due.

16. We are not aware of any pending or threatened litigation or claims whose effects should be considered when preparing the consolidated financial statements. We have not sought or received attorney's services related to pending or threatened litigation or claims during or subsequent to the audit period. Also, we are not aware of any litigation or claims, pending or threatened, for which legal counsel should be sought.

17. Adequate provisions and allowances have been accrued for any material losses from:

    (a) Uncollectible receivables, including pledges.

    (b) Reducing obsolete or excess inventories to estimated net realizable value.

    (c) Purchase commitments in excess of normal requirements or above prevailing market prices.

18. Except as disclosed in the consolidated financial statements, the Organization has:

    (a) Satisfactory title to all recorded assets, and they are not subject to any liens, pledges or other encumbrances.

    (b) Complied with all aspects of contractual and grant agreements, for which noncompliance would materially affect the consolidated financial statements.

19. The consolidated financial statements disclose all significant estimates and material concentrations known to us. Significant estimates are estimates at the statement of financial position date which could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events <u>could</u> occur which would significantly disrupt normal finances within the next year. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

20. The fair values of financial and nonfinancial assets and liabilities, if any, recognized in the consolidated financial statements or disclosed in the notes thereto are reasonable estimates based on the methods and assumptions used. The methods and significant assumptions used result in measurements of fair value appropriate for financial statement recognition and disclosure purposes and have been applied consistently from period to period, taking into account any changes in circumstances. The significant assumptions appropriately reflect market participant assumptions.

21. We have not been designated as a potentially responsible party (PRP or equivalent status) by the Environmental Protection Agency (EPA) or other cognizant regulatory agency with authority to enforce environmental laws and regulations.

22. With respect to any nonattest services you have provided us during the year, including assistance with the preparation of tax returns, depreciation schedules, and a draft of the consolidated financial statements and related notes:

    (a) We have designated a qualified management-level individual to be responsible and accountable for overseeing the nonattest services.

    (b) We have established and monitored the performance of the nonattest services to ensure that they meet our objectives.

    (c) We have made any and all decisions involving management functions with respect to the nonattest services and accept full responsibility for such decisions.

    (d) We have evaluated the adequacy of the services performed and any findings that resulted.

23. We are an organization exempt from income tax under Section 501(c) of the Internal Revenue Code and a similar provision of state law and, except as disclosed in the consolidated financial statements, there are no activities that would jeopardize our tax-exempt status or subject us to income tax on unrelated business income or excise tax on prohibited transactions and events.

24. We have identified to you any activities conducted having both fund raising and program or management and general components (joint activities) and have allocated the costs of any joint activities in accordance with the provisions of FASB ASC 958-720-45.

25. We represent that we have complied with the terms and obligations outlined in the guarantee agreement with PCM Housing Corporation. As a result, we are not aware of any potential liabilities under this agreement.

26. We have disclosed all split interest agreements that name People's City Mission, People's City Mission Foundation, or People's City Mission Clinic as a beneficiary of which we are aware.

27. We have disclosed all gifts received with donor-imposed restrictions and believe that the net asset classifications disclosed in the report are properly stated.

28. We have evaluated whether there are conditions or events known or reasonably knowable, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year of the date of this letter without consideration of potential mitigating effects of management's plans not yet fully implemented and concluded substantial doubt does not exist.

R. Thomas Barber, Chief Executive Officer

Jody Hunke

Jody Hunke, Director of Accounting