

Bethany House Services, Inc.

**Financial Statements with Supplementary Information
December 31, 2015 with
Summarized Comparative Totals for December 31, 2014, and
Independent Auditors' Report**

BETHANY HOUSE SERVICES, INC.
December 31, 2015
With Summarized Comparative Totals for December 31, 2014

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Independent Auditors' Report

To the Board of Directors
Bethany House Services, Inc.
Cincinnati, Ohio 45214

We have audited the accompanying financial statements of Bethany House Services, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to 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.

Auditors' 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 the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

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 Bethany House Services, Inc. as of December 31, 2015 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.

**Independent Auditors' Report
(Continued)**

Report on Summarized Comparative Information

We have previously audited the Bethany House Services, Inc. and Subsidiaries 2014 consolidated financial statements, and expressed an unmodified audit opinion on those audited financial statements in our report dated March 11, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited financial statements from which it was derived.

During 2014, Bethany Homes, Inc. and Bethany Homes LP were dissolved and all remaining assets and liabilities were transferred to Bethany House Services, Inc. The 2015 financial statements reflect the activities of the same entities that were previously presented as consolidated in 2014.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. 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*, is presented for purposes of 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 consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 1, 2016, on our consideration of Bethany House Services, Inc.'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 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 Bethany House Services, Inc.'s internal control over financial reporting and compliance.

Burns, Denning & Co., Ltd.

April 1, 2016
Crestview Hills, Kentucky

BETHANY HOUSE SERVICES, INC.

**Statement of Financial Position
December 31, 2015 with Summarized Comparative Totals for December 31, 2014**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	
				<u>2015</u>	<u>2014</u>
Assets					
Current:					
Cash	\$ 154,568	\$ 75,000	\$ -	\$ 229,568	\$ 148,575
Accounts receivable, net	5,936	90,000	-	95,936	9,301
Pledges receivable, net	-	28,609	50,000	78,609	169,781
Grants receivable, net	134,271	-	-	134,271	122,414
Prepaid expenses and other	41,103	-	-	41,103	15,742
Total current assets	335,878	193,609	50,000	579,487	465,813
Property and equipment, net	863,553	-	-	863,553	717,359
Investments	1,308,037	-	517,363	1,825,400	1,742,613
Other:					
Deposits	-	-	-	-	-
Pledges receivable - long term	-	-	-	-	-
Total assets	<u>\$ 2,507,468</u>	<u>\$ 193,609</u>	<u>\$ 567,363</u>	<u>\$ 3,268,440</u>	<u>\$ 2,925,785</u>
Liabilities and Net Assets					
Liabilities					
Accounts payable	\$ 54,908	\$ -	\$ -	\$ 54,908	\$ 59,134
Accrued expenses	75,051	-	-	75,051	98,773
Tenant deposits	11,157	-	-	11,157	9,968
Total liabilities	141,116	-	-	141,116	167,875
Net Assets	<u>2,366,352</u>	<u>193,609</u>	<u>567,363</u>	<u>3,127,324</u>	<u>2,757,910</u>
Total liabilities and net assets	<u>\$ 2,507,468</u>	<u>\$ 193,609</u>	<u>\$ 567,363</u>	<u>\$ 3,268,440</u>	<u>\$ 2,925,785</u>

See accompanying notes to financial statements

BETHANY HOUSE SERVICES, INC.

Statement of Activities Year Ended December 31, 2015 with Summarized Comparative Totals for December 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	
				<u>2015</u>	<u>2014</u>
Public support					
Contributions	\$ 506,212	\$ 176,659	\$ 1,983	\$ 684,854	\$ 185,887
Campaign income	1,397	-	-	1,397	1,844
Special events	117,463	-	-	117,463	153,203
Less direct benefit costs	(17,653)	-	-	(17,653)	(29,380)
Churches and other religious organizations	31,014	-	-	31,014	30,437
Foundations	309,197	-	-	309,197	142,813
Donated facilities, materials and services	32,673	-	-	32,673	17,394
Total public support	980,303	176,659	1,983	1,158,945	502,198
Revenues					
Rental agent and other fees	162,971	-	-	162,971	124,631
Government grants	1,756,222	-	-	1,756,222	1,254,482
Miscellaneous income	31,471	-	-	31,471	27,908
Interest income	101	-	-	101	13
Total revenues	1,950,765	-	-	1,950,765	1,407,034
Net assets released from restrictions	28,831	(28,831)	-	-	-
Total public support and revenues	2,959,899	147,828	1,983	3,109,710	1,909,232
Less amounts paid to subrecipients under Family Housing Partnership	(105,516)	-	-	(105,516)	(175,860)
Total public support and revenues, net of amounts paid to subrecipients	2,854,383	147,828	1,983	3,004,194	1,733,372
Expenses					
Program services	2,299,012	-	-	2,299,012	1,642,889
Management and general	187,131	-	-	187,131	214,841
Fundraising	154,179	-	-	154,179	159,311
Total expenses	2,640,322	-	-	2,640,322	2,017,041
Change in net assets before other items	214,061	147,828	1,983	363,872	(283,669)
Investment income (loss)	6,525	(983)	-	5,542	90,153
Change in net assets	220,586	146,845	1,983	369,414	(193,516)
Net assets, beginning of year	2,145,766	46,764	565,380	2,757,910	2,951,426
Net assets, end of year	\$ 2,366,352	\$ 193,609	\$ 567,363	\$ 3,127,324	\$ 2,757,910

See accompanying notes to financial statements

BETHANY HOUSE SERVICES, INC.

**Statement of Functional Expenses
Year Ended December 31, 2015 with Summarized Comparative Totals for December 31, 2014**

	Program Services					Supporting Services				Total	
	Shelter	Rapid	Family	Shelter	Permanent	Total	Management	Fund-	Total	2015	2014
		Rehousing	Shelter	Diversion	Housing						
		Partnership			Services	General		Services			
Salaries	\$ 322,304	\$ 252,349	\$ 184,921	\$ 18,421	\$ 42,318	\$ 820,313	\$ 90,601	\$ 102,959	\$ 193,560	\$ 1,013,873	\$ 855,823
Employee benefits	40,181	18,800	22,968	209	4,625	86,783	12,097	4,250	16,347	103,130	87,599
Payroll taxes	27,923	22,739	16,223	1,512	4,233	72,630	9,466	10,079	19,545	92,175	91,162
Total salaries and related expenses	390,408	293,888	224,112	20,142	51,176	979,726	112,164	117,288	229,452	1,209,178	1,034,584
Specific assistance to individuals	77,822	515,759	200	1,270	200	595,251	-	-	-	595,251	506,309
Maintenance and repairs	50,352	9,379	4,593	240	60,374	124,938	7,182	6,471	13,653	138,591	117,135
Rent	116,868	-	-	-	-	116,868	-	-	-	116,868	-
Supplies	96,211	2,904	3,412	663	1,480	104,670	3,729	1,377	5,106	109,776	20,182
Utilities	53,487	2,406	1,031	-	37,739	94,663	3,186	825	4,011	98,674	71,944
Support contracts	6,264	25,486	44,004	1,757	-	77,511	-	-	-	77,511	21,752
Food	53,359	-	-	-	-	53,359	-	-	-	53,359	35,433
Professional fees	6,059	9,635	3,046	-	5,352	24,092	14,424	8,272	22,696	46,788	46,359
Insurance	21,003	5,817	4,432	565	(353)	31,464	1,939	1,928	3,867	35,331	26,171
Telephone	7,901	4,895	2,727	367	2,701	18,591	3,513	1,764	5,277	23,868	19,488
Bad debt expense (recoveries)	-	-	-	-	-	-	19,572	-	19,572	19,572	(2,213)
Travel and conferences	4,127	4,883	3,391	493	1,101	13,995	818	1,787	2,605	16,600	10,691
Investment fees	-	-	-	-	-	-	9,414	-	9,414	9,414	8,741
Staff professional fees	1,738	1,610	1,228	100	232	4,908	3,132	959	4,091	8,999	5,100
Postage	1,250	677	250	49	179	2,405	1,466	4,019	5,485	7,890	5,350
Printing	876	710	284	-	47	1,917	237	3,735	3,972	5,889	-
Real estate taxes	132	39	39	-	4,743	4,953	82	-	82	5,035	10,870
Membership	1,708	855	322	-	408	3,293	709	775	1,484	4,777	3,750
Miscellaneous	184	80	53	-	40	357	1,726	45	1,771	2,128	18,697
Case management contracts	-	-	-	-	-	-	-	-	-	-	5,600
Administrative sales tax	-	-	-	-	-	-	-	-	-	-	14
Total expenses before depreciation	889,749	879,023	293,124	25,646	165,419	2,252,961	183,293	149,245	332,538	2,585,499	1,965,957
Depreciation	26,863	10,416	4,934	-	3,838	46,051	3,838	4,934	8,772	54,823	51,084
Total expenses	\$ 916,612	\$ 889,439	\$ 298,058	\$ 25,646	\$ 169,257	\$ 2,299,012	\$ 187,131	\$ 154,179	\$ 341,310	\$ 2,640,322	\$ 2,017,041

See accompanying notes to financial statements

BETHANY HOUSE SERVICES, INC.

Statement of Cash Flows

Year Ended December 31, 2015 with Summarized Comparative Totals for December 31, 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Change in net assets	\$ 369,414	\$ (193,516)
Adjustments to reconcile change in net assets to cash from operating activities:		
Depreciation	54,823	51,084
Realized (gains) losses on investments	17,326	632
Unrealized gains on investments	69,986	(6,743)
Donated property and equipment	(170,500)	-
Changes in:		
Accounts receivable, net	(86,635)	17,513
Pledges receivable, net	91,172	95,848
Grants receivable, net	(11,857)	54,873
Prepaid expenses and other	(25,361)	4,809
Accounts payable	(4,226)	16,751
Accrued expenses	(23,722)	29,223
Tenant deposits	1,189	3,818
Net cash provided by operating activities	<u>281,609</u>	<u>74,292</u>
Cash flows from investing activities		
Purchase of property and equipment	(30,517)	(33,235)
Proceeds from sale of investments	173,190	22,415
Purchases of investments	<u>(343,289)</u>	<u>(222,500)</u>
Net cash used in investing activities	<u>(200,616)</u>	<u>(233,320)</u>
Net change in cash	80,993	(159,028)
Cash, beginning of year	<u>148,575</u>	<u>307,603</u>
Cash, end of year	<u>\$ 229,568</u>	<u>\$ 148,575</u>

See accompanying notes to financial statements

BETHANY HOUSE SERVICES, INC.

Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization and Operations

Bethany House Services, Inc. (BHS) provides emergency shelter, transitional housing, permanent housing, and other related services to homeless families. Specifically, emergency shelter is provided to women and children at a 14-room home on Fairmount Avenue in Cincinnati and at other off site facilities. Programs offered by BHS provide a safe, secure environment, supervised meals, transportation assistance and enrichment programs.

In addition, BHS administers the Family Housing Partnership (FHP) which is a collaboration of the four family shelters in Cincinnati – Salvation Army, Interfaith Hospitality Network, YWCA, and BHS. The goal of the FHP is to improve the case management system across the family shelters to create efficiency and standardized care. BHS is the lead agency and grant applicant and provides fiscal and administrative oversight.

Significant funding is received from the State of Ohio and City of Cincinnati for shelter operations. The majority of the funding for the Family Housing Partnership, Rapid Rehousing and Transitional Housing is received from the Department of Housing and Urban Development.

Prior to 2014, BHS had a for-profit subsidiary, Bethany Homes, Inc. (BHI). BHI was incorporated in Ohio in 1992 for the specific purpose of real estate development and management. BHI had a 1% investment in a limited partnership, Bethany Homes Limited Partnership (BHLP), a partnership that owned and managed a 24-unit apartment complex that provided a low cost housing alternative to low income families. BHI was the general partner of BHLP. BHS had a 99% limited partnership interest in BHLP. During 2014, BHLP and BHI were dissolved and all remaining assets and liabilities were transferred to BHS.

Financial Statement Presentation

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the BHS's financial statements for the year ended December 31, 2014 from which the comparative information was derived.

The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles (GAAP). The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets which have no donor-imposed restriction; temporarily restricted net assets which have donor-imposed restrictions that will expire in the future; and permanently restricted net assets which have donor-imposed restrictions which do not expire.

Fair Value Measurements

GAAP has a three-level hierarchy for fair value measurements based on transparency of valuation inputs as of the measurement date. The hierarchy is based on the lowest level of input that is significant to the fair value measurement. The three levels are defined as follows: Level 1 inputs are unadjusted quoted prices for identical assets in active markets; Level 2 inputs are observable quoted prices for similar assets in active markets; Level 3 inputs are unobservable and reflect management's best estimate of what market participants would use as fair value.

BETHANY HOUSE SERVICES, INC.

Notes to Financial Statements (Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as unrestricted revenue.

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-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Property and Equipment

Property and equipment are recorded at cost or, if donated or impaired, at fair value at the time of the gift or determination. Depreciation is calculated on a straight-line basis over the estimated useful lives of the respective assets. Major improvements are capitalized, while maintenance and repairs are expensed as incurred. BHS capitalizes purchases of land, buildings and equipment in excess of \$2,000.

In accordance with GAAP, the Organization assesses the recoverability of the carrying amount of property and equipment if certain events or changes occur, such as a significant decrease in market value of the assets or a significant change in operating conditions. Based on its most recent analysis, the Organization believes no impairments existed at December 31, 2015 and 2014.

Cash

BHS maintains its cash in bank deposit accounts which, at times, exceed federally insured limits. BHS has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk.

Accounts Receivable and Pledges Receivable

Receivables are written off as uncollectible after the Organization has used reasonable collection efforts and deems them uncollectible. Based on these criteria, no allowance for doubtful accounts has been provided at both December 31, 2015 and 2014 since the Organization expects no material losses.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and all debt securities are carried at fair value. Other investments are valued at the lower of cost or fair value. Investment return includes dividends, interest and realized and unrealized gains and losses on investments.

BETHANY HOUSE SERVICES, INC.

**Notes to Financial Statements
(Continued)**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and Investment Return (Continued)

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the statements of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

The Organization's investments do not have a significant concentration of credit or market risk within any industry, specific institution or group of investments.

Government Fees and Grants

Support funded by grants is recognized as the Organization performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audits, adjustments could be required.

Contributed Materials and Services

Contributions of materials meeting the requirements for recognition have been recorded in the consolidated statement of activities as public support in-kind donations and in the consolidated statement of functional expenses at their estimated fair market values at the date of receipt.

Contributions of services are recognized as revenue at their estimated fair value only when the services received create or enhance nonfinancial assets or require specialized skills possessed by the individual providing the service and the service would typically need to be purchased if not donated.

Functional Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities, accordingly, certain costs have been allocated among benefited programs and supporting services.

Income Taxes

BHS is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of Ohio law. However, BHS is subject to federal income tax on any unrelated business taxable income.

The Organization's tax returns are subject to review and examination by federal, state and local authorities. The Organization believes they have appropriate support for any tax positions taken, and therefore, do not have any uncertain income tax positions that are material to the financial statements. The Organization is generally no longer subject to examinations by tax authorities for years before 2012.

BETHANY HOUSE SERVICES, INC.

**Notes to Financial Statements
(Continued)**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements 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 and the reported amounts of the revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Principles of Consolidation

The prior year financial statements were consolidated to include the accounts of Bethany House Services, Inc., Bethany Homes, Inc., and Bethany Homes LP, and all inter-company transactions were eliminated. During 2014, Bethany Homes, Inc. and Bethany Homes LP were dissolved and all remaining assets and liabilities were transferred to BHS. The 2015 financial statements reflect the activities of the same entities that were previously presented as consolidated in 2014.

Subsequent Events

Subsequent events were considered through April 1, 2016, the date which the financial statements were available to be issued.

NOTE 2 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of December 31 consisted of the following:

	2015	2014
Pledges receivable - time restricted	\$ 28,609	\$ 46,764
Mercy St. John - time restricted	75,000	-
United Way receivable - time restricted	90,000	-
	\$ 193,609	\$ 46,764

NOTE 3 PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets as of December 31 consisted of the following:

	2015	2014
Pledges receivable - restricted for endowment	\$ 50,000	\$ 123,017
Donor-restricted endowment funds	517,363	442,363
	\$ 567,363	\$ 565,380

NOTE 4 PLEDGES RECEIVABLE

Pledges receivable as of December 31, 2015 and 2014 consisted of unconditional promises to give to the Organization's donor-restricted endowment fund and to be used for general operating purposes. As of December 31, 2015, all donations are expected to be received within one year. A discount of \$0 and \$2,448 has been applied to these outstanding amounts as of December 31, 2015 and 2014, respectively.

BETHANY HOUSE SERVICES, INC.

**Notes to Financial Statements
(Continued)**

NOTE 5 INVESTMENTS AT FAIR VALUE

Investments at fair value at December 31 consisted of the following:

	<u>2015</u>	<u>2014</u>
Level 1:		
Fixed income mutual funds	\$ 561,100	\$ 580,744
Equity mutual funds	1,090,752	1,000,694
Other mutual funds	119,595	89,100
Level 2:		
Money market funds	<u>53,953</u>	<u>72,075</u>
	<u><u>\$ 1,825,400</u></u>	<u><u>\$ 1,742,613</u></u>

Fair values for fixed income, equity, and other mutual funds are determined by reference to quoted market prices. Fair value for money market funds is determined based on the value of underlying securities.

Investment return consisted of the following:

	<u>2015</u>	<u>2014</u>
Realized gains (losses)	\$ (17,326)	\$ (632)
Unrealized gains (losses)	(69,986)	6,743
Interest and dividends	<u>92,854</u>	<u>84,042</u>
	<u><u>\$ 5,542</u></u>	<u><u>\$ 90,153</u></u>

NOTE 6 DONATED FACILITIES, MATERIALS AND SERVICES

BHS received in-kind donations of materials and supplies during 2015 and 2014 of \$32,673 and \$17,394, respectively.

In addition, a number of volunteers have donated significant amounts of time to BHS for services for which no value has been recorded in the financial statements. Total unrecorded volunteer hours were 9,905 for 2015 and 7,978 for 2014.

NOTE 7 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2015</u>	<u>2014</u>
Land	\$ 105,716	\$ 105,716
Buildings and improvements	1,349,837	1,165,458
Furniture, equipment and vehicles	217,787	201,149
Less accumulated depreciation	<u>(809,787)</u>	<u>(754,964)</u>
	<u><u>\$ 863,553</u></u>	<u><u>\$ 717,359</u></u>

BETHANY HOUSE SERVICES, INC.

Notes to Financial Statements (Continued)

NOTE 8 LINE OF CREDIT

The Organization has \$450,000 line of credit available from a bank. There was no outstanding balance at December 31, 2015 and 2014. The line of credit bears interest at an annual rate equal to prime rate plus 1.0% (prime rate 3.5% at December 31, 2015). The line of credit is secured by the investment account of the Organization.

NOTE 9 GOVERNMENT GRANTS

BHS received the following governmental grants for the year ended December 31:

	<u>2015</u>	<u>2014</u>
US government agencies	\$ 1,679,327	\$ 1,068,010
State of Ohio	-	112,500
Other local government agencies	<u>76,895</u>	<u>73,972</u>
	<u>\$ 1,756,222</u>	<u>\$ 1,254,482</u>

NOTE 10 CONCENTRATIONS OF CREDIT RISK

Financial instruments, which potentially subject BHS to a concentration of credit risk, consist primarily of investments and grants receivable. BHS invests cash with an outside investment advisor, which invests in marketable securities with high credit ratings. BHS performs periodic evaluations of the relative credit standing of these financial institutions, which are considered in BHS's investment strategy.

The Organization derives revenue from individual government contracts. Future revenue granted under these contracts is dependent upon continued government support and is subject to the risk of changes or cancellations in program funding. For 2015 and 2014, revenues from government contracts were 56% and 62% of total revenues.

NOTE 11 RETIREMENT PLAN

BHS maintains a 401(k) plan for the benefit of all employees. BHS made a 2% matching contribution of \$15,051 and \$12,465, for the years ended December 31, 2015 and 2014, respectively.

NOTE 12 ENDOWMENT

The Organization's endowment consists of board-designated and donor-restricted endowment funds established to provide income to the operations of BHS. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Trustees of the Organization follows the Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA provides guidance on matters concerning the governance and management of donor-restricted endowment funds. Under UPMIFA, the original value of donated gifts to the permanent endowment, the original value of subsequent gifts to the permanent endowment, and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument are classified as permanently restricted net assets. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Board of Trustees.

BETHANY HOUSE SERVICES, INC.

**Notes to Financial Statements
(Continued)**

NOTE 12 ENDOWMENT (Continued)

Endowment Net Asset Composition and Changes in Endowment Net Assets

The endowment net asset composition by type of fund is as follows for December 31, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ -	\$ 517,363	\$ 517,363
Board designated endowment funds	1,308,037	-	-	1,308,037
Total funds	<u>\$1,308,037</u>	<u>\$ -</u>	<u>\$ 517,363</u>	<u>\$1,825,400</u>

The endowment net asset composition by type of fund is as follows for December 31, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ -	\$ 442,363	\$ 442,363
Board designated endowment funds	1,300,250	-	-	1,300,250
Total funds	<u>\$ 1,300,250</u>	<u>\$ -</u>	<u>\$ 442,363</u>	<u>\$ 1,742,613</u>

The changes in endowment and board designated net assets for the year ended December 31, 2015 and 2014 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - 12/31/13	\$ 983,402	\$ 163,155	\$ 389,863	\$ 1,536,420
Interest and dividend income	62,717	21,325	-	84,042
Realized and unrealized gains	4,560	1,551	-	6,111
Contributions of cash from donors	69,831	2,450	52,500	124,781
Investment fees	(6,523)	(2,218)	-	(8,741)
Appropriated for expenditure	23,108	(23,108)	-	-
Reclassification	163,155	(163,155)	-	-
Endowment net assets - 12/31/14	<u>\$ 1,300,250</u>	<u>\$ -</u>	<u>\$ 442,363</u>	<u>\$ 1,742,613</u>
Interest and dividend income	\$ 69,283	\$ 23,571	\$ -	\$ 92,854
Realized and unrealized gains	(65,148)	(22,164)	-	(87,312)
Contributions of cash from donors	-	11,659	75,000	86,659
Investment fees	(7,024)	(2,390)	-	(9,414)
Appropriated for expenditure	10,676	(10,676)	-	-
Endowment net assets - 12/31/15	<u>\$ 1,308,037</u>	<u>\$ -</u>	<u>\$ 517,363</u>	<u>\$ 1,825,400</u>

BETHANY HOUSE SERVICES, INC.

Notes to Financial Statements (Continued)

NOTE 12 ENDOWMENT (Continued)

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide for long-term growth of assets sufficient to preserve the real purchasing power of the principal of its endowments. The return objective shall be accomplished using a balanced strategy of cash equivalents, equities and mutual funds, with a targeted 60/40 split between equities and fixed income. The performance objectives will be measured against appropriate industry benchmarks such as the S&P 500 Index and Lehman Brothers Government/Corporate Intermediate Index.

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 through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization has a policy of appropriating for distribution each year five percent of its previous twelve quarter moving average endowment fund balance and additional amounts at the discretion of the Board of Directors. In establishing this policy, the Organization considered the long-term expected return on its endowment. Accordingly, this spending policy should, over time, protect the inflation-adjusted value of the endowment and, consequently, allow inflation-adjusted spending to occur into the distant future. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

SUPPLEMENTARY INFORMATION

BETHANY HOUSE SERVICES, INC.

**Schedule of Expenditures of Federal Awards
Year Ended December 31, 2015**

<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>	<u>CFDA Number</u>	<u>Expenditures</u>
Continuum of Care Program	14.267	\$ 1,037,297
<i>Passed through Strategies to End Homelessness</i> Rapid Rehousing for Families	14.267	93,907
<i>Passed through City of Cincinnati</i> Emergency Solutions Grants Program	14.231	<u>472,603</u>
Total U.S. Department of Housing and Urban Development		1,603,807
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>		
Emergency Food and Shelter National Board Program	97.024	<u>77,000</u>
Total U.S. Department of Homeland Security		<u>77,000</u>
Total Expenditures of Federal Awards		<u><u>\$ 1,680,807</u></u>

See independent auditors' report on supplementary financial information

BETHANY HOUSE SERVICES, INC.

**Notes to Schedule of Expenditures of Federal Awards
Year Ended December 31, 2015**

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Bethany House Services, Inc. ("the Organization") and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.

NOTE 2 SUBRECIPIENTS

Of the federal expenditures presented in the schedule, the Organization provided federal awards to subrecipients as follows:

<u>SUBRECIPIENT</u>	<u>CFDA Number</u>	<u>Amount Provided</u>
Interfaith Hospitality Network	14.267	\$ 35,172
Salvation Army	14.267	35,172
Young Women's Christian Association	14.267	<u>35,172</u>
		<u>\$ 105,516</u>

**INDEPENDENT AUDITORS' 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
Bethany House Services, Inc.
Cincinnati, Ohio 45214

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 Bethany House Services, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2015 and 2014, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated April 1, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Bethany House Services, Inc.'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 Bethany House Services, Inc.'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 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.

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 have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Bethany House Services, Inc.'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*.

**INDEPENDENT AUDITORS' 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
(Continued)**

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 Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Banner, Danning & Co., Ltd.

April 1, 2016
Crestview Hills, Kentucky

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
Bethany House Services, Inc.
Cincinnati, Ohio 45214

Report on Compliance for Each Major Federal Program

We have audited Bethany House Services, 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 Bethany House Services, Inc.'s major federal programs for the year ended December 31, 2015. Bethany House Services, 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 Bethany House Services, 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 Bethany House Services, 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 Bethany House Services, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Bethany House Services, 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, 2015.

Report on Internal Control over Compliance

Management of Bethany House Services, 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 Bethany House Services, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Bethany House Services, Inc.'s internal control over compliance.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE
(Continued)**

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 this 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 over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have 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.

Burns, Denning & Co., Ltd.

April 1, 2016
Crestview Hills, Kentucky

BETHANY HOUSE SERVICES, INC.

**Schedule of Findings and Questioned Costs
Year Ended December 31, 2015**

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None noted
- 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 that are not considered to be material weaknesses? _____ Yes X None noted

Type of auditor’s report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance? _____ Yes X No

Identification of Major Programs

CFDA No.	Name of Federal Programs or Clusters
14.267	Continuum of Care

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? X Yes _____ No

Section II – Financial Statement Findings

No matters are reportable

Section III – Federal Award Findings and Questioned Costs

No matters are reportable

BETHANY HOUSE SERVICES, INC.

**Summary Schedule of Prior Audit Findings
Year Ended December 31, 2015**

Reference Number	Summary of Finding	Status
No matters are reportable		