

# **Bethany House Services, Inc. and Subsidiaries**

**Consolidated Financial Statements with Supplementary Information  
December 31, 2014 with  
Summarized Comparative Totals for December 31, 2013, and  
Independent Auditors' Report**

**BETHANY HOUSE SERVICES, INC. AND SUBSIDIARIES**  
**December 31, 2014**  
**With Summarized Comparative Totals for December 31, 2013**

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## Independent Auditors' Report

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

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of Bethany House Services, Inc. and Subsidiaries (a nonprofit organization), which comprise the consolidated statement of financial position as of December 31, 2014, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended and the related notes to the consolidated financial statements.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Bethany House Services, Inc. and Subsidiaries as of December 31, 2014 and the consolidated changes in its net assets and its cash flows for the year then ended in conformity 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 2013 consolidated financial statements, and our report dated July 2, 2014 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013, is consistent, in all material respects, with the audited financial statements from which it was derived.

**Other Matters**

***Supplementary and Other Information***

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the supplementary consolidating statement of financial position and activities for the years ended December 31, 2014 and 2013 are presented for purposes of additional analysis and are 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 consolidated financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 March 11, 2015, on our consideration of Bethany House Services, Inc. and Subsidiaries' 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.*

March 11, 2015  
Crestview Hills, Kentucky

**BETHANY HOUSE SERVICES, INC. AND SUBSIDIARIES**

**Consolidated Statement of Financial Position  
As of December 31, 2014  
With Summarized Comparative Totals as of December 31, 2013**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	
				<u>2014</u>	<u>2013</u>
<b>Assets</b>					
<b>Current:</b>					
Cash	\$ 148,575	\$ -	\$ -	\$ 148,575	\$ 307,603
Accounts receivable, net	9,301	-	-	9,301	26,814
Pledges receivable, net	-	46,764	123,017	169,781	154,922
Grants receivable, net	122,414	-	-	122,414	177,287
Prepaid expenses and other	15,742	-	-	15,742	19,607
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total current assets	296,032	46,764	123,017	465,813	686,233
<b>Property and equipment, net</b>	717,359	-	-	717,359	735,205
<b>Investments</b>	1,300,250	-	442,363	1,742,613	1,536,420
<b>Other:</b>					
Deposits	-	-	-	-	944
Pledges receivable - long term	-	-	-	-	110,707
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 2,313,641</u>	<u>\$ 46,764</u>	<u>\$ 565,380</u>	<u>\$ 2,925,785</u>	<u>\$ 3,069,509</u>
<b>Liabilities and Net Assets</b>					
Accounts payable	\$ 59,134	\$ -	\$ -	\$ 59,134	\$ 42,383
Accrued expenses	98,773	-	-	98,773	69,550
Tenant deposits	9,968	-	-	9,968	6,150
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	167,875	-	-	167,875	118,083
<b>Net Assets</b>	<u>2,145,766</u>	<u>46,764</u>	<u>565,380</u>	<u>2,757,910</u>	<u>2,951,426</u>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 2,313,641</u>	<u>\$ 46,764</u>	<u>\$ 565,380</u>	<u>\$ 2,925,785</u>	<u>\$ 3,069,509</u>

See accompanying notes to consolidated financial statements

**BETHANY HOUSE SERVICES, INC. AND SUBSIDIARIES**

**Consolidated Statement of Activities  
For the Year Ended December 31, 2014  
With Summarized Comparative Totals for the Year Ended December 31, 2013**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	
				<u>2014</u>	<u>2013</u>
<b>Public support:</b>					
Contributions	\$ 180,452	\$ 2,450	\$ 2,985	\$ 185,887	\$ 132,093
Campaign income	1,844	-	-	1,844	52,792
Special events	153,203	-	-	153,203	214,165
Less direct benefit costs	(29,380)	-	-	(29,380)	(60,360)
Churches and other religious organizations	30,437	-	-	30,437	23,386
Foundations	142,813	-	-	142,813	179,864
Donated facilities, materials and services	17,394	-	-	17,394	94,423
<b>Total public support</b>	<b>496,763</b>	<b>2,450</b>	<b>2,985</b>	<b>502,198</b>	<b>636,363</b>
<b>Revenues:</b>					
Rental agent and other fees	124,631	-	-	124,631	111,465
Government grants	1,254,482	-	-	1,254,482	1,290,813
Miscellaneous income	27,908	-	-	27,908	14,660
Interest income	13	-	-	13	192
<b>Total revenues</b>	<b>1,407,034</b>	<b>-</b>	<b>-</b>	<b>1,407,034</b>	<b>1,417,130</b>
Net assets released from restrictions	232,596	(232,596)	-	-	-
<b>Total public support and revenues</b>	<b>2,136,393</b>	<b>(230,146)</b>	<b>2,985</b>	<b>1,909,232</b>	<b>2,053,493</b>
Less amounts paid to subrecipients under Family Housing Partnership	(175,860)	-	-	(175,860)	(184,167)
<b>Total public support and revenues, net of amounts paid to subrecipients</b>	<b>1,960,533</b>	<b>(230,146)</b>	<b>2,985</b>	<b>1,733,372</b>	<b>1,869,326</b>
<b>Expenses:</b>					
Program services	1,642,889	-	-	1,642,889	1,708,731
Management and general	214,841	-	-	214,841	167,322
Fundraising	159,311	-	-	159,311	153,626
<b>Total expenses</b>	<b>2,017,041</b>	<b>-</b>	<b>-</b>	<b>2,017,041</b>	<b>2,029,679</b>
<b>Change in net assets before other items</b>	<b>(56,508)</b>	<b>(230,146)</b>	<b>2,985</b>	<b>(283,669)</b>	<b>(160,353)</b>
<b>Investment income</b>	<b>69,495</b>	<b>20,658</b>	<b>-</b>	<b>90,153</b>	<b>210,845</b>
<b>Change in net assets</b>	<b>12,987</b>	<b>(209,488)</b>	<b>2,985</b>	<b>(193,516)</b>	<b>50,492</b>
<b>Net assets, beginning of year</b>	<b>2,132,779</b>	<b>256,252</b>	<b>562,395</b>	<b>2,951,426</b>	<b>2,900,934</b>
<b>Net assets, end of year</b>	<b>\$ 2,145,766</b>	<b>\$ 46,764</b>	<b>\$ 565,380</b>	<b>\$ 2,757,910</b>	<b>\$ 2,951,426</b>

See accompanying notes to consolidated financial statements

**BETHANY HOUSE SERVICES, INC. AND SUBSIDIARIES**

**Consolidated Statement of Functional Expenses**

**Year Ended December 31, 2014**

**With Summarized Comparative Totals for December 31, 2013**

	Program Services					Total Program Services	Supporting Services			Total	
	Shelter	Rapid Rehousing	Transitional Housing	Family Shelter Partnership	Permanent Housing		Management and General	Fund- raising	Total Supporting Services	2014	2013
Salaries	\$ 253,345	\$ 135,556	\$ 65,096	\$ 120,752	\$ 43,834	\$ 618,583	\$ 132,118	\$ 105,122	\$ 237,240	\$ 855,823	\$ 821,728
Payroll taxes	25,470	14,985	7,226	12,148	5,610	65,439	14,482	11,241	25,723	91,162	73,341
Employee benefits	36,240	10,818	3,810	13,796	1,710	66,374	14,257	6,968	21,225	87,599	87,554
Total salaries and related expenses	315,055	161,359	76,132	146,696	51,154	750,396	160,857	123,331	284,188	1,034,584	982,623
Specific assistance to individuals	36,589	278,959	190,761	-	-	506,309	-	-	-	506,309	571,763
Maintenance and repairs	23,521	7,057	2,983	3,638	59,926	97,125	11,567	8,443	20,010	117,135	108,108
Utilities	18,539	2,664	1,421	1,864	43,457	67,945	2,581	1,418	3,999	71,944	68,242
Professional fees	6,335	4,941	2,794	3,882	20,473	38,425	5,393	11,282	16,675	55,100	13,989
Food	35,433	-	-	-	-	35,433	-	-	-	35,433	31,179
Insurance	6,874	3,775	1,693	2,174	7,974	22,490	2,230	1,451	3,681	26,171	23,908
Support contracts	1,875	1,875	1,875	16,127	-	21,752	-	-	-	21,752	17,099
Supplies	9,349	1,250	908	1,332	642	13,481	3,691	3,010	6,701	20,182	26,353
Telephone	4,784	2,664	1,497	2,066	3,722	14,733	3,625	1,130	4,755	19,488	18,263
Miscellaneous	1,165	217	798	131	71	2,382	15,986	329	16,315	18,697	28,575
Real estate taxes	258	-	-	37	10,497	10,792	78	-	78	10,870	5,716
Travel and conferences	1,475	3,655	2,353	1,320	100	8,903	873	915	1,788	10,691	16,009
Case management contracts	-	5,600	-	-	-	5,600	-	-	-	5,600	20,443
Postage	234	81	113	25	27	480	1,263	3,607	4,870	5,350	6,178
Staff professional fees	1,073	390	240	566	136	2,405	1,988	707	2,695	5,100	30,671
Membership	1,169	386	215	579	2	2,351	1,042	357	1,399	3,750	4,224
Admin sales tax	-	-	-	-	-	-	14	-	14	14	249
Printing	-	-	-	-	-	-	-	-	-	-	1,094
Rent	-	-	-	-	-	-	-	-	-	-	2,800
Bad debt expense (recoveries)	-	-	-	-	(2,213)	(2,213)	-	-	-	(2,213)	-
Total expenses before depreciation	463,728	474,873	283,783	180,437	195,968	1,598,789	211,188	155,980	367,168	1,965,957	1,977,486
Depreciation	11,233	11,458	7,601	3,964	9,844	44,100	3,653	3,331	6,984	51,084	52,193
Total expenses	\$ 474,961	\$ 486,331	\$ 291,384	\$ 184,401	\$ 205,812	\$1,642,889	\$ 214,841	\$ 159,311	\$ 374,152	\$2,017,041	\$2,029,679

See accompanying notes to consolidated financial statements

**BETHANY HOUSE SERVICES, INC. AND SUBSIDIARIES**

**Consolidated Statement of Cash Flows  
For the Years Ended December 31, 2014  
With Summarized Comparative Totals for the Year Ended December 31, 2013**

	2014	2013
<b>Cash flows from operating activities</b>		
Change in net assets	\$ (193,516)	\$ 50,492
Adjustments to reconcile change in net assets to cash from operating activities:		
Depreciation	51,084	52,193
Realized (gains) losses on investments	632	(37,167)
Unrealized gains on investments	(6,743)	(125,707)
Changes in:		
Accounts receivable, net	17,513	(8,590)
Pledges receivable, net	95,848	170,091
Grants receivable, net	54,873	132,919
Prepaid expenses and other	4,809	(9,178)
Accounts payable	16,751	(30,972)
Accrued expenses	29,223	(9,213)
Tenant deposits	3,818	(3,000)
Net cash provided by operating activities	74,292	181,868
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(33,235)	(31,770)
Proceeds from sale of investments	22,415	349,562
Purchases of investments	(222,500)	(606,596)
Net cash used in investing activities	(233,320)	(288,804)
Net change in cash	(159,028)	(106,936)
Cash, beginning of year	307,603	414,539
Cash, end of year	\$ 148,575	\$ 307,603

See accompanying notes to consolidated financial statements



# BETHANY HOUSE SERVICES, INC. AND SUBSIDIARIES

## Notes to Consolidated 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 five family shelters in Cincinnati – Mercy Health-St. John, 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.

#### *Principles of Consolidation*

The consolidated financial statements include the accounts of BHS, BHI, and BHLP (collectively, the Organization). All material inter-company transactions have been eliminated.

#### *Financial Statement Presentation*

The consolidated 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, 2013 from which the comparative information was derived.

The consolidated 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 restriction which do not expire.

## BETHANY HOUSE SERVICES, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements (Continued)

#### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### ***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.

##### ***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, 2014 and 2013.

##### ***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, 2014 and 2013 since the Organization expects no material losses.

## BETHANY HOUSE SERVICES, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements (Continued)

#### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### ***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.

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 audit, 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.

BHI is subject to federal, state and local income taxes. No provision for income taxes is reflected in the accompanying consolidated financial statements, as BHI experienced a net loss for the years ended December 31, 2014 and 2013.

BHLP is treated as a partnership for federal and state income tax purposes and accordingly the tax effects of the Partnership's income or loss are passed through to the partners. The partners include their allocable share of the net income or loss (as reported for tax purposes) in their respective income tax returns.

## BETHANY HOUSE SERVICES, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements (Continued)

#### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### *Income Taxes (Continued)*

The organizations' tax returns are subject to review and examination by federal, state and local authorities. The organizations believe 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 organizations are generally no longer subject to examinations by tax authorities for years before 2011.

##### *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.

##### *Reclassifications*

Certain 2013 figures have been reclassified to conform to the 2014 presentation.

##### *Subsequent Events*

Subsequent events were considered through March 11, 2015, 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:

	2014	2013
Pledges receivable - time restricted	\$ 46,764	\$ 93,097
To be transferred to the board-designated endowment	-	163,155
	\$ 46,764	\$ 256,252

#### NOTE 3 PERMANENTLY RESTRICTED NET ASSETS

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

	2014	2013
Pledges receivable - restricted for endowment	\$ 123,017	\$ 172,532
Donor-restricted endowment funds	442,363	389,863
	\$ 565,380	\$ 562,395

#### NOTE 4 PLEDGES RECEIVABLE

Pledges receivable as of December 31, 2014 and 2013 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, 2014, all donations are expected to be received within one year. A discount of \$2,448 and \$4,281 has been applied to these outstanding amounts as of December 31, 2014 and 2013, respectively.

## BETHANY HOUSE SERVICES, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements (Continued)

#### NOTE 5 INVESTMENTS AT FAIR VALUE

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

	2014	2013
<b>Level 1:</b>		
Fixed income mutual funds	\$ 580,744	\$ 536,536
Equity mutual funds	1,000,694	871,875
Other mutual funds	89,100	71,016
<b>Level 2:</b>		
Money market funds	72,075	56,993
	\$ 1,742,613	\$ 1,536,420

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:

	2014	2013
Realized gains (losses)	\$ (632)	\$ 37,167
Unrealized gains	6,743	125,707
Interest and dividends	84,042	47,971
	\$ 90,153	\$ 210,845

#### NOTE 6 DONATED FACILITIES, MATERIALS AND SERVICES

BHS received the following in-kind donations of facilities, materials and supplies during 2014 and 2013:

	2014	2013
Donated materials and supplies	\$ 17,394	\$ 14,626
Qualified donated services	-	79,797
	\$ 17,394	\$ 94,423

During 2014 and 2013, a number of volunteers have donated significant amounts of time to BHS. Total volunteer hours were 5,737 and 11,123 in 2014 and 2013, respectively.

#### NOTE 7 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	2014	2013
Land	\$ 105,716	\$ 105,716
Buildings and improvements	1,165,458	1,132,222
Furniture, equipment and vehicles	201,149	201,149
Less accumulated depreciation	(754,964)	(703,882)
	\$ 717,359	\$ 735,205

## BETHANY HOUSE SERVICES, INC. AND SUBSIDIARIES

### Notes to Consolidated 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, 2014 and 2013. The line of credit bears interest at an annual rate equal to prime rate plus 1.0% (prime rate 3.25% at December 31, 2014). 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:

	2014	2013
US government agencies	\$ 1,068,010	\$ 1,128,091
State of Ohio	112,500	112,500
Other local government agencies	73,972	50,222
	<u>\$ 1,254,482</u>	<u>\$ 1,290,813</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 2014 and 2013, revenues from government contracts were 58% and 59% 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 \$12,465 and \$10,311, for the years ended December 31, 2014 and 2013, 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. AND SUBSIDIARIES

### Notes to Consolidated 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, 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
<b>Total funds</b>	<b>\$ 1,300,250</b>	<b>\$ -</b>	<b>\$ 442,363</b>	<b>\$ 1,742,613</b>

The endowment net asset composition by type of fund is as follows for December 31, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 163,155	\$ 389,863	\$ 553,018
Board designated endowment funds	983,402	-	-	983,402
<b>Total funds</b>	<b>\$ 983,402</b>	<b>\$ 163,155</b>	<b>\$ 389,863</b>	<b>\$ 1,536,420</b>

The changes in endowment and board designated net assets for the year ended December 31, 2014 and 2013 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - 12/31/12	\$ 699,434	\$ 162,915	\$ 254,163	\$ 1,116,512
Interest and dividend income	47,971	-	-	47,971
Realized and unrealized gains	162,874	-	-	162,874
Contributions of cash from donors	80,006	240	135,700	215,946
Investment fees	(6,883)	-	-	(6,883)
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	<b>\$ 1,300,250</b>	<b>\$ -</b>	<b>\$ 442,363</b>	<b>\$ 1,742,613</b>

##### *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. The performance objectives will be measured against appropriate industry benchmarks such as the S&P 500 Index and Lehman Brothers Government/Corporate Intermediate Index.

## BETHANY HOUSE SERVICES, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements (Continued)

#### NOTE 12 ENDOWMENT (Continued)

##### *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.

#### NOTE 13 SUBSEQUENT EVENTS

Subsequent to year-end, the Organization entered into an agreement to assume the operations of one of the network shelters of the Family Housing Partnership, Mercy Health-St. John. As a result of this assumption, the Organization acquired a property located in Over the Rhine, Ohio valued at \$99,840, an automobile and has the rights to future funding received through Federal and state grants, as well as the United Way of Greater Cincinnati. Additionally, the Organization received a funding commitment from Mercy Health-St. John for \$150,000 to be received in two equal installments in 2015 and 2016.



**SUPPLEMENTARY INFORMATION**

**BETHANY HOUSE SERVICES, INC. AND SUBSIDIARIES**

**Consolidating Statement of Financial Position  
December 31, 2014**

	<u>House Services, Inc.</u>	<u>Bethany Homes, Inc.</u>	<u>Bethany Homes LP</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>Assets</b>					
<b>Current:</b>					
Cash	\$ 148,575	\$ -	\$ -	\$ -	\$ 148,575
Accounts receivable	9,301	-	-	-	9,301
Pledges receivable	169,781	-	-	-	169,781
Grants receivable	122,414	-	-	-	122,414
Prepaid expenses and other	15,742	-	-	-	15,742
Total current assets	465,813	-	-	-	465,813
<b>Property and equipment, net</b>	717,359	-	-	-	717,359
<b>Investments:</b>					
Marketable securities	1,742,613	-	-	-	1,742,613
Total assets	<u>\$ 2,925,785</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,925,785</u>
<b>Liabilities and Net Assets</b>					
<b>Liabilities</b>					
<b>Current:</b>					
Accounts payable	\$ 59,134	\$ -	\$ -	\$ -	\$ 59,134
Accrued expenses	98,773	-	-	-	98,773
Tenant deposits	9,968	-	-	-	9,968
Total liabilities	167,875	-	-	-	167,875
<b>Net Assets</b>					
Unrestricted	2,145,766	-	-	-	2,145,766
Temporarily restricted	46,764	-	-	-	46,764
Permanently restricted	565,380	-	-	-	565,380
Total net assets	2,757,910	-	-	-	2,757,910
Total liabilities and net assets	<u>\$ 2,925,785</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,925,785</u>

See independent auditors' report on supplementary financial information

**BETHANY HOUSE SERVICES, INC. AND SUBSIDIARIES**

**Consolidating Statement of Activities  
Year Ended December 31, 2014**

	<b>Bethany House Services, Inc.</b>	<b>Bethany Homes, Inc.</b>	<b>Bethany Homes LP</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Public Support and Revenues</b>					
<b>Public support:</b>					
Contributions	\$ 182,887	\$ -	\$ 3,000	\$ -	\$ 185,887
Campaign income	1,844	-	-	-	1,844
Special events	153,203	-	-	-	153,203
Less direct benefit costs	(29,380)	-	-	-	(29,380)
Churches and other religious organizations	30,437	-	-	-	30,437
Foundations	142,813	-	-	-	142,813
Donated facilities, materials and services	17,394	-	-	-	17,394
Total public support	<u>499,198</u>	<u>-</u>	<u>3,000</u>	<u>-</u>	<u>502,198</u>
<b>Revenues:</b>					
Rental agent and other fees	5,000	-	124,631	(5,000)	124,631
Government grants	1,254,482	-	-	-	1,254,482
Miscellaneous income	11,411	-	16,497	-	27,908
Interest income	7	-	6	-	13
Total revenues	<u>1,270,900</u>	<u>-</u>	<u>141,134</u>	<u>(5,000)</u>	<u>1,407,034</u>
Total public support and revenues	1,770,098	-	144,134	(5,000)	1,909,232
Less amounts paid to subrecipients under Family Housing Partnership	<u>(175,860)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(175,860)</u>
Total public support and revenues, net of amounts paid to subrecipients	<u>1,594,238</u>	<u>-</u>	<u>144,134</u>	<u>(5,000)</u>	<u>1,733,372</u>
<b>Expenses</b>					
Program services	1,476,516	-	171,373	(5,000)	1,642,889
Management and general	214,841	-	-	-	214,841
Fundraising	159,311	-	-	-	159,311
Total expenses	<u>1,850,668</u>	<u>-</u>	<u>171,373</u>	<u>(5,000)</u>	<u>2,017,041</u>
<b>Change in net assets before other changes</b>	(256,430)	-	(27,239)	-	(283,669)
<b>Gain (loss) on dissolution of LP</b>	(74,816)	2,386	-	72,430	-
<b>Investment income</b>	90,153	-	-	-	90,153
<b>Change in net assets</b>	(241,093)	2,386	(27,239)	72,430	(193,516)
<b>Net assets, beginning of year</b>	2,999,003	61,779	29,625	(138,981)	2,951,426
<b>Distributions</b>	-	(64,165)	(2,386)	66,551	-
<b>Net assets, end of year</b>	<u>\$ 2,757,910</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,757,910</u>

See independent auditors' report on supplementary financial information

## BETHANY HOUSE SERVICES, INC. AND SUBSIDIARIES

### Consolidating Statement of Financial Position Year Ended December 31, 2013

	Bethany House Services, Inc.	Bethany Homes, Inc.	Bethany Homes LP	Eliminations	Consolidated
<b>Assets</b>					
<b>Current:</b>					
Cash	\$ 272,231	\$ -	\$ 35,372	\$ -	\$ 307,603
Accounts receivable	18,120	-	11,649	(2,955)	26,814
Pledges receivable	154,922	-	-	-	154,922
Grants receivable	177,287	-	-	-	177,287
Prepaid expenses and other	19,022	-	585	-	19,607
Total current assets	<u>641,582</u>	<u>-</u>	<u>47,606</u>	<u>(2,955)</u>	<u>686,233</u>
<b>Property and equipment, net</b>	527,045	-	208,160	-	735,205
<b>Investments:</b>					
Marketable securities	1,536,420	-	-	-	1,536,420
Investments in subsidiary	74,010	-	-	(74,010)	-
Limited partnership investment	-	64,971	-	(64,971)	-
Total investments	<u>1,610,430</u>	<u>64,971</u>	<u>-</u>	<u>(138,981)</u>	<u>1,536,420</u>
<b>Other:</b>					
Deposits	944	-	-	-	944
Pledges receivable - long term	110,707	-	-	-	110,707
Interest receivable	128,750	-	-	(128,750)	-
Note receivable - affiliate	85,000	-	-	(85,000)	-
Total other assets	<u>325,401</u>	<u>-</u>	<u>-</u>	<u>(213,750)</u>	<u>111,651</u>
Total assets	<u><u>\$ 3,104,458</u></u>	<u><u>\$ 64,971</u></u>	<u><u>\$ 255,766</u></u>	<u><u>\$ (355,686)</u></u>	<u><u>\$ 3,069,509</u></u>
<b>Liabilities and Net Assets</b>					
<b>Liabilities</b>					
<b>Current:</b>					
Note payable - affiliate	\$ -	\$ -	\$ 85,000	\$ (85,000)	\$ -
Accounts payable	35,905	3,192	6,241	(2,955)	42,383
Accrued expenses	69,550	-	128,750	(128,750)	69,550
Tenant deposits	-	-	6,150	-	6,150
Total liabilities	<u>105,455</u>	<u>3,192</u>	<u>226,141</u>	<u>(216,705)</u>	<u>118,083</u>
<b>Net Assets</b>					
Unrestricted	2,180,356	61,779	-	(74,010)	2,168,125
Temporarily restricted	256,252	-	-	-	256,252
Permanently restricted	562,395	-	-	-	562,395
General partner	-	-	64,971	(64,971)	-
Limited partner	-	-	(35,346)	-	(35,346)
Total net assets	<u>2,999,003</u>	<u>61,779</u>	<u>29,625</u>	<u>(138,981)</u>	<u>2,951,426</u>
Total liabilities and net assets	<u><u>\$ 3,104,458</u></u>	<u><u>\$ 64,971</u></u>	<u><u>\$ 255,766</u></u>	<u><u>\$ (355,686)</u></u>	<u><u>\$ 3,069,509</u></u>

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**BETHANY HOUSE SERVICES, INC. AND SUBSIDIARIES**

**Consolidating Statement of Activities  
Year Ended December 31, 2013**

	<u>Bethany House Services, Inc.</u>	<u>Bethany Homes, Inc.</u>	<u>Bethany Homes LP</u>	<u>Eliminations and Adjustments</u>	<u>Consolidated</u>
<b>Public Support and Revenues</b>					
<b>Public support:</b>					
Contributions	\$ 132,093	\$ -	\$ -	\$ -	\$ 132,093
Campaign income	52,792	-	-	-	52,792
Special events	214,165	-	-	-	214,165
Less direct benefit costs	(60,360)	-	-	-	(60,360)
Churches and other religious organizations	23,386	-	-	-	23,386
Foundations	179,864	-	-	-	179,864
Donated facilities, materials and services	94,423	-	-	-	94,423
Total public support	636,363	-	-	-	636,363
<b>Revenues:</b>					
Rental agent and other fees	12,915	-	110,550	(12,000)	111,465
Government grants	1,290,813	-	-	-	1,290,813
Cancellation of debt income	-	-	-	-	-
Miscellaneous income	6,623	-	8,037	-	14,660
Interest income	4,434	-	8	(4,250)	192
Total revenues	1,314,785	-	118,595	(16,250)	1,417,130
Total public support and revenues	1,951,148	-	118,595	(16,250)	2,053,493
Less amounts paid to subrecipients under Family Housing Partnership	(184,167)	-	-	-	(184,167)
Total public support and revenues, net of amounts paid to subrecipients	1,766,981	-	118,595	(16,250)	1,869,326
<b>Expenses</b>					
Program services	1,601,445	-	123,536	(16,250)	1,708,731
Management and general	167,322	49	-	(49)	167,322
Fundraising	153,626	-	-	-	153,626
Total expenses	1,922,393	49	123,536	(16,299)	2,029,679
<b>Change in net assets before other changes</b>	(155,412)	(49)	(4,941)	49	(160,353)
<b>Investment income</b>	210,845	-	-	-	210,845
<b>Increase (decrease) in net assets</b>	55,433	(49)	(4,941)	49	50,492
<b>Net assets, beginning of year</b>	2,943,570	61,828	34,566	(139,030)	2,900,934
<b>Net assets, end of year</b>	<u>\$ 2,999,003</u>	<u>\$ 61,779</u>	<u>\$ 29,625</u>	<u>\$ (138,981)</u>	<u>\$ 2,951,426</u>

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**BETHANY HOUSE SERVICES, INC. AND SUBSIDIARIES**

**Schedule of Expenditures of Federal Awards  
Year Ended December 31, 2014**

<b><u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u></b>	<b><u>CFDA Number</u></b>	<b><u>Expenditures</u></b>
Continuum of Care Program	14.267	\$ 1,019,290
<i>Passed through City of Cincinnati</i> Emergency Solutions Grants Program	14.231	<u>40,150</u>
<b>Total U.S. Department of Housing and Urban Development</b>		1,059,440
<b><u>U.S. DEPARTMENT OF HOMELAND SECURITY</u></b>		
Emergency Food and Shelter National Board Program	97.024	<u>8,570</u>
<b>Total U.S. Department of Homeland Security</b>		<u>8,570</u>
<b>Total Expenditures of Federal Awards</b>		<u><u>\$ 1,068,010</u></u>

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**BETHANY HOUSE SERVICES, INC. AND SUBSIDIARIES**

**Notes to Schedule of Expenditures of Federal Awards**  
**Year Ended December 31, 2014**

**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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**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
Mercy St. John	14.267	70,344
Salvation Army	14.267	35,172
Young Women's Christian Association	14.267	<u>35,172</u>
		<u>\$ 175,860</u>

**BETHANY HOUSE SERVICES, INC. AND SUBSIDIARIES**

**Schedule of Expenditures of State Awards  
Year Ended December 31, 2014**

<u>OHIO DEVELOPMENT SERVICES AGENCY</u>	<u>CFDA Number</u>	<u>Expenditures</u>
Homeless Crisis Response Program	S-L-12-7KC-1	\$ 112,500
<b>Total Expenditures of State Awards</b>		<u>\$ 112,500</u>

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**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. and Subsidiaries  
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 consolidated financial statements of Bethany House Services, Inc. and Subsidiaries (a nonprofit organization), which comprise the consolidated statements of financial position as of December 31, 2014 and 2013, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 11, 2015.

**Internal Control over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered Bethany House Services, Inc. and Subsidiaries' 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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Bethany House Services, Inc. and Subsidiaries' 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. and Subsidiaries' consolidated 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.

*Burns, Denning & Co., Ltd.*

March 11, 2015  
Crestview Hills, Kentucky



## **INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

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

### **Report on Compliance for Each Major Federal Program**

We have audited Bethany House Services, Inc. and Subsidiaries' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Bethany House Services, Inc. and Subsidiaries' major federal programs for the year ended December 31, 2014. Bethany House Services, Inc. and Subsidiaries' 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Bethany House Services, Inc. and Subsidiaries' 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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. and Subsidiaries' compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, Bethany House Services, Inc. and Subsidiaries 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, 2014.

### **Report on Internal Control over Compliance**

Management of Bethany House Services, Inc. and Subsidiaries 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. and Subsidiaries' 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 OMB Circular A-133, 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. and Subsidiaries' internal control over compliance.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133  
(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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Burnes, Denning & Co., Ltd.*

March 11, 2015  
Crestview Hills, Kentucky

**BETHANY HOUSE SERVICES, INC. AND SUBSIDIARIES**

**Schedule of Findings and Questioned Costs  
Year Ended December 31, 2014**

**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 Section 510(a) of Circular A-133? \_\_\_\_\_ 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: \$300,000

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. AND SUBSIDIARIES**

**Summary Schedule of Prior Audit Findings  
Year Ended December 31, 2014**

<b>Reference Number</b>	<b>Summary of Finding</b>	<b>Status</b>
No matters are reportable		