

Bethany House Services, Inc.

**Financial Statements with Supplementary Information
December 31, 2016 with
Summarized Comparative Totals for December 31, 2015, and
Independent Auditors' Report**

BETHANY HOUSE SERVICES, INC.
December 31, 2016
With Summarized Comparative Totals for December 31, 2015

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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, 2016, 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, 2016 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. 2015 consolidated financial statements, and expressed an unmodified audit opinion on those audited financial statements in our report dated April 1, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it was derived.

Other Matters

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 March 23, 2017, 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.

Barnes, Dennig & Co., Ltd.

March 23, 2017
Crestview Hills, Kentucky

BETHANY HOUSE SERVICES, INC.

**Statement of Financial Position
December 31, 2016 with Summarized Comparative Totals for December 31, 2015**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	
				<u>2016</u>	<u>2015</u>
Assets					
Current:					
Cash	\$ 308,232	\$ 50,000	\$ -	\$ 358,232	\$ 229,568
Accounts receivable, net	568	-	-	568	5,936
Pledges receivable, net	-	152,825	-	152,825	168,609
Grants receivable, net	229,155	-	-	229,155	134,271
Prepaid expenses and other	11,769	-	-	11,769	41,103
Total current assets	549,724	202,825	-	752,549	579,487
Property and equipment, net	694,611	-	-	694,611	863,553
Investments	1,410,355	-	567,363	1,977,718	1,825,400
Total assets	<u>\$ 2,654,690</u>	<u>\$ 202,825</u>	<u>\$ 567,363</u>	<u>\$ 3,424,878</u>	<u>\$ 3,268,440</u>
Liabilities and Net Assets					
Liabilities					
Accounts payable	\$ 38,910	\$ -	\$ -	\$ 38,910	\$ 54,908
Accrued expenses	156,475	-	-	156,475	75,051
Tenant deposits	12,937	-	-	12,937	11,157
Total liabilities	208,322	-	-	208,322	141,116
Net Assets	2,446,368	202,825	567,363	3,216,556	3,127,324
Total liabilities and net assets	<u>\$ 2,654,690</u>	<u>\$ 202,825</u>	<u>\$ 567,363</u>	<u>\$ 3,424,878</u>	<u>\$ 3,268,440</u>

See accompanying notes to financial statements

BETHANY HOUSE SERVICES, INC.

Statement of Activities
Year Ended December 31, 2016 with Summarized Comparative Totals for December 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	
				<u>2016</u>	<u>2015</u>
Public support					
Contributions	\$ 239,042	\$ 85,950	\$ -	\$ 324,992	\$ 684,854
Campaign income	-	-	-	-	1,397
Special events	148,516	-	-	148,516	117,463
Less direct benefit costs	(22,556)	-	-	(22,556)	(17,653)
Churches and other religious organizations	28,359	-	-	28,359	31,014
Foundations	342,608	100,000	-	442,608	309,197
Donated facilities, materials and services	37,217	-	-	37,217	32,673
Total public support	773,186	185,950	-	959,136	1,158,945
Revenues					
Rental agent and other fees	171,213	-	-	171,213	162,971
Government grants	2,461,357	-	-	2,461,357	1,756,222
Miscellaneous income	34,943	-	-	34,943	31,572
Total revenues	2,667,513	-	-	2,667,513	1,950,765
Net assets released from restrictions	176,734	(176,734)	-	-	-
Total public support and revenues	3,617,433	9,216	-	3,626,649	3,109,710
Less amounts paid to subrecipients under Family Housing Partnership	(49,827)	-	-	(49,827)	(105,516)
Total public support and revenues, net of amounts paid to subrecipients	3,567,606	9,216	-	3,576,822	3,004,194
Expenses					
Program services	3,155,419	-	-	3,155,419	2,299,012
Management and general	222,643	-	-	222,643	187,131
Fundraising	252,527	-	-	252,527	154,179
Total expenses	3,630,589	-	-	3,630,589	2,640,322
Change in net assets before other items	(62,983)	9,216	-	(53,767)	363,872
Investment income	128,224	-	-	128,224	5,542
Gain on sale of building	14,775	-	-	14,775	-
Change in net assets	80,016	9,216	-	89,232	369,414
Net assets, beginning of year	2,366,352	193,609	567,363	3,127,324	2,757,910
Net assets, end of year	\$ 2,446,368	\$ 202,825	\$ 567,363	\$ 3,216,556	\$ 3,127,324

See accompanying notes to financial statements

BETHANY HOUSE SERVICES, INC.

Statement of Functional Expenses

Year Ended Error! Unknown switch argument. with Summarized Comparative Totals for Error! Unknown switch argument.

	Program Services					Supporting Services				Total	
	Shelter	Rapid Rehousing	Family Shelter	Shelter Diversion	Permanent Housing	Total Program Services	Management and General	Fund- raising	Total Supporting Services	2016	2015
			Partnership								
Salaries	\$ 492,538	\$ 304,350	\$ 155,942	\$ 36,622	\$ 40,377	\$ 1,029,829	\$ 126,409	\$ 169,154	\$ 295,563	\$ 1,325,392	\$ 1,013,873
Employee benefits	52,199	31,489	17,460	4,210	6,050	111,408	12,694	17,809	30,503	141,911	103,130
Payroll taxes	48,510	24,320	16,641	2,147	7,353	98,971	14,279	7,593	21,872	120,843	92,175
Total salaries and related expenses	593,247	360,159	190,043	42,979	53,780	1,240,208	153,382	194,556	347,938	1,588,146	1,209,178
Specific assistance to individuals	98,766	951,333	-	1,946	-	1,052,045	-	-	-	1,052,045	595,251
Maintenance and repairs	66,199	11,635	7,969	3,815	61,428	151,046	10,498	14,323	24,821	175,867	138,591
Professional fees	89,312	8,319	11,337	37	5,640	114,645	15,149	20,389	35,538	150,183	46,788
Rent	148,716	-	-	-	-	148,716	-	-	-	148,716	116,868
Supplies	79,819	4,058	3,428	560	1,996	89,861	9,561	2,938	12,499	102,360	109,776
Utilities	48,101	2,955	432	392	35,112	86,992	7,882	-	7,882	94,874	98,674
Support contracts	6,540	24,374	44,605	4,210	-	79,729	-	-	-	79,729	77,511
Food	62,578	-	-	-	-	62,578	-	-	-	62,578	53,359
Insurance	14,895	7,538	5,680	22	2,484	30,619	2,592	3,283	5,875	36,494	35,331
Telephone	13,502	5,563	3,357	1,151	2,797	26,370	3,475	737	4,212	30,582	23,868
Travel and conferences	2,805	6,502	1,452	1,171	1,709	13,639	1,939	597	2,536	16,175	16,600
Miscellaneous	3,586	1,709	1,163	279	742	7,479	1,943	1,973	3,916	11,395	19,830
Investment fees	-	-	-	-	-	-	9,848	-	9,848	9,848	9,414
Staff professional fees	2,940	637	944	244	281	5,046	2,474	1,153	3,627	8,673	8,999
Printing	177	86	64	14	18	359	59	7,640	7,699	8,058	5,889
Bad debt expense	-	-	-	-	-	-	-	-	-	-	19,572
Total expenses before depreciation	1,231,183	1,384,868	270,474	56,820	165,987	3,109,332	218,802	247,589	466,391	3,575,723	2,585,499
Depreciation	26,884	10,424	4,938	-	3,841	46,087	3,841	4,938	8,779	54,866	54,823
Total expenses	<u>\$ 1,258,067</u>	<u>\$ 1,395,292</u>	<u>\$ 275,412</u>	<u>\$ 56,820</u>	<u>\$ 169,828</u>	<u>\$ 3,155,419</u>	<u>\$ 222,643</u>	<u>\$ 252,527</u>	<u>\$ 475,170</u>	<u>\$ 3,630,589</u>	<u>\$ 2,640,322</u>

See accompanying notes to financial statements

BETHANY HOUSE SERVICES, INC.

Statement of Cash Flows Year Ended December 31, 2016 with Summarized Comparative Totals for December 31, 2015

	2016	2015
Cash flows from operating activities		
Change in net assets	\$ 89,232	\$ 369,414
Adjustments to reconcile change in net assets to cash from operating activities:		
Depreciation	54,866	54,823
Realized (gains) losses on investments	(86,589)	17,326
Unrealized losses on investments	19,417	69,986
Donated property and equipment	-	(170,500)
Gain on sale of property and equipment	(14,775)	-
Changes in:		
Accounts receivable, net	5,368	(86,635)
Pledges receivable, net	15,784	91,172
Grants receivable, net	(94,884)	(11,857)
Prepaid expenses and other	29,334	(25,361)
Accounts payable	(15,998)	(4,226)
Accrued expenses	81,424	(23,722)
Tenant deposits	1,780	1,189
Net cash provided by operating activities	84,959	281,609
Cash flows from investing activities		
Purchase of property and equipment	(46,149)	(30,517)
Proceeds from sale of property and equipment	175,000	-
Proceeds from sale of investments	788,775	173,190
Purchases of investments	(923,921)	(418,289)
Net cash used in investing activities	(6,295)	(275,616)
Cash flows from financing activities		
Proceeds from contributions restricted for investment in permanent endowment	50,000	75,000
Net change in cash	128,664	80,993
Cash, beginning of year	229,568	148,575
Cash, end of year	\$ 358,232	\$ 229,568

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, 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 families 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.

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, 2015 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.

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.

BETHANY HOUSE SERVICES, INC.

Notes to Financial Statements (Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2016 and 2015 since the Organization expects no material losses.

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, 2016 and 2015.

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.

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.

BETHANY HOUSE SERVICES, INC.

Notes to Financial Statements (Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 2015 figures have been reclassified to conform to the 2016 presentation.

Subsequent Events

Subsequent events were considered through March 23, 2017, the date which the financial statements were available to be issued.

BETHANY HOUSE SERVICES, INC.

**Notes to Financial Statements
(Continued)**

NOTE 2 TEMPORARILY RESTRICTED NET ASSETS

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

	2016	2015
Restricted for use in subsequent years:		
United Way pledge	\$ 85,950	\$ 90,000
Other pledges	66,875	28,609
Mercy St. John	-	75,000
Restricted as to purpose:		
Post-shelter support services	50,000	-
	<u>\$ 202,825</u>	<u>\$ 193,609</u>

NOTE 3 PERMANENTLY RESTRICTED NET ASSETS

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

	2016	2015
Pledges receivable - restricted for endowment	\$ -	\$ 50,000
Donor-restricted endowment funds	567,363	517,363
	<u>\$ 567,363</u>	<u>\$ 567,363</u>

NOTE 4 PLEDGES RECEIVABLE

Pledges receivable as of December 31, 2016 and 2015 consisted of unconditional promises to give. As of December 31, 2016, all donations are expected to be received within one year.

NOTE 5 INVESTMENTS AT FAIR VALUE

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

	2016	2015
Level 1:		
Fixed income mutual funds	\$ 644,695	\$ 561,100
Equity mutual funds	1,155,768	1,090,752
Common stock	11,015	-
Real Estate Investments	123,795	119,595
Level 2:		
Money market funds	42,445	53,953
	<u>\$ 1,977,718</u>	<u>\$ 1,825,400</u>

BETHANY HOUSE SERVICES, INC.

**Notes to Financial Statements
(Continued)**

NOTE 5 INVESTMENTS AT FAIR VALUE (CONTINUED)

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>2016</u>	<u>2015</u>
Realized gains (losses)	\$ 86,589	\$ (17,326)
Unrealized losses	(19,417)	(69,986)
Interest and dividends	<u>61,052</u>	<u>92,854</u>
	<u>\$ 128,224</u>	<u>\$ 5,542</u>

NOTE 6 DONATED FACILITIES, MATERIALS AND SERVICES

BHS received in-kind donations of materials and supplies during 2016 and 2015 of \$37,217 and \$32,673, 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 11,452 for 2016 and 9,905 for 2015.

NOTE 7 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2016</u>	<u>2015</u>
Land	\$ 105,716	\$ 105,716
Buildings and improvements	1,220,610	1,349,837
Furniture, equipment and vehicles	227,439	217,787
Less accumulated depreciation	<u>(859,154)</u>	<u>(809,787)</u>
	<u>\$ 694,611</u>	<u>\$ 863,553</u>

NOTE 8 LINE OF CREDIT

The Organization has \$450,000 line of credit available from a bank that expires in October 2017. There was no outstanding balance at December 31, 2016 and 2015. The line of credit bears interest at an annual rate equal to prime rate plus 1.0% (prime rate 3.75% at December 31, 2016). The line of credit is secured by the investment account of the Organization.

BETHANY HOUSE SERVICES, INC.

**Notes to Financial Statements
(Continued)**

NOTE 9 GOVERNMENT GRANTS

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

	<u>2016</u>	<u>2015</u>
US government agencies	\$ 2,099,260	\$ 1,679,327
Local government agencies	<u>362,097</u>	<u>76,895</u>
	<u>\$ 2,461,357</u>	<u>\$ 1,756,222</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 2016 and 2015, revenues from government contracts were 68% and 56% of total public support and revenues, respectively.

NOTE 11 RETIREMENT PLAN

BHS maintains a 401(k) plan for the benefit of all employees. BHS made a 2% matching contribution of \$18,815 and \$15,051, for the years ended December 31, 2016 and 2015, 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 Directors 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 Directors 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 Directors.

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, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ -	\$ 567,363	\$ 567,363
Board designated endowment funds	1,410,355	-	-	1,410,355
Total funds	<u>\$1,410,355</u>	<u>\$ -</u>	<u>\$ 567,363</u>	<u>\$1,977,718</u>

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 changes in endowment and board designated net assets for the year ended December 31, 2016 and 2015 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - 12/31/14	\$ 1,300,250	\$ -	\$ 442,363	\$ 1,742,613
Interest and dividend income	69,283	23,571	-	92,854
Realized and unrealized loss	(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>
Interest and dividend income	\$ 43,748	\$ 17,304	\$ -	\$ 61,052
Realized and unrealized gains	48,134	19,038	-	67,172
Contributions of cash from donors	780	-	50,000	50,780
Investment fees	(7,057)	(2,791)	-	(9,848)
Appropriated for expenditure	16,713	(33,551)	-	(16,838)
Endowment net assets - 12/31/16	<u>\$ 1,410,355</u>	<u>\$ -</u>	<u>\$ 567,363</u>	<u>\$ 1,977,718</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 a maximum of five percent of its previous twelve quarter moving average endowment fund balance or the previous year's distribution increased by the Consumer Price Index 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 RECENTLY ADOPTED ACCOUNTING STANDARD UPDATES

On May 28, 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. The standard's core principle is that an organization will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the organization expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contract with customers. This standard will be effective for BHS's calendar year ending December 31, 2019.

In February 2016, the FASB issued ASU 2016-02, *Leases*. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the statement of financial position at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the statement of activities. This standard will be effective for BHS's calendar year ending December 31, 2020.

BETHANY HOUSE SERVICES, INC.

**Notes to Financial Statements
(Continued)**

NOTE 13 RECENTLY ADOPTED ACCOUNTING STANDARD UPDATES (CONTINUED)

On August 18, 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The standard aims to improve nonprofit financial statements in an effort to provide more useful information to donors, grantors, creditors and other users. Major components of this standard include: net asset classifications, liquidity and availability of cash and consistency in reporting expenses. Net asset classifications will be reduced from three classes (unrestricted, temporarily restricted and permanently restricted) to two: net assets with donor restrictions and net assets without donor restrictions. Updated disclosure requirements will be presented regarding risk exposure and availability of cash for short term use. Expenses will be reported by both their natural and functional classification to aid in the usefulness of financial statements. This standard will be effective for BHS's calendar year ending December 31, 2018.

BHS is currently in the process of evaluating the impact of adoption of these ASUs on the financial statements.

SUPPLEMENTARY INFORMATION

BETHANY HOUSE SERVICES, INC.

**Schedule of Expenditures of Federal Awards
Year Ended December 31, 2016**

<u>Federal Grantor/Pass-through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Passed through to Subrecipients</u>	<u>Total Federal Expenditures</u>
U.S. Department of Health and Human Services				
Direct Awards				
Continuum of Care Program	14.267	OH0303L5E001403	\$ -	\$ 109,935
Continuum of Care Program	14.267	OH0472L5E001400	-	388,874
Continuum of Care Program	14.267	OH0248L5E001406	49,827	151,891
<i>Passed through Strategies to End Homelessness</i>				
Continuum of Care Program	14.267	201536	-	123,038
Continuum of Care Program	14.267	201629	-	207,871
Continuum of Care Program	14.267	201634	-	102,409
Continuum of Care Program	14.267	201647	-	132,854
Continuum of Care Program	14.267	201650	-	334,656
<i>Passed through Ohio Development Services Agency</i>				
Emergency Solutions Grant Program	14.231	N-L-14-7KC-1	-	<u>329,661</u>
<i>Passed through Strategies to End Homelessness</i>				
Emergency Solutions Grant Program	14.231	201608	-	<u>151,426</u>
Total U.S. Department of Housing and Urban Development			<u>49,827</u>	<u>2,032,615</u>
U.S. Department of Homeland Security				
<i>Passed through United Way of Greater Cincinnati</i>				
Emergency Food and Shelter National Board Program	97.024	N/A	-	<u>67,760</u>
Total U.S. Department of Homeland Security			-	<u>67,760</u>
Total Expenditures of Federal Awards			<u>\$ 49,827</u>	<u>\$ 2,100,375</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, 2016**

NOTE 1 BASIS OF PRESENTATION

The schedule of expenditures of federal awards includes the federal grant activity of Bethany House Services, Inc. for the year ended December 31, 2016. The information in this schedule is presented in accordance with the 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). Therefore, some amounts presented on this schedule may differ from those amounts presented in, or used in, the preparation of the basic financial statements.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting in accordance with generally accepted accounting principles. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 INDIRECT COST RATE

Bethany House Services, Inc. has elected not to use the 10% de minimus indirect cost rate allowed under Uniform Guidance.

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, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 23, 2017.

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.

Barnes, Dennig & Co., Ltd.

March 23, 2017
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, 2016. 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, 2016.

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

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.

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.

Barnes, Dennig & Co., Ltd.

March 23, 2017
Crestview Hills, Kentucky

BETHANY HOUSE SERVICES, INC.

**Schedule of Findings and Questioned Costs
Year Ended December 31, 2016**

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 2 CFR Section 200.516(a)? _____ Yes X No

Identification of Major Programs

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

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, 2016**

Reference Number	Summary of Finding	Status
No matters are reportable		