

Bethany House Services, Inc.

**Financial Statements with Supplementary Information
December 31, 2017 with
Summarized Comparative Totals for December 31, 2016, and
Independent Auditors' Report**

BETHANY HOUSE SERVICES, INC.
December 31, 2017
With Summarized Comparative Totals for December 31, 2016

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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, 2017, 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, 2017 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. 2016 consolidated financial statements, and expressed an unmodified audit opinion on those audited financial statements in our report dated March 23, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, 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 21, 2018, 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 21, 2018
Crestview Hills, Kentucky

BETHANY HOUSE SERVICES, INC.

**Statement of Financial Position
December 31, 2017 with Summarized Comparative Totals for December 31, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	
				<u>2017</u>	<u>2016</u>
Assets					
Current:					
Cash	\$ 457,381	\$ 17,246	\$ -	\$ 474,627	\$ 358,232
Pledges receivable, net	-	127,322	-	127,322	152,825
Grants receivable, net	239,675	-	-	239,675	229,155
Prepaid expenses and other	29,961	-	-	29,961	12,337
Total current assets	727,017	144,568	-	871,585	752,549
Property and equipment, net	645,458	-	-	645,458	694,611
Investments	1,690,100	-	567,363	2,257,463	1,977,718
Total assets	<u>\$ 3,062,575</u>	<u>\$ 144,568</u>	<u>\$ 567,363</u>	<u>\$ 3,774,506</u>	<u>\$ 3,424,878</u>
Liabilities and Net Assets					
Liabilities					
Accounts payable	\$ 54,263	\$ -	\$ -	\$ 54,263	\$ 38,910
Accrued expenses	98,354	-	-	98,354	98,433
Refundable advances	48,533	-	-	48,533	58,042
Tenant deposits	13,324	-	-	13,324	12,937
Total liabilities	214,474	-	-	214,474	208,322
Net Assets	2,848,101	144,568	567,363	3,560,032	3,216,556
Total liabilities and net assets	<u>\$ 3,062,575</u>	<u>\$ 144,568</u>	<u>\$ 567,363</u>	<u>\$ 3,774,506</u>	<u>\$ 3,424,878</u>

See accompanying notes to financial statements

BETHANY HOUSE SERVICES, INC.

Statement of Activities

Year Ended December 31, 2017 with Summarized Comparative Totals for December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	
				<u>2017</u>	<u>2016</u>
Public support					
Contributions	\$ 279,236	\$ 108,755	\$ -	\$ 387,991	\$ 324,992
Special events	180,778	-	-	180,778	148,516
Less direct benefit costs	(26,348)	-	-	(26,348)	(22,556)
Churches and other religious organizations	39,058	-	-	39,058	28,359
Foundations	295,811	35,813	-	331,624	442,608
Donated facilities, materials and services	101,153	-	-	101,153	37,217
Total public support	869,688	144,568	-	1,014,256	959,136
Revenues					
Rental agent and other fees	171,939	-	-	171,939	171,213
Government grants	2,614,547	-	-	2,614,547	2,461,357
Miscellaneous income	50,157	-	-	50,157	34,943
Total revenues	2,836,643	-	-	2,836,643	2,667,513
Net assets released from restrictions	202,825	(202,825)	-	-	-
Total public support and revenues	3,909,156	(58,257)	-	3,850,899	3,626,649
Less amounts paid to subrecipients under Family Housing Partnership	-	-	-	-	(49,827)
Total public support and revenues, net of amounts paid to subrecipients	3,909,156	(58,257)	-	3,850,899	3,576,822
Expenses					
Program services	3,385,959	-	-	3,385,959	3,155,419
Management and general	206,735	-	-	206,735	222,643
Fundraising	220,658	-	-	220,658	252,527
Total expenses	3,813,352	-	-	3,813,352	3,630,589
Change in net assets before other items	95,804	(58,257)	-	37,547	(53,767)
Investment income	305,929	-	-	305,929	128,224
Gain on sale of building	-	-	-	-	14,775
Change in net assets	401,733	(58,257)	-	343,476	89,232
Net assets, beginning of year	2,446,368	202,825	567,363	3,216,556	3,127,324
Net assets, end of year	<u>\$ 2,848,101</u>	<u>\$ 144,568</u>	<u>\$ 567,363</u>	<u>\$ 3,560,032</u>	<u>\$ 3,216,556</u>

See accompanying notes to financial statements

BETHANY HOUSE SERVICES, INC.

**Statement of Functional Expenses
Year Ended December 31, 2017 with Summarized Comparative Totals for December 31, 2016**

	Program Services						Supporting Services				Total	
	Shelter	Rapid Rehousing	Family Shelter Partnership	Shelter Diversion	Permanent Housing	Permanent Supportive Housing	Total Program Services	Management and General	Fund- raising	Total Supporting Services	2017	2016
											2017	2016
Salaries	\$ 502,291	\$ 375,145	\$ 142,969	\$ 21,753	\$ 38,904	\$ 39,839	\$ 1,120,901	\$ 115,537	\$ 144,749	260,286	\$ 1,381,187	\$ 1,325,392
Employee benefits	55,358	29,216	11,970	4,009	4,594	1,057	106,204	11,910	12,948	24,858	131,062	141,911
Payroll taxes	51,897	37,176	15,049	2,253	4,749	3,921	115,045	11,601	14,646	26,247	141,292	120,843
Total salaries and related expenses	609,546	441,537	169,988	28,015	48,247	44,817	1,342,150	139,048	172,343	311,391	1,653,541	1,588,146
Specific assistance to individuals	151,434	1,005,861	3	525	-	116,233	1,274,056	-	-	-	1,274,056	1,052,045
Rent	145,429	-	-	-	-	-	145,429	-	-	-	145,429	148,716
Food	116,339	-	-	-	-	-	116,339	-	-	-	116,339	62,578
Maintenance and repairs	54,736	11,657	4,364	2,858	41,599	1,385	116,599	10,248	13,174	23,422	140,021	175,867
Support contracts	13,772	9,108	69,260	705	-	-	92,845	-	-	-	92,845	79,729
Utilities	37,082	4,059	-	690	35,614	365	77,810	5,389	-	5,389	83,199	94,874
Equipment/Supplies	54,085	2,979	757	440	1,001	370	59,632	5,202	1,046	6,248	65,880	102,360
Professional fees	3,862	9,893	3,703	167	5,032	820	23,477	13,944	4,088	18,032	41,509	150,183
Insurance	14,598	7,612	4,293	878	1,827	452	29,660	4,737	3,625	8,362	38,022	36,494
Telephone	12,799	7,022	3,231	1,167	2,999	625	27,843	4,541	1,174	5,715	33,558	30,582
Printing	-	-	47	-	-	-	47	-	17,026	17,026	17,073	8,058
Travel and conferences	1,334	10,260	1,960	612	1,539	647	16,352	1,105	871	1,976	18,328	16,175
Miscellaneous	4,677	2,533	1,340	352	918	119	9,939	2,536	3,631	6,167	16,106	11,395
Staff professional fees	1,810	1,004	581	739	133	124	4,391	7,408	352	7,760	12,151	8,673
Investment fees	-	-	-	-	-	-	-	9,802	-	9,802	9,802	9,848
Total expenses before depreciation	1,221,503	1,513,525	259,527	37,148	138,909	165,957	3,336,569	203,960	217,330	421,290	3,757,859	3,575,723
Depreciation	17,203	23,307	3,885	-	2,220	2,775	49,390	2,775	3,328	6,103	55,493	54,866
Total expenses	\$ 1,238,706	\$ 1,536,832	\$ 263,412	\$ 37,148	\$ 141,129	\$ 168,732	\$ 3,385,959	\$ 206,735	\$ 220,658	\$ 427,393	\$ 3,813,352	\$ 3,630,589

See accompanying notes to financial statements

BETHANY HOUSE SERVICES, INC.

Statement of Cash Flows

Year Ended December 31, 2017 with Summarized Comparative Totals for December 31, 2016

	2017	2016
Cash flows from operating activities		
Change in net assets	\$ 343,476	\$ 89,232
Adjustments to reconcile change in net assets to cash from operating activities:		
Depreciation	55,493	54,866
Realized gains on investments	(93,171)	(86,589)
Unrealized (gains) losses on investments	(149,530)	19,417
Gain on sale of property and equipment	-	(14,775)
Changes in:		
Accounts receivable, net	-	5,368
Pledges receivable, net	25,503	15,784
Grants receivable, net	(10,520)	(94,884)
Prepaid expenses and other	(17,624)	29,334
Accounts payable	15,353	(15,998)
Accrued expenses	(79)	39,250
Refundable advances	(9,509)	42,174
Tenant deposits	387	1,780
Net cash provided by operating activities	159,779	84,959
Cash flows from investing activities		
Purchase of property and equipment	(6,340)	(46,149)
Proceeds from sale of property and equipment	-	175,000
Proceeds from sale of investments	3,940,091	788,775
Purchases of investments	(3,977,135)	(923,921)
Net cash used in investing activities	(43,384)	(6,295)
Cash flows from financing activities		
Proceeds from contributions restricted for investment in permanent endowment	-	50,000
Net change in cash	116,395	128,664
Cash, beginning of year	358,232	229,568
Cash, end of year	\$ 474,627	\$ 358,232

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, 2016 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). BHS 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)

Pledges and Grants Receivable

Receivables are written off as uncollectible after BHS 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, 2017 and 2016 since BHS 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, BHS 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, BHS believes no impairments existed at December 31, 2017 and 2016.

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.

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

Refundable Advances

Refundable advances represent cash advances received in excess of grant support earned.

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.

BETHANY HOUSE SERVICES, INC.

**Notes to Financial Statements
(Continued)**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions (Continued)

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

Government Fees and Grants

Support funded by grants is recognized as BHS 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.

BHS's tax returns are subject to review and examination by federal, state and local authorities. BHS 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.

BETHANY HOUSE SERVICES, INC.

**Notes to Financial Statements
(Continued)**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

Certain 2016 figures have been reclassified to conform to the 2017 presentation.

Subsequent Events

Subsequent events were considered through March 21, 2018, 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:

	<u>2017</u>	<u>2016</u>
Restricted for use in subsequent years:		
United Way pledge	\$ 87,000	\$ 85,950
Other pledges	40,322	66,875
Restricted as to purpose:		
Post-shelter support services	11,433	50,000
Children's programming	5,813	-
	<u>\$ 144,568</u>	<u>\$ 202,825</u>

NOTE 3 PERMANENTLY RESTRICTED NET ASSETS

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

	<u>2017</u>	<u>2016</u>
Donor-restricted endowment funds	<u>\$ 567,363</u>	<u>\$ 567,363</u>

NOTE 4 PLEDGES RECEIVABLE

Pledges receivable as of December 31, 2017 and 2016 consisted of unconditional promises to give. As of December 31, 2017, all donations are expected to be received within one year.

BETHANY HOUSE SERVICES, INC.

**Notes to Financial Statements
(Continued)**

NOTE 5 INVESTMENTS AT FAIR VALUE

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

	<u>2017</u>	<u>2016</u>
Level 1:		
Fixed income mutual funds	\$ 542,381	\$ 644,695
Equity mutual funds	982,317	1,155,768
Alternative strategy mutual funds	201,396	-
Common stock	480,080	11,015
Real Estate Investments	-	123,795
Level 2:		
Money market funds	<u>51,289</u>	<u>42,445</u>
	<u><u>\$ 2,257,463</u></u>	<u><u>\$ 1,977,718</u></u>

Fair values for fixed income, equity, and other mutual funds, common stock, and real estate investments are determined by reference to quoted market prices. Fair value for money market funds is determined based on the value of underlying securities. There were no investments measured using level 3 inputs.

Investment return consisted of the following:

	<u>2017</u>	<u>2016</u>
Realized gains	\$ 93,171	\$ 86,589
Unrealized gains (losses)	149,530	(19,417)
Interest and dividends	<u>63,228</u>	<u>61,052</u>
	<u><u>\$ 305,929</u></u>	<u><u>\$ 128,224</u></u>

NOTE 6 DONATED FACILITIES, MATERIALS AND SERVICES

BHS received in-kind donations of materials and supplies during 2017 and 2016 of \$101,153 and \$37,217, 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 11,665 for 2017 and 11,452 for 2016.

BETHANY HOUSE SERVICES, INC.

**Notes to Financial Statements
(Continued)**

NOTE 7 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2017</u>	<u>2016</u>
Land	\$ 105,716	\$ 105,716
Buildings and improvements	1,226,950	1,220,610
Furniture, equipment and vehicles	227,439	227,439
Less accumulated depreciation	<u>(914,647)</u>	<u>(859,154)</u>
	<u><u>\$ 645,458</u></u>	<u><u>\$ 694,611</u></u>

NOTE 8 LINE OF CREDIT

BHS has \$450,000 line of credit available from a bank that expires in October 2018. There was no outstanding balance at December 31, 2017 and 2016. The line of credit bears interest at an annual rate equal to prime rate minus 1.0% (prime rate 4.5% at December 31, 2017). The line of credit is secured by the investment account of BHS.

NOTE 9 GOVERNMENT GRANTS

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

	<u>2017</u>	<u>2016</u>
US government agencies	\$ 2,315,093	\$ 2,099,260
Local government agencies	<u>299,454</u>	<u>362,097</u>
	<u><u>\$ 2,614,547</u></u>	<u><u>\$ 2,461,357</u></u>

NOTE 10 CONCENTRATION

BHS 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 both 2017 and 2016, revenues from government contracts were 68% of total public support and revenues.

NOTE 11 RETIREMENT PLAN

BHS maintains a 401(k) plan for the benefit of all employees. BHS made a 2% matching contribution of \$19,909 and \$18,815, for the years ended December 31, 2017 and 2016, respectively.

BETHANY HOUSE SERVICES, INC.

**Notes to Financial Statements
(Continued)**

NOTE 12 ENDOWMENT

BHS'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 BHS 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.

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, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ -	\$ 567,363	\$ 567,363
Board designated endowment funds	1,690,100	-	-	1,690,100
Total funds	<u>\$1,690,100</u>	<u>\$ -</u>	<u>\$ 567,363</u>	<u>\$2,257,463</u>

The endowment net asset composition by type of fund is as follows for December 31, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
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>

BETHANY HOUSE SERVICES, INC.

**Notes to Financial Statements
(Continued)**

NOTE 12 ENDOWMENT (CONTINUED)

The changes in endowment and board designated net assets for the year ended December 31, 2017 and 2016 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - 12/31/15	\$ 1,308,037	\$ -	\$ 517,363	\$ 1,825,400
Interest and dividend income	43,748	17,304	-	61,052
Realized and unrealized loss	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>
Interest and dividend income	\$ 45,089	\$ 18,139	\$ -	\$ 63,228
Realized and unrealized gains	173,076	69,625	-	242,701
Contributions of cash from donors	790	-	-	790
Investment fees	(6,991)	(2,812)	-	(9,803)
Appropriated for expenditure	67,781	(84,952)	-	(17,171)
Endowment net assets - 12/31/17	<u>\$ 1,690,100</u>	<u>\$ -</u>	<u>\$ 567,363</u>	<u>\$ 2,257,463</u>

Return Objectives and Risk Parameters

BHS 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 65/35 split between equities and fixed income. The performance objectives will be measured against appropriate industry benchmarks.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, BHS 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). BHS 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

BHS 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, BHS 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 BHS'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.

BETHANY HOUSE SERVICES, INC.

Notes to Financial Statements (Continued)

NOTE 13 COMMITMENTS

On December 14, 2017, BHS entered into a contract to purchase land for \$215,000. A \$5,000 earnest deposit was made during 2017 for this purchase. The purchase is expected to be finalized during 2018.

NOTE 14 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 BHS 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.

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, 2017**

<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 Housing and Urban Development				
<i>Passed through Strategies to End Homelessness</i>				
Continuum of Care Program	14.267	201629	\$ -	\$ 169,320
Continuum of Care Program	14.267	201634	-	115,035
Continuum of Care Program	14.267	201647	-	122,625
Continuum of Care Program	14.267	201650	-	415,922
Continuum of Care Program	14.267	201726	-	364,180
Continuum of Care Program	14.267	201729	-	124,528
Continuum of Care Program	14.267	201727	-	188,820
Continuum of Care Program	14.267	201728	-	151,197
Continuum of Care Program	14.267	201768	-	156,514
<i>Passed through Ohio Development Services Agency</i>				
Emergency Solutions Grant Program	14.231	N-L-16-7KC-1	-	298,400
<i>Passed through Strategies to End Homelessness</i>				
Emergency Solutions Grant Program	14.231	201701	-	149,684
Total U.S. Department of Housing and Urban Development			<u>-</u>	<u>2,256,225</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	-	69,770
Total U.S. Department of Homeland Security			<u>-</u>	<u>69,770</u>
Total Expenditures of Federal Awards			<u>\$ -</u>	<u>\$ 2,325,995</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, 2017**

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, 2017. 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 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, 2017, 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 21, 2018.

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 21, 2018
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, 2017. 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, 2017.

**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 21, 2018
Crestview Hills, Kentucky

BETHANY HOUSE SERVICES, INC.

**Schedule of Findings and Questioned Costs
Year Ended December 31, 2017**

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, 2017**

Reference Number	Summary of Finding	Status
No matters are reportable		