

Bethany House Services, Inc.

**Financial Statements with Supplementary Information
December 31, 2018 with
Summarized Comparative Totals for December 31, 2017, and
Independent Auditors' Report**

BETHANY HOUSE SERVICES, INC.
December 31, 2018
With Summarized Comparative Totals for December 31, 2017

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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, 2018, 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 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, 2018 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. 2017 financial statements, and expressed an unmodified audit opinion on those audited financial statements in our report dated March 21, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, 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 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 20, 2019, 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.

Effect of Adopting New Standard

As discussed in Note 1, the Organization has adopted Financial Accounting Standards Board Accounting Standards Update No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, which primarily addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, the lack of consistency in the type of information provided about expenses and investment return, and other financial statement presentation items and enhanced disclosures. Our opinion is not modified with respect to that matter.



March 20, 2019
Crestview Hills, Kentucky

BETHANY HOUSE SERVICES, INC.

Statement of Financial Position
December 31, 2018 with Summarized Comparative Totals for December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total	
			2018	2017
Assets				
Current:				
Cash and cash equivalents	\$ 562,576	\$ 12,916	\$ 575,492	\$ 474,627
Pledges receivable, net	-	34,270	34,270	40,322
Grants receivable, net	280,237	69,600	349,837	326,675
Prepaid expenses and other	40,742	-	40,742	29,961
Total current assets	883,555	116,786	1,000,341	871,585
Property and equipment, net	1,390,315	-	1,390,315	645,458
Investments	1,401,471	567,363	1,968,834	2,257,463
Total assets	<u>\$ 3,675,341</u>	<u>\$ 684,149</u>	<u>\$ 4,359,490</u>	<u>\$ 3,774,506</u>
Liabilities and Net Assets				
Liabilities				
Accounts payable	\$ 42,304	\$ -	\$ 42,304	\$ 54,263
Accrued expenses	118,970	-	118,970	98,354
Refundable advances	52,574	-	52,574	48,533
Tenant deposits	14,669	-	14,669	13,324
Current portion mortgage payable	12,590	-	12,590	-
Total current liabilities	241,107	-	241,107	214,474
Mortgage payable, net of current portion	583,435	-	583,435	-
Total liabilities	824,542	-	824,542	214,474
Net Assets	2,850,799	684,149	3,534,948	3,560,032
Total liabilities and net assets	<u>\$ 3,675,341</u>	<u>\$ 684,149</u>	<u>\$ 4,359,490</u>	<u>\$ 3,774,506</u>

See accompanying notes to financial statements

BETHANY HOUSE SERVICES, INC.

Statement of Activities

Year Ended December 31, 2018 with Summarized Comparative Totals for December 31, 2017

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	
			<u>2018</u>	<u>2017</u>
Public support				
Contributions	\$ 423,222	\$ 103,870	\$ 527,092	\$ 427,049
Special events	145,284	-	145,284	180,778
Less direct benefit costs	(28,372)	-	(28,372)	(26,348)
Foundations	481,903	35,000	516,903	331,624
Donated materials and services	108,618	-	108,618	101,153
Total public support	1,130,655	138,870	1,269,525	1,014,256
Revenues				
Rental agent and other fees	170,730	-	170,730	171,939
Government grants and other contracts	3,287,526	-	3,287,526	2,633,507
Miscellaneous income	33,638	-	33,638	31,197
Total revenues	3,491,894	-	3,491,894	2,836,643
Net assets released from restrictions	166,652	(166,652)	-	-
Total public support and revenues	4,789,201	(27,782)	4,761,419	3,850,899
Expenses				
Program services	4,137,926	-	4,137,926	3,385,959
Management and general	248,088	-	248,088	196,932
Fundraising	209,938	-	209,938	220,658
Total expenses	4,595,952	-	4,595,952	3,803,549
Change in net assets before other items	193,249	(27,782)	165,467	47,350
Investment return, net	(190,551)	-	(190,551)	296,126
Change in net assets	2,698	(27,782)	(25,084)	343,476
Net assets, beginning of year	2,848,101	711,931	3,560,032	3,216,556
Net assets, end of year	<u>\$ 2,850,799</u>	<u>\$ 684,149</u>	<u>\$ 3,534,948</u>	<u>\$ 3,560,032</u>

See accompanying notes to financial statements

BETHANY HOUSE SERVICES, INC.

Statement of Functional Expenses Year Ended December 31, 2018 with Summarized Comparative Totals for December 31, 2017

	Program Services							Supporting Services			Total		
	Shelter	Rapid Rehousing	Family Shelter Partnership	Aftercare	Shelter Diversion	Permanent Housing	Permanent Supportive Housing	Total Program Services	Management and General	Fund- raising	Total Supporting Services	2018	2017
Salaries	\$ 630,428	\$ 323,653	\$ 135,502	\$ 25,608	\$ 58,283	\$ 37,645	\$ 98,592	\$1,309,711	\$ 132,011	\$ 129,050	261,061	\$1,570,772	\$1,381,187
Employee benefits	62,227	31,482	12,762	2,111	5,145	4,036	9,798	127,561	12,047	12,845	24,892	152,453	131,062
Payroll taxes	40,995	29,749	11,965	3,094	4,845	1,443	3,775	95,866	13,774	4,720	18,494	114,360	141,292
Total salaries and related expenses	733,650	384,884	160,229	30,813	68,273	43,124	112,165	1,533,138	157,832	146,615	304,447	1,837,585	1,653,541
Specific assistance to individuals	159,023	1,227,076	-	17,484	3,502	-	304,646	1,711,731	-	-	-	1,711,731	1,274,056
Maintenance and repairs	69,317	13,821	4,683	801	2,742	44,904	3,784	140,052	13,543	13,600	27,143	167,195	140,021
Rent	154,998	-	-	-	-	-	-	154,998	-	-	-	154,998	145,429
Food	148,732	-	-	-	-	-	-	148,732	-	-	-	148,732	116,339
Support contracts	12,772	6,957	76,450	-	3,940	-	972	101,091	-	-	-	101,091	92,845
Equipment/Supplies	74,185	2,328	786	78	169	66	599	78,211	5,274	5,500	10,774	88,985	65,880
Utilities	42,821	3,002	-	272	457	33,436	764	80,752	7,186	-	7,186	87,938	83,199
Professional fees	24,741	9,453	3,292	102	76	5,201	93	42,958	26,581	9,043	35,624	78,582	41,509
Insurance	15,760	6,863	3,973	663	1,144	-	1,586	29,989	4,158	3,912	8,070	38,059	38,022
Telephone	13,243	6,886	3,353	599	1,235	1,525	1,709	28,550	4,630	1,208	5,838	34,388	33,558
Miscellaneous	3,506	1,657	936	127	268	743	363	7,600	16,458	8,895	25,353	32,953	16,106
Travel and conferences	2,551	9,930	2,432	518	712	3,366	2,721	22,230	1,539	960	2,499	24,729	18,328
Printing	39	252	-	34	-	1,083	73	1,481	61	13,597	13,658	15,139	17,073
Staff professional fees	3,293	1,487	668	190	209	254	369	6,470	4,661	1,059	5,720	12,190	12,150
Total expenses before depreciation	1,458,631	1,674,596	256,802	51,681	82,727	133,702	429,844	4,087,983	241,923	204,389	446,312	4,534,295	3,748,056
Depreciation	23,430	11,098	6,166	1,850	1,850	2,466	3,083	49,943	6,165	5,549	11,714	61,657	55,493
Total expenses	\$1,482,061	\$1,685,694	\$ 262,968	\$ 53,531	\$ 84,577	\$ 136,168	\$ 432,927	\$4,137,926	\$ 248,088	\$ 209,938	\$ 458,026	\$4,595,952	\$3,803,549

See accompanying notes to financial statements

BETHANY HOUSE SERVICES, INC.

Statement of Cash Flows

Year Ended December 31, 2018 with Summarized Comparative Totals for December 31, 2017

	2018	2017
Cash flows from operating activities		
Change in net assets	\$ (25,084)	\$ 343,476
Adjustments to reconcile change in net assets to cash from operating activities:		
Depreciation	61,657	55,493
Realized gains on investments	(30,524)	(93,171)
Unrealized (gains) losses on investments	273,308	(149,530)
Changes in:		
Pledges receivable, net	6,052	25,503
Grants receivable, net	(23,162)	(10,520)
Prepaid expenses and other	(10,781)	(17,624)
Accounts payable	(11,959)	15,353
Accrued expenses	20,616	(79)
Refundable advances	4,041	(9,509)
Tenant deposits	1,345	387
Net cash provided by operating activities	265,509	159,779
Cash flows from investing activities		
Purchase of property and equipment	(209,514)	(6,340)
Proceeds from sale of investments	1,569,589	3,940,091
Purchases of investments	(1,523,744)	(3,977,135)
Net cash used in investing activities	(163,669)	(43,384)
Cash flows from financing activities		
Principal payments on mortgage payable	(975)	-
Net change in cash and cash equivalents	100,865	116,395
Cash and cash equivalents, beginning of year	474,627	358,232
Cash and cash equivalents, end of year	\$ 575,492	\$ 474,627
Supplemental Cash Flow Information		
Interest paid	\$ 2,474	\$ -
Long-term debt incurred for purchase of property	\$ 597,000	\$ -

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) is the largest provider of emergency shelter and HUD housing programs for families experiencing homelessness in Hamilton County. Comprehensive, family-centered services begin with emergency assistance and case management for eligible families to prevent homelessness. For families who have lost housing, BHS provides emergency shelter, assistance finding jobs and housing, and life skills education. Continued case management and rental assistance is provided for families entering HUD housing programs. Families continue to receive services after they leave the emergency shelter and/or housing programs. BHS wrap-around services address each family's current needs and seek to prevent repeat episodes of homelessness.

In addition, BHS is the lead agency of the Family Housing Partnership (FHP), which is a collaboration of the four family shelters in Cincinnati—The Salvation Army, Interfaith Hospitality Network of Greater Cincinnati, and YWCA Greater Cincinnati. The FHP provides a coordinated, integrated approach to serving homeless families by collaborating with a network of community service providers. The goal of this collaboration is to improve the quality of services through professional development and advancing best practices across the family system, including shelter, housing, Trauma Informed Care, children's programming, and aftercare.

Significant funding is received from the State of Ohio and the City of Cincinnati for shelter operations. The majority of the funding for the Family Housing Partnership, Rapid Re-Housing and Permanent Supportive 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, 2017 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 two classes of net assets: net assets without donor restriction, which have no donor-imposed restriction; and net assets with donor restriction which have donor-imposed restrictions that will expire in the future or do not expire.

Fair Value Measurements

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

BETHANY HOUSE SERVICES, INC.

Notes to Financial Statements (Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

BHS considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2018, cash equivalents consisted primarily of money market deposit accounts. There were no cash equivalents at December 31, 2017. 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.

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, 2018 and 2017 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, 2018 and 2017.

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 net assets without donor restriction. Other investment return is reflected in the statements of activities net assets with donor restriction or net assets without donor restriction 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.

BETHANY HOUSE SERVICES, INC.

Notes to Financial Statements (Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions

Gifts of cash and other assets received without donor stipulations are reported as net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as net assets with donor restrictions. When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions 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 revenue without donor restrictions.

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 statement of activities as public support in-kind donations and in the 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. The expenses that are allocated include salaries and related expenses, which are allocated on the basis of time and effort. All other expenses are either direct or are allocated using full-time equivalent or square footage.

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.

BETHANY HOUSE SERVICES, INC.

**Notes to Financial Statements
(Continued)**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of the revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Effect of Adopting New Accounting Standard

In 2018, BHS adopted Financial Accounting Services Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The update primarily addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, the lack of consistency in the type of information provided about expenses and investment return, and other financial statement presentation items and enhanced disclosures. Net asset classifications have been reduced from three classes (unrestricted, temporarily restricted and permanently restricted) to two classes (net assets without donor restrictions and net assets with donor restrictions). In addition, updated disclosure requirements are presented regarding risk exposure and availability of cash for short-term use and expenses are reported by both natural and functional classification. BHS adopted ASU 2016-14 as of January 1, 2018 and has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented except for the disclosing of information about liquidity and availability of resources, which are permitted to be omitted for any periods presented before the period of adoption.

Reclassifications

Certain 2017 figures have been reclassified to conform to the 2018 presentation.

Subsequent Events

Subsequent events were considered through March 20, 2019, the date which the financial statements were available to be issued.

NOTE 2 LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Cash and cash equivalents without donor restrictions	\$ 562,576
Pledges receivable	34,270
Grants receivable	349,837
	<hr/>
	\$ 946,683
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BETHANY HOUSE SERVICES, INC.

**Notes to Financial Statements
(Continued)**

NOTE 2 LIQUIDITY AND AVAILABILITY (CONTINUED)

BHS's goal is generally to maintain financial assets to meet 90 days of operating expenses (approximately \$1.2 million). As part of its liquidity plan, excess cash is invested in short-term investments, including money market deposit accounts. BHS has a \$450,000 line of credit available to meet cash flow needs. In addition, BHS has a board-designated endowment which is available for general expenditure with Board approval. BHS monitors cash flow monthly.

NOTE 3 NET ASSETS

Net assets with donor restrictions as of December 31 consisted of the following:

	<u>2018</u>	<u>2017</u>
Restricted for use in subsequent years:		
United Way allocation	\$ 69,600	\$ 87,000
Other pledges	34,270	40,322
Restricted as to purpose:		
Bethany Homes windows	10,000	-
Children's programming	2,916	5,813
Post-shelter support services	-	11,433
Restricted in perpetuity:		
Donor-restricted endowment	<u>567,363</u>	<u>\$ 567,363</u>
	<u>\$ 684,149</u>	<u>\$ 711,931</u>

Net assets without donor restrictions as of December 31 consisted of the following:

	<u>2018</u>	<u>2017</u>
Undesignated	\$ 1,449,328	\$ 1,158,001
Board-designated endowment	<u>1,401,471</u>	<u>1,690,100</u>
	<u>\$ 2,850,799</u>	<u>\$ 2,848,101</u>

NOTE 4 PLEDGES AND GRANTS RECEIVABLE

Pledges and grants receivable as of December 31, 2018 and 2017 consisted of unconditional promises to give. As of December 31, 2018, 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>2018</u>	<u>2017</u>
Level 1:		
Fixed income mutual funds	\$ 525,311	\$ 542,381
Equity mutual funds	788,094	982,317
Alternative strategy mutual funds	159,593	201,396
Common stock	396,385	480,080
Level 2:		
Money market funds	<u>99,451</u>	<u>51,289</u>
	<u><u>\$ 1,968,834</u></u>	<u><u>\$ 2,257,463</u></u>

Fair values for fixed income, equity, and other mutual funds and common stock 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>2018</u>	<u>2017</u>
Realized gains	\$ 30,524	\$ 93,171
Unrealized gains (losses)	(273,308)	149,530
Interest and dividends	62,406	63,228
Investment management fees	<u>(10,173)</u>	<u>(9,803)</u>
	<u><u>\$ (190,551)</u></u>	<u><u>\$ 296,126</u></u>

NOTE 6 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2018</u>	<u>2017</u>
Land	292,256	\$ 105,716
Buildings and improvements	1,798,367	1,226,950
Furniture, equipment and vehicles	252,129	227,439
Less accumulated depreciation	<u>(952,437)</u>	<u>(914,647)</u>
	<u><u>\$ 1,390,315</u></u>	<u><u>\$ 645,458</u></u>

BETHANY HOUSE SERVICES, INC.

**Notes to Financial Statements
(Continued)**

NOTE 7 LINE OF CREDIT

BHS has \$450,000 line of credit available from a bank that expires in October 2019. There was no outstanding balance at December 31, 2018 and 2017. The line of credit bears interest at an annual rate equal to prime rate minus 1.0% (prime rate 5.5% at December 31, 2018). The line of credit is secured by the investment account of BHS.

NOTE 8 MORTGAGE PAYABLE

BHS has a mortgage payable with an outstanding balance of \$596,025 and \$-0- as of December 31, 2018 and 2017, respectively. The mortgage payable bears interest at 4.813% and is payable in monthly installments of \$3,449; final balloon payment of \$531,263 due November 8, 2023. The mortgage is secured by the property.

Annual maturities of mortgage payable at December 31, 2018 are:

2019	\$ 12,590
2020	13,138
2021	13,874
2022	14,567
2023	<u>541,856</u>
	<u>\$ 596,025</u>

NOTE 9 DONATED MATERIALS AND SERVICES

BHS received in-kind donations of materials and supplies during 2018 and 2017 of \$108,618 and \$101,153, 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 11,719 for 2018 and 11,665 for 2017.

NOTE 10 GOVERNMENT GRANTS

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

	<u>2018</u>	<u>2017</u>
US government agencies	\$ 2,812,122	\$ 2,315,093
Local government agencies	<u>321,980</u>	<u>299,454</u>
	<u>\$ 3,134,102</u>	<u>\$ 2,614,547</u>

NOTE 11 CONCENTRATION

BHS derives revenue from individual government grants. Future revenue granted under these grants is dependent upon continued government support and is subject to the risk of changes or cancellations in program funding. For 2018 and 2017, revenues from government grants were 66% and 68%, respectively, of total public support and revenues.

BETHANY HOUSE SERVICES, INC.

**Notes to Financial Statements
(Continued)**

NOTE 12 RETIREMENT PLAN

BHS maintains a 401(k) plan for the benefit of all employees. BHS made a 2% matching contribution of \$18,422 and \$19,909, for the years ended December 31, 2018 and 2017, respectively.

NOTE 13 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. The original value of donated gifts to the donor-restricted endowment fund and the original value of subsequent gifts are classified as net assets with donor restrictions (a time restriction in perpetuity). Investment return from the donor-restricted endowment is classified as net assets with donor restrictions (a purpose restriction) 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, 2018:

	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted endowment	\$ -	\$ 567,363	\$ 567,363
Board designated endowment	1,401,471	-	1,401,471
	<u>\$ 1,401,471</u>	<u>\$ 567,363</u>	<u>\$ 1,968,834</u>

The endowment net asset composition by type of fund is as follows for December 31, 2017:

	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted endowment	\$ -	\$ 567,363	\$ 567,363
Board designated endowment	1,690,100	-	1,690,100
	<u>\$ 1,690,100</u>	<u>\$ 567,363</u>	<u>\$ 2,257,463</u>

BETHANY HOUSE SERVICES, INC.

**Notes to Financial Statements
(Continued)**

NOTE 13 ENDOWMENT (CONTINUED)

The changes in endowment and board designated net assets for the year ended December 31, 2018 and 2017 were as follows:

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets - 12/31/16	\$ 1,410,355	\$ 567,363	\$ 1,977,718
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>\$ 567,363</u>	<u>\$ 2,257,463</u>
Interest and dividend income	\$ 46,722	\$ 15,684	\$ 62,406
Realized and unrealized losses	(181,766)	(61,018)	(242,784)
Contributions of cash from donors	3,683	-	3,683
Investment fees	(7,616)	(2,557)	(10,173)
Transfer of funds	(47,891)	47,891	-
Appropriated for expenditure	(101,761)	-	(101,761)
Endowment net assets - 12/31/18	<u>\$ 1,401,471</u>	<u>\$ 567,363</u>	<u>\$ 1,968,834</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.

BETHANY HOUSE SERVICES, INC.

Notes to Financial Statements (Continued)

NOTE 13 ENDOWMENT (CONTINUED)

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.

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.

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The standard clarifies and improves current guidance about whether a transfer of assets is a contribution or an exchange transaction. The standard clarifies how an entity determines whether a resource provider is participating in an exchange transaction by evaluating whether the resource provider is receiving commensurate value in return for the resources transferred. The standard also requires that an entity determine whether a contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. This standard will be effective for the BHS's year ending December 31, 2019.

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, 2018**

<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	201726	\$ -	\$ 395,989
Continuum of Care Program	14.267	201727	-	141,792
Continuum of Care Program	14.267	201728	-	145,487
Continuum of Care Program	14.267	201729	-	93,397
Continuum of Care Program	14.267	201768	-	189,131
Continuum of Care Program	14.267	201823	-	229,225
Continuum of Care Program	14.267	201824	-	420,500
Continuum of Care Program	14.267	201825	-	173,613
Continuum of Care Program	14.267	201826	-	117,323
Continuum of Care Program	14.267	201862	-	302,072
<i>Passed through Ohio Development Services Agency:</i>				
Emergency Solutions Grant Program	14.231	N-L-16-7KC-1	-	387,328
<i>Passed through Strategies to End Homelessness:</i>				
Emergency Solutions Grant Program	14.231	201801	-	157,464
Total U.S. Department of Housing and Urban Development			-	2,753,321
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	-	71,872
Total U.S. Department of Homeland Security			-	71,872
Total Expenditures of Federal Awards			\$ -	\$ 2,825,193

See independent auditors' report on supplementary financial information

BETHANY HOUSE SERVICES, INC.

**Notes to Schedule of Expenditures of Federal Awards
Year Ended December 31, 2018**

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, 2018. 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, 2018, 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 20, 2019.

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 20, 2019
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, 2018. 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, 2018.

**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 20, 2019
Crestview Hills, Kentucky

BETHANY HOUSE SERVICES, INC.

**Schedule of Findings and Questioned Costs
Year Ended December 31, 2018**

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, 2018**

Reference Number	Summary of Finding	Status
No matters are reportable		