BARTLETT HOUSE, INC.

FINANCIAL STATEMENTS

JUNE 30, 2014

Prepared By:
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INDEX

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Bartlett House, Inc.
Morgantown, West Virginia

Report on the Financial Statements

I have audited the accompanying financial statements of Bartlett House, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2014, 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.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with 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. Those standards require that I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bartlett House, Inc. as of June 30, 2014, 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.

Other Matters

My audit was conducted for the purpose of forming an opinion on the financial statements of Bartlett House, Inc. as a whole. The accompanying schedule of West Virginia state grant receipts and expenditures on page 17 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 my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Requires by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated March 7, 2015, on my consideration of Bartlett House, Inc.'s internal control over financial reporting and my 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 my 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 Bartlett House, Inc.'s internal control over financial reporting and compliance.

Hilarion V. Cann, CPA
Clarksburg, West Virginia
March 7, 2015

BARTLETT HOUSE, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2014

ASSETS	
CURRENT ASSETS	
Cash	$ 107,035
Investments (Note 2)	7,234
Grant Receivable	96,473
Pledges Receivable, net (Note 12)	71,965
Prepaid Expenses	9,365
Total Current Assets	292,072
PROPERTY AND EQUIPMENT	
Land	412,070
Building	4,098,387
Furniture and Fixtures	259,825
Total Property and Equipment	4,770,282
Less Accumulated Depreciation	715,927
	4,054,355
OTHER ASSETS	
Loan Origination Fess	18,500
Less Accumulated Amortization	1,156
	17,344
TOTAL ASSETS	$ 4,363,771
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts Payable	$ 21,642
Accrued Payroll Taxes Payable	4,446
Accrued Payroll Payable	6,125
Security Deposits and Prepaid Rent	6,738
Line of Credit (Note 5)	223,896
Current Portion of Capital Lease	20,438
Total Current Liabilities	283,285
LONG-TERM DEBT	
Long-term Capital Lease (Note 5)	838,388
Refundable Advance (Note 6)	2,200,000
Total Long-term Debt	3,038,388
Total Liabilities	3,321,673
NET ASSETS	
Unrestricted	1,025,735
Temporarily Restricted	16,363
	1,042,098
TOTAL LIABILITIES AND NET ASSETS	$ 4,363,771

The Notes to Financial Statements are an integral part of these statements.

BARTLETT HOUSE, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

PUBLIC SUPPORT AND REVENUES	
WV Department of Health and Human Resources	$ 191,063
WV Office of Economic Opportunity	32,000
Community Development Block Grant	12,000
Children's Mental Health Block Grant	23,127
Emergency Food and Shelter Program	6,040
Supportive Housing Program	109,985
Other Grants	34,000
United Way of Monongalia County	78,000
Program Service Revenue	70,190
Donations	21,999
Other Income	1,942
Fundraising	13,926
Interest Income	377
Total Support and Revenue	594,649
Net Assets Released from donor restrictions	25,738
	620,387
EXPENSES	
Program Expense	513,169
Management and General	213,249
Total Expenses	726,418
Unrealized Gain (Loss) on Investments	708
(Decrease) Increase in unrestricted net assets	(105,323)
TEMPORARILY RESTRICTED NET ASSETS	
Pledges, Contributions and Grants	6,586
Allowance for Doubtful Pledges	1,815
Net Assets Released from donor restrictions	(25,738)
Increase (decrease) in temporarily restricted net assets	(17,337)
Total (Decrease) Increase in net assets	(122,660)
Net Assets, Beginning	1,164,758
Net Assets, Ending	$ 1,042,098

The Notes to Financial Statements are an integral part of these statements.

BARTLETT HOUSE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2014

	Shelter and Counseling Services	Management and General	Total (Memo Only)
Salaries and Wages	$ 203,262	$ 101,936	$ 305,198
Payroll Taxes and Employee Benefits	31,753	23,736	55,489
Telephone and Utilities	57,243	6,360	63,603
Interest Expense	41,027	4,559	45,586
Insurance	0	10,856	10,856
Maintenance	23,851	2,650	26,501
Janitorial	7,152	795	7,947
Travel and Training	2,316	257	2,573
Client Expenses	5,499	0	5,499
Fundraising	0	3,316	3,316
Office Expenses	15,251	1,694	16,945
Professional Fees	0	52,910	52,910
Other Expenses	0	628	628
Amortization Expense	1,156	0	1,156
Bad Debts	2,712	0	2,712
Total Expenses before Depreciation	391,222	209,697	600,919
Depreciation Expense	121,947	3,552	125,499
Total Expenses	$ 513,169	$ 213,249	$ 726,418

The Notes to Financial Statements are an integral part of these statements.

BARTLETT HOUSE, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014

OPERATING ACTIVITIES		
Change in Net Assets	$	(122,660)
Adjustments to Reconcile Change in Net Assets to net cash provided by Operating Activities		
Reflect investments at fair value		(708)
Depreciation		125,499
Amortization		1,156
(Increase) Decrease in:		
Grant Receivable		16,270
Pledges Receivable		22,755
Prepaid Expenses		1,857
Increase (Decrease) in:		
Accounts Payable		(18,958)
Accrued Payroll Taxes Payable		(8)
Accrued Payroll Payable		1,623
Security Deposits and Prepaid Rent		1,150
Net Cash Provided by Operating Activities		27,976
INVESTING ACTIVITIES		
Purchase of Furniture and Fixtures		(56,065)
Payment of Loan Origination Fees		(18,500)
Purchase of Investments		(216)
Net Cash Used by Investing Activities		(74,781)
FINANCING ACTIVITIES		
Proceeds from Line of Credit		107,000
Payments on Long-Term Debt		(136,135)
Net Cash Provided by Financing Activities		(29,135)
NET CASH INCREASE IN CASH		(75,940)
CASH AT BEGINNING OF YEAR		182,975
CASH AT END OF YEAR	$	107,035
SUPPLEMENTAL DISCLOSURE		
Interest Paid	$	45,586

The Notes to Financial Statements are an integral part of these statements.

Note 1. Description of Entity and Significant Accounting Policies

Description of Entity

Bartlett House, Inc., a nonprofit organization, was founded for the purpose of providing housing, food and counseling to the homeless and needy individuals of Monongalia County, West Virginia. The Organization receives its grants and contract support primarily from the West Virginia Department of Health and Human Resources and other State Agencies (see Note 10 – Summary of Grants and Contracts). In addition to this, support is received from the United Way of Monongalia and Preston Counties, Governor's Office of Economic Opportunity, local grants and contributions from the general public.

Contributions

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires (that is, when a 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.

Contributed Services

The Organization receives contributed services from a variety of unpaid volunteers assisting at the shelter, in education programs, maintenance projects and legal services. No amounts have been reflected in the financial statements for donated services since they do not meet the criteria for recognition as contributed services. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation, are recorded at fair value in the period received.

Cash and Cash Equivalents

Cash and cash equivalents include all monies in banks and highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased.

Interest Expense

All Interest expense incurred has been expensed.

Functional Allocation of expenses

The costs of providing the program and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited. Fundraising expenses totaling $3,316 are included in general and administrative expenses.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 1. Description of Entity and Significant Accounting Policies (continued)

Pledges Receivable

Pledges Receivable are recognized when the donor makes a pledge to give to the Organization that is, in substance, restricted to the Organization Capital Campaign. Pledges that are restricted by the donor are reported as increases to unrestricted net assets if the restrictions expire or are met in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted assets are reclassified to unrestricted net assets.

Grants and Contracts

Support received under grants and contracts with the West Virginia Department of Health and Human Resources, Governor's Office of Economic Opportunity, United Way of Monongalia and Preston Counties, and private foundations are recorded as unrestricted net assets because the related costs to such grants and contracts are incurred before reimbursement is received. Grants and contracts receivable represent amounts due for expenditures incurred prior to year end. The amount receivable as of June 30, 2014 was $96,473. Management feels this amount is fully collectible. The carrying amount approximates fair value.

Income Taxes

Bartlett House, Inc. is exempt from federal income taxes under 501(c) (3) of the Internal Revenue Code and did not conduct any unrelated business activities. Therefore, Bartlett House has made no provision for federal income taxes in the accompanying financial statements. In addition, Bartlett House, Inc. has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code.

The Organization recognizes the effect of income tax positions only if those positions are more than likely than not of being sustained. Management has determined that the Organization had no uncertain tax positions that would require financial statement recognition.

The Organization's Form 990, *Return of Organization Exempt from Income Tax*, for the years ending June 30, 2012, 2013 and 2014 are subject to examination by the IRS, generally for three years after they were filed.

Property and Equipment

It is the Organization's policy to capitalize property and equipment over $500. Lesser amounts are expensed. Purchased property and equipment is capitalized at original cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method from five to thirty years.

Note 1. Description of Entity and Significant Accounting Policies (continued)

Advertising

The Company expenses advertising costs as they are incurred. Advertising expenses for the year ended June 30, 2014 was $526. These costs are included in Office Expense on the statement of activities.

Note 2. Investments

Investments as of June 30, 2014 are stated at fair value and consist primarily of corporate bonds and reserve funds.

	Carrying Amount	Fair Value
Mutual Funds	$ 7,135	$ 7,135
Cash Reserve Funds	99	99
	$ 7,234	$ 7,234

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended June 30, 2014.

	Unrestricted
Interest and Dividends	$ 318
Unrealized (Loss) Gain	708
	$ 1,026

Note 3. Property and Equipment

Fixed assets acquired by Bartlett House, Inc. are considered to be owned by Bartlett House, Inc. However, State funding sources may maintain equitable interest in the property purchased with grant monies as well as the right to determine the use of any proceeds from the sale of these assets. The State has a reversionary interest in those assets purchased with its funds which have a cost of $500 or more and an estimated useful life of at least two years.

Note 4. Compensated Absences

Accrued compensated absences are not included in the financial statements because the amount cannot be reasonably estimated.

Note 5. Capital Lease

During the year ended June 30, 2012, the Monongalia County Building Commission issued lease revenue bonds (Bonds) in an aggregate purchase price of $896,000. The purpose of these Bonds were to assist with the financing the costs of acquisition, construction, and equipping of the Organization's West Run Project.

Subsequent to issuance of these Bonds, the Organization entered into two (2) lease agreements with the Monongalia County Building Commission ("Initial lease" and "Subsequent lease"). In accordance with the Initial lease, the Organization leased certain land with improvements (West Run Project) to the Monongalia County Building Commission for $1.00 and for the consideration provided by the issuance of the Bonds.

Note 5. Capital Lease (continued)

The Initial lease terminates on October 5, 2039, or at such time as the Bonds are paid in full. The Subsequent lease between the Monongalia County Building Commission (Lessor) and the Organization (Lessee) provides for base lease payments equal to the monthly principal and interest payments required by the Bonds, for a term of 30 years, or until the Bonds are paid in full. The bonds were refinanced on September 5, 2013 to reduce the effective interest rate from 5% to 3.45%. All other terms and conditions remained the same as the original issue.

Future minimum lease payments under the Subsequent lease are as follows for years ending June 30:

Year ending June 30,	2015	$ 49,746
	2016	49,746
	2017	49,746
	2018	49,746
	2019	49,746
	Thereafter	1,058,642
Minimum lease payments		1,307,372
Less amount representing interest		(448,546)
Present value of net minimum lease payments		858,826
Less current portion of Capital Lease payments		(20,438)
Long-term portion of Capital Lease payments		$ 838,388

At July 1, 2013 Bartlett House, Inc. had a $375,000 unsecured line of credit with a bank to be drawn upon as needed through June 30, 2014, with an interest rate of 4%. As of June 30, 2014, the balance outstanding was $223,896.

Based on the borrowing rates currently available to the Organization for loans with similar terms and average maturities, the carrying amount of long-term debt approximates fair value.

Note 6. Refundable Advance

Refundable advance consisted of the following at June 30, 2014:

WV Housing Development Fund	$ 2,200,000

The Organization has purchased and is in the process of rehabilitating a facility (West Run Project) to provide transitional supportive housing to assist individuals and families to transition from temporary housing to permanent housing. The West Run Project will provide 20 units of permanent housing, 20 units of transitional housing and administrative offices.

To purchase and rehabilitate the West Run Project, the Organization entered into a loan agreement for funds, not to exceed $2,200,000, under the HOMErent Program ("Loan"). The terms of the Loan are such that payments on the Loan are deferred for a 20 year affordability period and not subject to repayment if the Organization operates and maintains the West Run Project to provide affordable rental housing to low-income individuals and families. The Loan is secured by a Credit Line Deed of Trust granting a second lien on the real property and improvements associated with the West Run Project.

Note 6. Refundable Advance (continued)

Conditional Promises

The above noted transfer is considered a restricted conditional promise to give in accordance with the requirements of ASC 958. ASC 958 distinguishes between donor-imposed restrictions (temporarily restricted or permanently restricted) and donor-imposed conditions. Restrictions limit use of a donated asset; conditions create barriers that must be overcome before pledges are fulfilled or assets are transferred. A restricted conditional promise to give is defined as a promise to give in which the donor has specified the use of the donated assets and retained a right in those assets dependent upon the recipient accomplishing a specific purpose in the future. Under ASC 958, assets received subject to conditions are accounted for as refundable advances until the conditions are met. The Loan funds received to acquire and rehabilitate the West Run Project have been recorded as a refundable advance, which, if the defined supportive housing conditions are met, will be recognized as revenue, and an increase in unrestricted net assets, at the loan maturity date.

Note 7. Concentration of Risk

The Organization receives a substantial amount of its support from the West Virginia Department of Health and Human Resources under a contract, the Governor's Office of Economic Opportunity and the United Way of Monongalia and Preston Counties from grants. A significant reduction in the level of these supports, if this were to occur, may have a significant impact on the Organization. Support received from the West Virginia Department of Health and Human Resources amounted to $ 166,649, West Virginia Bureau of Behavioral Health and Health Facilities $24,414, the Governor's Office of Economic Opportunity amounted to $32,000 and the United Way of Monongalia and Preston Counties amounted to $78,000 for the year ended June 30, 2014.

Note 8. Employee Benefit Plan

Bartlett House, Inc. has adopted a 430(b) Plan for the benefit of eligible employees. Bartlett House, Inc. matches up to 100% of the first 3% of an employees' contribution. The plan expenses incurred by the Organization during the year ending June 30, 2014 were $4,659 and are included in payroll taxes and employee benefits on the state of functional expenses.

Note 9. Fair Value Measurement

Fair Values of assets measured on a recurring basis at June 30, 2013 are as follows:

Fair Value Measurements at Reporting Date Using

June 30, 2014	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Unobservable (Level 3)
Long-term investments -			
Mutual Funds	$ 7,135	$ 7,135	$ -0-
Total	$ 7,135	$ 7,135	$ -0-

Note 10. Summary of Grants and Contracts

Bartlett House, Inc. was primarily funded through the following grants and contracts for the period July 1, 2013 to June 30, 2014:

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	CFDA #	Contract Period	Grant/ Grant/ Contract	Total Recognized Expenditures
Supportive Housing Program	14.235	7/01/13 - 6/30/14	WV0040B3E080900 & WV0042B3E080900	$ 109,985
W. V. Department of Health and Human Resources		7/01/13 - 6/30/14	G 110141	$ 166,649
		7/01/13 - 6/30/14	0525-2012-28 885-219-252	$ 24,414
YWCA of Charleston		7/01/13 - 6/30/14	G 120137	$ 23,127
WV Office of Economic Opportunity	14.231	7/01/13 - 12/31/14	ESG11-1129	$ 32,000
City of Morgantown	14.218	7/01/13 - 6/30/14		$ 12,000
Emergency Food and Shelter Program	97.024	7/01/13 - 6/30/14		$ 6,040
Total Grants and Contracts				$ 374,215

Note 11. Restrictions on Net Assets

Capital Campaign

Temporary restrictions on net assets at June 30, 2014 are related to funds raised through the Capital Campaign, a drive to raise funds to purchase, rehabilitate and furnish temporary and permanent housing for the chronic homeless.

The Organization has completed Phase 1 of the project, in that it has purchased, rehabilitated and furnished 16 individual units and 4 multi-units on the third and fourth floors of the West Run facility. To fund this project support of $1,557, of which $1,557 has been collected and spent on rehabilitation and furnishings, a $2,200,000 interest free loan from the West Virginia Housing Development Fund, a lease with the Monongalia County Commission, which supported the issuance of a $896,000, borrowing on the Organizations line of credit in the amount of $223,896 and utilizing the reserves of the Organization.

Note 11. Restrictions on Net Assets

Capital Campaign (continued)

Phase II of the project began in the winter of 2013 with a commitment from the West Virginia Housing Development fund for an additional interest free loan in an amount not to exceed $1,890,000, and an additional grant from the U.S. Department of Housing and Urban Development in the amount of $423,400 for rehabilitation and operating costs. Cash and pledges receivable are restricted to payment of the cost of acquiring, rehabilitating, and operating the facility and payment on any debt incurred to complete the project.

In October 2010, the Organization acquired the land and building that it uses to provide temporary and permanent housing for the chronic homeless. Renovation of Phase one was completed and placed in service on May 7, 2012. The Organization has begun soliciting pledges for this facility through its Capital Campaign. As part of the cost in acquiring and rehabilitating the facility the Organization incurred debt in the amount of $896,000 through Revenue Bonds issued through the Monongalia County Commission. Cash and pledges are restricted to the payment of this debt, furnishing and operating costs of the West Run facility. Those restrictions are considered to expire when payments are made. Interest on the temporary investment of such support is unrestricted.

Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

Development Coordinator	$ 16,362
	16,362

Net assets were released from donor restrictions by incurring expenses satisfying the purpose by donors as follows:

Purpose restriction accomplished:

Capital Campaign Related Expenses for West Run	$ 17,338
Restricted contributions for Children of the shelter	5,029
Restricted contributions for payment of debt	$ 1,556
Total restrictions released	$ 23,923

Note 12. Pledges Receivable

Pledges Receivable consists of the following:

Restricted to payment of Capital Lease and rehabilitation of West Run project	$ 79,961
Gross restricted pledges receivable	79,961
Less: Allowance of doubtful pledges	7,996
Net Restricted Pledges Receivable	$ 71,965

The Organization uses the allowance method to determine uncollectible pledges receivable. An allowance of 10% has been utilized by the Organization. This allowance is based on industry research and management's analysis of specific pledges receivable.

Note 13. Subsequent Event

The organization has evaluated subsequent events through March 7, 2015, the date which the financial statements were available to be issued. The following event occurred after June 30, 2013.

Phase 2 of the project would consist of a complete build-out of the bottom two floors to add an additional 36 beds for Transitional Supportive Housing. This will allow a participant to prepare to transition from emergency shelter to transitional housing. The estimated costs of construction for Phase 2 are $1,800,000. This would bring the total estimated cost of the project to be $5,205,971. Bartlett House management has been informed that they will receive additional funding for Phase 2 from the Housing and Urban Development Supportive Housing Program in the amount of $423,400. This grant will be utilized to pay for supportive services (staffing) in the amount of $64,547, operational costs of $338,741 and administrative costs of $20,112. Management has applied for and has been given temporary approval of additional funding of $1,890,000 from the West Virginia Housing Development Fund (WVHDF) for Phase 2. This additional funding will be limited to 80% of the total appraised value of the property, therefore this will limit the total available for drawdown on the additional loan from WDHF to $1,512,000, leaving a balance of approximately $288,000 of costs to be paid for by other funding. Management feels it is highly probable this funding will ultimately be approved and the organization will have the ability to cover the additional costs through other funding sources.

REPORT ON INTERNAL CONTROL AND COMPLIANCE

HILARION V. CANN, CPA

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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
Bartlett House, Inc.
Morgantown, West Virginia

I have audited, in accordance with 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 Bartlett House, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued my report thereon dated March 7, 2015.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Bartlett House, 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 my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Bartlett House, Inc.'s internal control. Accordingly, I 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 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.

My 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified. I did identify a certain deficiency in internal control, described n the accompanying schedule of findings and responses that I consider to be significant deficiencies in internal control listed as items 14-01 and 14-02.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Bartlett House, Inc.'s financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Bartlett House, Inc.'s Response to Findings

Bartlett House, Inc.'s response to the finding identified in my audit is described in the accompanying schedule of findings and responses. Bartlett House, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of my 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.

Hilarion V. Cann, CPA
Clarksburg, West Virginia
March 7, 2015

DHHR - Finance

APR 20 2016

Date Received

14-01 Segregation of Duties

Condition: The Organization has a limited number of personnel with responsibility for accounting and financial reposting matters. As a result, there is a lack of segregation of duties over the initiation, authorization, recording, and reporting of transaction and the preparation and review of financial reports by persons sufficiently independent of the transactions.

Criteria: Segregation of duties is a critical piece of the internal control framework. This key internal control element dictates that duties should be aligned so that no one individual controls to many critical aspects of a process or transaction.

Cause: Limited staff decreases the ability to provide for segregation of some accounting processes.

Effect: Increased potential that fraud and abuse could occur.

Recommendation: Responsibility for initiation, authorization, recording, and reporting of transactions should be segregated to the extent possible. Although complete segregation of duties is not feasible given the limited staff available, management has been mindful and resourceful in its efforts to segregate duties and is commended for its efforts. I recommend continued review and assessment in the area of internal control, as this key internal control is vital to ensure errors and irregularities are detected and prevented in a timely manner in the normal course of business. It is incumbent upon the board of directors to remain strong and active; additionally, the board of directors should recognize that its scope of oversight of the internal control system applies to all three areas of control: operations, compliance with laws and regulations, and financial reporting.

Management Response: Management and the board of directors will remain vigilant in their efforts to consider the control environment, assess risks, monitor activities, and improve policies and procedures when deficiencies are identified.

14-02 Drafting Financial Statements

Condition: The Organization does not have adequate staff to prepare the financial statements in accordance with generally accepted accounting principles (GAAP).

Criteria: Reliable financial reporting requires that financial statements conform with GAAP. Preparing financial statements is the culminating step of financial reporting.

Cause: Limited staff and time decrease the ability to prepare financial statements in conformity with GAAP.

Effect: Increase potential that fraud and abuse could occur.

Recommendation: The Organization engage the services of a certified public accountant or other professional with the expertise and ability to prepare financial statements in conformity with GAAP, with the understanding that preparing the financial statements in conformity with GAAP includes not only the broad guidelines of general application, but also detailed practices and procedures. GAAP includes pronouncements of authoritative bodies designated by the AICPA to establish accounting principles.

Management Response: The Organization has hired an independent outside auditor that, once the organization's audit is completed, provides assistance with the preparation of the annual audited financial statements.

SCHEDULE OF EXPENDITURES OF STATE AWARDS

BARTLETT HOUSE, INC.
SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	CFDA #	Contract Period	Grant/ Contract	Recognized Expenditures
W.V. Department of Health and Human Resources				
W. V. Department of Health and Human Resources		7/01/12 - 6/30/13	G 110141	$ 166,649
		7/01/12 - 6/30/13	0525-219	$ 24,414
YWCA of Charleston		7/01/12 - 6/30/13	G 110078	$ 23,127
Total Grants and Contracts				$ 214,190

The notes to Schedule of Federal and State Awards are an integral part of this schedule.

Note 1. Basis of Presentation

The accompanying schedule of expenditures of state awards (the Schedule) includes the state grant activity of Bartlett House, Inc. under programs of the state government for the year ended June 30, 2014. The information in this Schedule is presented in accordance with the requirement of West Virginia Title 148, Legislative Rule, Series 18, *Accountability Requirements for State Funds and Grants*. Because the Schedule presents only a selected portion of the operations of the Bartlett House, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Bartlett House, Inc.

Note 2. Summary of Significant Accounting Policies

(1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(2) Pass-through entity identifying numbers are presented where available.

MANAGEMENT LETTER

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MANAGEMENT LETTER

To the Board of Directors
Bartlett House, Inc.
Morgantown, West Virginia

In planning and performing my audit of the financial statements of Bartlett House, Inc. for the year ended June 30, 2014, I considered the Organization's internal control in order to determine my auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. Accordingly, I do not express an opinion on the effectiveness of the Organization's internal control.

However, during my audit, I became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. I previously reported on the Organization's internal control in my report dated March 7, 2015. This letter does not affect my report dated March 7, 2015, on the financial statements of Bartlett House, Inc.

I will review the status of these comments during my next audit engagement. I have already discussed many of these comments and suggestions with various Organization personnel, and I will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. My comments are summarized as follows:

Segregation of Duties

After walking through some of the accounting processes the following was discovered: 1) The bookkeeper receives a summary of invoices received in the mail from the front office with the invoices attached. 2) The bookkeeper then proceeds to enter the invoices into QuickBooks and prepares the accounts payable checks to be signed. 3) This information is then provided to the Executive Director or the Assistant Director to have the checks signed by them and one board member, then this paperwork is given back to the bookkeeper to mail out the payments. 4) The bookkeeper also receives all the funds received in the mail (checks and cash) from the front office. 5) The bookkeeper then inputs the deposit into QuickBooks and creates the deposit slip and takes the deposit to the bank. 6) The deposit information is then provided to the Executive Director or the Assistant Director after the deposit is made. After reviewing the following procedures one can see that there are many gaps in internal control to protect the assets of the organization by having one employee perform multiple incompatible functions. It is suggested that management review the previous procedures and determine what checks and balances can be put in place to reduce or eliminate one person performing incompatible procedures. This will help ensure the protection of the organizations assets.

The size of the Organization's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties. This situation dictates that the Board of Directors remains involved in the financial affairs of the Organization to provide oversight and independent review functions.

Greater Morgantown Community Trust

The Greater Morgantown Community Trust holds funds invested for the Organization. The Trust provides quarterly reports as to the activity of the Trust funds invested. This activity currently is either not recorded at all or only partially recorded incorrectly in the financial records of the Organization. It is recommended that each quarter when the reports are received from the Trust this activity be recorded in the financial records of the Organization. This will provide the Board a more complete and accurate financial status of the Organization.

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Employee Expense Reports

During my testing of the Organization's expenditures a sampling of employee reimbursements were examined. The reports examined were mainly for travel to meetings, taking clients to appointments or picking up supplies or donations for the Organization. Various employee expense reports filed fail to document what the mileage was for or where they traveled to and from or the purpose of the travel. It is suggested that the employee expense reports be completed in their entirety. Items that should be detailed out on the employee expense report include, but are not limited to, the travel destination, the business purpose, who the employee met with, the dates of the travel and the total mileage incurred. Management will then have all the pertinent information to decide whether the expense is to be approved in the form submitted or if any changes or corrections are required. This will help the Organization safeguard against false reporting or any intentional or unintentional misappropriations of the Organizations assets.

Capital Campaign Contributions

The Organization began a capital campaign to raise funds needed to construct, remodel and debt service for the West Run project during the fiscal year ended June 30, 2012. Currently the tracking of pledges received for the capital campaign are not maintained except manually. These transactions are then recorded into QuickBooks via a journal entry with no detail being listed. After summarizing the information from the pledge cards provided it was noted the amounts maintained in a spreadsheet were not correct as to individual pledge amounts. It is my understanding that the individual pledges have been set up as accounts receivable in the computerized accounting system where the balances and transactions for each pledge can be tracked to ensure their accuracy. Care needs to be taken that these Pledges Receivable be maintained separately from other receivables such as grants or rent. By handling pledges receivable in this manner it should eliminate the need to journal entry in the transactions and provide for more accurate accounting data.

In addition to the above recoding of pledges the organization currently solicits pledges from employees and new hires. In doing so a pledge receivable is then recorded for the amount the employee states they are willing to give. This is done with both full and part-time employees. With the transient nature of the organizations part-time employees ultimately when the employee leaves there is a balance remaining from their pledge. These minor balances remaining then are required to be written off as uncollectable pledges. It is recommended that the pledge cards for employees be modified to reflect a per pay amount they are willing to contribute instead of an actual annual amount. In doing so, the employee is only responsible for a pledge in a pay period a paycheck is received and would eliminate the need to write off any uncollectible remaining balance since the pledge would only be for payroll withholding and not any future periods.

Board of Director's Meeting Minutes

The Board of Director meeting minutes on several occasions reflected items under new business which were discussed and not resolved and noted that these items would be followed up on later. In reviewing subsequent meeting minutes these items were not listed under old business or discussed under any other heading. The board should take due care in both properly disposing of these items and recording the disposal or list these items under old business on the agenda for subsequent meetings until the item is completed. This will help ensure the board to follow-up on any outstanding items and that all old agenda items are cleared.

Currently the BOD meeting minutes provide a detail of cash balances, current asset balances, and total asset balances and total liability and net assets combined balance. This detail does not provide a total for the organizations liabilities separately or the balance of long-term debt. If the minutes are going to reflect the separate totals of balance sheet categories it would be helpful for the BOD and any outside readers to gain a better understanding of the organizations financial status by also disclosing the balance of current liabilities and balance of long-term debt.

Maintenance of accounting Records

While testing the grants and rents receivable for the organization it was noted that these two separate types of receivables are being maintained in one account. QuickBooks has the capability of maintaining separate accounts receivable for each type of receivable the organization has. In maintaining the different types of receivables in their own separate accounts will provide the BOD the ability to review the chart of account balances and be able to distinguish between receivables for grants and rents. This will provide the BOD more accurate information to help in the decision making process for the organization.

While testing the accounts receivable for outstanding rents it was noted that past due balances for rent were being added onto a current months billing. In doing so, this artificially inflates the balance due for rents receivable. The result of handling outstanding balances due this way will cause the balance of the rents receivable to never be cleared to zero. It is recommended that the statements function of the accounting software be utilized to show any past due balances. This way the receivable balance will be maintained properly.

During the fiscal year ended June 30, 2014 the chart of accounts for the organization was modified to include an account titled "Deferred Revenue." This type of account was abandoned, for the most part, by GAAP when it did away with Fund Accounting and switched to Net Asset Accounting. With net asset accounting the equity of the organization is maintained in three separate categories as explained in the notes to the financial statements. These categories are: Unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In recording the net assets of the organization in this manner it provides the user of the financial statements the insight as to if any of the assets of the organization are restricted and in what manner if so restricted. It is recommended that the organization discontinue utilizing the deferred revenue account, as to maintain their records in compliance with GAAP.

Requests for Grant Reimbursement

While testing the reimbursement reports for the Organization's grants it was noted that the organization maintains support for all of it's grant billings in reports created inside of their computerized accounting system (QuickBooks). For a review of the support for the amounts billed for reimbursement the reviewer is required to filter through all of the vendor files allocated to the reimbursement request. There is no central file or copies of these invoices maintained. When I tried to re-create these reports in the computerized accounting software for some grants and some periods the reports could not be re-created for several significant funding sources from the transaction details as entered into the computerized accounting software. The most frequent reason this could not be accomplished was that the classes associated with the allocations in QuickBooks had been made inactive. Grant financial management requires grantees organize their financial systems in a manner such that individual grant activity is separately accounted for, and reports, along with supporting documents, are available for monitoring purposes. It is suggested that the organization consider maintaining electronic files for each grant billing utilizing a scanner or some other device to store the backups for each grant billing. This will provide quick and easy access to prior billings for grant reimbursement requests should this data ever be required or requested in the future.

During the testing of the grant income it was discovered that two of the organizations grants had been overdrawn on. The accounting department was able to correct the ESGP by just reallocating expenses to another non-specific grant income source such as United Way or Monongalia Count Commission grants. The other involved the Housing and Urban Development (HUD) grant utilized for the West Run operating expenses. This grant had two components – one for temporary housing and one for permanent housing. During the fiscal year ended June 30, 2014 it was discovered the temporary portion of this grant was overdrawn. This apparently was caused by multiple reasons such as the Executive Director did the billing themselves, the outside accountant who keeps track of the grant in QuickBooks didn't have the detail of the total of each component, the billings were held up at times and not sent in until months later, among other reasons. If the detailed reports referred to above were implemented and better communication between the outside accountant and the Executive Director (monthly staff meeting including the bookkeeper were held on a regular basis with the review of each grant) should help reduce the possibility of overdrawing grants in the future.

Requests for Grant Reimbursement (continued)

To correct this over billing, several credit memos were created to offset prior or future billings. These credit memos were not applied against the correct amounts which they should have been used to offset. Rather the credits were just applied to any outstanding invoice. In one instance a payment received was applied to an invoice created after the payment was received when the actual invoice was available for the payment to be applied to. Care should be taken to apply the proper receipts or credits to the correct billings. This way should an amount not be received in the future the organization will know specifically what amounts have not been received and will be able to follow up on those outstanding amounts.

In reviewing the receipts for grant billings generated in QuickBooks it was noted that one billing had been outstanding for nine months with no follow-up. During fiscal year 14/15 this outstanding reimbursement request was followed up on and finally received. There should be a policy established should a reimbursement request be outstanding for a certain number of days (45) then a follow up procedure should be started. This may consist of something as simple as a phone call or writing a letter. This should help reduce any amounts remaining out when the organization needs those funds to operate.

Contributions Received

On occasions the organization receives gift cards, instead of actual cash, as a contribution. These funds are received in varying forms such as a $50 Visa Gift card, a $100 Wal-Mart gift card, etc. These cards are maintained in the petty cash box and are handed out when a purchase is to be made which can utilize these cards. Currently these cards are not tracked in QuickBooks. It is recommended that a procedure be established so that when this type of contribution is received it is entered into QuickBooks as a contribution and as an asset. Then as the cards are utilized the balance reduced and the expenses recorded. This will help ensure that the records of the organization include all applicable income and expenses.

Payroll

During my testing of the Organizations payroll and its systems multiple areas for improvement were discovered. The first item noted was that the insurance premiums changed during the fiscal year, but the employee withholdings were not updated at that time. This was discovered later and the employee withholdings were required to be adjusted for a couple of payrolls to correct this. In addition to having to adjust future withholdings one employee was removed from the health insurance plan at this time and was refunded their withholding in an amount in excess of what was actually withheld and it was refunded using a regular check. Since the health insurance premium withholding affects the employees' payroll taxes this should have been corrected through the payroll system. The organization should establish a policy that each year when the renewal of the health insurance plan occurs that all employees who are participating in the health insurance are reviewed immediately for proper withholding.

The second issue noted was that on one occasion the company matching for the 403(b) retirement program was manually calculated and input into an employee's paycheck. This caused the overall company contribution to the employee's account for the 403(b) to exceed the plans 3% match. QuickBooks has the ability to limit any and all company contributions to employee's 403(b) contributions to 3%. If there were a policy in place that states this should never be overridden manually, that should eliminate this from occurring in the future.

Employees whom are added to the company insurance plan is where the third item was discovered. It was noted that employee withholding for health insurance participation is not started until after the employee is added to the plan. The problem this causes is that should an employee covered under the company insurance plan should leave in the middle of a month a second withholding for their share of the health insurance cannot be recouped because there will be no payroll for which to withhold it. The company should consider establishing a policy that withholding will begin one month prior to an employee being added to the insurance plan. Should there ever be an instance where the employee leaves employment and the company can eliminate them from the health insurance plan the organization can refund any over withheld premium.

Payroll (continued)

The fourth area involved the payment of the health insurance premium. QuickBooks has been setup to withhold the employees' share of the insurance premium and to calculate the company portion at the time the payroll is prepared. These amounts are accumulated in QuickBooks in the payroll liabilities. Rather than use the amounts accrued and withheld in QuickBooks to pay for the health insurance premium, the check is manually calculated and input. This leaves a balance in the accrual account in QuickBooks showing a liability which has already been paid. A policy utilizing the amounts accrued in QuickBooks should be established allowing QuickBooks to generate the premium check. This will help ensure that all withholdings accrued will be cleared out after they are withheld.

The fifth issue involved the calculation of bonuses for several employees which should not have included withholding for the organizations 403(b) plan but did. These errors were never corrected, but rather adjusted out of QuickBooks using the "Adjust Payroll Liabilities" option. This did not correct the fact that two employees had amounts actually withheld from their paychecks for retirement but this amount was never remitted on their behalf for retirement and these employees were never reimbursed for this over withholding. This could have been corrected by reversing the over withholding in the employee's next paycheck but was not. Should this occur in the future a policy stating how the corrections should be made should be on file so this type of error does not linger into future years.

When employees have child support withheld from their paychecks QuickBooks accrues this withholding and has the ability to create the check so this withholding can be remitted to the proper authorities. The withholding portion of this process is being utilized within QuickBooks, but the sixth issue with the payroll is that it is not being utilized to create and remit the amount that has been withheld. This process is being performed manually and input into QuickBooks manually. In doing this the amount withheld and accrued for child support is not being reducing and remains in the records of the organization. This process should be changed to utilize QuickBooks to create and print for remittance the check satisfying an employees' child enforcement obligation.

Insurance Eligibility

With the requirements of the Affordable Care Act (ACA) becoming fully implemented during 2014 the organization will need to update their insurance eligibility requirements to that of the ACA. One of those requirements is that all eligible employees must be added to a company's insurance plan, if the company offers one, within 90 days of employment.

West Run Utilities

In reviewing the invoices from the electric company it was noted that some of, but not all, the apartment numbers were denoted on the invoices. Since the rent includes utilities, it is recommended that the organization request that the electric company include the apartment number on each separate billing. This can provide several additional benefits for the Organization. It can help improve the billing to HUD for permanent housing eligible expenses for reimbursement. It can also help the organization track over usage by tenants and correct an overbilling in a timely manner. Lastly, since some of the apartments' rent is no longer limited, it can help in determining if the rent is sufficient to cover the cost of the utilities included in the rent of each unit.

I wish to thank the Executive Director and Administrative Assistant for their support, cooperation, and assistance during my audit.

This report is intended solely for the information and use of the Board of Directors, management, and others within the Organization and is not intended to be and should not be used by anyone other than these specified parties.

Hilarion V. Cann, CPA
Clarksburg, West Virginia
March 7, 2015

DHHR - Finance

APR 20 2016

Date Received