

**THE SHELTER, INC. AND
THE SHELTER ADOPTION SERVICES, INC.**

COMBINED FINANCIAL STATEMENTS
WITH SUPPLEMENTAL INFORMATION

FOR THE YEAR ENDED JUNE 30, 2015
TOGETHER WITH INDEPENDENT AUDITORS' REPORT

THE SHELTER, INC. AND THE SHELTER ADOPTION SERVICES, INC.

**FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015**

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Independent Auditors' Report

To the Board of Directors of
The Shelter, Inc. and The Shelter Adoption Services, Inc.,

We have audited the accompanying combined financial statements of The Shelter, Inc. and The Shelter Adoption Services, Inc. (non-profit corporations), which comprise the combined statement of financial position as of June 30, 2015, and the related combined 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 the 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 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 from 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 combined financial statements referred to above present fairly, in all material respects, the financial position of The Shelter, Inc. and The Shelter Adoption Services, Inc. as of June 30, 2015 and the changes in their net assets, and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

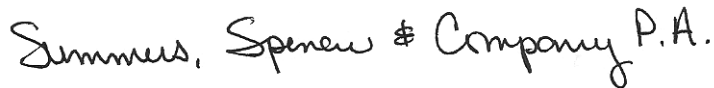
As described in Note 10, property and equipment, capital lease liabilities, and beginning net assets were restated with a net asset increase of 166,206. Our opinion is not modified with respect to this matter.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Combining Schedules on pages 17-18 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 10, 2016, on our consideration of The Shelter, Inc. and The Shelter Adoption 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 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 The Shelter, Inc. and The Shelter Adoption Services, Inc.'s internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Summers, Spencer & Company P.A." in a cursive, flowing script.

Summers, Spencer & Company, P.A.
Lawrence, Kansas

March 10, 2016

THE SHELTER, INC. AND THE SHELTER ADOPTION SERVICES, INC.

COMBINED STATEMENT OF FINANCIAL POSITION

June 30,	2015
ASSETS	
Current assets	
Cash and cash equivalents	\$ 364,068
Certificate of deposit	66,385
Investments	986,759
Grants receivable	125,614
Prepaid insurance and other assets	<u>21,782</u>
<i>Total current assets</i>	<u>1,564,608</u>
Property and equipment, net	<u>201,247</u>
<i>Total assets</i>	<u><u>\$ 1,765,855</u></u>
LIABILITIES AND NET ASSETS	
Current liabilities	
Accounts payable	\$ 40,006
Accrued wages and benefits	67,928
Capital lease payable, current	<u>23,430</u>
<i>Total current liabilities</i>	<u>131,364</u>
Long term liabilities	
Capital lease payable, long-term	<u>21,173</u>
<i>Total liabilities</i>	<u>152,537</u>
Net assets, unrestricted	<u>1,613,318</u>
<i>Total liabilities and net assets</i>	<u><u>\$ 1,765,855</u></u>

The accompanying notes are an integral part of the financial statements.

THE SHELTER, INC. AND THE SHELTER ADOPTION SERVICES, INC.

COMBINED STATEMENT OF ACTIVITIES

<u>For the year ended June 30,</u>	<u>2015</u>
Support and revenue, unrestricted	
Grants and contracts	\$ 1,796,608
Contributions and fundraising	133,591
Investment loss	(1,819)
Other income	<u>11,104</u>
<i>Total support and revenue, unrestricted</i>	<u>1,939,484</u>
Expenses	
Program services	1,977,377
Management and general	92,179
Fundraising	<u>19,996</u>
<i>Total expenses</i>	<u>2,089,552</u>
Decrease in net assets, unrestricted	(150,068)
Unrestricted net assets, beginning of year (restated)	<u>1,763,386</u>
Unrestricted net assets, end of year	<u><u>\$ 1,613,318</u></u>

The accompanying notes are an integral part of the financial statements.

THE SHELTER, INC. AND THE SHELTER ADOPTION SERVICES, INC.

COMBINED STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30,	2015								
	Program Services					Total Program Services	Management & General	Fundraising	Total Expenses
	Vocational		Pre-filing Diversion	Specialized Case Mgmt	Family Services				
	Residential	Intake							
Expenses									
Salaries and wages	\$ 608,238	\$ 112,329	\$ 36,224	\$ 111,205	\$ 98,396	\$ 966,392	\$ 188,028	\$ -	\$ 1,154,420
Employee benefits	74,891	9,261	4,868	13,440	6,899	109,359	16,074	-	125,433
Staff development	1,212	-	-	-	1,246	2,458	-	-	2,458
Placement	-	-	-	-	164,700	164,700	-	-	164,700
Accreditation	-	-	-	-	-	-	10,476	-	10,476
Memberships and dues	-	-	-	-	66	66	5,785	-	5,851
Insurance	25,425	-	1,390	2,276	6,699	35,790	18,522	-	54,312
Vehicles	22,138	-	-	-	-	22,138	-	-	22,138
Equipment	6,249	-	-	1,461	2,942	10,652	11,935	-	22,587
Professional services	1,596	-	-	-	-	1,596	60,519	-	62,115
Family services	-	29,301	286	-	-	29,587	-	-	29,587
Utilities	20,666	-	-	-	-	20,666	7,840	-	28,506
Rent	48,661	-	-	-	-	48,661	25,800	-	74,461
Program supplies	108,956	-	-	100	1,882	110,938	-	-	110,938
Recreation and allowances	15,109	-	-	-	-	15,109	-	-	15,109
Office supplies	97	178	-	194	10	479	19,316	-	19,795
Postage	1,815	-	-	-	12	1,827	934	-	2,761
Telephone and communication	4,111	809	-	-	-	4,920	6,013	-	10,933
Repairs and maintenance	72,849	-	-	-	-	72,849	507	-	73,356
Travel	3,585	1,775	273	525	7,972	14,130	847	-	14,977
Advertising	3,390	554	504	-	-	4,448	-	-	4,448
Depreciation	36,762	-	-	-	-	36,762	-	-	36,762
Interest expense	2,838	-	-	-	-	2,838	-	-	2,838
Taxes and licenses	1,597	-	-	-	-	1,597	75	-	1,672
Event costs	-	-	-	-	-	-	-	19,996	19,996
TSAS expenses	-	-	-	-	-	-	790	-	790
Miscellaneous and other expenses	9,164	608	-	126	647	10,545	7,588	-	18,133
Total expenses, before allocation	\$ 1,069,349	\$ 154,815	\$ 43,545	\$ 129,327	\$ 291,471	\$ 1,688,507	\$ 381,049	\$ 19,996	\$ 2,089,552
Internal allocation of management and general expenses									
Total expenses, before allocation	\$ 1,069,349	\$ 154,815	\$ 43,545	\$ 129,327	\$ 291,471	\$ 1,688,507	\$ 381,049	\$ 19,996	\$ 2,089,552
Allocation	192,843	36,684	8,622	15,326	35,395	288,870	(288,870)	-	-
Total expenses	\$ 1,262,192	\$ 191,499	\$ 52,167	\$ 144,653	\$ 326,866	\$ 1,977,377	\$ 92,179	\$ 19,996	\$ 2,089,552

The accompanying notes are an integral part of the financial statements.

THE SHELTER, INC. AND THE SHELTER ADOPTION SERVICES, INC.

COMBINED STATEMENT OF CASH FLOWS

<u>June 30,</u>	<u>2015</u>
Cash flows from operating activities	
Decrease in net assets	\$ (150,068)
Adjustments to reconcile decrease in net assets to net cash provided by (used in) operating activities:	
Depreciation	36,762
Realized and unrealized loss on investments	59,814
(Increase) decrease in assets:	
Grants receivable	103,446
Prepaid insurance and other assets	(2,354)
Increase (decrease) in liabilities:	
Accounts payable	9,221
Accrued wages and benefits	7,345
	<u>64,166</u>
<i>Net cash provided by operating activities</i>	<u>64,166</u>
Cash flows from investing activities	
Purchase of fixed assets	(638)
Change in certificate of deposit	(133)
Purchase of investments	(206,737)
	<u>(207,508)</u>
<i>Net cash used in investing activities</i>	<u>(207,508)</u>
Cash flows from financing activities	
Payments on long term capital lease	(22,290)
	<u>(22,290)</u>
<i>Net cash used in financing activities</i>	<u>(22,290)</u>
Net increase (decrease) in cash and cash equivalents	(165,632)
Cash and cash equivalents, beginning of year	<u>529,700</u>
Cash and cash equivalents, end of year	<u>\$ 364,068</u>
Supplemental disclosure of cash flow information	
Cash paid during the year for interest	<u>\$ 2,838</u>

The accompanying notes are an integral part of the financial statements.

THE SHELTER, INC. AND THE SHELTER ADOPTION SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1 - Nature of organization

The Shelter, Inc. (The Shelter) and The Shelter Adoption Services, Inc. (TSAS) (collectively referred to as “the Organizations”), are private, non-profit organizations organized under the laws of the State of Kansas and are exempt from income taxes under section 501(c)(3) of the Internal Revenue Code.

The Shelter is located in Lawrence, Kansas and provides emergency residential care for adolescents as a result of law enforcement and/or court action. The Shelter provides a staff of professionals to assist at the Law Enforcement Center in Lawrence, Kansas in any juvenile case. The intake staff provides crisis intervention to families as well as further referral services. The Shelter also offers services to at-risk youth identified by staff or other professionals and a pre-filing diversion program for first time and low-level offenders. Family foster care services are also provided to give children a family life experience in a licensed home for a few days to a few months.

TSAS is located in Lawrence, Kansas and provides adoption related services consistent with procedures established by the State of Kansas Department for Children and Families in the Lawrence and Douglas County area. These services include case management and follow up services.

Note 2 – Summary of significant accounting policies

Basis of accounting

In 2015, the Organization changed accounting policies related to the adoption of the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). Accordingly, the accounting change has been retrospectively applied to prior periods presented as if the policy had always been used.

Financial statement presentation

The Organizations are required to report information regarding its financial position and activities according to three classes of net assets:

- Unrestricted net assets represent expendable funds available for operation which are not otherwise limited by donor restrictions.
- Temporarily restricted net assets consist of contributed funds subject to specific donor-imposed restrictions upon specific performance of a future event, a specific passage of time before the Organizations may spend the funds, or a specific project or program the Organizations must use the funds to complete.
- Permanently restricted net assets are subject to irrevocable donor restrictions requiring that the assets be maintained into perpetuity usually for the purpose of generating investment income to fund the donor intentions.

As of June 30, 2015, there were no temporarily or permanently restricted net assets.

Principles of combination

The financial statements include the accounts of The Shelter, Inc. and The Shelter Adoption Services, Inc., which are combined for financial statement purposes since they are under common control. Significant intercompany accounts and transactions have been eliminated.

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

THE SHELTER, INC. AND THE SHELTER ADOPTION SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

Donated materials and services

The Organizations record various types of in-kind contributions. These contributions are primarily for in-kind rent. Contributed services are recognized at fair value if the services received (a) create or enhance long-lived assets, or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The amounts reflected in the accompanying financial statements as in-kind contributions are offset by like amounts included in expenses.

No amounts have been reflected in the financial statements for donated services. The Organizations pay for most services requiring specific expertise. However, many individuals have volunteered numerous hours to the Organizations' program and support services, which do not meet the criteria for recognition in the financial statements.

Cash and cash equivalents

The Organizations consider all highly liquid investments with original maturities of three months or less to be cash equivalents.

Revenue recognition

The Organizations receive funding from local, county and federal grants and contracts. Grants received represent both exchange transactions and contributions. Certain grants received by the Organization include grantor imposed restrictions. The income from exchange transactions is recognized as expenses are incurred. Grants receivable are recorded for amounts earned but not received as of June 30.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Contributions with donor imposed restrictions that are met in the current reporting period are reported as unrestricted contributions.

Property and equipment

Property and equipment are stated at cost. Depreciation is recorded using the straight-line method based on the estimated useful lives of the assets as follows:

Buildings	39 years
Vehicles	5 years
Improvements	3-20 years
Furniture and equipment	4-7 years

Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expenses as incurred.

Fair value measurements

The Organizations have adopted the provisions of FASB ASC 820-10. Under this standard, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

In determining fair value, the Organizations use various valuation approaches. FASB ASC 820-10 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Organizations.

THE SHELTER, INC. AND THE SHELTER ADOPTION SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

Unobservable inputs are inputs that reflect the Organizations' assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The hierarchy is broken down into three levels based on the observability of inputs as follows:

Level 1 - Valuations based on quoted prices in active markets for identical assets or liabilities that the Organizations have the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2 - Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Compensated absences

The Organizations pay their employees for vacation and sick leave at varying rates depending on their employment category. Upon termination unused vacation and sick leave is paid at the employee's base rate of pay in accordance with their employment category. It is impracticable to estimate the amount of compensation for future absences and, accordingly, no liability has been recorded in the accompanying financial statements. The Organizations' policy is to recognize the costs of compensated absences when paid to employees.

Functional expenses

The costs of providing the various programs have been summarized on a functional basis in the combined statement of activities. Certain costs have been allocated among the programs and activities benefited as depicted in the Combined Statement of Functional Expenses. The Organizations use a method of allocating these expenses based on internal calculations of efforts utilized by employees in administering these programs.

Income taxes

The Organizations are exempt from income taxes under section 501(c)(3) of the Internal Revenue Code.

The Organizations have adopted the provisions of FASB ASC 740-10, *Accounting for Income Taxes*. This standard clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements and prescribes recognition and measurement of tax positions taken or expected to be taken on a tax return that are not certain to be realized. The Organizations are not aware of any activities that would jeopardize their tax-exempt status nor are they aware of any activities that are subject to unrelated business tax income or excise tax or other taxes.

The Organizations file tax returns in the U.S. federal jurisdiction. Tax returns for the years 2012 to 2014 and 2015, when filed, are open to the examination by federal authorities.

Concentration of credit risk

The Organizations are subject to credit risk due to bank accounts and money market funds that are held in financial institutions in excess of federally insured limits of \$250,000. As of June 30, 2015, the amount in excess of federally insured limits totaled \$103,509.

The Organizations receive approximately 58% all of their funding from one organization. A significant reduction in this funding would have a significant effect on the operations of the Organizations.

THE SHELTER, INC. AND THE SHELTER ADOPTION SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

Note 3 – Property and equipment, net

Property and equipment include the following as of June 30:

	2015
Buildings	\$ 219,750
Vehicles	110,955
Improvements	98,813
Furniture and office equipment	49,720
	<u>479,238</u>
Less accumulated depreciaton	<u>(277,991)</u>
Property and equipment, net	<u><u>\$ 201,247</u></u>

Depreciation expense for the year ended June 30, 2015 was \$36,762.

Note 4 – Investments at fair value

The investments held by the Organizations consist of the following as of June 30:

	2015	
	<u>Cost</u>	<u>Fair Value</u>
Mutual Funds	\$ 923,101	\$ 986,759

The following table presents the investments by hierarchy level as June 30, 2015:

	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>	<u>Total</u>
Mutual Funds				
Large Growth	\$ 204,788	\$ -	\$ -	\$ 204,788
Mid Blend	44,934	-	-	44,934
Large Blend	80,892	-	-	80,892
Mid Value	169,320	-	-	169,320
Large Value	268,533	-	-	268,533
Inflation-Protected Bond	83,005	-	-	83,005
Intermediate-Term Bond	68,554	-	-	68,554
World Bond	66,733	-	-	66,733
Total	<u><u>\$ 986,759</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 986,759</u></u>

Following is a summary of investment returns for the year ended June 30, 2015:

Interest and dividends	\$ 57,995
Realized and unrealized loss on investments	<u>(59,814)</u>
Investment loss	<u><u>\$ (1,819)</u></u>

THE SHELTER, INC. AND THE SHELTER ADOPTION SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

Note 5 – Operating lease commitments

The Organizations have two operating leases for office space and one for its program facilities. The leases mature on dates ranging from June 30, 2017 to December 31, 2017. Rent expense for the year ended June 30, 2015 was \$74,461 which includes \$47,461 of in-kind rent.

The future minimum payments under the leases are as follows:

2016	\$ 27,000
2017	14,100
2018	600
	<u>\$ 41,700</u>

Note 6 – Capital lease agreement

The Organizations have entered into various capital leases for certain vehicles. The economic substance of the leases is that the Organizations are financing the acquisition of the assets through the leases, and, accordingly, they are recorded in the Organizations' assets and liabilities. Amortization of assets held under capital leases is included with depreciation expense.

Future minimum lease payment required under the leases are follows:

2016	\$ 25,128
2017	16,680
2018	<u>5,190</u>
Total minimum lease payments	46,998
Less amount representing interest	<u>(2,395)</u>
Present value of minimum lease payments	<u>\$ 44,603</u>

Note 7 – Related parties

Certain members of the Organizations' Board of Directors are employed by the financial institution where the Organizations maintain all of their bank and investment accounts. As of June 30, 2015, total balances held at the financial institution were \$1,350,827.

Note 8 – Retirement Plan

The Organizations have a 403(b) retirement plan which is voluntary and available to all regular full-time employees. The plan is funded 100% by employee contributions (via payroll deductions), with no employer match.

Note 9 – Subsequent events

Management has evaluated subsequent events through March 10, 2016, the date which the financial statements were available to be issued.

Note 10 – Prior period adjustment

During 2015, it was determined that certain errors occurred in the accounting for property and equipment, capital lease liabilities, and grants receivable. These errors caused a net understatement of beginning net assets of \$166,206. The financial statements have been adjusted accordingly.

*INDEPENDENT AUDITOR'S 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 of

The Shelter, Inc. and The Shelter Adoption Services, Inc.:

We 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 combined financial statements of The Shelter, Inc. and The Shelter Adoption Services, Inc. (nonprofit organizations), which comprise the combined statement of financial position as of June 30, 2015, and the related combined 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 10, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered The Shelter, Inc. and The Shelter Adoption 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 The Shelter, Inc. and The Shelter Adoption Services, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of The Shelter, Inc. and The Shelter Adoption Services, Inc.'s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness as item 2015-01.

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. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency as item 2015-02.

Compliance and Other Matters

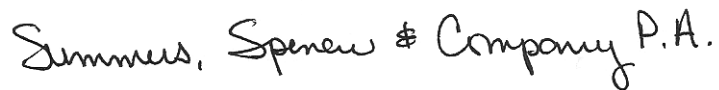
As part of obtaining reasonable assurance about whether The Shelter, Inc. and The Shelter Adoption Services, Inc.'s financial statements are free from material misstatement, we performed tests of their compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance 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*.

The Shelter, Inc. and The Shelter Adoption Services, Inc.'s Response to Findings

The Shelter, Inc. and The Shelter Adoption Services, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Shelter, Inc. and The Shelter Adoption Services, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.



Summers, Spencer & Company, P.A.
Lawrence, Kansas

March 10, 2016

THE SHELTER, INC. AND THE SHELTER ADOPTION SERVICES, INC.

**SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2015**

2015-01 Internal Controls over Financial Statement Presentation (Material Weakness)

Criteria: An effective internal control system exists if controls are effective in preventing or detecting material misstatements in the preparation of financial statements, including the related footnotes. It provides reasonable assurance for the safeguarding of assets, the reliability of financial information and compliance with laws and regulations.

Condition: We have determined that there was an inadequate design of internal control over the preparation of the financial statements during the fiscal year ended June 30, 2015. The current financial reporting process does not ensure conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

Cause: The Organizations' policies and procedures were not designed to prepare the financial statements in conformity with U.S. GAAP.

Effect: The Organizations' financial statements required a material restatement of revenues, expenses, grants receivable, property and equipment and net assets.

Recommendation: We recommend the Board of Directors and management review the disclosure requirements for the Organizations and the impact of the current year adjustments on the financial reporting process. Once this review is complete, the Organizations should then perform a risk assessment to determine the best way to implement appropriate internal controls over financial reporting to ensure conformity with U.S. GAAP

Management Corrective Action Plan: The Organization has hired a new accounting firm to do additional accounting services, including recording items on the accrual basis in accordance with U.S. GAAP. They will also, continue to rely on the audit to assist with understanding of new pronouncements.

THE SHELTER, INC. AND THE SHELTER ADOPTION SERVICES, INC.

**SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2015**

2015-02 Internal Controls over Cash Receipts and Disbursements and Segregation of Duties (Significant Deficiency)

Criteria: An effective internal control system exists if controls are effective in preventing or detecting material misstatements and potential fraudulent activities in the cash receipt and disbursement processes as well as the review and approval of monthly activity and reconciliations. It provides reasonable assurance for the safeguarding of assets, the reliability of financial information and compliance with laws and regulations.

Condition: We have noted that the accountant that creates invoices and records revenue, is also the person who receives cash receipts after logged as received, prepares and makes the bank deposits, and posts payments to invoices in the general ledger. Allowing these functions to be controlled by the same person increases the risk that errors or misappropriation could occur and go undetected. Payments are usually received through the mail, which is opened by an individual other than the accountant, who lists the cash receipts on a separate form before turning over to the accountant.

We have determined that the accountant who posts bills and records expenses, is also the person who creates vendors, prints checks, processes electronic payments, and posts payments to bills in the general ledger. Allowing these functions to be controlled by the same person increases the risk that errors or misappropriation could occur and go undetected. Bills are usually received by an individual other than the accountant, however, there is no indication of approval of bills before turning over to the accountant. Printed checks with support are given to the Executive Director for review and signature after being processed by the accountant, however there is no review of a check listing and of electronic payments made.

We noted that cash allowances taken from the bank and issued to house supervisors are maintained by the same person. House supervisors are given amounts requested and return any money not used to the same person. Remaining money is kept in a safe, however there is no review and reconciliation of the amount of money that was issued and returned compared to the funds in the safe.

We noted that the accountant prepares adjusting journal entries, bank reconciliations, and other monthly financial reconciliations on a monthly basis. These reconciliations and adjusting journal entries are not reviewed and approved by another individual.

Cause: The Organizations' policies and procedures were not adequately designed for the cash receipt and disbursement processes as well as the review and approval of monthly activity and reconciliations.

Effect: The Organizations' lack of proper internal controls over cash receipts and disbursements and the lack of review and approval of monthly activity and reconciliations increases the risk of material misstatements and potential fraudulent activities.

Recommendation: We recommend that a comparison be made between the initial cash receipts log and the deposit made to the bank by someone independent of the accountant and the accountant should not have access to the cash receipts log. The person responsible for preparing the list of daily cash receipts should not have access to receivable and general ledger records.

We recommend that all bills are reviewed and approved by an employee independent of the accountant prior to the bills being given to the accountant. We also recommend a report of all checks and electronic payments processed is reviewed after the process is complete.

We recommend an employee independent of the accountant reconcile the cash allowance activity and compare amount to the money in the safe on a monthly basis.

THE SHELTER, INC. AND THE SHELTER ADOPTION SERVICES, INC.

**SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2015**

We recommend that these reconciliations and adjusting journal entries, with supporting back up, be reviewed and approved by an individual outside of the accounting function, preferably by the Executive Director or a Board member.

Management Corrective Action Plan: Management acknowledges there are control weaknesses as discussed above and there was not a review of all journal entries and reconciliations being performed. They will work to implement additional controls and reviews as recommended.

SUPPLEMENTAL INFORMATION

THE SHELTER, INC. AND THE SHELTER ADOPTION SERVICES, INC.

COMBINING SCHEDULE – STATEMENT OF FINANCIAL POSITION

JUNE 30, 2015

	<u>The Shelter</u>	<u>TSAS</u>	<u>Elimination Entries</u>	<u>Total</u>
ASSETS				
Current assets				
Cash and cash equivalents	\$ 362,635	\$ 1,433	\$ -	\$ 364,068
Certificate of deposit	-	66,385	-	66,385
Investments	1,055,109	-	(68,350)	986,759
Grants receivable	125,614	-	-	125,614
Prepaid insurance and other assets	21,782	-	-	21,782
<i>Total current assets</i>	<u>1,565,140</u>	<u>67,818</u>	<u>(68,350)</u>	<u>1,564,608</u>
Property and equipment, net	<u>201,247</u>	<u>-</u>	<u>-</u>	<u>201,247</u>
<i>Total assets</i>	<u>\$ 1,766,387</u>	<u>\$ 67,818</u>	<u>\$ (68,350)</u>	<u>\$ 1,765,855</u>
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	\$ 39,881	\$ 125	\$ -	\$ 40,006
Accrued wages and benefits	67,928	-	-	67,928
Capital lease payable, current	25,128	-	-	25,128
<i>Total current liabilities</i>	<u>132,937</u>	<u>125</u>	<u>-</u>	<u>133,062</u>
Long term liabilities				
Capital lease payable, long-term	<u>19,475</u>	<u>-</u>	<u>-</u>	<u>19,475</u>
<i>Total liabilities</i>	<u>152,412</u>	<u>125</u>	<u>-</u>	<u>152,537</u>
Net assets, unrestricted	<u>1,613,975</u>	<u>67,693</u>	<u>(68,350)</u>	<u>1,613,318</u>
<i>Total liabilities and net assets</i>	<u>\$ 1,766,387</u>	<u>\$ 67,818</u>	<u>\$ (68,350)</u>	<u>\$ 1,765,855</u>

THE SHELTER, INC. AND THE SHELTER ADOPTION SERVICES, INC.

**COMBINING SCHEDULE – STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>The Shelter</u>	<u>TSAS</u>	<u>Elimination Entries</u>	<u>Total</u>
Support and revenue, unrestricted				
Grants and contracts	\$ 1,796,608	\$ -	\$ -	\$ 1,796,608
Contributions and fundraising	133,591	-	-	133,591
Investment loss	(1,952)	133	-	(1,819)
Other income	11,104	-	-	11,104
<i>Total support and revenue, unrestricted</i>	<u>1,939,351</u>	<u>133</u>	<u>-</u>	<u>1,939,484</u>
Expenses				
Program services	1,977,377	-	-	1,977,377
Management and general	91,389	790	-	92,179
Fundraising	19,996	-	-	19,996
<i>Total expenses</i>	<u>2,088,762</u>	<u>790</u>	<u>-</u>	<u>2,089,552</u>
Decrease in net assets, unrestricted	(149,411)	(657)	-	(150,068)
Unrestricted net assets, beginning of year (restated)	<u>1,763,386</u>	<u>68,350</u>	<u>(68,350)</u>	<u>1,763,386</u>
Unrestricted net assets, end of year	<u>\$ 1,613,975</u>	<u>\$ 67,693</u>	<u>\$ (68,350)</u>	<u>\$ 1,613,318</u>