THE SHELTER, INC.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

THE SHELTER, INC.

FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

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Summers, Spencer & Company, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

3320 Clinton Parkway Court, Suite 120
Lawrence, Kansas 66047
Phone 785.838.4484
Fax 785.838.4040
www.SSCcpas.com

Independent Auditor's Report

To the Board of Directors of The Shelter, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of The Shelter, Inc. (a non-profit corporation), which comprise the statement of financial position as of June 30, 2019, 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 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audits 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 financial statements referred to above present fairly, in all material respects, the financial position of The Shelter, Inc. as of June 30, 2019, 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2020, on our consideration of The Shelter, 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.'s internal control over financial reporting and compliance.

Summers, Spencer & Company P.A.

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

March 25, 2020

THE SHELTER, INC.

STATEMENT OF FINANCIAL POSITION

June 30,	2019
ASSETS	
Current assets	
Cash and cash equivalents	$ 147,933
Investments	1,244,803
Grants receivable	165,338
Prepaid insurance and other assets	17,180
Total current assets	1,575,254
Property and equipment, net	225,163
Total assets	$ 1,800,417
LIABILITIES AND NET ASSETS	
Current liabilities	
Accounts payable	$ 114,051
Refundable advances	2,460
Accrued wages and benefits	115,304
Capital lease payable, current	22,066
Total current liabilities	253,881
Long term liabilities	
Capital lease payable, long-term	40,273
Total liabilities	294,154
Net assets without donor restrictions	
Undesignated	1,506,263
Total net assets without donor restrictions	1,506,263
Total liabilities and net assets	$ 1,800,417

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

THE SHELTER, INC.

STATEMENT OF ACTIVITIES

For the year ended June 30,	2019
	Without donor restrictions
Support and revenue	
Grants and contracts	$ 1,706,803
Contributions and fundraising	191,782
Investment gain	73,288
Other income	65,000
Total support and revenue	2,036,873
Expenses	
Program services	
Residential services	1,237,628
Community services	232,477
Prevention/diversion	204,262
Family services	239,493
Total program services	1,913,860
Management and general	71,463
Fundraising	125,749
Total expenses	2,111,072
Decrease in net assets	(74,199)
Net assets, beginning of year	1,580,462
Net assets, end of year	$ 1,506,263

THE SHELTER, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30,	2019							
	Program Services							
	Residential Services	Community Services	Prevention/ Diversion	Family Services	Total Program Services	Management & General	Fundraising	Total Expenses
Expenses								
Salaries and wages	$ 607,549	$ 167,251	$ 135,970	$ 73,148	$ 983,918	$ 41,590	$ 56,021	$ 1,081,529
Employee benefits	47,857	13,747	19,626	7,431	88,661	2,230	5,317	96,208
Staff development	4,078	1,241	685	278	6,282	104	54	6,440
Placement	-	-	-	131,798	131,798	-	-	131,798
Memberships and dues	5,188	250	829	602	6,869	801	429	8,099
Insurance	33,280	1,754	4,085	6,288	45,407	10,166	520	56,093
Vehicles	14,893	-	-	-	14,893	-	-	14,893
Equipment	25,748	6,599	3,309	2,754	38,410	2,514	5,948	46,872
Professional services	178,986	2,704	4,321	3,397	189,408	4,233	3,304	196,945
Family services	-	16,764	26,545	-	43,309	-	-	43,309
Utilities	22,845	501	691	531	24,568	741	379	25,688
Rent	64,373	1,002	2,813	2,243	70,431	3,224	1,589	75,244
Program supplies	89,023	-	-	352	89,375	-	-	89,375
Recreation and allowances	17,147	-	-	-	17,147	-	-	17,147
Office supplies	13,107	1,358	1,970	1,392	17,827	2,062	1,521	21,410
Postage	1,064	-	189	137	1,390	187	220	1,797
Telephone and communication	8,047	-	907	719	9,673	1,039	512	11,224
Repairs and maintenance	43,704	-	253	184	44,141	250	131	44,522
Travel	4,522	18,834	1,582	7,287	32,225	222	132	32,579
Advertising	2,362	321	-	-	2,683	-	346	3,029
Depreciation	35,838	-	-	-	35,838	-	-	35,838
Interest expense	3,719	-	-	-	3,719	-	-	3,719
Taxes and licenses	1,871	-	-	-	1,871	-	-	1,871
Event costs	-	-	-	-	-	-	49,048	49,048
Miscellaneous and other expenses	12,427	151	487	952	14,017	2,100	278	16,395
Total expenses	$ 1,237,628	$ 232,477	$ 204,262	$ 239,493	$ 1,913,860	$ 71,463	$ 125,749	$ 2,111,072

THE SHELTER, INC.

STATEMENT OF CASH FLOWS

June 30,		2019
Cash flows from operating activities		
Decrease in net assets	$	(74,199)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation		35,838
Realized and unrealized (gain)/loss on investments		(49,995)
(Increase) decrease in assets:		
Grants receivable		69,994
Prepaid insurance and other assets		6,223
Increase (decrease) in liabilities:		
Accounts payable		51,494
Refundable advances		(30,615)
Accrued wages and benefits		15,138
Net cash provided by operating activities		23,878
Cash flows from investing activities		
Purchases of investments		(23,044)
Net cash used in investing activities		(23,044)
Cash flows from financing activities		
Payments on long term capital lease		(22,066)
Net cash used in financing activities		(22,066)
Net decrease in cash and cash equivalents		(21,232)
Cash and cash equivalents, beginning of year		169,165
Cash and cash equivalents, end of year	$	147,933
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	$	3,719

THE SHELTER, INC.

NOTES TO THE FINANCIAL STATEMENTS

Note 1 - Nature of organization

The Shelter, Inc. (The Shelter), is a private, non-profit organization organized under the laws of the State of Kansas and is exempt from income taxes under section 501(c)(3) of the Internal Revenue Code. In 2017, The Shelter changed its trade name to The Children's Shelter, but remains incorporated as The Shelter, Inc.

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.

Note 2 – Summary of significant accounting policies

Basis of accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

Financial statement presentation

The Organization follows generally accepted accounting principles for non-profit organizations and reports information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions which are reported as follows.

- Net assets without donor restrictions represent expendable funds available for operations which are not otherwise limited by donor restrictions.
- Net assets with donor restrictions consist of contributed funds subject to specific donor-imposed restrictions contingent upon specific performance of a future event before the Organization may spend the funds. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

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.

Donated materials and services

The Organization records 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 Organization pays for most services requiring specific expertise. However, many individuals have volunteered numerous hours to the Organization's program and support services, which do not meet the criteria for recognition in the financial statements.

Cash and cash equivalents
The Organization considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Revenue recognition
The Organization receives 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 that require that unspent funding be returned at the end of the grant period. 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. Grant funds received but not yet expended are recorded as refundable advances on the Statement of Financial Position.

Contributions
Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in net assets without restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with restrictions depending on the nature of the restrictions. When a restriction expires, net assets with restrictions are reclassified to net assets without restrictions. Contributions whose use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization are recorded as net assets with restrictions – perpetual in nature. At June 30, 2019, the Organization had no net assets with donor restrictions.

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 Organization has 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 Organization uses 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 Organization.

Unobservable inputs are inputs that reflect the Organization's 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 Organization 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 Organization pays its 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. Accrued vacation payable is recorded at June 30, 2019 for $34,167 and is included in accrued wages and benefits in these financial statements.

Income taxes

The Organization is exempt from income taxes under section 501(c)(3) of the Internal Revenue Code and has 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 Organization is 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.

Concentration of credit risk

The Organization is 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, 2019, there were no amounts held in excess of federally insured limits. The Organization received approximately 53% of all of its funding from one source for the year ended June 30, 2019. A significant reduction in this funding would have a significant effect on the operations of the Organization.

Recently adopted accounting guidance

In August 2016, the FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities, which amends the standards for the presentation and accompanying disclosures of the financial statements of nonprofit organizations. The amendments in ASU 2016-14 are effective for annual financial statements issued for fiscal years beginning after December 15, 2017.

Accordingly, the Organization has adopted this guidance as of July 1, 2018. Net assets previously known as unrestricted are now net assets without donor restrictions, and net assets previously known as temporarily restricted are now net assets with donor restrictions. The financial statements include a new disclosure about liquidity and availability of resources (Note 3).

Note 3 – Liquidity and availability

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following as of June 30, 2019:

Cash and cash equivalents	$ 147,933
Investments	1,244,803
Grants receivable	165,338
Total financial assets available within one year	1,558,074
Less those generally unavailable for expenditures due to:	
Refundable advances	2,460
Financial assets available to meet cash needs for general expenditures within one year	$ 1,555,614

In addition to financial assets available to meet general expenditures over the next 12 months, the Organization operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

Note 4 – Property and equipment, net

Property and equipment include the following as of June 30, 2019:

Buildings	$ 219,750
Vehicles	113,849
Improvements	123,563
Furniture and office equipment	56,957
	514,119
Less accumulated depreciation	(288,956)
Property and equipment, net	$ 225,163

Depreciation expense for the year ended June 30, 2019 was $35,838.

Note 5 – Investments at fair value

The investments held by the Organization consist of the following as of June 30, 2019:

Cost	Fair Value
$ 701	$ 701
1,240,116	1,244,102
$ 1,240,817	$ 1,244,803

The following table presents the investments by hierarchy level as June 30, 2019:

	(Level 1)	(Level 2)	(Level 3)	Total
Cash	$ 701	$ -	$ -	$ 701
Mutual Funds				
Large Blend	1,244,102	-	-	1,244,102
Total	$ 1,244,803	$ -	$ -	$ 1,244,803

Note 6 – Operating lease commitments

The Organization has one operating lease for office space and one for its program facilities. The leases mature on June 30, 2022 and January 1, 2023, respectively. Rent expense for the year ended June 30, 2019 was $75,244 which includes $48,467 of in-kind rent.

The future minimum payments under the leases are as follows:

2020	$ 27,600
2021	27,600
2022	27,600
2023	600
	$ 83,400

Note 7 – Capital lease agreement

The Organization has entered into various capital leases for certain vehicles with a combined capitalized cost of $113,849. The economic substance of the leases is that the Organization is financing the acquisition of the assets through the leases, and, accordingly, they are recorded in the Organization's 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:

2020	$ 25,785
2021	25,785
2022	15,026
Total minimum lease payments	66,596
Less amount representing interest	(4,257)
Present value of minimum lease payments	$ 62,339

Note 8 – Functional expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function and allocated on a reasonable basis that is consistently applied. Salaries and wages, employee benefits, staff development, memberships and dues, insurance, equipment, professional services, utilities, rent, office supplies, postage, telephone and communication, repairs and maintenance, and travel, advertising and miscellaneous and other expenses are allocated based on estimates of time and effort and purpose of expenses.

Note 9 – Retirement plan

The Organization has 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 10 – Pending accounting pronouncements

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, Revenues from Contracts with Customers and has modified the standard thereafter. This standard replaces existing revenue recognition rules with a comprehensive revenue measurement and recognition standard and expanded disclosure requirements. ASU 2014-09 is effective for annual reporting periods in fiscal years that begin after December 15, 2018. It is management's responsibility to ensure proper adoption of ASU 2014-09.

In February 2016, FASB issued ASU 2016-02, Leases, which, among other things, requires the recognition of lease assets and lease liabilities for operating leases on the statement of financial position for lessees, and the disclosure of key information about leasing arrangements. The standard is effective for fiscal years beginning after December 15, 2020. Early application is permitted. The standard will need to applied retrospectively in the year adopted. It is management's responsibility to ensure appropriate adoption of ASU 2016-02.

In June 2018, the FASB issued ASU 2018-08, Clarifying the Scope and Accounting Guidance for Contributions Received and Made. The guidance should assist entities in (1) evaluating whether transactions should be accounted for as contributions or as exchange transactions and (2) determining whether a contribution is conditional. The new standard is effective for fiscal years beginning after December 31, 2019, including interim periods within those fiscal years. It is management's responsibility to ensure appropriate adoption of ASU 2018-08.

Note 11 – Subsequent events

Management has evaluated subsequent events through March 25, 2020, the date which the financial statements were available to be issued.

As a result of significant disruption in the U.S. economy due to the outbreak of the COVID-19 coronavirus in 2020, uncertainties have arisen which are likely to negatively impact future operating results. The duration and extent to which COVID-19 may impact financial performance is unknown at this time.

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3320 Clinton Parkway Court, Suite 120
Lawrence, Kansas 66047
Phone 785.838.4484
Fax 785.838.4040
www.SSCcpas.com

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.

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 financial statements of The Shelter, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 25, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered The Shelter, 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.'s internal control. Accordingly, we do not express an opinion on the effectiveness of The Shelter, 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 2019-001.

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 deficiencies described in the accompany schedule of findings and responses to be significant deficiencies as items 2019-002, 2019-003 and 2019-004.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Shelter, 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.'s Responses to Finding

The Shelter, Inc.'s responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Shelter, Inc.'s responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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.

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

March 25, 2020

THE SHELTER, INC.

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2019

2019-001 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, 2019. 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 Organization's policies and procedures were not designed to prepare the financial statements in conformity with U.S. GAAP.

Effect: The Organization's financial statements required a material adjustment of revenues, expenses, grants receivable and accrued wages.

Recommendation: We recommend the Board of Directors and management review the disclosure requirements for the Organization and the impact of the current year adjustments on the financial reporting process. Once this review is complete, the Organization 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's Response and Corrective Action Plan: Management acknowledges there are control weaknesses as discussed above. The Organization will utilize an outside accounting firm to do additional accounting services, including recording items on the accrual basis in accordance with U.S. GAAP.

2019-002 Internal Controls over Cash Disbursements (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 disbursement process. 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 there were instances in which there was no evidence of approval of expenditures prior to payment by an authorized signor. Lack of approval of expenditures increases the risk that errors or misappropriation could occur and go undetected.

Cause: The Organization's policies and procedures were not adequately designed for the cash disbursement process.

Effect: The Organization's lack of proper internal controls over cash disbursements increases the risk of material misstatements and potential fraudulent activities.

Recommendation: We recommend that all invoice bills are reviewed and approved. Evidence of the review and approval should be documented prior to the bills being processed for payment. This evidence should be maintained by the Organization.

Management's Response and Corrective Action Plan: Management acknowledges there are control weaknesses as discussed above. They will review and evaluate the approval process as recommended.

THE SHELTER, INC.

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2019

2019-003 Internal Controls over Review and Approval of Monthly Reconciliations (Significant Deficiency)

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

Condition: We noted that the accountant prepares bank reconciliations on a monthly basis. These reconciliations are not reviewed and approved by another individual within the organization. In addition, the bank accounts are not re-reconciled after changes are made in the general ledger affecting that reconciliation.

Cause: The Organization's policies and procedures were not adequately designed for the review and approval of bank reconciliations.

Effect: The Organization's lack of proper internal controls over the approval of monthly reconciliations increases the risk of material misstatements and potential fraudulent activities.

Recommendation: We recommend that these reconciliations be reviewed and approved by an individual who does not perform the reconciliation. In addition, if any changes are made to the general ledger that effects the reconciliation it should be re-reconciled, and the new reconciliation be properly approved.

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

2019-004 Internal Controls over Review and Approval of Payroll (Significant Deficiency)

Criteria: An effective internal control system exists if controls are effective in preventing or detecting material misstatements and potential fraudulent activities as part of the review and approval of payroll. 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 there were instances in which payroll calculated and processed for a certain individual was incorrect based on the approved hours worked by that individual.

Cause: The Organization's policies and procedures were not adequately designed for the review, approval and calculation of individual payroll transactions.

Effect: The Organization's lack of proper internal controls over the review and approval of payroll increases the risk of material misstatements and potential fraudulent activities.

Recommendation: We recommend that the number of approved hours that an individual works is reviewed by an individual who does not perform payroll. This review should be performed both before and after payroll is processed and any differences should be resolved in a timely manner.

Management's Response and Corrective Action Plan: Management acknowledges there are control weaknesses as discussed above and there were instances in which payroll was incorrectly calculated. They will work to implement additional controls and reviews as recommended.