ShelterCare

Hope is here.

CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended June 30, 2014 and 2013

Jones & Roth

CPAs & Business Advisors

SHELTERCARE
CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2014 and 2013

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INTRODUCTORY SECTION

SHELTERCARE
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June 30, 2014

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
ShelterCare
Eugene, Oregon

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of ShelterCare (a nonprofit organization) and subsidiaries which comprise the consolidated statements of financial position as of June 30, 2014 and 2013, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ShelterCare and subsidiaries as of June 30, 2014 and 2013, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2014, on our consideration of ShelterCare'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 ShelterCare's internal control over financial reporting and compliance.

Jones & Roth, P.C.

Jones & Roth, P.C.
Eugene, Oregon
December 2, 2014

CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Nature of Organization

ShelterCare, a nonprofit organization, was incorporated under the laws of the state of Oregon on December 2, 1970. ShelterCare provides services in Lane County, Oregon. The principal services include:

Homeless services: Emergency Shelter, Homelessness Prevention Program (HPP) and Transitional Services. Services include emergency shelter and support for families with children and other services for families and individuals needing assistance to acquire or maintain housing. Facilities include Family Housing Program, Brethren Housing, McKenzie Transitions, and Homelessness Prevention.

Mental health services: Homeless and Transitional Services include transitional and longer-term supported housing for individuals with psychiatric disabilities, including supported employment services. Programs include The Inside Program (TIP) and the Shankle Program. Crisis Respite and Intensive Residential Care includes longer-term residential care services for individuals with psychiatric disabilities needing more intensive treatment. Programs include Royal Avenue Program, Garden Place Residence, and the Heeran Center Residence. Longer-term Residential Services includes supported housing and other services for individuals with psychiatric disabilities, including supported employment services. Services are provided through the Eugene Supported Housing Program.

Acquired brain injury services: Services include supported housing and other services for individuals with an acquired brain injury. Services are provided through the Uhlhorn Program.

Basis of Accounting

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Use of Estimates

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

Principles of Consolidation

ShelterCare has established three wholly owned subsidiaries, 20/20 Construction, LLC; Hawthorn Apartments, LLC; and ShelterCare 499 Project in June 2010, December 2010, and August 2013, respectively. The accompanying consolidated financial statements include the accounts of ShelterCare and its wholly owned subsidiaries, 20/20 Construction, LLC; Hawthorn Apartments, LLC; and ShelterCare 499 Project. Inter-company transactions and balances have been eliminated in consolidation. 20/20 Construction, LLC and Hawthorn Apartments, LLC were both legally dissolved during the year ended June 30, 2013, at which time the assets and liabilities of the companies were transferred to the sole LLC member, ShelterCare.

1. Summary of Significant Accounting Policies, continued

Income Tax Status

ShelterCare and ShelterCare 499 Project are nonprofit organizations under Section 501(c)(3) of the Internal Revenue Code (IRC). However, federal income and state excise taxes are calculated for unrelated business income at current statutory rates. There was no net taxable unrelated business income as a result of unrelated business activities for the years ended June 30, 2014 and 2013 for either entity; therefore, no provision for taxes has been made.

ShelterCare and ShelterCare 499 Project file required information returns with both the U.S. federal jurisdiction and the state of Oregon. State and federal tax authorities generally have the right to examine and audit the previous three years of tax returns filed.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, ShelterCare considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. Cash and cash equivalents included the following:

	2014	2013
Savings and checking accounts	$ 1,766,079	$ 498,721
Money market funds	15,178	92,506
Petty cash	840	910
Total cash and cash equivalents	$ 1,782,097	$ 592,137

Receivables

Grant and contracts receivable is primarily comprised of amounts receivable from state and local governments and other agencies that provide assistance to ShelterCare for its programs. Management provides an allowance for doubtful accounts receivable based on delinquency of accounts and historical experience. None of the receivables are secured.

Program service receivables are comprised of receivables from clients and state and local governmental units that receive services provided by ShelterCare. Management provides an allowance for doubtful accounts receivable based on delinquency of accounts, contractual terms, and historical experience. Balances that are still outstanding after management has used reasonable collection efforts are written-off through a charge to the valuation allowance and a credit to the applicable receivable account. None of the receivables are secured.

Capital Campaign pledges receivable is comprised of unconditional promises to give related to ShelterCare's capital campaign. The reported value is a fair representation of the future value of the receivables. Amounts are written-off when determined that they are uncollectible. An allowance for uncollectible pledges is provided based on management's evaluation of potential uncollectible pledges at year end. None of the pledges receivable are secured.

1. Summary of Significant Accounting Policies, continued

Property and Equipment

Purchased property and equipment are recorded at cost. Donations of property and equipment are recorded as support at their estimated fair market value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Property and equipment are depreciated using the straight-line method over the asset's estimated useful life. Major renewals and betterments are capitalized and included in property and equipment accounts if the cost exceeds $2,500, while expenditures for maintenance, minor repairs, and replacements are charged directly to expense.

Net Assets

Under generally accepted accounting principles, ShelterCare is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. Restricted donations for which the restriction is met during the same fiscal year are recorded as unrestricted. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Currently, ShelterCare has no permanently restricted net assets.

Support and Revenue

Support for programs comes from state, federal, and local grants and contracts; United Way; and contributions. ShelterCare also earns fee-for-service revenue under various contractual arrangements. ShelterCare operates various programs under cooperative agreements with a variety of partners and agencies.

2. Property and Equipment

At June 30, property and equipment consisted of the following:

	2014	2013
Land	$ 869,048	$ 869,048
Building	1,693,835	1,693,835
Leasehold improvements	393,390	393,390
Equipment and furnishings	321,867	308,109
Other property	367,957	376,661
Construction in process	2,443,126	130,922
	6,089,223	3,771,965
Accumulated depreciation and amortization	(1,428,147)	(1,266,598)
Property and equipment, net	$ 4,661,076	$ 2,505,367

Depreciation expense for the years ended June 30, 2014 and 2013 was $171,096 and $184,758 of which $6,825 and $5,960, respectively, is included in repairs and maintenance on the consolidated statements of functional expenses.

3. Loan Fees

Loan fees are recorded at cost and are amortized over the life of the related loans, 30 years. Amortization expense related to the loan fees for the years ended June 30, 2014 and 2013 was $3,742 and $-0-, respectively.

4. Interest in Net Assets of ShelterCare Foundation

During 2006, ShelterCare terminated its endowment fund with Oregon Community Foundation (OCF) and transferred all remaining assets to a newly formed exempt organization, ShelterCare Foundation. ShelterCare specified itself as the beneficiary of ShelterCare Foundation assets. Variance power has not been granted by ShelterCare to ShelterCare Foundation. ShelterCare Foundation established an endowment fund with OCF to manage its investment portfolio. ShelterCare reports as an asset its interest in the net assets of ShelterCare Foundation at fair value as a Level 3 investment. The interest in the net assets of ShelterCare Foundation is considered a board designated endowment.

Upon request, ShelterCare Foundation may make distributions to ShelterCare. The Board of Directors of ShelterCare shall submit a request for distribution. The request shall indicate the amount of the requested distribution, which will not exceed the annual payout amount to be provided to ShelterCare Foundation by OCF. The description must contain sufficient detail to enable the Board to determine to its satisfaction that the intended use of the distribution meets the criteria.

In the event ShelterCare Foundation's Board of Directors determines that the intended use of the distribution meets the criteria, then it shall approve ShelterCare's request for distribution and shall make the requested proceeds available to ShelterCare immediately upon the availability of such funds. In the event ShelterCare Foundation's Board of Directors determines that the intended use of the distribution fails to meet the criteria, then it may require additional information from ShelterCare to make a final determination on the matter.

During the year ended June 30, 2014, ShelterCare increased its interest in the assets of ShelterCare Foundation by contributing $3,120,000 to ShelterCare Foundation. ShelterCare specified itself as beneficiary of the contribution. The contribution was made in order to facilitate the financing for the development and renovation of the administration and program services building.

For the years ended June 30, 2014 and 2013, the change in the fair value of ShelterCare's interest in the net assets of ShelterCare Foundation was as follows:

	2014	2013
Balance, beginning of year	$ 646,429	$ 621,613
Change in fair market value	94,075	56,643
Interest and dividend reinvested	25,471	6,365
Contributions	-	800
Contribution by ShelterCare	3,120,000	-
Grants to ShelterCare	(22,000)	(30,000)
Expenses	(4,663)	(8,992)
Balance, end of year	$ 3,859,312	$ 646,429

5. Fair Value Measurements

Accounting principles generally accepted in the United States of America define fair value, establish a framework for measuring fair value, and establish a fair value hierarchy that prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability; in the absence of a principal market, the most advantageous market.

Valuation techniques that are consistent with the market, income, or cost approach are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level 1: Inputs are quoted prices in active markets for identical assets or liabilities for which the organization has the ability to access at the measurement date.

Level 2: Inputs (other than quoted prices included within Level 1) that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

ShelterCare's interest in the net assets of ShelterCare Foundation of $3,859,312 and $646,429, respectively, is considered a Level 3 asset. The asset's fair value was determined by reviewing the inputs for the investments held by ShelterCare Foundation at the OCF, which are considered Level 3 financial instruments.

6. Long-term Debt

Pacific Continental Bank – ShelterCare borrowed $1,610,000 from Pacific Continental Bank in 2011 to purchase real estate to be used for program services and administration. The note agreement calls for monthly payments of $9,690, including interest at 5.21 percent commencing October 1, 2011, and maturing on September 1, 2021. The note is secured by real estate. Total interest expense on this note was $74,774 and $90,077 for the years ended June 30, 2014 and 2013, respectively, of which $5,959 and $14,687 respectively, was allocated to the maintenance department for its space occupied in the building and is included in repairs and maintenance on the consolidated statements of functional expenses. The balance payable on this note at June 30, 2014 and 2013 was $1,519,941 and $1,561,451, respectively.

6. Long-term Debt, continued

Enhanced Capital New Market Development Fund XVII, LLC (Enhanced Capital) – ShelterCare 499 Project borrowed $3,840,000 from Enhanced Capital in December 2013 under two note agreements for the development, rehabilitation and construction of ShelterCare's primary administrative and program service building. The note agreements call for annual interest only payments at an interest rate of 1.2032 percent from December 1, 2014 through December 1, 2020. Beginning on December 1, 2021, the note agreements call for annual payments of $192,118, including interest at 1.2032 percent through the maturity date on December 31, 2043. The note is secured by assignment of leases and rents and by real estate. Total interest expense on this note was $26,567 and $-0- for the years ended June 30, 2014 and 2013, respectively. The balance payable on these notes at June 30, 2014 and 2013 was $3,840,000 and $-0-, respectively.

Meyer Memorial Trust – ShelterCare borrowed $500,000 from Meyer Memorial Trust in March 2014 for the renovation of ShelterCare's primary administrative and program service building and associated costs of the project. The note agreement calls for quarterly interest payments, beginning June 15, 2014, and annual payments of interest and principal, beginning December 15, 2014, at an interest rate of 1.75 percent through the maturity date of March 15, 2019. The note is secured by personal property and real property. Total interest expense on this note was $2,188 and $-0- for the years ended June 30, 2014 and 2013, respectively. No principal payments were made for the years ended June 30, 2014 and 2013. The balance payable on this note at June 30, 2014 and 2013 was $500,000 and $-0-, respectively.

Future maturities for the notes payable described above are as follows:

Year Ending June 30,	
2015	$ 278,752
2016	142,686
2017	114,393
2018	93,962
2019	75,550
Thereafter	5,154,598
Total	$ 5,859,941

7. Line of Credit

ShelterCare executed a $500,000 line of credit with Pacific Continental Bank in September 2008. The line of credit was renewed in December 2013 and the new maturity date is December 1, 2014. The line of credit bears interest at 1.5 percentage points over the bank's prime rate (3.25 percent at the date of the agreement extension), with an interest rate floor of 5.5 percent for the terms ending December 1, 2014 and 2013. The interest rate on the line of credit was 5.5 percent as of June 30, 2014 and 2013. The balance on the line of credit at June 30, 2014 and 2013 was $-0-. Interest expense paid on the line of credit for the years ended June 30, 2014 and 2013, was $591 and $-0-, respectively.

7. Line of Credit, continued

ShelterCare executed a $1,250,000 line of credit with Pacific Continental Bank in November 2013 and the maturity date is December 1, 2014. The line of credit bears interest at 1.75 percentage points over the bank's prime rate (3.25 percent at the date of the agreement), with an interest rate floor of 5 percent for the term ending December 1, 2014. The interest rate on the line of credit was 5 percent as of June 30, 2014. There were no draws on this line of credit. The balance on the line of credit at June 30, 2014 was $-0-. Interest expense paid on the line of credit for the years ended June 30, 2014 was $-0-.

8. Description of Leasing Arrangements

ShelterCare has five month-to-month operating leases for facilities. Rent expense under these leases for the years ended June 30, 2014 and 2013, was $39,540 and $45,360, respectively.

9. Service Agreement

During 2013, ShelterCare entered into a three year service agreement related to software purchased in 2012. The agreement calls for indefinite three year terms and is cancellable by either party if notice is given 90 days prior to the expiration of the then current service term. The current three year term ends June 2016.

Future minimum payments under the service agreement for the current term are as follows:

Year Ending June 30,	
2015	$ 61,764
2016	61,764
Total	$ 123,528

10. Temporarily Restricted Net Assets

At June 30, temporarily restricted net assets were available for the following purposes:

	2014	2013
CDBG grant restricted to the Shankle Program kitchen remodel	$ 17,500	$ 21,000
CDBG grant restricted to improvements at Royal Avenue Shelter	124,702	124,702
HOME grant restricted to Garden kitchen remodel	133,000	133,000
Contributions restricted for 499 building remodel	102,136	666,317
Other support restricted to specific programs or activities	100,000	110,000
Total temporarily restricted net assets	$ 477,338	$ 1,055,019

11. Program Service Revenue

For the years ended June 30, program service revenue consisted of the following:

	2014	2013
Service to governments:		
Medicaid – Title XIX	$ 1,540,951	$ 1,527,089
AMHI	1,510,627	1,512,558
Fees and contracts from government agencies	1,259,234	1,315,968
Acquired brain injury	347,125	311,730
Other services:		
Rent	315,443	290,580
Program fees	55,957	103,647
Other fees	17,843	18,808
Total program service revenue	$ 5,047,180	$ 5,080,380

12. Donated Goods, Services, and Use of Facilities

During the year, certain goods, professional services, and use of facilities were donated to ShelterCare. Such donations are recorded at the estimated fair market value at the date of donation. These goods, services, and usage have been reflected in the consolidated financial statements as in-kind contributions and program or supporting services expenses. Professional services consisted of donated legal services.

At June 30, in-kind contributions consisted of the following:

	2014	2013
In-kind contributions of goods	$ 131,277	$ 106,184
Professional services	89,398	66,881
Use of facilities	121,000	127,000
Total in-kind contributions	$ 341,675	$ 300,065

ShelterCare also receives a substantial amount of services donated by volunteers. No amounts have been reflected in the consolidated financial statements for these services since they do not meet the criteria for recognition under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958-605-25-16, *Contributed Services.* The estimated value of these services was $41,911 and $67,181 for June 30, 2014 and 2013, respectively.

13. Related Party Transactions

ShelterCare provides management and administrative services to DH, Incorporated and Afiya Apartments, Inc., affiliated nonprofit organizations. The organizations are affiliated due to shared members of their respective governing boards.

For the years ended June 30, the amounts of revenue for such services are summarized as follows:

	2014	2013
DH, Incorporated:		
Management fees	$ 9,463	$ 10,179
Administrative fees	19,319	20,876
Maintenance fees	14,455	9,900
Total DH, Incorporated	43,237	40,955
Afiya Apartments:		
Management fees	8,381	8,629
Administrative fees	12,748	13,512
Maintenance fees	7,222	3,768
Total Afiya Apartments	28,351	25,909
Total related party service revenue	$ 71,588	$ 66,864

ShelterCare also paid DH, Incorporated rent of $16,872 and $16,668 for the years ended June 30, 2014 and 2013, respectively. The amount receivable from DH, Incorporated at June 30, 2014 and 2013, was $2,894 and $3,097, respectively. The amount receivable from Afiya Apartments at June 30, 2014 and 2013 was $2,472 and $2,113, respectively.

A Board member of ShelterCare is also an owner of VOX Public Relations/Public Affairs, a company that provides public relations and educational activities for ShelterCare. For the years ended June 30, 2014 and 2013, ShelterCare paid $9,600 and $7,800, respectively, to VOX Public Relations/Public Affairs for the services.

14. ShelterCare 499 Project

In August 2013, ShelterCare formed ShelterCare 499 Project, a separate non-profit organization. Due to the ability of the Board of Directors of ShelterCare to appoint the Board of Directors of ShelterCare 499 Project, it is considered a controlled entity. Therefore, the activity of ShelterCare 499 Project is consolidated in the financial statements of ShelterCare and intercompany transactions are eliminated.

14. ShelterCare 499 Project, continued

As of June 30, the assets, liabilities, and net assets of ShelterCare 499 Project consisted of the following:

	2014	2013
Cash	$ 395,305	$ -
Deposits	3,241,257	-
Loan fees, net of accumulated amortization of $3,742 for 2014 and $-0- for 2013	189,731	-
Total assets	$ 3,826,293	$ -
Accounts payable	$ 186	$ -
Due to ShelterCare	10,000	-
Deferred lease revenue	7,500	-
Interest payable	23,101	-
Notes payable	3,840,000	-
Net assets (deficit)	(54,494)	-
Total liabilities and net assets	$ 3,826,293	$ -

Deposits are comprised of deposits paid to ShelterCare under lease agreements that were not yet in effect at June 30, 2014. Total deposits includes a deposit of $1,300,000 as a one-time payment under the ground lease with ShelterCare and $1,941,257 of payments ShelterCare 499 Project made to ShelterCare under a build to suit agreement. As these agreements are not yet considered effective at June 30, 2014, the payments made thus far are classified as deposits in the accounting records for ShelterCare 499 Project. The transactions are between ShelterCare and ShelterCare 499 Project; therefore, the deposits balance was eliminated during consolidation.

15. Concentrations

Credit risk – ShelterCare and ShelterCare 499 Project maintain bank accounts at two financial institutions. The accounts are insured up to certain limits by the Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Association (NCUA). Deposits in excess of FDIC insurance limits were $1,306,726 and $395,422 at June 30, 2014 and 2013, respectively. Management believes ShelterCare is not exposed to any significant credit risk related to cash and cash equivalents.

Governmental revenue and support – A substantial portion of revenue and support is provided by federal, state, and local governmental entities. Changes in governmental priorities for funding social services needs could affect future ShelterCare funding.

Receivables – A substantial portion of ShelterCare's grants and contracts receivable balance is comprised of receivables from one local government agency. As of June 30, 2014 and 2013, receivables from this single government agency comprised 57.9 percent and 60.1 percent, respectively, of the total grants and contracts receivable balance. The balance of program service receivables is primarily comprised of receivables from two agencies. As of June 30, 2014 and 2013, the receivable balance from these two agencies comprised 100 percent and 91.2 percent, respectively, of the total program services receivable balance.

16. Retirement Plan

ShelterCare adopted a Simplified Employee Pension/IRA plan on April 1, 1999, which covers all employees who have been employed by ShelterCare a minimum of two years and were employed at least three of the preceding five years. Contributions to the plan were $57,897 and $58,556 for the years ended June 30, 2014 and 2013, respectively, of which $619 and $2,276, respectively, is included in repairs and maintenance on the consolidated statements of functional expenses. As of June 30, 2014 and 2013, $12,889 and $-0-, respectively, was payable. Contributions to the retirement plan are discretionary, and the amount of future contributions will be determined annually by the Board of Directors.

17. Healthcare Reimbursement Arrangement

Effective December 1, 2007, ShelterCare established a health reimbursement arrangement plan (HRA) to provide eligible employees with certain tax-free medical reimbursement benefits. The employer-funded HRA is funded through the operational budget of ShelterCare and therefore may be fully funded, unfunded, modified, or terminated on an annual basis as determined by ShelterCare. Eligible employees have an account balance which is funded by employer contributions. The account balance decreases for benefit payments and administrative fees. Forfeited account balances can be used to provide HRA benefits to eligible new participants. During the years ended June 30, 2014 and 2013, ShelterCare did not make a contribution to the HRA.

18. Contingent Liabilities

ShelterCare is contingently liable for a Community Development Block Grant (CDBG) received in the amount of $35,000 from the city of Springfield in FY 08/09 that was used to assist with the renovation of the Shankle Program kitchen in Glenwood. The project was completed in FY 08/09. If ShelterCare discontinues using and/or maintaining the program in the Shankle Program prior to 10 years from the date of completion of the kitchen remodel, ShelterCare agrees to pay the city of Springfield the percentage of the grant funds equal to the percentage of time remaining until the expiration of the 10-year period. At June 30, 2014 and 2013, $17,500 and $21,000, respectively, in improvements funded by CDBG from the city of Springfield have been included in temporarily restricted net assets.

The city of Eugene has stipulated that programs using CDBG and HOME funding for improvements of real property shall use the real property primarily for the project objective for a period of 10 years after the date of project completion. If the real property is used for another objective prior to the fifth anniversary of the project completion date, ShelterCare is required to pay the city of Eugene an amount equal to the current fair market value of the improvements to the real property. After the fifth anniversary of the project completion date, ShelterCare would be required to pay the city of Eugene an amount equal to one fifth of the amount of the grant for every calendar year remaining in the period of benefit. As of June 30, 2014 and 2013, $124,702 in improvements at Royal Avenue Program funded by CDBG and HOME have been included as temporarily restricted net assets. As of June 30, 2014 and 2013, $133,000 in improvements at Garden Place Kitchen remodel funded by CDBG and HOME have been included as temporarily restricted net assets.

18. Contingent Liabilities, continued

ShelterCare is contingently liable for an interest-free loan of $75,000 for 30 years provided by the state of Oregon on December 18, 2008, used to develop Main Street HUD 811 Project - Afiya Apartments. ShelterCare is not required to repay the indebtedness unless the Afiya Apartments are sold or there is a change in use. ShelterCare has complied with all other loan covenants. Because the likelihood of a near-term repayment is remote, the amount has not been recognized as a liability in ShelterCare's consolidated financial statements.

19. Restatement

Certain balances have been restated for the year ended June 30, 2013 to correct an error resulting from an in-kind contribution of use of facilities that was omitted. The restatement did not have any effect on the previously reported change in net assets or ending net assets. The following balances have been restated for the year ended June 30, 2013 to correct this error:

In-kind contributions – increased by $121,000
In-kind rent expense – increased by $121,000

20. Subsequent Events

Management evaluates events and transactions that occur after the consolidated statement of financial position date as potential subsequent events. Management has performed this evaluation through the date of the independent auditor's report.

Subsequent to year end ShelterCare 499 Project was awarded its tax exempt status by the IRS.

Subsequent to year end ShelterCare ceased operations of its Royal Avenue Program. The financial effect of the closure of this program cannot be determined at this time.

SINGLE AUDIT

SHELTERCARE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2014

1. Organization of the Schedule

Grants are organized by federal department or agency and identified by the 2014 Catalog of Federal Domestic Assistance (CFDA) number.

All identified federal awards expended by ShelterCare are included in the schedule. The information in the schedule is presented in accordance with OMB Circular A-133.

2. Summary of Significant Accounting Policies

Expenditures are reported on the accrual basis. Expenditures in a program which are not covered by the federal award are not included.

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
ShelterCare
Eugene, Oregon

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of ShelterCare (a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2014, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 2, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered ShelterCare'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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of ShelterCare's internal control. Accordingly, we do not express an opinion on the effectiveness of ShelterCare'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 questioned costs, we identified certain deficiencies in internal control that we consider to be a material weakness.

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 consolidated 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 questioned costs as Finding 2014-1 to be a material weakness.

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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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ShelterCare's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated 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*.

ShelterCare's Response to Findings

ShelterCare's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. ShelterCare's response was not subjected to the auditing procedures applied in the audit of the consolidated 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.

Jones & Roth, P.C.

Jones & Roth, P.C.
Eugene, Oregon
December 2, 2014

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors
ShelterCare
Eugene, Oregon

Report on Compliance for Each Major Federal Program

We have audited ShelterCare's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of ShelterCare's major federal programs for the year ended June 30, 2014. ShelterCare's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of ShelterCare's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about ShelterCare's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of ShelterCare's compliance.

Opinion on Each Major Federal Program

In our opinion, ShelterCare complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

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Report on Internal Control Over Compliance

Management of ShelterCare is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered ShelterCare's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of ShelterCare's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as Finding 2014-2 that we consider to be a significant deficiency.

ShelterCare's Response to Findings

ShelterCare's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. ShelterCare's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Jones & Roth, P.C.

Jones & Roth, P.C.
Eugene, Oregon
December 2, 2014

Summary of Auditor's Results

- The independent auditor's report expresses an unmodified opinion on the consolidated financial statements of ShelterCare for the year ended June 30, 2014.
- One material weakness was disclosed during the audit of the consolidated financial statements of ShelterCare for the year ended June 30, 2014.
- No instances of noncompliance material to the consolidated financial statements of ShelterCare, which would be required to be reported in accordance with *Government Auditing Standards,* were disclosed during the audit.
- One significant deficiency in internal control over major federal award programs disclosed during the audit is reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133. No material weaknesses are reported.
- The independent auditor's report on compliance for the major federal award programs for ShelterCare expresses an unmodified opinion on all major federal programs.
- Audit findings that are required to be reported in accordance with OMB Circular A-133 are reported in this schedule.
- The program tested as a major programs was:

Continuum of Care Program	14.267

- The threshold for distinguishing between Type A and B programs was $300,000.
- ShelterCare qualified as a low-risk auditee.

Findings – Consolidated Financial Statements Audit

Finding 2014-1

Type of Finding: Material weakness in internal controls over financial reporting

Condition: While performing audit procedures, we identified numerous accounts that required adjustment. Due to the number of audit adjustments required and the dollar amount of some of the adjustments, we are considering this deficiency to be a material weakness in internal control over financial reporting. The misstatements that were discovered as a result of audit procedures that were corrected would have had the following impact on the consolidated financial statements if left unadjusted:

Assets	Understated by $346,028
Liabilities	Understated by $549,809
Net Assets	Overstated by $203,782
Revenues	Understated by $129,461
Expenses	Understated by $423,409

Findings – Consolidated Financial Statements Audit, continued

Finding 2014-1, continued

Criteria: Under professional standards, it is the responsibility of ShelterCare's management to design and implement internal controls over financial reporting to ensure that ShelterCare's accounts are properly recorded in accordance with GAAP. Significant adjustments that arise as a result of audit procedures that were otherwise not detected by ShelterCare's management are required to be reported as a deficiency in internal control over financial reporting.

Effect of Condition: Failing to review and/or fully reconcile all of the significant accounts of ShelterCare could cause the consolidated financial statements to be misstated.

Recommendation: We recommend management review the design and implementation of internal control procedures and identify areas to strengthen ShelterCare's internal controls. We recommend updating the process used to reconcile significant accounts at year-end and add additional layers of review before information is provided for audit. We also recommend management ensure there is a process in place to review and approve significant general journal entries prior to such journal entries being posted to the accounting records.

Management's Response and Planned Corrective Actions: ShelterCare is upgrading the experience and skill set level of its accounting staff due to the increasing complexity of our funding. The newly hired Controller has an MBA and a Senior Accountant position with a minimum qualification of a Bachelor's degree in accounting will replace the Accounting Specialist position. As a result of this upgrade in staffing qualifications, tighter accounting controls and more detailed audit preparation checklists will be developed for more thorough review of not only year-end but monthly journal entries and reconciliations of balance sheet accounts. The adjusting journal entries and auditor's findings for fiscal year 13/14 will be reviewed with accounting personnel and assignments will be given to specific staff to review and design better implementation of internal controls, update the process for reconciling significant accounts and review and approve significant journal entries.

Findings and Questioned Costs – Major Federal Award Programs Audit

Finding 2014-2

Type of Finding: Significant deficiency in internal control over compliance
Federal Program: HUD Continuum of Care Program (CFDA 14.267)
Questioned Costs: None.

Condition: During our testing of the internal controls over compliance with respect to the compliance requirement of allowable costs we noted multiple instances in which the information on employee timesheets, monthly activity reports, and/or billing spreadsheets did not all agree. The process used by ShelterCare includes review of each of these documents; however we noted there were instances in which miscalculations on the timesheets and/or monthly activity reports were caught during the review process; however, any changes made due to these errors were not updated on all of the documents affected by the error. This led to discrepancies between the final timesheets, monthly activity reports, and billing spreadsheets which are the documents used to support payroll costs charged to the major federal program.

Findings and Questioned Costs – Major Federal Award Programs Audit, continued

Finding 2014-2, continued

Criteria: It is the responsibility of ShelterCare's management to design and implement adequate internal controls over compliance in accordance with OMB Circular A-122 Cost Principles for Non-Profit Organizations.

Effect of Condition: This introduces the possibility that errors in the payroll documents could lead to unallowable costs being charged to the federal program.

Recommendation: We recommend management review the current processes in place for review of the supporting documents for payroll expenses, the timesheets, monthly activity reports, and the billing spreadsheets, and evaluate the need to revise the process to ensure any errors caught during review of these documents are corrected on all of the affected documents.

Management's Response and Planned Corrective Actions: ShelterCare is upgrading the experience and skill set level of its accounting staff due to the increasing complexity of our funding. The newly hired Controller has an MBA and a Senior Accountant position with a minimum qualification of a Bachelor's degree in accounting will replace the Accounting Specialist position. As a result of this upgrade in staffing qualifications, tighter accounting controls will be implemented. The adjusting journal entries and auditor's findings for fiscal year 13/14 will be reviewed with accounting personnel and assignments will be given to specific staff to develop checklists to ensure monthly if not semi-monthly audits of timesheets compared to activity reports are done prior to submission of monthly billings toward contracts. Additional training of program staff will be done as needed for further understanding of why the timesheets must tie to the activity reports so the employee's time is accurately billed to contracts.

Prior Year Findings – Consolidated Financial Statements Audit

None.

Prior Year Findings and Questioned Costs – Major Federal Award Programs Audit

Finding 2013-1

Type of Finding: Known questioned costs due to non-compliance.

Condition: An ineligible individual at one program location received HUD funded services and benefits.

Criteria: In order to receive services and benefits, individuals must be considered eligible participants and have proper documentation to prove eligibility. Determination and documentation of participant eligibility for the Supportive Housing Program is to be performed in accordance with guidance set forth in the HUD Supportive Housing Program Desk Guide.

Prior Year Findings and Questioned Costs – Major Federal Award Programs Audit, continued

Finding 2013-1, continued

Effect of condition: The funds expended on this individual are considered questioned costs. The amount of the questioned costs is estimated to be between $4,478 and $12,846.

Recommendation: Auditor recommends the internal controls over compliance with respect to eligibility be reviewed and strengthened. See Finding 2013-2.

Management's Response and Planned Corrective Actions: As a result of ShelterCare management's discovery that the ineligible client remained in the program after notification by Lane County of their ineligibility and instruction that the client be transitioned out of the program, ShelterCare first notified Lane County of the problem. At that point, a new Program Manager was hired to oversee the program. The new Program Manager has a track record of attention to detail. In addition, now every consumer qualified for admittance to the program is first reviewed by the Director of Programs and must be authorized prior to admission to the program. Also, a HUD management oversight plan was developed and implemented.

2014 Follow Up: We noted significant improvements in the quality of documentation of participant eligibility. We noted no instances of non-eligible individuals receiving HUD funded services during our testing.

Finding 2013-2

Type of Finding: Significant deficiency in internal control over compliance.

Condition: During our review of monitoring reports provided by Lane County from its monitoring of the Supportive Housing Program, we noted several instances of inadequate documentation of participant eligibility.

Criteria: It is the responsibility of management to ensure program managers and staff are properly determining and documenting participant eligibility for federally assisted programs. Determination and documentation of participant eligibility for the Supportive Housing Program is to be performed in accordance with guidance set forth in the HUD Supportive Housing Program Desk Guide.

Effect of condition: The condition described above may result in ineligible participants receiving program services.

Recommendation: Auditor recommends all program staff responsible for the determination of participant eligibility review the HUD Supportive Housing Program Desk Guide. Procedures and policies should be modified to align with requirements outlined in the Desk Guide. Additionally, procedures and policies to monitor the compliance with participant eligibility requirements should be established and implemented.

Prior Year Findings and Questioned Costs – Major Federal Award Programs Audit, continued

Finding 2013-2, continued

Management's Response and Planned Corrective Action: Policies and procedures have been modified and implemented to additionally ensure compliance with participant eligibility as follows:

- A new Program Manager was hired who has a track record of attention to detail.

- Eligibility of new participants is reviewed by multiple parties to verify eligibility of prospective applicants into the program. A lead therapist who does the initial screening and mental health assessment has been trained on the HUD requirements for admission and has been cautioned of their duty to report any exceptions to the HUD guidelines. In addition, the Assistant Program Manager, Office Manager, and Director of Programs all have access to eligibility documentation to ensure a person meets criteria prior to admission.

- The Director of Programs reviews all admission and documentation and signs off on each participant prior to their entry into the program.

- All staff has had instruction in the HUD User Desk Guide so they are fully informed regarding the eligibility requirements of the program.

- Monthly chart reviews are completed to ensure HUD contract compliance.

2014 Follow Up: We noted significant improvements in the quality of documentation of participant eligibility. We have not reported any findings related to internal control over compliance with respect to participant eligibility in the current year.