ShelterCare

Hope is here.

CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended June 30, 2013 and 2012

Jones Roth

CPAs & Business Advisors

SHELTERCARE
CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2013 and 2012

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INTRODUCTORY SECTION

SHELTERCARE
BOARD OF DIRECTORS
June 30, 2013

OFFICERS

President	Pat Walsh
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Past President	Judy Newman
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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, 2013 and 2012, 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.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ShelterCare as of June 30, 2013 and 2012, 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 audit was 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 audit 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 November 18, 2013, 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
November 18, 2013

CONSOLIDATED FINANCIAL STATEMENTS

SHELTERCARE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2013 and 2012

	2013	Restated 2012
Assets		
Current assets		
Cash and cash equivalents	$ 592,137	$ 748,522
Receivables:		
Grant and contracts receivable, net of allowance of $986 for 2013 and $231 for 2012	574,758	244,663
Program services receivable, net of allowance of $45,554 for 2013 and $72,228 for 2012	518,999	691,616
Capital Campaign pledges receivable, current portion	25,300	19,000
Prepaid expenses and deposits	160,255	165,957
Total current assets	1,871,449	1,869,758
Property and equipment, net	2,505,367	2,603,735
Other assets		
Capital Campaign pledges receivable, net of current portion and net of allowance of $3,968 for 2013 and 2012	60,882	56,382
Interest in net assets of ShelterCare Foundation	646,429	621,613
Total other assets	707,311	677,995
Total assets	$ 5,084,127	$ 5,151,488

	2013	Restated 2012
Liabilities and Net Assets		
Current liabilities		
Accounts payable	$ 101,732	$ 114,760
Payroll and related accruals	215,817	326,166
Accrued vacation	175,626	176,196
Client deposits payable	2,316	2,905
Current portion of long-term debt	35,007	33,210
Total current liabilities	530,498	653,237
Long-term liabilities		
Long-term debt, net of current maturities	1,526,444	1,554,450
Total liabilities	2,056,942	2,207,687
Net assets		
Unrestricted:		
Undesignated	1,325,737	1,801,681
Board designated endowment	646,429	621,613
Total unrestricted	1,972,166	2,423,294
Temporarily restricted	1,055,019	520,507
Total net assets	3,027,185	2,943,801
Total liabilities and net assets	$ 5,084,127	$ 5,151,488

The accompanying notes are an integral part of these consolidated statements.

SHELTERCARE
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013

	Unrestricted	Temporarily Restricted	Total
Revenues, gains (losses), and other support			
Federal assistance	$ 821,734	$ -	$ 821,734
State and local assistance	806,262	-	806,262
United Way	-	88,796	88,796
Grants and contributions	289,850	686,362	976,212
In-kind contributions	179,065	-	179,065
Program service revenue	5,080,380	-	5,080,380
Change in interest in net assets of ShelterCare Foundation	24,816	-	24,816
20/20 Construction, LLC income	118,797	-	118,797
Gain on disposal of fixed assets	450	-	450
Interest income	999	-	999
Other income	218,252	-	218,252
Net assets released from restrictions	240,646	(240,646)	-
Total revenues, gains (losses), and other support	7,781,251	534,512	8,315,763
Expenses			
Program services:			
Homeless services:			
Emergency shelter, HPP, transitional services	1,124,672	-	1,124,672
Mental health services:			
Homeless and transitional services	1,234,950	-	1,234,950
Crisis respite and intensive residential care	3,554,696	-	3,554,696
Longer-term residential services	536,222	-	536,222
Acquired brain injury services	370,682	-	370,682
Total program services	6,821,222	-	6,821,222
Supporting services:			
General and administrative	950,351	-	950,351
Fundraising	270,375	-	270,375
Total supporting services	1,220,726	-	1,220,726
Hawthorn Apartments, LLC	5,665	-	5,665
20/20 Construction, LLC	184,766	-	184,766
Total expenses	8,232,379	-	8,232,379
Change in net assets	(451,128)	534,512	83,384
Net assets, beginning of year	2,423,294	520,507	2,943,801
Net assets, end of year	$ 1,972,166	$ 1,055,019	$ 3,027,185

The accompanying notes are an integral part of these consolidated statements.

SHELTERCARE
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Total
Revenues, gains (losses), and other support			
Federal assistance	$ 929,337	$ -	$ 929,337
State and local assistance	1,115,017	-	1,115,017
United Way	-	82,791	82,791
Grants and contributions	248,691	260,730	509,421
In-kind contributions	132,489	-	132,489
Program service revenue	5,636,710	-	5,636,710
Change in interest in net assets of ShelterCare Foundation	(29,851)	-	(29,851)
Hawthorn tenant rent income, net of vacancy	30,961	-	30,961
Loss on sale of Hawthorn Apartments	(857,475)	-	(857,475)
20/20 Construction, LLC income	174,296	-	174,296
Loss on disposal of fixed assets	(2,149)	-	(2,149)
Interest income	1,011	-	1,011
Other income	177,648	-	177,648
Net assets released from restrictions	1,219,417	(1,219,417)	-
Total revenues, gains (losses), and other support	8,776,102	(875,896)	7,900,206
Expenses			
Program services:			
Homeless services:			
Emergency shelter, HPP, transitional services	949,000	-	949,000
Mental health services:			
Homeless and transitional services	1,221,178	-	1,221,178
Crisis respite and intensive residential care	3,497,696	-	3,497,696
Longer-term residential services	598,967	-	598,967
Acquired brain injury services	335,866	-	335,866
Total program services	6,602,707	-	6,602,707
Supporting services:			
General and administrative	962,224	-	962,224
Fundraising	209,638	-	209,638
Total supporting services	1,171,862	-	1,171,862
Hawthorn Apartments, LLC	120,689	-	120,689
20/20 Construction, LLC	236,159	-	236,159
Total expenses	8,131,417	-	8,131,417
Change in net assets	644,685	(875,896)	(231,211)
Net assets, beginning of year, restated	1,778,609	1,396,403	3,175,012
Net assets, end of year, restated	$ 2,423,294	$ 520,507	$ 2,943,801

The accompanying notes are an integral part of these consolidated statements.

SHELTERCARE
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities		
Change in net assets	$ 83,384	$ (231,211)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	184,758	169,568
Loss on sale of Hawthorn Apartments	-	857,475
(Gain) Loss on disposal of fixed assets	(450)	2,149
(Increase) decrease in:		
Grants and contracts receivable	(330,095)	59,409
Program services receivable	172,617	(152,186)
Capital Campaign pledges receivable	(10,800)	(75,382)
Prepaid expenses and deposits	5,702	48,869
Other current assets	-	21,604
Increase (decrease) in:		
Accounts payable	(13,028)	(28,041)
Payroll and related accruals	(110,349)	214,304
Accrued vacation	(570)	6,594
Client deposits payable	(589)	(6,095)
Net cash provided (used) by operating activities	(19,420)	887,057
Cash flows from investing activities		
Acquisition of property and equipment	(86,390)	(1,516,095)
Proceeds from the sale of fixed assets	450	1,115,709
Change in interest in ShelterCare Foundation	(24,816)	29,850
Deposits to restricted cash and deposits	-	(14,317)
Certificates of deposit matured	-	29,335
Net cash used by investing activities	(110,756)	(355,518)
Cash flows from financing activities		
Proceeds from notes payable	-	1,610,000
Principal payments on note payable	(26,209)	(1,637,336)
Net cash used by financing activities	(26,209)	(27,336)
Net increase (decrease) in cash and cash equivalents	(156,385)	504,203
Cash and cash equivalents, beginning of year	748,522	244,319
Cash and cash equivalents, end of year	$ 592,137	$ 748,522
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 90,077	$ 113,290

The accompanying notes are an integral part of these consolidated statements.

SHELTERCARE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2013

	Program Services							
	Homeless Services			Mental Health Services				
	Emergency Shelter, HPP, Transitional Services			Homeless and Transitional Services		Crisis Respite and Intensive Residential Care		
	Family Housing Program	Brethren Housing	McKenzie Transitions	The Inside Program	Shankle Safe Haven	Royal Avenue Program	Garden Place	The Heeran Center Residence
Salaries and wages	$ 180,583	$ 183,009	$ 120,601	$ 214,112	$ 448,250	$ 676,470	$ 668,177	$ 802,926
Payroll taxes	13,870	13,268	7,854	16,330	30,658	49,003	48,894	58,624
Health benefits	22,189	13,811	12,062	14,282	37,257	59,453	55,906	47,341
Retirement plan expense	1,046	1,429	740	2,858	5,020	7,538	8,073	10,805
Other fringe benefits	5,760	5,406	4,361	6,311	14,120	19,473	19,547	23,848
Training	295	10	4	426	587	426	1,544	648
Travel	503	1,125	3,782	5,062	5,324	1,779	3,862	5,071
Client assistance	21,445	44,541	211,507	11,483	34,430	20,852	4,579	5,647
Rent	11,835	9,600	1,200	12,941	6,000	-	-	92,340
Offsite client lease expense	-	-	-	124,964	66,441	-	-	-
Utilities	30,109	8,540	2,840	11,608	8,288	20,549	12,719	42,694
Telephone and cellular services	4,461	4,810	2,745	12,223	5,025	5,220	5,527	7,306
Fundraising events	-	-	-	-	-	-	-	-
Insurance	3,294	5,406	3,298	6,951	4,615	10,040	12,357	16,746
Medical and professional services	915	1,899	720	1,674	1,791	3,915	43,393	208,746
Repairs and maintenance	95,767	21,634	6,032	9,751	34,510	39,357	28,410	14,013
Supplies	8,473	3,606	1,782	2,950	16,095	22,023	10,812	24,020
Uniforms and laundry	-	1,209	-	-	-	1,052	1,217	276
Miscellaneous	744	270	-	-	298	453	163	341
Interest	-	-	-	-	-	-	43,707	-
Volunteer program expense	524	349	-	140	174	698	174	314
Recruiting	275	182	94	210	122	1,876	913	1,353
Food	-	-	-	-	32,099	28,340	32,545	45,773
Program allocation	2,778	1,600	352	1,913	3,661	5,174	24,332	42,072
Education materials allocation	709	946	709	709	946	1,182	5,201	11,112
Construction materials and subcontractors	-	-	-	-	-	-	-	-
Total functional expenses before depreciation	405,575	322,650	380,683	456,898	755,711	974,873	1,032,052	1,462,016
Depreciation	12,965	2,799	-	2,592	19,749	19,356	56,043	10,356
Total functional expenses	$ 418,540	$ 325,449	$ 380,683	$ 459,490	$ 775,460	$ 994,229	$ 1,088,095	$ 1,472,372

Longer-term Residential Services	**Acquired Brain Injury Services**		Support Services					
Eugene Supported Housing	Uhlhorn Program	Total Program Services	General and Administrative	Fundraising	Total Program and Support Services	Hawthorn Apartments	20/20 Construction	Total Expenses
$ 383,959	$ 263,548	$ 3,941,635	$ 622,163	$ 113,479	$ 4,677,277	$ -	$ 68,509	$ 4,745,786
27,741	17,726	283,968	44,254	11,161	339,383	-	9,885	349,268
32,650	27,863	322,814	34,115	17,490	374,419	-	2,973	377,392
5,791	3,250	46,550	8,376	1,354	56,280	-	-	56,280
9,928	6,658	115,412	20,769	2,621	138,802	-	-	138,802
457	457	4,854	15,528	949	21,331	-	-	21,331
5,608	3,214	35,330	14,642	147	50,119	-	5,240	55,359
8,608	3,545	366,637	-	-	366,637	-	-	366,637
11,820	16,668	162,404	3,978	7,340	173,722	-	-	173,722
-	-	191,405	-	-	191,405	-	-	191,405
555	553	138,455	7,597	-	146,052	-	353	146,405
7,910	6,123	61,350	5,556	1,711	68,617	-	1,642	70,259
-	-	-	-	10,653	10,653	-	-	10,653
7,225	2,892	72,824	4,076	-	76,900	-	3,041	79,941
5,412	2,113	270,578	146,268	11,913	428,759	5,665	270	434,694
6,988	8,856	265,318	6,724	-	272,042	-	58	272,100
7,469	3,332	100,562	29,928	62,265	192,755	-	850	193,605
-	-	3,754	-	-	3,754	-	-	3,754
196	127	2,592	13,381	33,889	49,862	-	2,284	52,146
-	-	43,707	31,683	-	75,390	-	-	75,390
174	174	2,721	526	-	3,247	-	-	3,247
754	137	5,916	3,628	50	9,594	-	-	9,594
-	-	138,757	-	-	138,757	-	-	138,757
2,896	2,183	86,961	(86,961)	-	-	-	-	-
1,655	473	23,642	(17,820)	(5,822)	-	-	-	-
-	-	-	-	-	-	-	87,054	87,054
527,796	369,892	6,688,146	908,411	269,200	7,865,757	5,665	182,159	8,053,581
8,426	790	133,076	41,940	1,175	176,191	-	2,607	178,798
$ 536,222	$ 370,682	$ 6,821,222	$ 950,351	$ 270,375	$ 8,041,948	$ 5,665	$ 184,766	$ 8,232,379

The accompanying notes are an integral part of these consolidated statements.

SHELTERCARE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2012

	Program Services						
	Homeless Services		**Mental Health Services**				
	Emergency Shelter, HPP, Transitional Services		Homeless and Transitional Services		Crisis Respite and Intensive Residential Care		
	Family Housing Program	Brethren Housing	The Inside Program	Shankle Safe Haven	Royal Avenue Program	Garden Place	The Heeran Center Residence
Salaries and wages	$ 280,208	$ 135,484	$ 217,604	$ 417,987	$ 655,578	$ 653,756	$ 838,266
Payroll taxes	20,264	9,399	16,718	30,203	49,149	49,889	62,971
Health benefits	26,374	11,314	15,282	43,010	44,739	50,905	43,463
Retirement plan expense	4,023	3,219	6,437	11,304	16,976	18,183	24,335
Other fringe benefits	7,873	3,486	5,066	12,901	16,442	16,431	21,007
Training	643	667	776	201	1,174	731	2,175
Travel	3,557	1,056	8,096	3,192	1,978	5,573	5,553
Client assistance	213,668	5,153	17,499	29,015	5,444	4,305	7,224
Rent	12,000	9,600	11,870	6,000	-	-	92,340
Offsite client lease expense	-	-	125,669	62,240	-	-	-
Utilities	27,588	8,142	11,298	8,389	19,941	12,358	39,515
Telephone and cellular services	6,409	3,510	12,832	4,409	4,726	4,951	6,290
Fundraising events	-	-	-	-	-	-	-
Insurance	5,834	5,105	6,563	3,646	9,480	11,668	13,856
Medical and professional services	3,960	1,896	2,596	961	2,641	46,869	221,951
Repairs and maintenance	80,465	26,362	18,344	33,339	21,750	31,694	17,405
Supplies	6,330	1,831	3,176	12,925	21,438	12,281	25,789
Uniforms and laundry	-	1,080	-	1,141	1,060	1,200	1,898
Miscellaneous	3	-	80	47	178	27	137
Interest	-	-	-	-	-	40,414	-
Bad debt	-	-	-	-	-	-	-
Volunteer program expense	682	422	169	211	843	211	379
Recruiting	330	627	319	229	391	1,210	1,250
Food	-	-	-	31,451	28,961	29,542	47,112
Program allocation	1,441	741	913	1,715	2,431	11,467	19,837
Education materials allocation	1,461	487	457	731	1,218	6,575	11,505
Construction materials and subcontractors	-	-	-	-	-	-	-
Total functional expenses before depreciation	703,113	229,581	481,764	715,247	906,538	1,010,240	1,504,258
Depreciation	13,507	2,799	3,879	20,288	20,311	52,917	3,432
Total functional expenses	$ 716,620	$ 232,380	$ 485,643	$ 735,535	$ 926,849	$ 1,063,157	$ 1,507,690

Longer-term Residential Services	**Acquired Brain Injury Services**		Support Services					
Eugene Supported Housing	Uhlhorn Program	Total Program Services	General and Administrative	Fundraising	Total Program and Support Services	Hawthorn Apartments	20/20 Construction	Total Expenses
$ 419,699	$ 231,785	$ 3,850,367	$ 615,933	$ 110,037	$ 4,576,337	$ -	$ 87,506	$ 4,663,843
32,051	17,834	288,478	44,334	8,285	341,097	-	11,292	352,389
38,625	24,947	298,659	45,082	7,538	351,279	-	7,993	359,272
13,043	7,320	104,840	18,383	3,050	126,273	-	-	126,273
9,886	5,231	98,323	13,944	1,861	114,128	-	-	114,128
1,084	480	7,931	5,202	461	13,594	-	419	14,013
9,085	6,178	44,268	9,869	214	54,351	109	5,513	59,973
9,560	2,283	294,151	-	-	294,151	-	-	294,151
11,820	16,548	160,178	12,036	6,728	178,942	-	4,300	183,242
-	-	187,909	-	-	187,909	-	-	187,909
483	554	128,268	6,564	-	134,832	7,838	446	143,116
6,982	4,889	54,998	5,376	2,163	62,537	1,318	1,762	65,617
-	-	-	-	24,626	24,626	-	-	24,626
6,563	2,990	65,705	3,800	-	69,505	6,167	3,294	78,966
4,441	1,256	286,571	117,347	9,692	413,610	21,905	629	436,144
16,134	9,735	255,228	4,110	-	259,338	20,715	7	280,060
4,707	829	89,306	22,478	13,308	125,092	665	2,080	127,837
-	-	6,379	-	-	6,379	-	-	6,379
196	364	1,032	61,981	23,211	86,224	1,594	5,191	93,009
-	-	40,414	16,738	-	57,152	43,098	65	100,315
-	-	-	-	3,968	3,968	-	-	3,968
211	211	3,339	748	-	4,087	-	-	4,087
304	190	4,850	1,568	123	6,541	-	-	6,541
-	-	137,066	-	-	137,066	-	-	137,066
1,387	995	40,927	(40,927)	-	-	-	-	-
1,461	457	24,352	(17,550)	(6,802)	-	-	-	-
-	-	-	-	-	-	-	103,055	103,055
587,722	335,076	6,473,539	947,016	208,463	7,629,018	103,409	233,552	7,965,979
11,245	790	129,168	15,208	1,175	145,551	17,280	2,607	165,438
$ 598,967	$ 335,866	$ 6,602,707	$ 962,224	$ 209,638	$ 7,774,569	$ 120,689	$ 236,159	$ 8,131,417

The accompanying notes are an integral part of these consolidated 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 Shankle Safe Haven. 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 established two wholly owned subsidiaries, 20/20 Construction, LLC and Hawthorn Apartments, LLC, in June 2010 and December 2010, respectively. The accompanying consolidated financial statements include the accounts of ShelterCare and its wholly owned subsidiaries, 20/20 Construction, LLC and Hawthorn Apartments, LLC. 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 is a nonprofit organization 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, 2013 and 2012; therefore, no provision for taxes has been made.

ShelterCare files 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:

	2013	2012
Savings and checking accounts	$ 498,721	$ 305,230
Money market funds	92,506	442,482
Petty cash	910	810
Total cash and cash equivalents	$ 592,137	$ 748,522

Receivables

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.

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.

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.

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. 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:

	2013	2012
Land	$ 869,048	$ 869,048
Building	1,693,835	1,693,835
Leasehold improvements	393,390	393,390
Equipment and furnishings	308,109	296,791
Other property	376,661	376,661
Construction in process	130,922	59,711
	3,771,965	3,689,436
Accumulated depreciation	(1,266,598)	(1,085,701)
Property and equipment, net	$ 2,505,367	$ 2,603,735

Depreciation expense for the years ended June 30, 2013 and 2012 was $184,758 and $169,568, of which $5,960 and $4,130, respectively, is included in repairs and maintenance on the consolidated statements of functional expenses.

3. 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. As of June 30, 2013 and 2012, the carrying amount of ShelterCare's interest in the net assets of ShelterCare Foundation was $646,429 and $621,613, respectively.

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.

For the years ended June 30, 2013 and 2012, the change in the fair value of ShelterCare's interest in the net assets of ShelterCare Foundation was as follows:

	2013	2012
Balance, beginning of year	$ 621,613	$ 651,463
Change in fair market value	56,643	(28,225)
Interest and dividend reinvested	6,365	8,365
Contributions	800	600
Grants to ShelterCare	(30,000)	-
Expenses	(8,992)	(10,590)
Balance, end of year	$ 646,429	$ 621,613

4. Fair Value Measurements

ShelterCare uses fair value measurements to record fair value adjustments to its interest in the net assets of ShelterCare Foundation, as described above. In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, the fair value of a financial instrument 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. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the entity's various financial instruments.

4. Fair Value Measurements, continued

In cases where quoted market prices are not available, fair value is based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

FASB ASC 820 provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

In accordance with FASB ASC 820, ShelterCare groups its financial assets and financial liabilities generally measured at fair value in three levels based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 – Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 – Valuation is based on unobservable inputs 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.

ShelterCare's interest in the net assets of ShelterCare Foundation of $646,429 and $621,613, 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.

5. Long-Term Debt

Pacific Continental Bank – ShelterCare borrowed $560,000 from Pacific Continental Bank in 2007 to purchase the Garden Place facility located at 3692 Hickory Ave., Eugene, Oregon. The note was due May 1, 2022. The terms of the loan included monthly payments of $5,105, including interest at 7.125 percent through November 2010. Effective December 1, 2010, the interest rate was reset at 6.75 percent and monthly payments were revised to be $4,507. The loan was secured by the Garden Place facility real property. During the year ended June 30, 2012, the note was paid in full. The interest expense was $4,734 for the year ended June 30, 2012.

Network for Oregon Affordable Housing (NOAH) – Hawthorn Apartments, LLC borrowed $1,200,000 from NOAH in 2010 in order to purchase Hawthorn Apartments. The note called for monthly payments of interest only at a rate of 6.75 percent. The note and any unpaid interest were due October 2012. The note was secured by Hawthorn Apartments and its rent income. NOAH restricted the use of the Hawthorn Apartments to be used for affordable housing. The note was paid in full in December 2011 when the project was sold. See Note 14. The interest expense was $43,098 for the year ended June 30, 2012.

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 $90,077 and $64,873 for the years ended June 30, 2013 and 2012, respectively, of which $14,687 and $12,975, 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.

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

Year Ending June 30,		
2014	$	35,007
2015		36,902
2016		38,686
2017		40,993
2018		43,212
Thereafter		1,366,651
Total	$	1,561,451

6. 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 2012 and the new maturity date is December 1, 2013. 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). However, there is an interest rate floor of 5.5 percent for the term ending December 1, 2013 and there was an interest rate floor of 6.5 percent during the term ended December 1, 2012. The interest rate on the line of credit was 5.5 percent and 6.5 percent as of June 30, 2013 and 2012, respectively. The balance on the line of credit at June 30, 2013 and 2012 was $-0-. Interest expense paid on the line of credit for the years ended June 30, 2013 and 2012, was $-0- and $520, respectively.

7. Description of Leasing Arrangements

ShelterCare leases two facilities under non-cancellable operating lease agreements which expired on February 28, 2012. ShelterCare continues to lease the two facilities on a month-to-month basis.

During 2012, ShelterCare entered into an agreement to lease Hawthorn House. The lease commenced in May 2012 and continued through April 2013. ShelterCare continues to lease this facility on a month-to-month basis.

Additionally, ShelterCare has three leases with indefinite lease terms. The lease term continues until either party cancels the lease.

Rent expense under the leases described above for the years ended June 30, 2013 and 2012, were $45,360 and $36,170, respectively.

Additionally, ShelterCare uses a space for its programs for which no rent is paid. The donated use of facilities is recorded as in-kind revenue and expense and is valued at $6,000 annually.

8. 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,		
2014	$	61,764
2015		61,764
2016		61,764
Total	$	185,292

9. Temporarily Restricted Net Assets

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

		2013		2012
CDBG grant restricted to the Shankle Safe Haven kitchen remodel	$	21,000	$	24,500
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		666,317		-
Other support restricted to specific programs or activities		110,000		238,305
Total temporarily restricted net assets	$	1,055,019	$	520,507

10. Program Service Revenue

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

	2013	2012
Service to governments:		
Medicaid – Title XIX	$ 1,527,089	$ 2,060,164
AMHI	1,512,558	1,598,317
Fees and contracts from government agencies	1,315,968	1,255,244
Acquired brain injury	311,730	323,641
Other services:		
Rent	290,580	279,024
Program fees	103,647	101,647
Other fees	18,808	18,673
Total program service revenue	$ 5,080,380	$ 5,636,710

11. 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:

	2013	2012
DH, Incorporated:		
Management fees	$ 10,179	$ 9,965
Administrative fees	20,876	20,650
Maintenance fees	9,900	8,830
Total DH, Incorporated	40,955	39,445
Afiya Apartments:		
Administrative fees	13,512	11,200
Management fees	8,629	8,708
Maintenance fees	3,768	5,702
Total Afiya Apartments	25,909	25,610
Total related party service revenue	$ 66,864	$ 65,055

ShelterCare also paid DH, Incorporated rent of $16,668 and $16,548 for the years ended June 30, 2013 and 2012, respectively. The amount receivable from DH, Incorporated at June 30, 2013 and 2012, was $3,097 and $3,389, respectively. The amount receivable from Afiya Apartments at June 30, 2013 and 2012 was $2,113 and $4,699, 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, 2013 and 2012, ShelterCare paid $7,800 and $21,000, respectively, to VOX Public Relations/Public Affairs for the services.

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:

	2013	2012
In-kind contributions of goods	$ 106,184	$ 94,102
Professional services	66,881	32,387
Use of facilities	6,000	6,000
Total in-kind contributions	$ 179,065	$ 132,489

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 FASB ASC Topic 958-605-25-16, *Contributed Services.* The estimated value of these services was $67,181 and $84,726 for June 30, 2013 and 2012, respectively.

13. 20/20 Construction, LLC

In June 2010, ShelterCare formed 20/20 Construction, LLC, a wholly-owned subsidiary. During the year ended June 30, 2013, 20/20 Construction, LLC suspended operations and was legally dissolved. ShelterCare, the sole LLC member, assumed the assets and liabilities of the entity. All activity of 20/20 Construction, LLC has been consolidated into ShelterCare for the years ended June 30, 2013 and 2012.

As of June 30, the assets, liabilities, and member's equity of the subsidiary consisted of the following:

	2013	2012
Checking account	$ -	$ 6,541
Accounts receivable	-	14,542
Prepaid insurance	-	692
Equipment and vehicles, net	-	7,820
Total assets	$ -	$ 29,595
Accounts payable	$ -	$ 3,668
Payroll and related accruals	-	7,103
Due to ShelterCare	-	185,000
Members' equity (deficit)	-	(166,176)
Total liabilities and member's equity	$ -	$ 29,595

14. Hawthorn Apartments, LLC

In December 2010, ShelterCare formed Hawthorn Apartments, LLC, a wholly-owned subsidiary, and purchased Hawthorn Apartments, a HUD assisted housing facility for persons with severe mental illness. During the year ended June 30, 2012, Hawthorn Apartments, LLC sold Hawthorn Apartments to an unrelated entity. Included in the sale were assets including restricted cash reserves. Tenant lease agreements and all contracts relating solely to Hawthorn Apartments were also assigned to the purchaser. The NOAH note payable was paid off at closing of the sale. The sale price of Hawthorn Apartments took into consideration an award in the amount of $815,000 that was received for the original purchase of the property. The resulting effects to the consolidated financial statements of ShelterCare show a significant increase in revenue (award received for property purchase) during the year ended June 30, 2011 and a significant loss in the year ended June 30, 2012 (award proceeds passed on to buyer). During the year ended June 30, 2013, Hawthorn Apartments, LLC was legally dissolved and ShelterCare, the sole LLC member, assumed the assets of the entity. The activity for Hawthorn Apartments, LLC has been consolidated into ShelterCare for the years ended June 30, 2013 and 2012.

15. Concentrations

Credit risk – ShelterCare maintains bank accounts at one financial institution. 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 at this financial institution were $395,422 and $609,641 at June 30, 2013 and 2012, 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, 2013 and 2012, receivables from this single government agency comprised 60.1 percent and 84.7 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, 2013 and 2012, the receivable balance from these two agencies comprised 91.2 percent and 100 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 $58,556 and $131,399 for the years ended June 30, 2013 and 2012, respectively, of which $2,276 and $5,126, respectively, is included in repairs and maintenance on the consolidated statements of functional expenses. As of June 30, 2013 and 2012, $-0- and $103,220, 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, 2013 and 2012, 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 Safe Haven kitchen in Glenwood. The project was completed in FY 08/09. If ShelterCare discontinues using and/or maintaining the program in the Shankle Safe Haven 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, 2013 and 2012, $21,000 and $24,500, 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, 2013 and 2012, $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, 2013 and 2012, $133,000 in improvements at Garden Place Kitchen remodel funded by CDBG and HOME have been included as temporarily restricted net assets.

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. 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.

20. Restatement

Certain balances have been restated as of July 1, 2011 to correct an error related to the accounting for a deposit account held by a third party. The following balances have been restated as of July 1, 2011 to correct this error:

Prepaid expenses and deposits – increased by $129,997
Unrestricted net assets – increased by $129,997

21. Reclassification

Certain accounts were reclassified from the prior year. The purpose of the reclassification is to conform to the current year presentation. The reclassification did not affect the representation of ShelterCare's overall performance.

SINGLE AUDIT

SHELTERCARE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2013

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Agency or Pass-Through Number	Expenditures
U.S. Department of Housing and Urban Development			
Passed-through Lane County, Oregon:			
Emergency Shelter Grants Program	14.231	26563	$ 65,278
Homeless Prevention	14.231	26562	127,063
McKenzie Transitions	14.235*	26881	106,106
Supportive Housing Program	14.235*	26424	514,547
Total U.S. Department of Housing and Urban Development			812,994
U.S. Department of Homeland Security			
Direct Award - Emergency Food and Shelter Program	97.024	15042	8,740
Total federal awards			$ 821,734

* Major program

NOTE: The schedule of expenditures of federal awards is prepared on the accrual basis of accounting.

Jones & Roth
CPAs & Business Advisors

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, 2013, 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 November 18, 2013.

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.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2013-1.

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
November 18, 2013

Jones&Roth
CPAs & Business Advisors

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH 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, 2013. 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, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2013-1. Our opinion on each major federal program is not modified with respect to these matters.

ShelterCare's response to the noncompliance 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 compliance and, accordingly, we express no opinion on the response.

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 item 2013-2 that we consider to be a significant deficiency.

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 financial statements and, accordingly, we express no opinion on it.

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
November 18, 2013

Summary of Auditor's Results

- The independent auditor's report expresses an unqualified opinion on the consolidated financial statements of ShelterCare for the year ended June 30, 2013.

- No significant deficiencies were disclosed during the audit of the consolidated financial statements of ShelterCare for the year ended June 30, 2013.

- 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 in Accordance with 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:

  Supportive Housing Program 14.235

- The threshold for distinguishing between Type A and B programs was $300,000.

- ShelterCare qualified as a low-risk auditee.

Findings – Financial Statements Audit

None.

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 Deskguide.

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.

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 Deskguide.

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 Deskguide. Procedures and policies should be modified to align with requirements outlined in the Deskguide. Additionally, procedures and policies to monitor the compliance with participant eligibility requirements should be established and implemented.

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

Finding 2013-2, continued

Management's Response:

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.

Prior Year Findings – Financial Statements Audit

None.

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

None.