SHELTER, INC.
Arlington Heights, Illinois

FINANCIAL STATEMENTS
June 30, 2016

CliftonLarsonAllen LLP

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Shelter, Inc.
Arlington Heights, Illinois

Report on the Financial Statements

We have audited the accompanying financial statements of Shelter, Inc. (the Organization) (an Illinois nonprofit organization) which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Board of Directors
Shelter, Inc.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Organization's 2015 financial statements and in our report dated December 11, 2015, we expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2017, on our consideration of the Organization'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 result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the June 30, 2016 financial statements taken as a whole. The supplementary schedule is presented for purposes of additional analysis and is not a required part of the June 30, 2016 financial statements. Such information is the responsibility of management and was derived and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the June 30, 2016 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the June 30, 2016 financial statements taken as a whole.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Oak Brook, Illinois
January 15, 2017

SHELTER, INC.
STATEMENT OF FINANCIAL POSITION
As of June 30, 2016 with Summarized Financial Information as of June 30, 2015

ASSETS

	Unrestricted	Temporarily Restricted	Total 2016	Total 2015
CURRENT ASSETS				
Cash and cash equivalents	$ 70,852	$ 100,000	$ 170,852	$ 147,616
Accounts receivable and unconditional promises to give:				
United Way	-	-	-	3,000
Other	483,151	-	483,151	147,132
Prepaid expenses	15,391	-	15,391	20,597
Total current assets	569,394	100,000	669,394	318,345
LAND, BUILDING, AND EQUIPMENT, NET	456,103	-	456,103	494,234
SECURITY DEPOSITS	6,340	-	6,340	6,340
TOTAL ASSETS	$ 1,031,837	$ 100,000	$ 1,131,837	$ 818,919

LIABILITIES AND NET ASSETS

	Unrestricted	Temporarily Restricted	Total 2016	Total 2015
CURRENT LIABILITIES				
Accounts payable	$ 131,172	$ -	$ 131,172	$ 112,907
Accrued salaries and related benefits	173,634	-	173,634	188,579
Line of credit	250,000	-	250,000	-
Deferred income	16,885	-	16,885	28,552
Total current liabilities	571,691	-	571,691	330,038
NET ASSETS				
Unrestricted:				
Undesignated	460,146	-	460,146	485,881
Temporarily restricted	-	100,000	100,000	3,000
Total net assets	460,146	100,000	560,146	488,881
TOTAL LIABILITIES AND NET ASSETS	$ 1,031,837	$ 100,000	$ 1,131,837	$ 818,919

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

SHELTER, INC.
STATEMENT OF ACTIVITIES
Year Ended June 30, 2016 with Summarized Financial Information as of June 30, 2015

	Unrestricted	Temporarily Restricted	Total 2016	Total 2015
REVENUES, GAINS, AND OTHER SUPPORT				
Contributions	$ 212,504	100,000	$ 312,504	$ 159,593
Grants	161,250	-	161,250	148,660
United Way allocations	20,000	-	20,000	3,000
Township allocations	186,801	-	186,801	187,511
Municipal allocations	27,000	-	27,000	28,000
Department of Children and Family Services	1,294,372	-	1,294,372	1,485,347
Illinois Department of Human Services	414,265	-	414,265	423,800
Illinois Office of Education	1,807	-	1,807	1,623
Gain on disposition of vehicle	-	-	-	12,250
Special events, net	211,373	-	211,373	326,320
Thrift shop, net	(1,663)	-	(1,663)	(27,063)
Purchase of service	57,603	-	57,603	53,812
Net assets released from restrictions:				
Expiration of time restrictions	3,000	(3,000)	-	-
Total revenues, gains, and other support	2,588,312	97,000	2,685,312	2,802,853
FUNCTIONAL EXPENSES				
Program services:				
Jennings Home	186,101	-	186,101	209,139
Boys Home	219,598	-	219,598	210,609
Transitional Living	399,591	-	399,591	385,812
Healthy Families	445,426	-	445,426	480,115
Foster Care	710,704	-	710,704	892,811
Community Education and Development	173,722	-	173,722	183,172
Total program services	2,135,142	-	2,135,142	2,361,658
Supporting Services:				
Management and general	266,584	-	266,584	271,127
Fundraising	212,321	-	212,321	213,038
Total supporting services	478,905	-	478,905	484,165
Total functional expenses	2,614,047	-	2,614,047	2,845,823
CHANGE IN NET ASSETS	(25,735)	97,000	71,265	(42,970)
NET ASSETS, BEGINNING OF YEAR	485,881	3,000	488,881	531,851
NET ASSETS, END OF YEAR	$ 460,146	$ 100,000	$ 560,146	$ 488,881

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

SHELTER, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2016

	Program Services						Supporting Services		
	Jennings Home	Boys Home	Transitional Living	Healthy Families	Foster Care	Community Education and Development	Management and General	Fundraising	2016 Total
FUNCTIONAL EXPENSES									
Salaries and related expenses:									
Salaries	$ 109,610	$ 132,304	$ 260,498	$ 292,373	$ 283,118	$ 97,669	$ 179,484	$ 134,861	$ 1,489,917
FICA/unemployment	8,977	10,571	20,248	22,403	21,654	7,382	13,565	10,192	114,992
Workers' compensation	2,905	2,905	4,512	5,697	4,689	1,318	1,967	1,758	25,751
Health insurance	7,710	8,741	18,287	43,259	17,463	12,601	23,157	17,400	148,618
Total salaries and related expenses	129,202	154,521	303,545	363,732	326,924	118,970	218,173	164,211	1,779,278
Other expenses:									
Accountant	3,514	3,611	3,775	4,218	3,722	1,025	1,884	1,416	23,165
Insurance	5,006	5,006	7,775	9,817	8,080	2,259	3,389	3,041	44,373
Audit/legal fees	2,373	1,935	2,035	5,810	2,035	1,360	2,499	1,878	19,925
Equipment repair	1,585	158	1,775	708	5,718	450	826	621	11,841
Equipment lease	-	-	-	3,118	6,367	1,893	3,480	2,615	17,473
Supplies	789	847	1,211	1,357	1,816	447	822	618	7,907
Printing	440	90	953	400	943	500	848	10,176	14,350
Postage	-	-	-	613	1,070	259	1,125	4,753	7,820
Occupancy	29,120	11,643	30,371	24,299	43,985	9,989	18,447	13,793	181,647
Food	5,364	2,111	8,191	1,614	1,009	201	369	277	19,136
Phone	4,625	8,268	5,301	4,307	8,251	2,304	4,234	3,182	40,472
Special assistance	378	24	24,060	-	14,893	-	-	-	39,355
Travel	714	100	1,642	11,536	18,312	120	183	1,100	33,707
Educational conferences	-	15	-	-	-	33	61	46	155
Subscriptions	-	-	-	-	-	-	-	-	-
Membership	312	312	312	2,174	312	259	475	357	4,513
Consultants	1,848	1,300	2,948	9,538	19,258	29,966	3,802	4,000	72,660
Interest expense	-	-	-	-	-	-	4,407	-	4,407
Miscellaneous	46	43	23	23	93	172	1,560	237	2,197
Relative parent payment	-	-	-	-	132,195	-	-	-	132,195
Traditional parent payment	-	-	-	-	112,012	-	-	-	112,012
Total other expenses	56,114	35,463	90,372	79,532	380,071	51,237	48,411	48,110	789,310
TOTAL EXPENSES BEFORE DEPRECIATION	185,316	189,984	393,917	443,264	706,995	170,207	266,584	212,321	2,568,588
DEPRECIATION	785	29,614	5,674	2,162	3,709	3,515	-	-	45,459
TOTAL FUNCTIONAL EXPENSES	$ 186,101	$ 219,598	$ 399,591	$ 445,426	$ 710,704	$ 173,722	$ 266,584	$ 212,321	$ 2,614,047

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

SHELTER, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2015

	Program Services						Supporting Services		
	Jennings Home	Boys Home	Transitional Living	Healthy Families	Foster Care	Community Education and Development	Management and General	Fundraising	2015 Total
FUNCTIONAL EXPENSES									
Salaries and related expenses:									
Salaries	$ 124,850	$ 127,870	$ 252,263	$ 317,238	$ 298,456	$ 108,546	$ 184,793	$ 145,911	$ 1,559,927
FICA/unemployment	9,962	10,409	19,823	24,671	23,227	8,271	14,081	11,119	121,563
Workers' compensation	3,094	3,094	4,806	5,763	4,992	1,396	2,094	1,879	27,118
Health insurance	14,348	69	10,221	29,908	25,555	10,126	17,239	13,612	121,078
Total salaries and related expenses	152,254	141,442	287,113	377,580	352,230	128,339	218,207	172,521	1,829,686
Other expenses:									
Accountant	3,765	3,498	3,613	4,172	3,834	1,103	1,879	1,483	23,347
Insurance	4,687	4,687	7,280	8,730	7,562	2,118	3,171	2,846	41,081
Audit/legal fees	1,600	1,600	2,450	1,700	2,400	1,046	1,780	1,406	13,982
Equipment repair	1,292	-	3,334	839	4,473	475	809	639	11,861
Equipment lease	-	-	-	3,132	6,332	1,954	3,327	2,627	17,372
Supplies	1,104	1,002	1,791	1,352	1,868	808	1,375	1,086	10,386
Printing	1,108	1,108	4,358	408	526	2,174	4,072	3,518	17,272
Postage	-	-	-	807	924	285	1,055	5,400	8,471
Occupancy	29,390	14,434	31,641	25,380	43,811	8,537	23,282	11,377	187,852
Food	4,334	3,053	8,056	2,374	884	147	250	197	19,295
Phone	4,243	7,496	4,323	5,552	6,549	2,134	3,632	2,868	36,797
Special assistance	333	-	19,308	60	16,770	-	-	-	36,471
Travel	713	56	2,009	17,947	21,448	227	119	1,650	44,169
Educational conferences	-	-	-	540	-	-	-	-	540
Membership	1,360	1,360	1,360	4,050	1,360	346	589	466	10,891
Consultants	1,450	508	1,587	20,994	50,903	27,811	3,180	3,229	109,662
Interest expense	-	-	-	-	-	-	2,216	-	2,216
Miscellaneous	1,262	1,262	1,370	1,360	1,381	1,261	2,145	1,695	11,736
Relative parent payment	-	-	-	-	216,119	-	-	-	216,119
Traditional parent payment	-	-	-	-	146,930	-	-	-	146,930
Total other expenses	56,669	40,092	92,508	99,425	534,102	50,448	52,920	40,517	966,681
TOTAL EXPENSES BEFORE DEPRECIATION	208,923	181,534	379,621	477,005	886,332	178,787	271,127	213,038	2,796,367
DEPRECIATION	216	29,075	6,191	3,110	6,479	4,385	-	-	49,456
TOTAL FUNCTIONAL EXPENSES	$ 209,139	$ 210,609	$ 385,812	$ 480,115	$ 892,811	$ 183,172	$ 271,127	$ 213,038	$ 2,845,823

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

SHELTER, INC.
STATEMENT OF CASH FLOWS
Years Ended June 30, 2016
and June 30, 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 71,265	$ (42,970)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	45,459	49,456
Gain on disposition of vehicle	-	(12,250)
Effects of changes in operating assets and liabilities:		
Accounts receivable and unconditional promises to give	(333,019)	(33,399)
Prepaid expenses	5,206	678
Accounts payable	18,265	(4,997)
Accrued salaries and related benefits	(14,945)	5,437
Deferred income	(11,667)	7,000
Net cash used in operating activities	(219,436)	(31,045)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of land, building, and equipment	(7,328)	(17,750)
Proceeds from disposition of vehicle	-	12,250
Net cash used in investing activities	(7,328)	(5,500)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	250,000	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	23,236	(36,545)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	147,616	184,161
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 170,852	$ 147,616
SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	$ 4,407	$ 2,216

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

SHELTER, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Shelter, Inc. (the Organization) is a nonprofit corporation created to provide care for children and adolescents who are abused, neglected, dependent, or in need of supervision in foster homes or group homes in the northwest suburbs of the Chicagoland area. A professional staff provides childcare and transitional living program services at the group homes, along with family services through home visits under its Healthy Families Program. The Organization actively recruits foster families and conducts an ongoing series of training seminars with the goal of strengthening the foster parents' skills. In addition, the Organization provides consultation related to child welfare and foster care issues to the community it serves. The Organization also provides information and referral services to clients.

Method of Accounting

The financial statements of the Organization are prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

Under accounting principles generally accepted in the United States of America, the Organization 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 defined as follows:

Unrestricted Net Assets - Those resources over which the board of directors have discretionary control.

Temporarily Restricted Net Assets - Those resources subject to donor-imposed stipulations that may be fulfilled by actions of the board to meet the stipulations, or become unrestricted at the date specified by the donor. When a donor or time restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the Statement of Activities as "Net assets releases from restrictions."

Permanently Restricted Net Assets - Those resources subject to donor-imposed stipulations that they be maintained permanently. The Organization has no permanently restricted net assets as of June 30, 2016 and 2015.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Comparative Amounts

The financial statements include certain prior year summarized comparative information in total, but not by net asset category. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2015, from which the summarized financial information was derived.

Cash Equivalents

The Organization considers all liquid investments with a maturity of three months or less when purchased to be cash equivalents. However, all cash and investments whose use is limited by the board of directors or donors are considered long-term investments.

Concentration of Credit Risk

The Organization maintains its cash accounts at a single financial institution. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 at the financial institution.

Temporarily Restricted Net Assets

The temporarily restricted net assets at June 30, 2016 and 2015 are available for the following uses:

	2016	2015
Subsequent years' activities	$ 100,000	$ 3,000

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

Accounts receivable are primarily uncollateralized government obligations stated at the invoice amounts that generally are payable within 30 days from the billing date.

Payments of accounts receivable are applied to the specific invoices identified on the funding source's remittance advice or, if unspecified, to the earliest unpaid invoices.

Accounts receivable is reduced by a valuation allowance that reflects management's best assessment of the collectability of specific funding source accounts based on specific information, the aging of specific accounts, and historical experience. If actual amounts collected are lower than management's estimates thereof, the Organization's financial results could be adversely affected. All accounts or portions thereof deemed to be uncollectible or to require an excessive collection cost are written off to the allowance for doubtful accounts. Based upon management's judgment, no allowance has been considered necessary for uncollectible accounts receivable.

Property and Equipment

Purchased property and equipment are recorded at cost. Donated property and equipment are stated at fair market value at the date acquired. Depreciation is computed using the straight-line method based upon estimated useful lives of five to 30 years, or the lease term, if shorter. Property and equipment purchases in excess of $500 are capitalized.

Impairment of Long-Lived Assets

The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell.

Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Contributions that are restricted by the donor are reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the contribution is recognized. All other donor-restricted contributions are reported as an increase in temporarily restricted or permanently restricted net assets, as appropriate. When a restriction expires, the temporarily restricted net assets are reclassified to unrestricted net assets.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions (continued)

Conditional promises to give are not recognized until they become unconditional; that is, when the conditions on which they depend are substantially met.

Contributions of assets other than cash are recorded at their estimated fair value. Management considers the fair value of items contributed to the Organization's thrift shop to be insignificant. Therefore, the Organization does not recognize contribution revenue or record inventory at the date contributed items are received. Consequently, contribution revenue from thrift shop operations is recognized at the time contributed goods are sold.

Based upon management's judgment, including such factors as prior collection history, type of contributions, and the nature of the fundraising activity, no allowance has been considered necessary for uncollectible contribution receivables.

Donated Services and Facility Rent

Donated services are recognized as contributions if the services: (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. The Organization did not record any donated services for the years ended June 30, 2016 and 2015.

Numerous volunteers have donated significant amounts of time to the Organization's fundraising campaign and program services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria was not met.

The Organization recognizes donated rent as the difference between fair market rent and the amount required under the associated operating lease agreement. Donated rent totaled approximately $44,000 in 2016 and 2015.

Special Event and Thrift Shop Revenue

Income and expense from special events and the Organization's thrift shops are shown at their net amounts on the accompanying Statement of Activities.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Special Event and Thrift Shop Revenue (continued)

Special event revenue for fiscal years ended June 30, 2016 and 2015 was as follows:

	2016	2015
Gross revenues	$ 307,640	$ 415,334
Cost of direct benefits to donors	(96,267)	(89,014)
Special event revenue, net	$ 211,373	$ 326,320

Gross revenues and direct costs of operations for the Organization's thrift shops for fiscal years ended June 30, 2016 and 2015 were as follows:

	2016	2015
Gross revenues	$ 193,696	$ 227,302
Direct cost of operations	(195,359)	(254,365)
Thrift shop expense, net	$ (1,663)	$ (27,063)

Subsequent to year end, the Organization has ceased operations of the thrift shop.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Tax-Exempt Status

The Organization has been granted exemption from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

The Organization evaluates its exposure for uncertain tax positions on an annual basis. As of June 30, 2016 and 2015, there were no liabilities recorded for uncertain tax positions.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements

Revenue Recognition

In May 2014, the Financial Accounting Standards Board (FASB) issued amended guidance to clarify the principles for recognizing revenue from contracts with customers. The guidance requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required regarding customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The guidance will initially be applied retrospectively using one of two methods. The standard will be effective for the Organization for annual periods beginning after December 15, 2018. Early adoption is permitted beginning for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period.

Leases

In February 2016, the FASB issued amended guidance for the treatment of leases. The guidance requires lessees to recognize a right-of-use asset and a corresponding lease liability for all operating and finance leases with lease terms greater than one year. The guidance changes the accounting for sale and leaseback transactions to conform to the new revenue recognition standard. The guidance also requires both qualitative and quantitative disclosures regarding the nature of the Organization's leasing activities. The guidance will initially be applied using a modified retrospective approach. The amendments in the guidance are effective for fiscal years beginning after December 15, 2019. Early adoption is permitted.

SHELTER, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements (continued)

Financial Statements of Not-for-Profit Entities

In August 2016, the Financial Accounting Standards Board (FASB) issued amended guidance to improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. The main provisions of the update are:

- Present on the face of the statement of financial position amounts for two classes of net assets at the end of the year, rather than the current three classes.
- Present on the face of the statement of activities the amount of the change in each of the two classes of net assets.
- Enhanced disclosures in the following areas:
  - Board designated net assets
  - Donor restricted net assets
  - Qualitative and quantitative information on liquidity
  - Amounts of expenses by both their natural and functional classification
  - Methods used to allocate costs among program and supporting functions
  - Underwater endowments
- Report investment return net of external and direct internal investment expenses and no longer require disclosures of those netted expenses.

The amendments should be applied on a retrospective basis in the year that the pronouncement is first applied. The standard will be effective for the Organization for annual periods beginning after December 15, 2017. Early adoption is permitted.

NOTE 2 - LAND, BUILDING, AND EQUIPMENT

Land, building, and equipment consist of the following at June 30:

	2016	2015
Land	$ 167,500	$ 167,500
Building	723,762	723,762
Program and office equipment	465,091	457,590
Transportation equipment	117,564	117,564
Total	1,473,917	1,466,416
Less accumulated depreciation	(1,017,814)	(972,182)
Land, building, and equipment, net	$ 456,103	$ 494,234

For the years ended June 30, 2016 and 2015, depreciation expense totaled $45,459 and $49,456, respectively.

NOTE 3 - OPERATING LEASES

The Organization had a noncancelable operating facility lease that expired at September 30, 2016 and was not renewed. The Organization also leases another facility under a month-to-month lease arrangement. In addition to the basic monthly rent, the Organization is responsible for all taxes, assessments, insurance premiums and repairs, and maintenance expenses. Operating lease rentals are expensed on a straight-line basis over the life of the lease, net of allowances for leasehold improvements. Rental expense for those leases totaled $199,018 and $242,327 for the years ended June 30, 2016 and 2015, respectively, of which $59,500 and $102,000 was netted against thrift shop revenue for 2016 and 2015, respectively.

Future minimum lease commitments for the above operating leases are as follows:

Years Ending June 30,	
2017	$ 15,450

NOTE 4 - LINE OF CREDIT

The Organization has established a $250,000 line of credit with a financial institution that matures on February 15, 2017. Interest on outstanding balances is payable monthly at the prime rate, plus 1.0% and 2.0% at June 30, 2016 and 2015, respectively (4.5% and 5.25% at June 30, 2016 and 2015, respectively). The note is secured by essentially all assets of the organization. During the years ended June 30, 2016 and 2015, the Organization incurred $4,407 and $2,216, respectively, in interest expense on borrowings against the line of credit during the year. As of June 30, 2016 and 2015, there was $250,000 and $0 outstanding, respectively, on the line of credit.

NOTE 5 - DEFERRED INCOME

Deferred income consists of overpayments reported by the Department of Children and Family Services and amounts received prior to the end of the fiscal year for special events taking place in the following fiscal year.

NOTE 6 - PROMISES TO GIVE

Unconditional

As of June 30, 2016 and 2015, unconditional promises to give from a United Way affiliate totaled $0 and $3,000, respectively.

The Organization also received unconditional promises to give from various other organizations and private foundations.

All unconditional promises to give are expected to be collected within one year. Uncollectible promises to give are expected to be insignificant.

NOTE 7 - CONTINGENCIES

The state and federal grants received by the Organization are subject to audit, and the Organization could become liable for any expenditures disallowed upon audit. Management believes, however, that such disallowance, if any, would not be material.

The Organization receives a significant portion of its revenues and other support from agencies of the state of Illinois. Payments for the Organization's programs funded by these agencies may be subject to modification based on the amount of funding made available. Should such funding modifications occur, they could have an adverse effect on the Organization's revenue, gains, and other support. Total revenues from the state of Illinois approximated \$1,700,000 and \$1,900,000 for the years ended June 30, 2016 and 2015, respectively. Outstanding receivables from the state of Illinois were approximately \$440,000 and \$84,000 at June 30, 2016 and 2015, respectively. Subsequent to June 30, 2016, the Organization collected approximately \$440,000 of the outstanding receivables from the state of Illinois.

NOTE 8 - SUBSEQUENT EVENTS

Management evaluated subsequent events through January 15, 2017, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2016, but prior to January 15, 2017 that provided additional evidence about conditions that existed at June 30, 2016, have been recognized in the financial statements for the year ended June 30, 2016. Events or transactions that provided evidence about conditions that did not exist at June 30, 2016, but arose before the financial statements were available to be issued have not been recognized in the financial statements for the year ended June 30, 2016.

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INDEPENDENT AUDITORS' 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*

Board of Directors
Shelter, Inc.
Arlington Heights, Illinois

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 financial statements of Shelter, Inc. (the Organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 15, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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 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. 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies. 2016-001 and 2016-002.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2016-001 and 2016-002.

The Organization's Reponses to the Findings

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

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 result of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Oak Brook, Illinois
January 15, 2017

SHELTER, INC.
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2016

FINDING 2016-001 – AUDIT ADJUSTMENT

Condition:

During the course of our audit, an adjustment was posted to the Organization's financial statements to adjust deferred income and recognize a temporarily restricted contribution.

Criteria:

Policies and procedures should be in place to provide management with reasonable assurance that interim and year-end reporting of financial information is accurate and in accordance with generally accepted accounting principles.

Context:

The adjustment resulted in an increase in temporarily restricted net assets of $100,000 at June 30, 2016.

Effect:

The Organization's financial information did not accurately present financial position or results of operations.

Cause:

Unknown.

Recommendation:

We recommend that management review policies and procedures over contribution transactions to ensure that all necessary adjustments are being posted on a timely basis and in accordance with generally accepted accounting principles.

Management's Response and Corrective Action Plan:

Management has reviewed this finding and the generally accepted accounting principles governing the auditor's recommendation. Management agrees that the adjustment is the appropriate corrective action.

Implementation Date: Immediately
Person Responsible: Jim Weber, Director of Business Administration

FINDING 2016-002 – LACK OF INVOICE NUMBERS

Condition:

During the course of our audit, it was noted that invoices being used for billing lack preassigned invoice numbers.

Criteria:

Policies and procedures should be in place to provide management with reasonable assurance that billings are accurate and that there are no duplicate invoices for program billings being processed.

Context:

Programs affected account for approximately $1,700,000 of total revenues.

Effect:

Duplicate billings could be processed and potentially result in accounting errors and irregularities.

Cause:

Unknown.

Recommendation:

We recommend that management review policies and procedures over invoicing and ensure that each invoice has a separately identifiable invoice number for better control over billing.

Management's Response and Corrective Action Plan:

Management has reviewed this finding and importance of the auditor's recommendation. Management agrees that adding invoice identification numbers is the appropriate corrective action.

Implementation Date: Immediately
Person Responsible: Jim Weber, Director of Business Administration

SUPPLEMENTARY INFORMATION

SHELTER, INC.
DETAILED SCHEDULE OF SELECTED REVENUE
Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	2016 Total
REVENUE			
Department of Children and Family Services:			
Traditional and Relative Foster Care	$ 784,150	$ -	$ 784,150
Transitional Living Program	510,222	-	510,222
TOTAL REVENUE	$ 1,294,372	$ -	$ 1,294,372

See independent auditors' report on supplementary schedule.

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