

THE SHELTER, INC.
Lawrence, Kansas

FINANCIAL STATEMENTS
WITH ACCOMPANYING INFORMATION

For the year ended June 30, 2010

and

INDEPENDENT AUDITORS' REPORTS

Long CPA, PA
A Professional Association
Certified Public Accountants

THE SHELTER, INC.
Lawrence, Kansas

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Board of Directors
The Shelter, Inc.
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INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying statement of assets, liabilities, and net assets – modified cash basis of The Shelter, Inc. (a nonprofit organization) as of June 30, 2010, and the related statements of revenue, support, expenses and change in net assets – modified cash basis and functional expenses – modified cash basis, and cash flows – modified cash basis for the year then ended. These financial statements are the responsibility of the Organization's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Organization prepares its financial statements on the cash basis of accounting, is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America, except that the statements include a provision for depreciation and prepaid insurance. These provisions are a departure from the cash basis method of accounting.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of The Shelter, Inc., as of June 30, 2010, and the changes in its revenues, support, expenses and its cash flows for the year then ended, on the basis of accounting described in Note 1.

Board of Directors
The Shelter, Inc.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information on page 18 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued a report dated January 7, 2011 on our consideration of The Shelter, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Long CPA, PA

Long CPA, PA
A Professional Association
Certified Public Accountants

January 7, 2011

THE SHELTER, INC.

Lawrence, Kansas

STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS -
MODIFIED CASH BASIS

As of June 30, 2010

Assets		
Current assets		
Cash (Note 1)	\$ 697,327	
Investments (Note 3)	423,974	
Prepaid insurance	44,396	
Total current assets		\$ 1,165,697
Fixed assets		
Property and equipment (Note 2)	436,635	
Accumulated depreciation	(175,564)	
Total fixed assets		261,071
Other assets		
Deposits		356
Total assets		<u>\$ 1,427,124</u>
Liabilities and Net Assets		
Current liabilities		
Payroll taxes payable	\$ 2,364	
Total fixed assets		\$ 2,364
Net Assets		
Unrestricted	1,471,456	
Accumulated other comprehensive income		
Unrealized gain on investments	(46,696)	
Total net assets		<u>1,424,760</u>
Total liabilities and net assets		<u>\$ 1,427,124</u>

The accompanying notes to financial statements
are an integral part of this statement.

THE SHELTER, INC.
Lawrence, Kansas

STATEMENT OF REVENUES, SUPPORT, EXPENSES AND CHANGE IN NET ASSETS -
MODIFIED CASH BASIS
For the year ended June 30, 2010

Unrestricted Net Assets

Revenues

Title XX - per diem	\$	55,085
JJA residential		6,486
The Farm		62,899
Kaw Valley center		486,284
Other/private placement		53,631
School lunch program		14,660
Satellite foster care		137,221
Diverson foster care		308,035
Pre-filing diverson fees		22,000
Training revenues		3,021
JJA intake		169,801
YRC II Services		152,137
Specialized case management		51,266
Return on investment		55,830
Management/general income		145,886
TSAS, Inc.		
Adoption income		7,584
Interest income		36

\$ 1,731,862

Support

City of Lawrence	18,667
Douglas County	60,000
Douglas County Community Foundation	1,000
Placement grant/ETC grant	119,102
Rice Foundation grant	2,000
Achievement Place	1,163
Unrestricted donations	2,562
Fund raising	54,576

259,070

Total revenue and support

1,990,932

The accompanying notes to financial statements
are an integral part of this statement.

THE SHELTER, INC.
Lawrence, Kansas

STATEMENT OF REVENUES, SUPPORT, EXPENSES AND CHANGE IN NET ASSETS -
MODIFIED CASH BASIS (Continued)
For the year ended June 30, 2010

Expenses		
Residential and add on service	619,014	
Intake	200,646	
Placement	119,144	
Pre-filing diversion	77,634	
Specialized case management	53,328	
Family services	483,718	
Management/general	354,004	
Other general	86,353	
TSAS, Inc.	<u>2,369</u>	
Total expenses		<u>1,996,210</u>
Net Increase (Decrease) in Net Assets		(5,278)
Net assets, beginning of year		<u>1,430,038</u>
Net assets, end of year		<u>\$ 1,424,760</u>

The accompanying notes to financial statements
are an integral part of this statement.

THE SHELTER, INC.
Lawrence, Kansas

STATEMENT OF FUNCTIONAL EXPENSES -
MODIFIED CASH BASIS
For the year ended June 30, 2010

	Vocational		Placement	Pre-filing Diversion
	Residential	Intalce		
Salaries and Payroll Taxes	\$ 406,063	\$ 132,339	\$ 78,813	\$ 60,297
Fringe benefits	50,865	12,666	10,827	7,157
Insurance - building and grounds	2,686			
Insurance - vehicles	5,531			
Insurance - general	20,114		2,009	2,403
Contract services: professional		2,900		
Group therapy				
Staff development	100	1,228	552	208
Legal and accounting	80			
Allowances	1,800			
Supplies: personal	269			
Supplies: school	763			
Supplies: food	31,085			
Supplies: office		7,050	6,145	69
Supplies: medical	546			
Supplies: household	4,613			
Supplies: training				
Postage	349			
Telephone	3,929			
Utilities	12,883			
Repairs and maintenance	17,764			
Repair: vehicles	2,384			
Transportation: gas and oil	8,106			
Vehicle lease	15,417			
Tax and licenses	672			
Dues and subscriptions	523			
Business travel	3,761	1,342	414	351
Advertisement	2,594			
Equipment expenses: non-capital	5,332	5,201		
Rent	1,100	2,079		
Communication		1,794		
Recreation	5,392			
Flex payments			5,742	
Fund raising				
Clothing	375			
Placement				
Services to families		30,461		

The accompanying notes to financial statements
are an integral part of this statement

THE SHELTER, INC.
Lawrence, Kansas

STATEMENT OF FUNCTIONAL EXPENSES -
MODIFIED CASH BASIS (Continued)
For the year ended June 30, 2010

	<u>Residential</u>	<u>Intake</u>	<u>Placement</u>	<u>Pre-filing Diversion</u>
Douglas County Community Foundation				
Accreditation				
Capital improvements				
Bramlage Foundation				
Other miscellaneous	969	102		
Miscellaneous: non-allowable				
Management/general expense		3,484	14,642	7,139
Records check	249			10
	<u>606,314</u>	<u>200,646</u>	<u>119,144</u>	<u>77,634</u>
Total Expenses Before Depreciation				
Depreciation	12,700			
	<u>\$ 619,014</u>	<u>\$ 200,646</u>	<u>\$ 119,144</u>	<u>\$ 77,634</u>
Total Expenses				

The accompanying notes to financial statements
are an integral part of this statement

THE SHELTER, INC.
Lawrence, Kansas

STATEMENT OF FUNCTIONAL EXPENSES -
MODIFIED CASH BASIS
For the year ended June 30, 2009

	Specialized Case Mgmt	Family Services	Management/ General	Other General
Salaries and Payroll Taxes	\$ 43,818	\$ 122,400	\$ 217,874	
Fringe benefits	4,690	8,466	11,976	
Insurance - building and grounds				
Insurance - vehicles				
Insurance - general	1,278	9,870	12,109	
Contract services: professional		1,050	15,966	
Group therapy				
Staff development	52	1,269	25	
Legal and accounting			12,540	
Allowances				
Supplies: personal				
Supplies: school				
Supplies: food				
Supplies: office	17	308	11,634	
Supplies: medical				
Supplies: household				
Supplies: training		457		
Postage		19	1,956	
Telephone		(34)	4,955	
Utilities			10,083	
Repairs and maintenance			289	
Repair: vehicles				
Transportation: gas and oil				
Vehicle lease				
Tax and licenses		75	75	
Dues and subscriptions			6,000	
Business travel	234	6,344	361	
Advertisement		2,063	96	
Equipment expenses: non-capital	242	2,155	8,976	
Rent			26,500	
Communication				
Recreation				
Flex payments				
Fund raising				5,033
Clothing				
Placement		280,429		
Services to families				

The accompanying notes to financial statements
are an integral part of this statement

THE SHELTER, INC.
Lawrence, Kansas

STATEMENT OF FUNCTIONAL EXPENSES -
MODIFIED CASH BASIS (Continued)
For the year ended June 30, 2010

	<u>Specialized Case Mgmt</u>	<u>Family Services</u>	<u>Management/ General</u>	<u>Other General</u>
Douglas County Community Foundation				
Accreditation				54
Capital improvements				4,432
Bramlage				25,622
Other miscellaneous		57		
Miscellaneous: non-allowable				5,347
Management/general expense	2,997	48,620		44,387
Records check		170	37	
	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenses Before Depreciation	53,328	483,718	341,452	84,875
	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation			12,552	1,478
	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenses	<u>\$ 53,328</u>	<u>\$ 483,718</u>	<u>\$ 354,004</u>	<u>\$ 86,353</u>

The accompanying notes to financial statements
are an integral part of this statement

THE SHELTER, INC.
Lawrence, Kansas

STATEMENT OF FUNCTIONAL EXPENSES -
MODIFIED CASH BASIS
For the year ended June 30, 2010

	<u>TSAS</u>	<u>Total</u>
Salaries and Payroll Taxes	\$ -	\$ 1,061,604
Fringe benefits		106,647
Insurance - building and grounds		2,686
Insurance - vehicles		5,531
Insurance - general	848	48,631
Contract services: professional		19,916
Group therapy		-
Staff development		3,434
Legal and accounting	1,050	13,670
Allowances		1,800
Supplies: personal		269
Supplies: school		763
Supplies: food		31,085
Supplies: office		25,223
Supplies: medical		546
Supplies: household		4,613
Supplies: training		457
Postage		2,324
Telephone	34	8,884
Utilities		22,966
Repairs and maintenance		18,053
Repair: vehicles		2,384
Transportation: gas and oil		8,106
Vehicle lease		15,417
Tax and licenses	75	897
Dues and subscriptions		6,523
Business travel	179	12,986
Advertisement		4,753
Equipment expenses: non-capital	183	22,089
Rent		29,679
Communication		1,794
Recreation		5,392
Flex payments		5,742
Fund raising		5,033
Clothing		375
Placement		280,429
Services to families		30,461

The accompanying notes to financial statements
are an integral part of this statement

THE SHELTER, INC.
Lawrence, Kansas

STATEMENT OF FUNCTIONAL EXPENSES -
MODIFIED CASH BASIS (Continued)
For the year ended June 30, 2010

	<u>TSAS</u>	<u>Total</u>
Douglas County Community Foundation		-
Accreditation		54
Capital improvements		4,432
Bramlage Foundation		25,622
Other miscellaneous		1,128
Miscellaneous: non-allowable		5,347
Management/general expense		121,269
Records check		466
	<u>2,369</u>	<u>1,969,480</u>
Total Expenses Before Depreciation		
		26,730
Depreciation		
	<u>\$ 2,369</u>	<u>\$ 1,996,210</u>
Total Expenses		

The accompanying notes to financial statements
are an integral part of this statement

THE SHELTER, INC.
Lawrence, Kansas

STATEMENT OF CASH FLOWS -
MODIFIED CASH BASIS
For the year ended June 30, 2010

Cash Flows From Operating Activities	
Increase (decrease) in net assets	\$ (5,278)
Adjustments to reconcile change in net assets to net cash flows	
Depreciation	26,730
Unrealized loss (gain)	(46,768)
Change in assets and liabilities	
Prepaid insurance	(6,351)
Payroll liabilities	2,103
	<hr/>
Net Cash Provided (Used) by Operating Activities	(29,564)
Net Cash Flows From Investing Activities	
Purchase of fixed assets	(22,502)
Loss(gain) on sale of securities	1,065
Reinvestment investment income, net of investment fees	(7,680)
	<hr/>
Net Cash Provided (Used) by Investing Activities	(29,117)
Net Increase (Decrease) in Cash	(58,681)
Total Cash and Cash Equivalents as of Beginning of Year	756,008
Total Cash and Cash Equivalents as of End of Year	<u>\$ 697,327</u>
<u>Supplemental Information</u>	
Interest paid	<u>\$ -</u>
Income taxes paid	<u>\$ -</u>

The accompanying notes to financial statements
are an integral part of this statement

THE SHELTER, INC.
Lawrence, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies

Description of Activities

The Shelter, Inc. is a private, non-profit organization located in Lawrence, Kansas. The Shelter, Inc. provides emergency residential care for adolescents as a result of law enforcement and/or court action.

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

The Shelter Adoption Services, Inc. is a private, non-profit organization located in Lawrence, Kansas. The organization provides adoption related services consistent with procedures established by the State of Kansas Department of Social and Rehabilitation Services in the Lawrence and Douglas County area. The financial information is included here due to both organizations having identical board members.

The Shelter Adoption Services, Inc., a related organization, offers adoption services for children of all ages whose parental rights have been terminated. These services include case management and follow-up services.

The Shelter Adoption Services, Inc. reimbursed The Shelter, Inc. for management and personnel expenses of \$8,345 during the year ended June 30, 2010.

Financial Statements

These financial statements have been prepared on the modified cash basis of accounting. This basis is an other comprehensive basis of accounting and differs from accounting principles general accepted in the United States of America in that revenue is recognized when received rather than when earned and expenses are recognized when paid rather than when the obligation is incurred.

Use of Accounting Estimates

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 certain reported amounts of certain assets, liabilities and disclosures. Accordingly, actual amounts could differ from those estimates. Any adjustments applied to estimated amounts are recognized in the year the adjustment is determined.

THE SHELTER, INC.
Lawrence, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the agency considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

At year end, the bank carrying amounts of the organization's accounts were \$1,148,238 which consisted of \$469,115 in open accounts, \$255,149 in money market accounts and \$423,974 in investments accounts.

In October 2008, the FDIC announced deposits at FDIC-insured institutions are insured up to at least \$250,000 per depositor until December 31, 2013. On January 1, 2014, FDIC deposit insurance for all deposit accounts—except for certain retirement accounts—will return to at least \$100,000 per depositor. Insurance coverage for certain retirement accounts, which include all IRA deposit accounts, was increased permanently to \$250,000 per depositor in 2006. In addition, FDIC announced its temporary Transaction Account Guarantee Program, which provides full coverage for non-interest bearing transaction deposit accounts at FDIC-insured institutions that agree to participate in the program. The transaction account guarantee applies to all personal and business checking deposit accounts that do not earn interest at participating institutions. This unlimited insurance coverage is temporary and will remain in effect for participating institutions until June 30, 2010.

The organization's deposits are held in Lawrence, Kansas banks. The deposits were under secured by \$898,268 as of June 30, 2010. The board of directors has determined to accept the risk involved for under secured deposits.

Property and Depreciation

Property and equipment are recorded at cost. Depreciation is provided using the straight line method over the estimated useful life of the respective asset. Depreciation recorded for the year ended June 30, 2010 was \$26,730.

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

THE SHELTER, INC.
Lawrence, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - Summary of Significant Accounting Policies (Continued)

Income Taxes Status

The Shelter, Inc. and The Shelter Adoption Services, Inc. are exempt from federal income taxes under section 501 (c) (3) of the Internal Revenue Code and therefore have made no provision for federal income taxes in the accompanying financial statements. In addition, The Shelter, Inc. and The Shelter Adoption Services, Inc. have been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509 (a) of the Internal Revenue Code. The organizations have not been involved in any activities subject to the Unrelated Business Income Tax of nonprofit organizations.

Financial Statement Presentation

The Shelter, Inc. and The Shelter Adoption Services, Inc have elected to adopt Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations". Under SFAS No. 117, The Shelter, Inc. and The Shelter Adoption Services, Inc are 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. In addition, The Shelter, Inc. and The Shelter Adoption Services, Inc have discontinued its use of fund accounting and has, accordingly, reclassified its financial statements to present the three classes of net assets required.

Under accounting principles generally accepted in the United States of America, net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the organization and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed restrictions.

Temporarily restricted net assets - net assets subject to donor-imposed stipulations that may or will be met either by actions of the organization and/or the passage of time.

NOTE 2 - Property and Equipment

Property and equipment are summarized by major classification at June 30, 2010 as follows:

Buildings	\$ 242,253
Improvements	92,682
Furniture and equipment	<u>101,700</u>
	<u>\$ 436,635</u>

THE SHELTER, INC.
Lawrence, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 3 – Investments

The organization has adopted SFAS No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations." Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of assets, liabilities and net assets – modified cash basis. Unrealized gains and losses are also reported in the statement of assets, liabilities, and net assets – modified cash basis.

The Organization's investments consist of the following at June 30, 2010:

	<u>Cost Basis</u>	<u>Fair Market Value</u>	<u>Unrealized Appreciation/ (Depreciation)</u>
Mutual Funds	<u>\$ 470,670</u>	<u>\$ 423,974</u>	<u>\$ (46,696)</u>

Investment return is summarized as follows:

Interest/dividends	\$ 10,127
Realized gain (loss)	(1,065)
Unrealized gain (loss)	<u>46,768</u>
	<u>\$ 55,830</u>

NOTE 4 – Risk Management

The organization is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the Organization carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

THE SHELTER, INC.
Lawrence, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 5 – Compensated Absences

No provision is made in these statements for accrued compensated absences.

Compensated absences include the following:

	Vacation	Sick
Professional staff	10 – 20 days/year. Maximum carryover 15 days.	One sick day per month. Maximum carryover 30 days.
Hourly Supervisory and Office Staff	5 – 10 days/year. Maximum carryover 10 days.	None

NOTE 6 – Leases

The Organization leases two vehicles from Jim Clark and Laird Noller Leasing for \$1,230.69 per month. The leases are operating leases expiring May 7, 2011 and September 30, 2012. A total of \$15,417 was paid for the leases during the year ended June 30, 2010.

Future minimum payments are as follows:

Year	Amount
2011	\$ 10,842
2012	8,092
	\$ 18,934

NOTE 7 – Subsequent Events

Subsequent to the fiscal year end, the Organization received a legal demand letter for reimbursement of medical expenses. Management provided a copy of the demand letter to the insurance company and the insurance company will defend their position. Management believes there is no merit to the claims noted in the demand letter.

NOTE 8 – Subsequent Events

Subsequent events for management's review have been evaluated through January 25, 2011. The date in the prior sentence is the date the financial statements were available to be issued.

THE SHELTER, INC.
Lawrence, Kansas

Schedule 1

STATEMENT OF REVENUES AND EXPENSES FOR GRANTS
BUDGET AND ACTUAL
CHILDREN'S ALLIANCE CASE MANAGEMENT GRANT
For the period July 1, 2009 to June 30, 2010

	<u>Actual</u>	<u>Budget</u>	Variance - Favorable (Unfavorable)
Grant Revenue	<u>\$ 119,102</u>	<u>\$ 119,144</u>	<u>\$ (42)</u>
Expenses			
Case management	\$ 113,402	\$ 113,402	\$ -
Flex payments	<u>5,742</u>	<u>5,742</u>	<u>-</u>
	<u>\$ 119,144</u>	<u>\$ 119,144</u>	<u>\$ -</u>

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Board of Directors
The Shelter, Inc.
Lawrence, Kansas 66044

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

We have audited the financial statements of The Shelter, Inc. (a nonprofit organization) as of and for the year ended June 30, 2010 and have issued our report thereon dated January 7, 2011. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered The Shelter Inc. internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Shelter Inc internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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 misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the organization's financial statements will not be prevented, or detected and corrected on a timely basis.

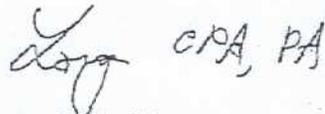
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Board of Directors
The Shelter, Inc.
Lawrence, Kansas 66044

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Shelter, Inc.'s financial statements are free of material misstatement, we performed test 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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the audit committee, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

 CPA, PA

Long CPA, PA
A Professional Association
Certified Public Accountants
January 7, 2011

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January 7, 2011

To the Board of Directors
The Shelter, Inc.

We have audited the financial statements of The Shelter, Inc for the year ended June 30, 2010, and have issued our report thereon dated January 7, 2011. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated January 5, 2010, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with modified cash basis of accounting. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of The Shelter, Inc. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of The Shelter's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by The Shelter, Inc. are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ending June 30, 2010. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about

future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the depreciation is based on estimated useful life of an asset. We evaluated the key factors and assumptions used to develop depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of a legal demand letter received subsequent to the fiscal year end in Note 7 to the financial statements.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 7, 2010.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

During the course of our examination of the financial statements of The Shelter, Inc. for the year ended June 30, 2010, we made observations, which in our professional judgment are neither a significant deficiency or a material weakness, we feel will be of benefit to you in your continuing management or the Organization's affairs and policies.

1. The depreciation schedule should be regularly reviewed and updated for the retirement and disposal of long term assets.

The overall accounting records were found to be in excellent order. We have enjoyed working with organization personnel on the annual audit and look forward to a continuing professional association. We would be happy to make ourselves available to organization personnel or board members if any questions arise as a result of this year's examination.

This information is intended solely for the use of Board of Directors and management of The Shelter, Inc. and is not intended to be and should not be used by anyone other than these specified parties.

Cordially,

 CPA, PA

Long CPA, PA
A Professional Association
Certified Public Accountant