

YOUTH AND SHELTER SERVICES, INC.
CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

Year Ended June 30, 2006

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Youth and Shelter Services, Inc.
Ames, Iowa 50010

We have audited the accompanying consolidated statement of financial position of Youth and Shelter Services, Inc., and affiliate as of June 30, 2006 and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended. These consolidated 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. The prior year summarized comparative information has been derived from the Organization's 2005 financial statements and, in our report dated September 13, 2005, we expressed an unqualified opinion on those financial statements.

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. The financial statements of Youth and Shelter Services Foundation, Inc. (the affiliate) were not audited in accordance with *Government Auditing Standards*. 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Youth and Shelter Services, Inc., and affiliate as of June 30, 2006 and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2006, on our consideration of Youth and Shelter Services, 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.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Youth and Shelter Services, Inc. taken as a whole. The information included in the accompanying schedules of Consolidating Statements of Financial Position and Activities, Fees and Grants from Governmental Agencies and Schedules of Selected Contract Revenue and Expenses – Contract Basis are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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.



Peterson & Houston, P.C.
Boone, Iowa

September 12, 2006

YOUTH AND SHELTER SERVICES, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2006
(With Comparative Totals For June 30, 2005)

	2006	2005
ASSETS		
Cash	\$ 42,083	\$ 44,111
Investments	760,671	696,372
Receivables		
Grants	510,608	458,975
Program service fees, less allowance for doubtful accounts of \$12,000 in 2006 and \$12,000 in 2005	188,150	232,699
Miscellaneous	3,126	11,208
Prepaid expenses	30,867	1,129
Cash surrender value of life insurance	66,483	61,072
Cash surrender value of life insurance - Foundation	43,939	38,016
Cash and investments restricted for YSS Foundation	2,215,774	1,787,463
Land	413,542	413,542
Property and equipment, less accumulated depreciation	1,588,296	1,703,887
<hr/>		
Total Assets	\$ 5,863,539	\$ 5,448,474

See accompanying notes.

YOUTH AND SHELTER SERVICES, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2006
(With Comparative Totals For June 30, 2005)

	2006	2005
LIABILITIES		
Grant advances	\$ 25,481	\$ 39,649
Deferred revenue	10,000	3,287
Client accounts	20,679	20,087
Accrued expenses		
Employee benefit plan	9,928	10,861
Vacation and holiday pay	244,490	263,810
Estimated state unemployment liability	695,719	659,902
Note payable	5,000	-
Annuities Payable - Foundation	56,000	60,000
Total Liabilities	1,067,297	1,057,596
INTERFUND BORROWINGS		
Due to general fund	1,313	32,891
Due (from) Foundation	(14,397)	(32,423)
Due (from) specified fund	13,084	(468)
Total Interfund Borrowings	-	-
NET ASSETS		
Unrestricted	2,556,852	2,580,223
Temporarily restricted	2,239,390	1,810,655
Total Net Assets	4,796,242	4,390,878
Total Liabilities and Net Assets	\$ 5,863,539	\$ 5,448,474

See accompanying notes.

YOUTH AND SHELTER SERVICES, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006
(With Comparative Totals for Year Ended June 30, 2005)

	Unrestricted	Temporarily Restricted	2006 Total	2005 Total
REVENUES AND OTHER SUPPORT				
Specified Donations	\$ -	\$ 38,909	\$ 38,909	\$ 53,276
Grants	244,676	-	244,676	223,466
United Way	328,493	-	328,493	336,032
Fees and grants from Governmental Agencies	4,785,311	-	4,785,311	4,563,962
Program Service Fees	2,620,043	-	2,620,043	2,670,056
Investment return	15,672	-	15,672	7,903
Miscellaneous revenue	1,956	-	1,956	12,718
Youth & Shelter Services Foundation revenues	-	872,417	872,417	566,974
Net assets released from restrictions				
Restrictions satisfied by payments	482,591	(482,591)	-	-
Total Revenues and Other Support	8,478,742	428,735	8,907,477	8,434,387
EXPENSES				
Program Services				
Lighthouse/HUD Program	57,699	-	57,699	63,077
Family Foster Care	138,092	-	138,092	74,190
Family Counseling Center	374,118	-	374,118	277,172
Adoption	61,808	-	61,808	70,117
Rosedale Shelter House	566,377	-	566,377	506,549
Chemical Dependency Services - Residential	1,183,916	-	1,183,916	1,141,607
Chemical Dependency Services - Outpatient	228,916	-	228,916	245,080
Pre-Natal Care Boone	78,162	-	78,162	51,758
Substance Abuse Prevention	302,857	-	302,857	263,347
Community Youth & Family Development	62,604	-	62,604	67,979
Young Parents	282,061	-	282,061	351,926
YSS of Eastern Story County	65,680	-	65,680	81,639
YSS of Boone County	395,465	-	395,465	376,772
Hamilton County Youth & Family Center	272,608	-	272,608	352,856
Adolescent Pregnancy Prevention	54,833	-	54,833	-
YSS of Marshall County	664,403	-	664,403	704,897
Iowa Homeless Youth Center	945,197	-	945,197	992,007
Story Afterschool	270,069	-	270,069	246,350
Boone Afterschool	83,935	-	83,935	74,758
Marshall Afterschool	41,046	-	41,046	26,230
Youth Employment	24,225	-	24,225	22,789
Transitional Living/Independent Living Project	57,891	-	57,891	57,767
Story Mentoring & Grip	151,822	-	151,822	36,507
Boone Mentoring & Grip	72,126	-	72,126	63,906
Passages	37,681	-	37,681	85,758
Tobacco	73,653	-	73,653	68,554
HIV/Aids	21,691	-	21,691	22,043
Story County Healthy Futures	146,736	-	146,736	97,372
Iowa Aftercare Services	583,078	-	583,078	531,364
Rural Youth Mentoring	-	-	-	160,621
Risky Business Conference	41,015	-	41,015	48,567
YSS Foundation	125,113	-	125,113	126,560
Supporting Activities				
General and Administrative	846,132	-	846,132	905,574
Fund Raising	191,104	-	191,104	183,382
Total Expenses	8,502,113	-	8,502,113	8,379,075
Increase (Decrease) in Net Assets	(23,371)	428,735	405,364	55,312
Net Assets at Beginning of Year	2,580,223	1,810,655	4,390,878	4,335,566
Net Assets at End of Year	\$ 2,556,852	\$ 2,239,390	\$ 4,796,242	\$ 4,390,878

See accompanying notes.

YOUTH AND SHELTER SERVICES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2006
(With Comparative Totals for Year Ended June 30, 2005)

	Lighthouse HUD Program	Family Foster Care	Family Counseling Center	Adolescent Pregnancy Prevention	Rosedale Shelter House	Chemical Dependency Services Residential	Chemical Dependency Services Outpatient	Pre-Natal Care Boone	Substance Abuse Prevention	Community Youth & Family Development	Young Parents	YSS of Eastern Story County	YSS of Boone County	Hamilton Co. Youth & Family Center	YSS of Marshall County	Iowa Homeless Youth Center
Compensation and Related Expenses																
Compensation	\$ 25,077	\$ 74,178	\$ 236,996	\$ 37,182	\$ 354,288	\$ 745,776	\$ 163,863	\$ 44,920	\$ 170,276	\$ 34,630	\$ 143,949	\$ 35,942	\$ 251,755	\$ 176,219	\$ 328,709	\$ 547,803
Employee benefits																
Medical	-	8,049	30,172	4,533	36,380	75,179	15,369	5,664	16,873	4,686	9,699	2,508	20,827	15,097	26,105	51,560
Other	272	2,257	7,750	1,441	19,319	23,302	7,422	2,527	7,827	1,890	9,284	3,092	11,109	10,314	17,223	23,489
Payroll taxes	1,608	6,132	19,737	3,423	30,173	57,989	13,767	3,960	15,578	3,980	12,931	3,156	21,117	15,032	27,025	46,928
Total Compensation and Related Expenses	26,957	90,616	294,655	46,579	440,160	902,246	200,421	57,071	210,554	45,186	175,863	44,698	304,808	216,662	399,062	669,780
Conferences	-	921	934	157	836	2,239	330	1,250	9,972	1,214	2,636	96	958	392	1,835	3,150
Dues	-	125	495	172	473	3,714	3,097	389	2,188	96	385	244	1,181	300	1,253	1,796
Food	-	-	-	-	25,698	47,554	-	-	-	-	-	-	-	-	504	1,735
Insurance																
Property	268	622	1,085	95	861	2,165	478	111	675	-	1,110	529	1,309	745	2,699	3,295
Other	-	393	1,484	174	1,678	6,176	731	428	1,886	369	810	275	1,107	1,369	2,320	4,059
Workmans comp	33	716	118	453	4,245	5,201	1,935	809	2,699	1,031	3,278	844	4,987	3,459	4,897	8,716
Equipment maintenance & repair	1,137	196	1,093	276	10,333	12,098	1,219	175	8,814	2,922	2,091	1,814	4,184	2,886	3,465	5,655
Miscellaneous	-	551	38	-	-	1,039	-	-	1,573	36	2,184	-	352	23	5,296	1,547
Occupancy																
Rent	14,374	-	-	933	-	-	-	1,500	-	-	4,596	-	7,200	-	88,535	52,125
Utilities	4,035	501	2,747	-	12,108	20,726	1,567	-	939	-	1,976	1,792	5,772	2,426	25,966	21,122
Repairs & maintenance	1,996	922	5,058	-	13,763	32,441	2,747	-	2,585	33	4,051	4,814	12,174	1,259	8,174	21,157
Postage	-	295	1,115	240	1,906	3,873	646	181	931	269	683	311	1,258	1,206	2,534	3,806
Printing	-	127	782	55	2,094	2,645	344	59	5,252	437	1,120	189	2,097	1,451	4,066	4,449
Professional fees	393	16,127	21,895	242	9,208	49,799	6,584	10,470	29,415	619	45,665	476	9,199	2,580	23,797	20,337
Public relations	-	-	-	-	45	873	-	-	3,435	-	-	200	-	-	-	445
Specific assistance	850	7,702	740	-	902	1,727	-	-	-	-	2,381	-	1,415	2,511	13,493	21,738
Subscriptions	-	9	47	88	34	45	12	-	10	103	25	72	25	43	192	85
Activities & Supplies	379	65	412	1,027	7,762	11,340	581	130	6,120	2,870	213	-	985	429	6,779	13,399
Office supplies	-	1,566	2,693	231	3,822	6,492	1,509	1,040	3,072	510	2,396	827	2,916	2,184	8,411	9,240
Telephone	3,417	3,675	9,949	1,559	10,654	27,092	5,006	2,499	3,333	-	8,511	4,284	9,275	9,224	23,477	30,460
Travel & transportation	1,755	8,498	18,020	2,552	4,382	15,168	677	2,050	8,825	2,433	15,289	2,703	18,002	18,193	31,330	28,826
Uncollectible fees	-	1,128	483	-	3,824	13,790	1,032	-	-	-	-	80	621	-	146	-
Depreciation	2,105	3,337	10,275	-	11,589	15,473	-	-	579	4,476	6,798	1,432	5,640	5,266	6,172	18,275
Totals	\$ 57,699	\$ 138,092	\$ 374,118	\$ 54,833	\$ 566,377	\$ 1,183,916	\$ 228,916	\$ 78,162	\$ 302,857	\$ 62,604	\$ 282,061	\$ 65,680	\$ 395,465	\$ 272,608	\$ 664,403	\$ 945,197

See accompanying notes.

YOUTH AND SHELTER SERVICES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2006
(With Comparative Totals for Year Ended June 30, 2005)

Story Afterschool	Boone Afterschool	Marshall Afterschool	Transitional Living/Independent Living Project	Youth Employment	Story Mentoring & Grip	Boone Mentoring & Grip	Passages	Tobacco	HIV/Aids	Story County Healthy Futures	Iowa Aftercare Services	Adoption	Risky Business Conference	YSS Foundation	Total Program	General and Administrative	Fund Raising	2006 Total Program and Support Service Expenses
\$ 182,505	\$ 56,976	\$ 30,138	\$ 17,737	\$ 17,722	\$ 102,773	\$ 55,880	\$ 19,243	\$ 39,393	\$ 13,913	\$ 45,318	\$ -	\$ 40,114	\$ 11,109	\$ 35,726	\$ 4,040,110	\$ 557,521	\$ 137,519	\$ 4,735,150
10,696	3,003	-	1,684	2,269	6,968	2,949	2,403	4,566	1,527	3,778	-	3,259	-	-	365,803	36,410	26,128	428,341
7,354	2,880	1,196	754	998	2,569	1,158	1,338	2,170	729	3,387	-	1,503	-	2,534	177,088	24,820	-	201,908
15,900	4,976	2,568	1,333	1,494	9,740	4,852	1,827	3,507	1,182	4,044	-	3,445	801	2,804	341,009	46,490	12,377	399,876
216,455	67,835	33,902	21,508	22,483	122,050	64,839	24,811	49,636	17,351	56,527	-	48,321	11,910	41,064	4,924,010	665,241	176,024	5,765,275
2,333	134	153	697	24	773	211	205	2,258	527	240	-	62	-	145	34,682	1,886	-	36,568
457	-	48	-	38	448	-	102	115	16	-	-	87	3,114	106	20,439	2,724	-	23,163
11,049	3,409	477	-	-	-	-	103	-	-	-	-	-	8,796	-	99,325	-	-	99,325
335	36	39	62	-	1,449	30	291	72	-	311	-	164	-	-	18,836	5,134	-	23,970
1,285	498	156	-	78	694	222	310	179	82	-	-	259	-	-	27,022	3,971	-	30,993
2,366	915	1,966	198	252	606	566	445	697	202	1,142	-	474	-	-	53,250	7,110	-	60,360
181	87	17	-	177	140	91	201	22	17	642	-	1,459	-	-	61,392	6,717	-	68,109
-	-	-	-	-	-	-	-	-	-	-	-	103	2,627	24,020	39,389	3,415	-	42,804
-	-	-	24,643	-	-	1,020	-	-	-	-	-	-	1,865	-	196,791	-	-	196,791
417	-	-	3,003	-	-	-	570	-	-	522	-	334	-	-	106,523	11,890	-	118,413
1,135	-	-	727	-	-	-	1,143	-	-	876	-	602	-	519	116,176	17,943	-	134,119
984	389	146	78	192	491	414	259	309	77	740	-	195	2,249	39	25,816	2,995	5,011	33,822
294	130	36	91	136	1,119	127	88	1,450	52	317	-	102	3,484	31,382	63,975	924	10,069	74,968
1,460	601	194	1,616	109	14,767	1,724	363	8,896	102	60,725	583,078	284	4,862	1,377	926,964	5,551	-	932,515
-	-	-	-	-	-	-	-	2,982	-	-	-	-	-	15,681	23,661	-	-	23,661
-	-	-	626	-	-	-	-	-	-	5,807	-	-	-	10,409	70,301	-	-	70,301
91	164	-	9	66	-	-	11	6	-	6	-	7	-	-	1,150	195	-	1,345
17,414	7,254	2,109	546	-	1,883	-	333	1,361	487	6,503	-	42	-	-	90,423	3,573	-	93,996
2,790	644	203	84	119	1,005	545	428	512	1,165	614	-	1,275	-	-	56,293	4,852	-	61,145
5,690	1,013	788	1,868	258	1,549	1,471	1,940	2,068	644	3,723	-	2,519	-	292	176,238	20,236	-	196,474
5,333	826	812	1,766	293	4,169	866	3,376	3,090	500	1,255	-	5,519	1,204	79	207,791	15,319	-	223,110
-	-	-	-	-	-	-	138	-	-	-	-	-	-	-	21,242	-	-	21,242
-	-	-	369	-	679	-	2,564	-	469	6,786	-	-	904	-	103,188	66,456	-	169,644
\$ 270,069	\$ 83,935	\$ 41,046	\$ 57,891	\$ 24,225	\$ 151,822	\$ 72,126	\$ 37,681	\$ 73,653	\$ 21,691	\$ 146,736	\$ 583,078	\$ 61,808	\$ 41,015	\$ 125,113	\$ 7,464,877	\$ 846,132	\$ 191,104	\$ 8,502,113

See accompanying notes.

YOUTH AND SHELTER SERVICES, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2006
(With Comparative Totals for 2005)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 405,364	\$ 55,312
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	169,644	182,284
Unrealized (gain) loss on investments	5,133	8,418
(Increase) Decrease in operating assets		
Grants receivable	(51,633)	6,058
Program service fees receivable	44,549	45,711
Miscellaneous receivables	8,082	(8,091)
Prepaid expenses	(29,738)	7,622
Increase (Decrease) in operating liabilities		
Annuities payable	(4,000)	(2,000)
Grant advances	(14,168)	(49,783)
Deferred revenue	6,713	(5,306)
Client accounts	592	386
Accrued employee benefit plan	(933)	(1,935)
Accrued vacation and holiday pay	(19,320)	20,198
Accrued estimated state unemployment liability	35,817	29,403
Restricted contributions	(38,909)	(53,276)
Net Cash Provided by Operating Activities	517,193	235,001
CASH FLOWS FROM INVESTING ACTIVITIES		
(Purchases) sales of investments, net	(69,432)	(113,064)
(Purchases) sales of investments restricted to YSS Foundation, net	(428,311)	(126,324)
Payments for property and equipment	(49,053)	(42,024)
Increase in cash surrender value of life insurance	(11,334)	(15,691)
Net Cash (Used) by Investing Activities	(558,130)	(297,103)
CASH FLOWS FROM FINANCING ACTIVITIES		
Specified donations collections	38,909	53,276
Net Cash Provided by Financing Activities	38,909	53,276
Net Increase (Decrease) in Cash and Cash Equivalents	(2,028)	(8,826)
Cash and Cash Equivalents at Beginning of Year	44,111	52,937
Cash and Cash Equivalents at End of Year	\$ 42,083	\$ 44,111

See accompanying notes.

YOUTH AND SHELTER SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS

1. Nature of Activities and Summary of Significant Accounting Policies.

a. Nature of Activities. Youth and Shelter Services, Inc., is a nonprofit corporation organized to provide community youth development, prevention, education, treatment, and residential services to children, youth and families; to advocate on their behalf; and to help them solve problems, grow, and be self-sufficient, responsible, contributing members of society.

b. Basis of Accounting. The financial statements of Youth and Shelter Services, Inc. have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

c. Basis of Presentation. Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, 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. The Organization has no permanently restricted net assets.

d. Principles of Consolidation. The consolidated financial statements include the accounts of Youth and Shelter Services, Inc. and Youth and Shelter Services Foundation, Inc. Youth and Shelter Services Foundation, Inc. is consolidated since Youth and Shelter Services, Inc. has both an economic interest in Youth and Shelter Services Foundation and control of the Foundation through common management. All material interorganization transactions have been eliminated.

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

f. Cash and Cash Equivalents. For purposes of the Statement of Cash Flows, the Organization considers all highly liquid investments available for current use, with an initial maturity of three months or less to be cash equivalents.

g. Investments. Investments in marketable securities with readily determinable fair values and all investments in debt securities are carried at their fair values in the Statement of Financial Position. All gains and losses and investment income are classified as unrestricted in the accompanying Statement of Activities.

h. Land, Buildings and Equipment. Buildings and equipment are carried at cost, or, if donated, at the approximate fair 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. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Depreciation of buildings and equipment is computed using the straight-line method for financial reporting purposes at rates based on the following useful lives:

	<u>Years</u>
Buildings & improvements	5-25
Furniture & equipment	3-5

Expenditures in excess of \$2,000 for major renewals and betterments that extend the useful lives of buildings and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

YOUTH AND SHELTER SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS

1. Nature of Activities and Summary of Significant Accounting Policies. (continued)

i. Promises to Give. Unconditional promises to give are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets as net assets released from restrictions.

j. Donated Services. No amounts have been reflected in the financial statements for donated services. The Organization pays for most services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Organization in the operation of program services. The Organization receives more than 40,000 volunteer hours per year.

k. Concentrations of Credit Risk. The financial instruments which potentially subject the Organization to concentrations of credit risk consist principally of cash, receivables, and promises to give. The Organization places all temporary cash in excess of \$100,000 in a diversified trust account managed by a financial institution. Credit risk for accounts receivable is concentrated because substantially all of the balances are receivable from entities or individuals within the same geographic region.

l. Concentrations of Grants. The Organization is dependent on continued funding by federal, state and local governments which provide a substantial portion of the resources to operate the Organization's programs.

m. Income Tax Status. The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, which provides tax exemption for corporations organized and operated exclusively for religious, charitable or educational purposes. The Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as a publicly-supported organization which is not a private foundation under Section 509(a) of the Code.

n. Comparative Financial Information. The financial statements include certain prior-year summarized comparative information in total but not by net asset or functional expense classification. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2005, from which the summarized information was derived.

o. Expense Allocation. The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

p. Program Service Fees Receivable. Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. The Organization provides for losses on accounts receivable using the allowance method. The allowance is based on experience, third-party contracts, and other circumstances, which may affect the ability of clients to meet their obligations. Receivables are considered impaired if full principal payments are not received in accordance with the contractual terms. It is the Organization's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected.

**YOUTH AND SHELTER SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS**

2. Investments. Short-term investments of \$760,671 and \$696,372 at June 30, 2006 and 2005, respectively, are carried at fair value. The investments are in a managed trust account with a financial institution.

Investments were comprised of the following:

	June 30, 2006			June 30, 2005		
	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation</u>
Money Market Funds	\$573,720	\$573,720	\$ -	\$523,592	\$523,592	\$ -
Equity Mutual Funds	69,868	74,910	5,042	70,917	76,459	5,542
Bond Mutual Funds	<u>115,499</u>	<u>112,041</u>	<u>(3,458)</u>	<u>95,146</u>	<u>96,321</u>	<u>1,175</u>
	<u>\$759,087</u>	<u>\$760,671</u>	<u>\$ 1,584</u>	<u>\$689,655</u>	<u>\$696,372</u>	<u>\$ 6,717</u>

Investment return is summarized as follows:

Investment income	\$ 20,805
Unrealized loss	<u>(5,133)</u>
Total investment return	<u>\$ 15,672</u>

Expenses relating to investment revenues including custodial fees amounted to \$6,146 and have been netted against investment income in the accompanying Statement of Activities.

Cash and investments restricted for Youth and Shelter Services Foundation, Inc., were comprised of the following at June 30, 2006:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation</u>
Cash	\$ 60,740	\$ 60,740	\$ -
Money Market Funds	208,607	208,607	-
Equity Mutual Funds	1,121,517	1,254,112	132,595
Bond Mutual Funds	<u>717,953</u>	<u>692,315</u>	<u>(25,638)</u>
	<u>\$2,108,817</u>	<u>\$2,215,774</u>	<u>\$ 106,957</u>

3. Land, Buildings and Equipment. Land, buildings and equipment are summarized by major classifications as follows:

	<u>2006</u>	<u>2005</u>
Land	\$ 413,542	\$ 413,542
Buildings and improvements	3,563,123	3,527,442
Furniture and equipment	<u>1,607,887</u>	<u>1,589,515</u>
	5,584,552	5,530,499
Accumulated Depreciation	<u>(3,582,714)</u>	<u>(3,413,070)</u>
	<u>\$ 2,001,838</u>	<u>\$ 2,117,429</u>

Depreciation expense for the years ended June 30, 2006, and 2005, was \$169,644 and \$182,284, respectively.

**YOUTH AND SHELTER SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS**

4. Leased Facilities. The Organization has several operating leases, primarily for facilities used with the service programs. Future minimum lease payments under operating leases that have remaining terms in excess of one year as of June 30, 2006 are:

<u>Years Ending June 30</u>	<u>Amount</u>
2007	\$ 136,705
2008	40,340
2009	30,000
2010	30,000
2011	<u>30,000</u>
	<u>\$ 267,045</u>

The Organization paid rent of \$196,791 and \$210,422 for the years ended June 30, 2006 and 2005, respectively.

5. Employees Benefits. Youth and Shelter Services, Inc., has two employee retirement plans for their employees: The first is a non-qualified Deferred Compensation Plan for those employees classified as management, for which the Organization contributes 3% of each participants' compensation. Two years of service are required to participate in the plan, five years of service are required for 100% vesting. The second is a defined contribution pension plan, for which the Organization contributes 5% of each participant's compensation. The Organization's contributions totaled \$161,667 and \$167,572 for the years ended June 30, 2006 and 2005, respectively.
6. Unemployment Tax Liability. Youth and Shelter Services, Inc., has elected to pay state unemployment taxes on a claims made basis. The Organization accrues 1.35% of their employee's wages up to the unemployment wage base established by the State of Iowa. The accrual approximates what the Organization would pay to the State of Iowa were they not on a claims made basis. Unemployment claims paid by the Organization are deducted from this liability. The accrued state unemployment liability was \$695,719 and \$659,902 at June 30, 2006, and 2005, respectively.
7. Restrictions on Net Assets.
Temporarily restricted net assets were available for the following purposes at June 30:

	<u>2006</u>	<u>2005</u>
Specified by donors	\$ 35,677	\$ 45,176
Interest in net assets of foundation	<u>2,203,713</u>	<u>1,765,479</u>
	<u>\$ 2,239,390</u>	<u>\$ 1,810,655</u>

8. Cash Flow Information. The Organization had a noncash financing transaction relating to the purchase of building improvements of \$5,000 and \$0 for the years ended June 30, 2006 and 2005, respectively. Interest paid was \$0 and \$0 for the years ended June 30, 2006 and 2005, respectively.
9. Risk Management. The Organization is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The Organization assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three fiscal years.
10. Net Client Service Revenue. Client service revenue is reported at the estimated realizable amounts from clients, third party payors and others for services rendered.

YOUTH AND SHELTER SERVICES, INC.
SCHEDULE OF CONSOLIDATING STATEMENT OF FINANCIAL POSITION
June 30, 2006

	Youth and Shelter Services, Inc.	Youth and Shelter Services Foundation	2006
ASSETS			
Cash	\$ 42,083	\$ -	\$ 42,083
Investments	760,671	-	760,671
Receivables			
Grants	510,608	-	510,608
Program service fees, less allowance for doubtful accounts of \$12,000 in 2006 and \$12,000 in 2005	188,150	-	188,150
Miscellaneous	3,126	-	3,126
Prepaid expenses	30,867	-	30,867
Cash surrender value of life insurance	66,483	-	66,483
Cash surrender value of life insurance - Foundation	-	43,939	43,939
Cash and investments restricted for YSS Foundation	-	2,215,774	2,215,774
Land	413,542	-	413,542
Property and equipment, less accumulated depreciation	1,588,296	-	1,588,296
Total Assets	\$ 3,603,826	\$ 2,259,713	\$ 5,863,539
LIABILITIES			
Grant advances	\$ 25,481	\$ -	\$ 25,481
Deferred revenue	10,000	-	10,000
Client accounts	20,679	-	20,679
Accrued expenses			
Employee benefit plan	9,928	-	9,928
Vacation and holiday pay	244,490	-	244,490
Estimated state unemployment liability	695,719	-	695,719
Note payable	5,000	-	5,000
Annuities Payable - Foundation	-	56,000	56,000
Total Liabilities	1,011,297	56,000	1,067,297
INTERFUND BORROWINGS			
Due to general fund	-	1,313	1,313
Due (from) Foundation	-	(14,397)	(14,397)
Due (from) specified fund	13,084	-	13,084
Total Interfund Borrowings	13,084	(13,084)	-
NET ASSETS			
Unrestricted	2,556,852	-	2,556,852
Temporarily restricted	22,593	2,216,797	2,239,390
Total Net Assets	2,579,445	2,216,797	4,796,242
Total Liabilities and Net Assets	\$ 3,603,826	\$ 2,259,713	\$ 5,863,539

YOUTH AND SHELTER SERVICES, INC.
SCHEDULE OF CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

	Youth and Shelter Services, Inc.			Youth and Shelter Services Foundation	
	Unrestricted	Temporarily Restricted	Total	Temporarily Restricted	2006 Total
REVENUES AND OTHER SUPPORT					
Specified Donations	\$ -	\$ 38,909	\$ 38,909	\$ -	\$ 38,909
Grants	244,676	-	244,676	-	244,676
United Way	328,493	-	328,493	-	328,493
Fees and grants from Governmental Agencies	4,785,311	-	4,785,311	-	4,785,311
Program Service Fees	2,620,043	-	2,620,043	-	2,620,043
Investment return	15,672	-	15,672	-	15,672
Miscellaneous revenue	1,956	-	1,956	-	1,956
Youth & Shelter Services Foundation revenues	-	-	-	872,417	872,417
Net assets released from restrictions					
Restrictions satisfied by payments	482,591	(39,009)	443,582	(443,582)	-
Total Revenues and Other Support	8,478,742	(100)	8,478,642	428,835	8,907,477
EXPENSES					
Program Services					
Lighthouse/HUD Program	57,699	-	57,699	-	57,699
Family Foster Care	138,092	-	138,092	-	138,092
Family Counseling Center	374,118	-	374,118	-	374,118
Adoption	61,808	-	61,808	-	61,808
Rosedale Shelter House	566,377	-	566,377	-	566,377
Chemical Dependency Services - Residential	1,183,916	-	1,183,916	-	1,183,916
Chemical Dependency Services - Outpatient	228,916	-	228,916	-	228,916
Pre-Natal Care Boone	78,162	-	78,162	-	78,162
Substance Abuse Prevention	302,857	-	302,857	-	302,857
Community Youth & Family Development	62,604	-	62,604	-	62,604
Young Parents	282,061	-	282,061	-	282,061
YSS of Eastern Story County	65,680	-	65,680	-	65,680
YSS of Boone County	395,465	-	395,465	-	395,465
Hamilton County Youth & Family Center	272,608	-	272,608	-	272,608
Adolescent Pregnancy Prevention	54,833	-	54,833	-	54,833
YSS of Marshall County	664,403	-	664,403	-	664,403
Iowa Homeless Youth Center	945,197	-	945,197	-	945,197
Story Afterschool	270,069	-	270,069	-	270,069
Boone Afterschool	83,935	-	83,935	-	83,935
Marshall Afterschool	41,046	-	41,046	-	41,046
Youth Employment	24,225	-	24,225	-	24,225
Transitional Living/Independent Living Project	57,891	-	57,891	-	57,891
Story Mentoring & Grip	151,822	-	151,822	-	151,822
Boone Mentoring & Grip	72,126	-	72,126	-	72,126
Passages	37,681	-	37,681	-	37,681
Tobacco	73,653	-	73,653	-	73,653
HIV/Aids	21,691	-	21,691	-	21,691
Story County Healthy Futures	146,736	-	146,736	-	146,736
Iowa Aftercare Services	583,078	-	583,078	-	583,078
Risky Business Conference	41,015	-	41,015	-	41,015
YSS Foundation	125,113	-	125,113	-	125,113
Supporting Activities					
General and Administrative	846,132	-	846,132	-	846,132
Fund Raising	191,104	-	191,104	-	191,104
Total Expenses	8,502,113	-	8,502,113	-	8,502,113
Increase (Decrease) in Net Assets	(23,371)	(100)	(23,471)	428,835	405,364
Net Assets at Beginning of Year	2,580,223	22,693	2,602,916	1,787,962	4,390,878
Net Assets at End of Year	\$ 2,556,852	\$ 22,593	\$ 2,579,445	\$ 2,216,797	\$ 4,796,242

YOUTH AND SHELTER SERVICES, INC.
FEES AND GRANTS FROM GOVERNMENTAL AGENCIES
YEAR ENDED JUNE 30, 2006
(With Comparative Totals for Year Ended June 30, 2005)

	2006	2005
Cities/Counties	\$ 283,027	\$ 256,963
Story County - Juvenile Court	273,250	263,570
Department of Human Services - Fees	365,296	268,709
Department of Human Services - Foster Care	78,234	43,800
Shelter Care Reimbursements - Counties	98,711	101,277
Department of Public Health - Prevention	83,691	75,931
Department of Public Health - Counties	17,975	21,967
Department of Public Health - Innovative	45,000	45,250
Department of Housing & Urban Development	694,286	705,228
Department of Education	47,555	46,146
Department of Health & Human Services - Runaway Center	115,264	110,054
Department of Health & Human Services - Runaway Outreach	104,446	90,906
Department of Health & Human Services - Transitional Living	197,928	201,189
Department of Health & Human Services - Compassion Fund	4,167	45,833
Department of Economic Development	55,000	50,001
Department of Human Rights - Family Development	279,753	279,753
Story County - State Incentive Grants	68,324	99,866
Department of Health & Human Services - Drug Free Communities	21,640	26,627
Department of Public Health - Gateway Addiction	46,000	-
Criminal and Juvenile Justice - Crime Victim	-	19,907
Department of Human Services - Adolescent Pregnancy	48,889	51,666
FEMA	19,223	5,836
City of Des Moines - CDBG	91,397	131,124
Criminal and Juvenile Justice - School Based	24,097	26,752
Department of Human Rights - Decategorization	336,980	199,508
Department of Human Services - Pregnancy Prevention	25,932	28,153
Department of Public Health - HIV Prevention	20,804	20,200
Department of Public Health - Secondhand Smoke	15,100	10,100
Department of Public Health - Tobacco Prevention	33,832	33,532
Department of Public Health - Tobacco Use Prevention	67,384	60,374
Department of Human Services - Iowa Aftercare	843,089	807,349
Governors Office of Drug Control Policy - E. Byrne Memorial	40,557	43,239
Department of Public Health - School Climate Initiative	63,357	45,788
Department of Justice - Healthy Futures	110,000	92,000
Iowa Finance Authority	5,625	-
Department of Education - Rural Youth Mentoring	159,498	255,364
Totals	\$ 4,785,311	\$ 4,563,962

YOUTH AND SHELTER SERVICES, INC.
SCHEDULE OF SELECTED CONTRACT REVENUES AND EXPENSES - CONTRACT BASIS
FOR THE YEAR ENDED JUNE 30, 2006

	Iowa Department of Public Health												
	Comprehensive Substance Abuse Prevention	Gateway Addiction Prevention	Incentive Substance Abuse Prevention	Incentive Substance Abuse Prevention	Youth Mentoring Program	HIV Prevention Project	HIV Prevention Project	Drug & Violence Prevention	Tobacco Use Prevention & Control	Tobacco Use Prevention & Control	Tobacco Use Prevention & Control	Second Hand Smoke	
Revenues													
Iowa Department of Public Health	\$ 83,691	\$ 46,000	\$ 63,500	\$ 4,824	\$ 45,000	\$ 10,878	\$ 9,926	\$ 63,357	\$ 2,600	\$ 33,832	\$ 67,384	\$ 12,500	
County Government	-	-	3,350	-	815	-	-	-	-	-	15,561	-	
City Government	-	-	-	-	-	-	-	723	-	-	2,724	-	
Donations	-	-	-	-	2,320	-	-	-	-	-	3,060	-	
Other Revenue	-	-	-	-	-	-	-	-	-	-	-	-	
In-Kind	-	31,500	-	-	19,485	-	-	6,335	-	-	29,052	-	
Total Revenues	83,691	77,500	66,850	4,824	67,620	10,878	9,926	70,415	2,600	33,832	117,781	12,500	
Expenses													
Administration	8,198	120	5,243	-	3,437	303	285	5,403	-	987	10,928	1,600	
Salaries	46,169	29,220	37,202	-	34,744	6,933	6,605	27,217	431	20,471	77,822	-	
Personnel benefits	12,435	5,986	8,675	-	5,393	1,823	1,758	6,100	26	5,837	10,510	124	
Travel	3,923	1,445	1,505	900	736	314	186	482	-	1,100	1,139	1,942	
Staff training and education	699	-	232	-	150	421	85	6,314	-	-	1,143	1,115	
Contracted services	2,031	4,318	7,684	-	60	-	-	12,710	2,143	-	3,005	7,719	
Insurance	1,660	2,508	251	-	41	-	-	-	-	519	551	-	
Occupancy	1,447	-	915	-	705	849	732	1,162	-	895	-	-	
Supplies	4,164	2,403	3,338	3,924	1,690	235	275	3,047	-	3,304	8,236	-	
Telephone	48	-	761	-	1,179	-	-	1,436	-	-	3,447	-	
Equipment maintenance/rental	2,843	-	-	-	-	-	-	-	-	719	300	-	
Other expenses	74	31,500	1,044	-	19,485	-	-	6,544	-	-	700	-	
Total Expenses	83,691	77,500	66,850	4,824	67,620	10,878	9,926	70,415	2,600	33,832	117,781	12,500	
Total revenue over (under) expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	

YOUTH AND SHELTER SERVICES, INC.
SCHEDULE OF SELECTED CONTRACT REVENUES AND EXPENSES - CONTRACT BASIS
FOR THE YEAR ENDED JUNE 30, 2006

	Department of Human Rights
	FaDDS
Revenues	
Department of Human Rights	\$ 279,753
Other State	1,716
County Government	15,289
City Government	13,108
United Way	4,437
Donations	5,912
<hr/>	
Total Revenues	320,215
Expenses	
Administration	32,106
Salaries	139,846
Personnel benefits	36,798
Travel	15,424
Staff training and education	3,053
Contracted services	
Family Resources	43,700
Audit	361
Legal	56
Computer	886
Staff Physicals	310
Insurance	1,194
Space Costs	
Rent/Utilities	9,290
Repairs & maintenance	5,167
Supplies	
Office supplies	5,883
Printing	2,519
Subscriptions	25
Household	109
Special needs	1,406
Postage	2,529
Equipment maintenance and rental	4,487
Telephone	11,399
Other expenses	
Miscellaneous	2,184
Advertising & recruitment	653
Organization dues	830
<hr/>	
Total Expenses	320,215
<hr/>	
Total revenue over (under) expenses	\$ -
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YOUTH AND SHELTER SERVICES, INC.
SCHEDULE OF SELECTED CONTRACT REVENUES AND EXPENSES - CONTRACT BASIS
FOR THE YEAR ENDED JUNE 30, 2006

	Iowa Aftercare Services #1	Iowa Aftercare Services #2	Total
Revenues			
Department of Human Services	\$ 348,530	\$ 494,559	\$ 843,089
Total Revenues	348,530	494,559	843,089
Expenses			
Administration	50,018	39,318	89,336
Contracted services			
Youth and Shelter Services, Inc.	79,791	103,385	183,176
Alternative Services	6,789	-	6,789
American Home Find	7,208	21,714	28,922
Boys and Girls Home	22,211	26,710	48,921
Children's Square	45,942	66,275	112,217
Foundation 2	27,138	51,756	78,894
Four Oaks	36,121	76,597	112,718
Youth Policy Institute	41,151	57,678	98,829
Young House Family	32,161	7,698	39,859
Horizons	-	6,387	6,387
Family Resource Center	-	37,041	37,041
Total Expenses	348,530	494,559	843,089
Total revenue over (under) expenses	\$ -	\$ -	\$ -

YOUTH AND SHELTER SERVICES, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

Federal Grantor/Pass-Through Grantor/Program	Federal CFDA Number	Agency or Pass-Through Number	Program Expenditures
U.S. Department of Housing and Urban Development:			
Transitional Living	14.235	IA26B302003	\$ 40,960
Transitional Living	14.235	IA26B302002	195,921
Transitional Living	14.235	IA26B002003	54,547
Transitional Living	14.235	IA26B401002	107,047
Transitional Living	14.235	IA26B501016	21,410
Transitional Living	14.235	IA26B501015	63,223
Transitional Living	14.235	IA26B401005	127,478
Subtotal Direct Programs			610,586
Pass-Through Program From:			
City of Des Moines	14.231	SESG2005024	23,000
City of Des Moines	14.231	SESG2005007	23,000
City of Des Moines	14.231	HESG2006011	1,414
City of Des Moines	14.231	ESG2005001	910
City of Des Moines	14.218	CDBG2006024	10,000
City of Des Moines	14.218	CDBG2006036	11,359
City of Des Moines	14.218	CDBG2005024	10,124
City of Des Moines	14.218	CDBG2005036	11,590
Total U.S. Department of Housing and Urban Development			701,983
U.S. Department of Health and Human Services:			
Drug Free Communities	93.276	H79SP11259-01	26,640
Drug Free Communities	93.276	CH9SP12127A	72,870
Runaway/Homeless Youth Grant	93.623	07CY0527-01	24,262
Runaway/Homeless Youth Grant	93.623	07CY0527-02	91,002
Federal Compassion Fund	93.647	901IJ009401	4,167
Transitional Living	93.550	07CX0496-03	48,811
Transitional Living	93.550	07CX0494-04	149,117
Street Outreach	93.557	07Y002602	78,685
Street Outreach	93.557	07Y002601	25,761
Subtotal Direct Programs			521,315
Pass-Through Program From: Iowa Department of Public Health			
Tobacco Prevention	93.283	5886TP03	33,532
Child Access and Visitation	93.597	BOC04-154	8,140
HIV Prevention	93.940	5885AP05	10,878
HIV Prevention	93.940	5886AP05	9,926
Incentive Grant	93.230	5885IP23	63,500
Incentive Grant	93.230	5886IP13	4,824
Comprehensive Substance Abuse Prevention	93.959	5885CP01	77,966
FaDSS	93.558	FaDSS-06-23-FW	148,269
Total U.S. Department of Health and Human Services			878,350

**YOUTH AND SHELTER SERVICES, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006**

Federal Grantor/Pass-Through Grantor/Program	Federal CFDA Number	Agency or Pass-Through Number	Program Expenditures
U.S. Department of Education:			
Rural Youth Mentoring	84.184B	2001JNFX0100	25,508
Pass-Through Program From: Iowa Department of Education			
Rural Youth Mentoring	84.184B	020927-04	61,120
Pass-Through Program From: Iowa Department of Public Health			
Mentoring	84.186B	5885DV01	63,357
Total U.S. Department of Education			149,985
U.S. Department of Justice:			
Pass-Through Program From:			
Governor's Office of Drug Control Policies			
E. Byrne Memorial	16.579	05JAG-E37	40,557
Pass-Through Program From: Iowa Department of Justice			
Afterschool		CJJ04A50003	1,379
Total U.S. Department of Justice			41,936
U.S. Department of Homeland Security:			
FEMA	97.024		19,233
Total U.S. Department of Homeland Security			19,233
Total Expenditures of Federal Awards			\$ 1,791,487

1. Basis of Presentation

This schedule of expenditures of federal awards includes the federal grant activity of Youth and Shelter Services, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

PETERSON & HOUSTON, P.C.

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**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
Youth and Shelter Services, Inc.
Ames, Iowa 50010

We have audited the financial statements of Youth and Shelter Services, Inc. as of and for the year ended June 30, 2006, and have issued our report thereon dated September 12, 2006. 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. The financial statements of Youth and Shelter Services Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Youth and Shelter Services, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Youth and Shelter Services, Inc.'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Board of Directors
Youth and Shelter Services, Inc.
Page Two

This report is intended solely for the information and use of the finance committee, board of directors, management, 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.

A handwritten signature in black ink that reads "Peterson & Houston P.C." The signature is written in a cursive, flowing style.

Peterson & Houston, P.C.
Boone, Iowa

September 12, 2006

PETERSON & HOUSTON, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
724 Story Street, Suite 601
Boone, IA 50036-2871

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

To the Board of Directors
Youth and Shelter Services, Inc.
Ames, Iowa 50010

Compliance

We have audited the compliance of Youth and Shelter Services, Inc. with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. Youth and Shelter Services, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Youth and Shelter Services, Inc.'s management. Our responsibility is to express an opinion on Youth and Shelter Services, Inc.'s compliance based on our audit.

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 Youth and Shelter Services, Inc.'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. Our audit does not provide a legal determination of Youth and Shelter Services, Inc.'s compliance with those requirements.

In our opinion, Youth and Shelter Services, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Youth and Shelter Services, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Youth and Shelter Services, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Board of Directors
Youth and Shelter Services, Inc.
Page Two

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the finance committee, board of directors, management, 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.

A handwritten signature in cursive script that reads "Peterson & Houston P.C.".

Peterson & Houston, P.C.
Boone, Iowa

September 12, 2006

YOUTH AND SHELTER SERVICES, INC.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

Part I: Summary of the Independent Auditor's Results

- (a) The auditor's report expresses an unqualified opinion on the financial statements of Youth and Shelter Services, Inc.
- (b) No reportable conditions in internal control over financial reporting were reported during the audit of the financial statements.
- (c) No instances of noncompliance material to the financial statements were reported during the audit.
- (d) No reportable conditions in internal control over major programs were reported during the audit of the financial statements.
- (e) The auditor's report on compliance for the major federal award programs for Youth and Shelter Services, Inc. expresses an unqualified opinion on all major federal programs.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The program tested as a major program included:
CFDA Number 14.235 – Transitional Housing
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Youth and Shelter Services, Inc. was determined to be a low-risk auditee.

Part II: Findings Related to Financial Statements

- (a) Instances of Non-Compliance:
No matters were required to be reported.
- (b) Reportable Conditions:
No matters were required to be reported.

Part III: Findings and Questioned Costs for Federal Awards

- (a) The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).