

**SANTA MARIA HOSTEL, INC. AND
SANTA MARIA HOSTEL FOUNDATION**

**CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

FOR THE YEAR ENDED AUGUST 31, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Santa Maria Hostel, Inc. and Santa Maria Hostel Foundation
Houston, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of Santa Maria Hostel, Inc. (SMH, Inc.) and Santa Maria Hostel Foundation (SMHF) (nonprofit organizations), which comprise the consolidated statement of financial position as of August 31, 2018, and the related consolidated statements of activities 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.

Auditor's 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 and the State of Texas Uniform Grant Management Standards. 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 auditor's 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SMH, Inc. and SMHF's as of August 31, 2018, 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.

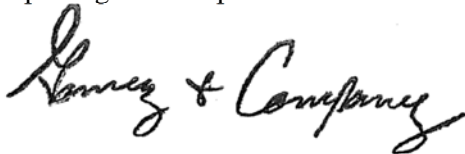
Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal and state awards, as required by Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, the *State of Texas Single Audit Circular*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other 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 financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2019 on our consideration of SMH, Inc. and SMHF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SMH, Inc. and SMHF's internal control over financial reporting and compliance.



Houston, TX
February 22, 2019

SANTA MARIA HOSTEL, INC. AND
SANTA MARIA HOSTEL FOUNDATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2018

ASSETS

Current Assets:

| | |
|----------------------|------------------|
| Cash | \$ 2,962,452 |
| Grants Receivable | 1,342,002 |
| Prepaid Expenses | 9,356 |
| Deposits | <u>2,360</u> |
| Total Current Assets | <u>4,316,170</u> |

Property, Plant & Equipment:

| | |
|-----------------------------------|--------------------|
| Land | 364,827 |
| Buildings and Improvements | 4,211,500 |
| Equipment and Furniture | 511,234 |
| Automobiles | <u>115,461</u> |
| | 5,203,022 |
| Accumulated Depreciation | <u>(2,954,473)</u> |
| Total Property, Plant & Equipment | <u>2,248,549</u> |

| | |
|--------------|----------------------------|
| Total Assets | <u><u>\$ 6,564,719</u></u> |
|--------------|----------------------------|

LIABILITIES AND NET ASSETS

Current Liabilities:

| | |
|----------------------------------|----------------|
| Accounts Payable | \$ 236,371 |
| Other Liabilities | 610,581 |
| Current Portion of Notes Payable | <u>133,654</u> |
| Total Current Liabilities | <u>980,606</u> |

Long-term Liabilities:

| | |
|-------------------------------------|------------------|
| Notes Payable, less Current Portion | <u>1,211,994</u> |
| Total Liabilities | <u>2,192,600</u> |

Net Assets:

| | |
|------------------------|------------------|
| Unrestricted | 4,171,314 |
| Temporarily Restricted | <u>200,805</u> |
| Total Net Assets | <u>4,372,119</u> |

| | |
|----------------------------------|----------------------------|
| Total Liabilities and Net Assets | <u><u>\$ 6,564,719</u></u> |
|----------------------------------|----------------------------|

See accompanying notes to financial statements.

SANTA MARIA HOSTEL, INC. AND
SANTA MARIA HOSTEL FOUNDATION

CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE TWELVE MONTHS ENDED AUGUST 31, 2018

| | Unrestricted | Temporarily Restricted | Total |
|---------------------------------------|---------------------|---------------------------|---------------------|
| SUPPORT AND REVENUE | | | |
| Contributions and Grants | \$ 562,514 | \$ 291,570 | \$ 854,084 |
| United Way Allocation | | 198,137 | 198,137 |
| Federal Assistance | | 9,191,222 | 9,191,222 |
| State and Local Assistance | 720,801 | 753,894 | 1,474,695 |
| Other Programs | 651,948 | | 651,948 |
| Fundraiser | 137,248 | | 137,248 |
| Rental Income | 263,468 | | 263,468 |
| Other Income | 89,407 | | 89,407 |
| Net assets released from restrictions | <u>10,301,775</u> | <u>(10,301,775)</u> | |
| Total Support and Revenues | <u>12,727,161</u> | <u>133,048</u> | <u>12,860,209</u> |
| EXPENSES | | | |
| Program Services | 11,483,804 | | 11,483,804 |
| Management and General | 484,339 | | 484,339 |
| Fundraising | 207,185 | | 207,185 |
| Foundation Expenses | <u>291,563</u> | | <u>291,563</u> |
| Total Expenses | <u>12,466,891</u> | | <u>12,466,891</u> |
| CHANGE IN NET ASSETS | 260,270 | 133,048 | 393,318 |
| NET ASSETS, BEGINNING OF YEAR | <u>3,911,044</u> | <u>67,757</u> | <u>3,978,801</u> |
| NET ASSETS, END OF YEAR | <u>\$ 4,171,314</u> | <u>\$ 200,805</u> | <u>\$ 4,372,119</u> |

See accompanying notes to the financial statements.

SANTA MARIA HOSTEL, INC. AND
SANTA MARIA HOSTEL FOUNDATION

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE TWELVE MONTHS ENDED AUGUST 31, 2018

| | PROGRAM SERVICES | | | | Total Program Services | Management & General | Fundraising | Foundation | Total All Funds |
|---------------------------------|----------------------------|--------------------------|----------------------------|----------------------------|-----------------------------|--------------------------|--------------------------|--------------------------|-----------------------------|
| | Substance Abuse Treatment | Veteran Services | Supportive Housing/Bonding | Adjunct Services | | | | | |
| Salaries | \$ 3,594,289 | \$ 121,438 | \$ 629,415 | \$ 1,440,294 | \$ 5,785,436 | \$ 18,395 | \$ 97,606 | \$ | \$5,901,437 |
| Fringe Benefits | 952,980 | 33,885 | 172,539 | 394,589 | 1,553,993 | 4,876 | 16,687 | | 1,575,556 |
| Total Personnel Expenses | 4,547,269 | 155,323 | 801,954 | 1,834,883 | 7,339,429 | 23,271 | 114,293 | | 7,476,993 |
| Conference & Meeting | 13,194 | 716 | 1,630 | 50,731 | 66,271 | 4,006 | 1,877 | | 72,154 |
| Insurance | 132,488 | 7,286 | 48,227 | 42,395 | 230,396 | 16 | 1,230 | 11,726 | 243,368 |
| Professional Fees | 347,835 | 10,550 | 79,993 | 20,848 | 459,226 | 39,840 | 4,787 | 1,790 | 505,643 |
| Repair & Maintenance | 625,148 | 34,684 | 138,024 | 55,769 | 853,625 | | 2,033 | | 855,658 |
| Rent | 226,149 | 13,083 | 80,970 | 34,319 | 354,521 | 3 | 1,704 | | 356,228 |
| Supplies | 1,011,052 | 20,964 | 138,812 | 228,870 | 1,399,698 | 50,285 | 35,399 | | 1,485,382 |
| Telephone | 54,540 | 2,730 | 8,553 | 40,351 | 106,174 | 2,609 | 2,830 | | 111,613 |
| Travel | 21,055 | 1,157 | 4,259 | 65,459 | 91,930 | 1 | 742 | | 92,673 |
| Utilities | 131,117 | 11,849 | 69,053 | 20,068 | 232,087 | 5 | 745 | | 232,837 |
| Interest | 7,621 | 395 | 2,057 | 2,462 | 12,535 | 35 | 105 | 49,451 | 62,126 |
| Other | 145,196 | 899 | 5,830 | 39,394 | 191,319 | 364,131 | 40,422 | 69,908 | 665,780 |
| Total Expenses | 7,262,664 | 259,636 | 1,379,362 | 2,435,549 | 11,337,211 | 484,202 | 206,167 | 132,875 | 12,160,455 |
| Depreciation Expenses | 85,559 | 6,478 | 19,820 | 34,736 | 146,593 | 137 | 1,018 | 158,688 | 306,436 |
| Total Expenses | <u>\$ 7,348,223</u> | <u>\$ 266,114</u> | <u>\$ 1,399,182</u> | <u>\$ 2,470,285</u> | <u>\$ 11,483,804</u> | <u>\$ 484,339</u> | <u>\$ 207,185</u> | <u>\$ 291,563</u> | <u>\$ 12,466,891</u> |

See accompanying notes to the financial statements.

SANTA MARIA HOSTEL, INC. AND
SANTA MARIA HOSTEL FOUNDATION

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE TWELVE MONTHS ENDED AUGUST 31, 2018

| | |
|---|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | |
| Increase (decrease) in net assets | \$ 393,318 |
| Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities: | |
| Depreciation | 306,436 |
| Gain on exchange of asset | (1,573) |
| (Increase) decrease in grants receivable | (178,398) |
| (Increase) decrease in other assets | (1,260) |
| Increase (decrease) in accounts payable | (6,865) |
| Increase (decrease) in accrued liabilities | <u>6,554</u> |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | <u>518,212</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | |
| Purchase of fixed assets | <u>(20,884)</u> |
| NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES | <u>(20,884)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | |
| Repayment of long-term debt | <u>(123,157)</u> |
| NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES | <u>(123,157)</u> |
| NET INCREASE (DECREASE) IN CASH | 374,171 |
| CASH AT BEGINNING OF YEAR | <u>2,588,281</u> |
| CASH AT END OF YEAR | <u>\$ 2,962,452</u> |
| <u>Cash Paid During the Year for:</u> | |
| Interest | <u>\$ 62,126</u> |

See accompanying notes to the financial statements

SANTA MARIA HOSTEL, INC. AND
SANTA MARIA HOSTEL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2018

A. Organization:

Santa Maria Hostel, Inc. (SMH, Inc.) is a regionally supported nonprofit corporation organized under the laws of the State of Texas. SMH, Inc. is operated to provide indigent women with residential and outpatient treatment for drug abuse, co-occurring psychological and medical stabilization, job readiness, vocational training, parenting education, transitional housing and supportive services. Services are provided to the residents, their children, and other family members through a highly structured residential and outpatient program, which include a children and family counseling program. The organization is licensed by the Texas Department of Health and Human Service Commission to provide residential and outpatient treatment to adult women.

Santa Maria Hostel Foundation (SMHF) was formed on June 26, 2006 for the sole benefit and support of Santa Maria Hostel, Inc. (SMH). The Foundation's purpose is to raise funds for SMH, Inc.

B. Summary of Significant Accounting Policies:

BASIS OF PRESENTATION:

The financial statements have been prepared using the accrual basis of accounting in accordance with the generally accepted accounting principles. SMH, Inc and SMHF follow the recommendations of the *Financial Accounting Standards Board Accounting Standards Codification 958 Not-for-Profit Entities-205 Presentation of Financial Statements*. Under *FASB ASC 958-205*, an 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.

Unrestricted net assets

Unrestricted net assets include unrestricted resources which represent the portion of funds that are available for the operating objectives of the Organization.

Temporarily restricted net assets

Temporarily restricted net assets consist of donor restricted contributions and grants. Amounts restricted by donors for a specific purpose are deemed to be earned and reported as temporarily restricted revenue, when received, and such unexpended amounts are reported as temporarily restricted net assets at year-end. When the donor restriction expires, that is, when a stipulated time or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as "net assets released from restrictions."

Permanently restricted net assets

Permanently restricted net assets consist of donor restricted contributions, which are required to be held in perpetuity. Income from the assets held is available for either general operations or specific purposes, in accordance with donor stipulations.

PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of SMH, Inc. and SMHF (collectively referred to as the Organization). These financial statements are presented on a consolidated basis due to their overlapping management and board of directors, and the interrelationship of their activities. Significant inter-entity accounts and transactions have been eliminated upon consolidation.

SANTA MARIA HOSTEL, INC. AND
SANTA MARIA HOSTEL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2018

B. Summary of Significant Accounting Policies: (Continued)

SUPPORT AND REVENUE:

Support and revenue are recorded based on the accrual method.

CASH DONATIONS AND DONATED SERVICES:

Cash donations are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts have been reflected in the financial statements for donated services based on objective measurements of the value of such donations. Nevertheless, a substantial number of volunteers have donated their time in connection with the program service and administration of the Organization.

CONTRIBUTIONS:

In accordance with *Financial Accounting Standards Board Accounting Standards Codification 958 Not-for-Profit Entities- 605 Revenue Recognition*, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

DEFERRED REVENUE:

Deferred revenue results from advances from government agencies, which have been restricted for a specific purpose. Revenue is recognized only to the extent that related expenses have been incurred.

PLEDGES AND ACCOUNTS RECEIVABLE:

Contributions are recognized when the donor makes a promise to give to SMH, Inc. and SMHF that is in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the 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. No provision has been made for uncollectible promises to give and accounts receivable as of the statement of financial position date, given that none have been identified.

PROPERTY AND EQUIPMENT:

Property, building, and equipment purchased by SMH, Inc. and SMHF are recorded at cost. Donations of property and equipment are recorded at their fair market value at the date of the gift. All purchases and donations in excess of \$5,000 are capitalized. Depreciation is provided on the straight-line method based upon estimated useful lives as follows:

| | <u>Years</u> |
|-----------------------|--------------|
| Buildings | 20 |
| Building Improvements | 5-20 |
| Furniture & Fixtures | 5-7 |
| Automobiles | 3 |
| Computer Equipment | 5 |
| Software | 3 |

SANTA MARIA HOSTEL, INC. AND
SANTA MARIA HOSTEL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2018

B. Summary of Significant Accounting Policies: (Continued)

FUNCTIONAL EXPENSES:

Expenses are charged to each program based on direct expenditures incurred. Functional expenses, which cannot readily be related to a specific program, are charged to the various programs based upon hours worked, square footage, number of program staff, or other reasonable methods for allocating the Organization's multiple function expenditures.

INCOME TAXES:

SMH and SMHF qualify as a tax-exempt organization under section 501(c) (3) of the Internal Revenue Code and have no provision for income taxes. The Organization has also been classified as an entity that is not a private foundation within the meaning of section 509(a) and qualifies for deductible contributions as provided in Section 170(b)(1)(A)(vi).

CASH AND CASH EQUIVALENTS:

The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash is held in demand accounts at local banks. The accounts at these institutions are insured by the Federal Deposit Insurance Corporation up to \$250,000. The bank accounts, at times, exceeded federally insured limits. The Organization has not experienced any losses on such accounts.

ESTIMATES:

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

C. Promises to Give:

Unconditional promises to give consist of the following at August 31, 2018:

| | |
|-----------------------------------|------------------|
| Receivables in less than one year | \$ 65,092 |
| Receivable in one to five years | -0- |
| Total Pledges receivable | <u>\$ 65,092</u> |

Conditional promises to give consist of the following at August 31, 2018:

| | |
|---------------------------------|---------------|
| Contingent upon goal attainment | <u>\$ -0-</u> |
|---------------------------------|---------------|

SANTA MARIA HOSTEL, INC. AND
SANTA MARIA HOSTEL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2018

D. Operating Lease Commitments:

SMH, Inc. and SMHF lease its office equipment under non-cancellable lease agreements. These leases are being accounted for as operating leases. SMH, Inc.'s minimum annual lease commitments are as follows:

| Year ending August 31 | Amount |
|-----------------------|------------|
| 2019 | \$ 152,757 |
| 2020 | 48,106 |
| 2021 | 48,106 |
| 2022 | 24,968 |
| 2023 | 5,841 |
| Total | \$ 279,778 |

Operating lease expense amounted to \$ 351,703 for the twelve months ended August 31, 2018.

E. Notes Payable:

The Organization's obligations under notes payable consists of the following:

| | |
|---|------------|
| <p>Note payable from Santa Maria Hostel Foundation to Chase Bank, secured by the property located at 2605 Parker Road, Houston, TX 77093. The note is dated April 15, 2004 with a face amount of \$1,720,000 at a 3.85% interest rate. The date of maturity is April 15, 2016. Full note was refinanced and maturity date was changed to August 13, 2024.</p> | \$ 853,814 |
| <p>Note payable from Santa Maria Hostel Foundation to Chase Bank, secured by the property located at 2005 Jacquelyn, Houston, TX 77055. The note is dated July 31, 2013 with a face amount of \$393,090 at a 4.5% interest rate, monthly installment of \$2,501. The remaining unpaid amount is due in full on the maturity date, August 1, 2020.</p> | 326,170 |
| <p>Note payable from Santa Maria Hostel to Mobilease, Inc., secured by a vehicle. The note is dated June 8, 2016 with a face amount of \$15,594 at a 4.89% interest rate, 60 monthly installments of \$294. The date of maturity is June 7, 2020.</p> | 5,895 |
| <p>Note payable from Santa Maria Hostel to Mobilease, Inc., secured by a vehicle. The note is dated May 24, 2018 with a face amount of \$ 24,230 at a 6.79% interest rate, 36 monthly installments of \$746. The date of maturity is April 24, 2021.</p> | \$ 21,339 |

SANTA MARIA HOSTEL, INC. AND
SANTA MARIA HOSTEL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2018

E. Notes Payable: (Continued)

| | |
|---|---------------------|
| Note payable from Santa Maria Hostel to Mobilease, Inc., secured by a vehicle. The note is dated July 27, 2018 with a face amount of \$15,394 at a 7.54% interest rate, 36 monthly installments of \$479. The date of maturity is June 27, 2021. | \$ 15,010 |
| Capital Lease agreement with 3i International, Inc., secured by equipment. The agreement is dated May 6, 2016, payable in 63 installments of \$5,750 and a face amount of \$302,471 and finance portion of \$59,779. The date of maturity is May 6, 2020. | <u>123,420</u> |
| Total notes payable | 1,345,648 |
| Less: current portion of notes payables | <u>133,654</u> |
| Notes payable net of current portion | <u>\$ 1,211,994</u> |

Maturities of notes payable over the next five years are as follows:

| Year Ending August 31, | Amount |
|------------------------|---------------------|
| 2019 | 133,654 |
| 2020 | 428,830 |
| 2021 | 53,304 |
| 2022 | 44,605 |
| 2023 | 685,255 |
| Total | <u>\$ 1,345,648</u> |

F. Temporarily Restricted Net Assets:

Temporarily restricted net assets at August 31, 2018, are available for the following purposes or periods:

| | |
|---|-------------------|
| United Way of the Texas Gulf Coast | \$ 65,092 |
| Program 1115 Waiver | <u>135,713</u> |
| Total temporarily restricted net assets | <u>\$ 200,805</u> |

SANTA MARIA HOSTEL, INC. AND
SANTA MARIA HOSTEL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2018

F. Temporarily Restricted Net Assets: (Continued)

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

| | | |
|------------------------------------|----|-------------------|
| United Way of the Texas Gulf Coast | \$ | 200,802 |
| Contributions and Grants | | 291,570 |
| Federal Assistance | | 9,055,509 |
| State Assistance | | 753,894 |
| Total restrictions released | \$ | <u>10,301,775</u> |

G. Cafeteria Plan:

SMH, through its Co-Employment contract with Insperty, PEO, provides its employees a voluntary Cafeteria Plan. This plan allows the participating employees to pay for the following expenses on a pre-tax basis:

1. Medical insurance premiums
2. Dental insurance premiums
3. Group term life insurance premiums
4. Vision insurance premiums

H. TX Healthcare Transformation and Quality Improvement Program 1115 Waiver:

Santa Maria Hostel, Inc. (SMH) added a major source of funding during FYE 8.31.15, as a sub recipient under The Harris Center for Mental Health and IDD, funded by the Texas Healthcare Transformation and Quality Improvement Program 1115 Waiver, authorized by the Centers for Medicare and Medicaid Services (CMS).

To a large extent, the positive SMH net position for FYE 8.31.15 through FYE 8.31.18 was due to the receipt of Waiver 1115 DSRIP (Delivery System Reform Incentive Payments) funds, which provide incentive payments above cost reimbursement for select detoxification services, based on performance on contracted outcome measures. A portion of the net assets provided by these incentive payments will be utilized in future years for SMH Board approved/designated projects.

December 2017 brought an end to the 1115 Waiver Program contract period, although performance metrics were required to be reported through October 2018 with payments made based on those metrics during FYE 8.31.19. The services provided by Santa Maria, as a sub recipient during the initial contract period, have ended and the contract has not been renewed.

SANTA MARIA HOSTEL, INC. AND
SANTA MARIA HOSTEL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2018

I. Concentrations:

The majority of Santa Maria Hostel, Inc.'s income comes from the Texas Department of Health and Human Service Commission. SMH is subject to the administrative directives, rules, and regulations of Texas Department of Health and Human Service Commission and the U.S. Department of Health. Such administrative directives, rules, and regulations are subject to change by an act of the Texas State Legislature, the United States Congress or an administrative change mandated by either Texas Department of Health and Human Service Commission or the U.S. Department of Health. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

J. Lawsuits and Contingencies:

SMH is subject to claims and lawsuits that arise in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position of the company.

K. Evaluation of Subsequent Events:

The Organization has evaluated subsequent events through February 22, 2019 the date which the financial statements were available to be issued.

SANTA MARIA HOSTEL, INC. AND
SANTA MARIA HOSTEL FOUNDATION

SCHEDULE OF FEDERAL AND STATE AWARDS

FOR THE YEAR ENDED AUGUST 31, 2018

| <u>Governmental grantor/pass-through grantor/ Program Title</u> | <u>CFDA Number</u> | <u>Pass-through Grantor's Number</u> | <u>Expenditures</u> |
|---|------------------------|--|---------------------|
| FEDERAL ASSISTANCE: | | | |
| U.S. Department of Health & Human Services Passed through Texas Department of Health and Human Services Commission: Public Health Service II; Block Grant for the Prevention & Treatment of Substance Abuse | 93.959 | 2016-048315-006 | \$ 4,130,090 |
| | 93.959 | 2016-048503-003 | 544,135 |
| | 93.959 | 2016-048315-005 | 158,891 |
| | 93.959 | 2016-048024-003 | 259,766 |
| | 93.959 | 2016-048439-003 | 467,325 |
| | 93.959 | 2016-048385-003 | 232,692 |
| Texas Targeted Opioid Response | 93.788 | 2016-048385-003 | 87,527 |
| Community Mental Health Services | 93.958 | 2016-048315-005 | 14,168 |
| Passed through The Harris Center for Mental Health and IDD formerly MHMRA of Harris County: TX Healthcare Transformation and Quality Improvement Program 1115 Waiver | 93.778 | | 1,687,379 |
| Passed through Substance Abuse and Mental Health Service Administration (SAMHSA): Pregnant and Postpartum Substance Abuse and Mental Health | 93.243 | 5H79TI025581-03 | 42,244 |
| | 93.243 | 7H79TI026787-01 | 262,665 |
| FOR ME (Female Offender Reentry Movement) | 93.243 | 1H79TI026362-01 | 243,980 |
| Passed through Baylor College of Medicine: TCE-HIV: High Risk Populations | 93.243 | 5H79TI026186-03 | 216,149 |
| Total U.S. Department of Health & Human Services | | | <u>8,347,011</u> |
| U.S. Department of Housing & Urban Development Supportive Housing Program | 14.235 | | <u>476,533</u> |
| Total U.S. Department of Housing & Urban Development | | | <u>\$ 476,533</u> |

SANTA MARIA HOSTEL, INC. AND
SANTA MARIA HOSTEL FOUNDATION

SCHEDULE OF FEDERAL AND STATE AWARDS

FOR THE YEAR ENDED AUGUST 31, 2018

| Governmental grantor/Pass-through grantor/ Program Title | CFDA Number | Pass-through Grantor's number | Expenditures |
|---|------------------------|--|---------------------|
| FEDERAL ASSISTANCE: | | | |
| U.S. Department of Veterans Affairs | | | |
| VA Homeless Providers Grant and Per Diem Program | 64.024 | | \$ 94,300 |
| Total U.S. Department of Veterans Affairs | | | <u>94,300</u> |
| U.S. Department of Justice | | | |
| Second Chance Act Reentry Initiative | 16.812 | 2017-CY-BX-0110 | 137,665 |
| Total U.S. Department of Justice | | | <u>137,665</u> |
| Total Federal Financial Assistance | | | <u>9,055,509</u> |
| STATE ASSISTANCE: | | | |
| Texas Department of Health & Human Services Commission: | | | |
| Public Health Service II; Block Grant for the | | | |
| Prevention & Treatment of Substance Abuse | | | |
| | | 2016-048315-006 | 339,594 |
| | | 2016-048503-003 | 116,597 |
| | | 2016-048315-005 | 109,677 |
| | | 2016-048024-003 | 26,318 |
| | | 2016-048439-003 | 149,267 |
| Total Texas Department of Health & Human Services Commission | | | <u>741,453</u> |
| Total Texas Veterans Commission | | | <u>12,441</u> |
| Total State Financial Assistance | | | <u>753,894</u> |
| Total Governmental Assistance | | | <u>\$ 9,809,403</u> |

SANTA MARIA HOSTEL, INC. AND
SANTA MARIA HOSTEL FOUNDATION

NOTES TO SCHEDULE OF FEDERAL AND STATE AWARDS

FOR THE YEAR ENDED AUGUST 31, 2018

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying schedule of federal and state awards (the Schedule) includes federal and state grant activity of SMH, Inc. and SMHF under programs of the federal and state government for the year ended August 31, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, the State of Texas Uniform Grants Management Standards and *State of Texas Single Audit Circular*. Because the Schedule presents only a selected portion of the operation of SMH, Inc. and SMHF, it is not intended to and does not present the financial position, changes in net assets or cash flows of SMH, Inc. and SMHF.

Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the *Uniform Guidance, Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Pass-through entity identifying numbers are presented where available.

Indirect Cost Rate

SMH Inc. and SMHF utilize the 10% de minimus indirect cost rate allowed under the Uniform Guidance for awards which do not allow utilization of the approved SMH cost allocation plan.

NOTE 2 – PROGRAM 1115 WAIVER FEDERAL REVENUES

Reconciliation of Federal Revenues and (SEFA):

| | |
|---|---------------------|
| Total expenditure of federal awards per the SEFA | \$ 9,055,509 |
| Carryover of Program 1115 Waiver | <u>135,713</u> |
| Total federal revenues per the Statement of Activities | <u>\$ 9,191,222</u> |

Program 1115 Waiver contract contains performance metrics with payments made based on those metrics.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
Santa Maria Hostel, Inc. and Santa Maria Hostel Foundation
Houston, Texas

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 and State of Texas Uniform Grant Management Standards, the financial statements of Santa Maria Hostel, Inc. (SMH, Inc.) and Santa Maria Hostel Foundation (SMHF) (a nonprofit organization), which comprise the statement of financial position as of August 31, 2018, and the related statements of activities, and cash flows for the period then ended, and the related notes to the financial statements, and have issued our report thereon dated February 22, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered SMH, Inc. and SMHF'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 SMH, Inc. and SMHF'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 first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether SMH, Inc. and SMHF's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Ramsey & Company". The signature is written in a cursive, flowing style.

Houston, TX
February 22, 2019

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
THE UNIFORM GUIDANCE AND THE STATE OF TEXAS SINGLE AUDIT CIRCULAR**

To The Board of Directors of
Santa Maria Hostel, Inc. and Santa Maria Hostel Foundation
Houston, Texas

Report on Compliance for Each Major Federal and State Program

We have audited Santa Maria Hostel, Inc. (SMH, Inc.) and Santa Maria Hostel Foundation (SMHF)'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the *State of Texas Single Audit Circular* that could have a direct and material effect on each of SMH, Inc. and SMHF's major federal and state programs for the year ended August 31, 2018. SMH, Inc. and SMHF's major federal and state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of SMH, Inc. and SMHF's major federal and state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and the *State of Texas Single Audit Circular*. Those standards, the Uniform Guidance and the State of Texas Single Audit Circular, 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 SMH, Inc. and SMHF's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal and State Program

In our opinion, SMH, Inc. and SMHF complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended August 31, 2018.

Report on Internal Control over Compliance

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

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance and State of Texas Single Audit Circular. Accordingly, this report is not suitable for any other purpose.



Houston, TX
February 22, 2019

SANTA MARIA HOSTEL, INC. AND
SANTA MARIA HOSTEL FOUNDATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED AUGUST 31, 2018

Summary of Audit Results

1. The auditor's report expresses an unmodified opinion on whether the financial statements were prepared in accordance with GAAP.
2. No significant deficiencies or material weaknesses on internal control over financial statements.
3. No instances of noncompliance material to the financial statements, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies or material weaknesses on internal control over major federal and state award programs.
5. The auditor's report on compliance for the major federal and state award programs expresses an unmodified opinion on all major federal programs.
6. The audit did not disclose any audit findings which are required to be reported accordance with 2 CFR section 200.516(a) of the Uniform Guidance and the State of Texas Single Audit Circular.

7. Major programs:

Federal Grantor

U.S. Department of Health & Human Services
Passed through The Harris Center for
Mental Health and IDD formerly MHMRA of
Harris County:

| | | |
|---|----------------|--------|
| TX Healthcare Transformation and Quality Improvement Program 1115 Waiver | CFDA NUMBER | 93.778 |
|---|----------------|--------|

Passed through Texas Department of Health And
Human Services Commission:

| | | |
|--|----------------|--------|
| Public Health Service II; Block Grant for the Prevention & Treatment of Substance Abuse | CFDA NUMBER | 93.959 |
|--|----------------|--------|

State Grantor

| | |
|---|--|
| Texas Department of Health and Human Services Commission: | 2016-048315-006 |
| Public Health Service II: Block Grant for the Prevention & Treatment of Substance Abuse | 2016-048503-003 2016-048315-005 2016-048024-003 2016-048439-003 |

8. A \$750,000 Federal threshold and a \$300,000 State threshold was used to distinguish between Type A and Type B programs as described in 2 CFR section 200.718 and the State of Texas Single Audit Circular .510(a).
9. Santa Maria Hostel, Inc. qualifies as a low-risk auditee.

Current Year Findings

No audit findings were noted as per governmental auditing standards and 2 CFR section 200.516(a) of the Uniform Guidance and the State of Texas Single Audit Circular.

Questioned
Costs

\$ -0-

SANTA MARIA HOSTEL, INC. AND
SANTA MARIA HOSTEL FOUNDATION

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

FOR THE YEAR ENDED AUGUST 31, 2018

Summary Schedule of Prior Year Findings

No audit findings were noted as per governmental auditing standards and 2 CFR section 200.516(a) of the Uniform Guidance and the State of Texas Single Audit Circular for the twelve months ended August 31, 2017.

\$ -0-

SUPPLEMENTARY SCHEDULES

SANTA MARIA HOSTEL, INC. AND
SANTA MARIA HOSTEL FOUNDATION

SUPPLEMENTAL STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2018

| | Santa Maria Hostel Foundation | Santa Maria Hostel, Inc. | Combined | Elimination's | Total |
|--|--|-------------------------------------|---------------------|----------------------|---------------------|
| ASSETS | | | | | |
| Current Assets: | | | | | |
| Cash | \$ 471,168 | \$ 2,491,284 | \$ 2,962,452 | \$ | \$ 2,962,452 |
| Accounts Receivable | 40,000 | | 40,000 | (40,000) | |
| Grants Receivable | | 1,342,002 | 1,342,002 | | 1,342,002 |
| Prepaid Expenses | 8,856 | 2,860 | 8,856 | | 8,856 |
| Deposits | | | | | 11,716 |
| Total Current Assets | <u>520,024</u> | <u>3,836,146</u> | <u>4,356,170</u> | <u>(40,000)</u> | <u>4,316,170</u> |
| Property, Plant & Equipment | | | | | |
| Land | 343,547 | 21,280 | 364,827 | | 364,827 |
| Buildings and Improvement | 3,173,786 | 1,037,714 | 4,211,500 | | 4,211,500 |
| Furniture, Fixture, and Equipment | | 511,234 | 511,234 | | 511,234 |
| Automobiles | | 115,461 | 115,461 | | 115,461 |
| | <u>3,517,333</u> | <u>1,685,689</u> | <u>5,203,022</u> | | <u>5,203,022</u> |
| Accumulated Depreciation | <u>(1,621,238)</u> | <u>(1,333,235)</u> | <u>(2,954,473)</u> | | <u>(2,954,473)</u> |
| Total Property, Plant & Equipment | <u>1,896,095</u> | <u>352,454</u> | <u>2,248,549</u> | | <u>2,248,549</u> |
| Total Assets | <u>\$ 2,416,119</u> | <u>\$ 4,188,600</u> | <u>\$ 6,604,719</u> | <u>\$ (40,000)</u> | <u>\$ 6,564,719</u> |
| LIABILITIES AND NET ASSETS: | | | | | |
| Current Liabilities | | | | | |
| Accounts Payable | \$ | \$ 276,371 | \$ 276,371 | \$ (40,000) | \$ 236,371 |
| Other Liabilities | 3,381 | 607,200 | 610,581 | | 610,581 |
| Current Portion of Notes Payable | 55,487 | 78,167 | 133,654 | | 133,654 |
| Total Current Liabilities | <u>58,868</u> | <u>961,738</u> | <u>1,020,606</u> | <u>(40,000)</u> | <u>980,606</u> |
| Long-term Liabilities | | | | | |
| Notes Payable, less Current Portion | <u>1,124,497</u> | <u>87,497</u> | <u>1,211,994</u> | | <u>1,211,994</u> |
| Total Liabilities | <u>1,183,365</u> | <u>1,049,235</u> | <u>2,232,600</u> | <u>(40,000)</u> | <u>2,192,600</u> |
| Net Assets | | | | | |
| Unrestricted | 1,232,754 | 2,938,560 | 4,171,314 | | 4,171,314 |
| Temporarily Restricted | | 200,805 | 200,805 | | 200,805 |
| Total Net Assets | <u>1,232,754</u> | <u>3,139,365</u> | <u>4,372,119</u> | | <u>4,372,119</u> |
| Total Liabilities and Net Assets | <u>\$ 2,416,119</u> | <u>\$ 4,188,600</u> | <u>\$ 6,604,719</u> | <u>\$ (40,000)</u> | <u>\$ 6,564,719</u> |

See accompanying notes to the financial statements.

SANTA MARIA HOSTEL, INC. AND
SANTA MARIA HOSTEL FOUNDATION

SUPPLEMENTAL STATEMENT OF ACTIVITIES

FOR THE TWELVE MONTHS ENDED AUGUST 31, 2018

| | Santa Maria Hostel Foundation | Santa Maria Hostel, Inc. | Combined | Eliminations | Total |
|-------------------------------|-------------------------------------|-----------------------------|---------------------|--------------|---------------------|
| SUPPORT AND REVENUE | | | | | |
| Contributions and Grants | \$ 220 | \$ 853,864 | \$ 854,084 | \$ | \$ 854,084 |
| United Way Allocation | | 198,137 | 198,137 | | 198,137 |
| Federal Assistance | | 9,191,222 | 9,191,222 | | 9,191,222 |
| State and Local Assistance | | 1,474,695 | 1,474,695 | | 1,474,695 |
| Miscellaneous Program Revenue | | 651,948 | 651,948 | | 651,948 |
| Program Fundraiser | | 137,248 | 137,248 | | 137,248 |
| Rental Income | 240,000 | 23,468 | 263,468 | | 263,468 |
| Other Income | | 89,407 | 89,407 | | 89,407 |
| Total Support and Revenues | <u>240,220</u> | <u>12,619,989</u> | <u>12,860,209</u> | | <u>12,860,209</u> |
| EXPENSES | | | | | |
| Program Services | | 11,483,804 | 11,483,804 | | 11,483,804 |
| Management and General | | 484,339 | 484,339 | | 484,339 |
| Fundraising | | 207,185 | 207,185 | | 207,185 |
| Foundation Expenses | 291,563 | | 291,563 | | 291,563 |
| Total Expenses | <u>291,563</u> | <u>12,175,328</u> | <u>12,466,891</u> | | <u>12,466,891</u> |
| CHANGE IN NET ASSETS | <u>(51,343)</u> | <u>444,661</u> | <u>393,318</u> | | <u>393,318</u> |
| NET ASSETS, BEGINNING OF YEAR | <u>1,284,097</u> | <u>2,694,704</u> | <u>3,978,801</u> | | <u>3,978,801</u> |
| NET ASSETS, END OF YEAR | <u>\$ 1,232,754</u> | <u>\$ 3,139,365</u> | <u>\$ 4,372,119</u> | <u>\$</u> | <u>\$ 4,372,119</u> |

See accompanying notes to the financial statements.