

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

**CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

FOR THE YEAR ENDED AUGUST 31, 2010

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GOMEZ & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS
6750 W. LOOP SOUTH, SUITE 520
HOUSTON, TEXAS 77401
TEL: (713) 666-5900
FAX: (713) 666-1049
<http://www.gomezandco.com>

INDEPENDENT AUDITOR'S REPORT

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

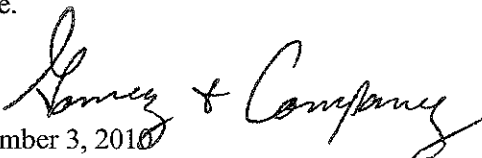
We have audited the accompanying consolidated statement of financial position of Santa Maria Hostel, Inc. (SMH, Inc.) and Santa Maria Hostel Foundation (SMHF) as of August 31, 2010, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended. These consolidated financial statements are the responsibility of SMH, Inc. and SMHF's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Santa Maria Hostel, Inc. and Santa Maria Hostel Foundation as of August 31, 2010, and the changes in its net assets and its 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 December 3, 2010, 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 grants 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 important for assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of SMH, Inc. and SMHF taken as a whole. The supplemental consolidated financial statements and 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.


December 3, 2010

SANTA MARIA HOSTEL, INC. AND
SANTA MARIA HOSTEL FOUNDATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2010

ASSETS:

Cash	\$	580,763
Accounts Receivable		188,537
Grants Receivable		465,691
Other Receivable		11,238
Land		365,999
Automobiles		116,002
Buildings and Improvement		3,090,140
Furniture, Fixture, and Equipment		161,909
Accumulated Depreciation		(1,012,717)
Other Assets		<u>6,033</u>
Total Assets	\$	<u>3,973,595</u>

LIABILITIES AND NET ASSETS:

Liabilities

Accounts Payable	\$	398,256
Accrued Vacation and Sick Pay		152,251
Payroll Taxes Payable		11,576
Notes Payable		<u>2,175,587</u>
Total Liabilities		<u>2,737,670</u>

Net Assets

Unrestricted		1,117,322
Temporarily Restricted		<u>118,603</u>
Total Net Assets		<u>1,235,925</u>
Total Liabilities and Net Assets	\$	<u>3,973,595</u>

See accompanying notes to the financial statements.

SANTA MARIA HOSTEL, INC. AND
SANTA MARIA HOSTEL FOUNDATION

CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE TWELVE MONTHS ENDED AUGUST 31, 2010

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
Contributions and Grants	\$ 650,222	\$ 258,171	\$ 908,393
United Way Allocation	-	140,130	140,130
Federal Assistance	4,838,458	-	4,838,458
State and Local Assistance	1,123,236	-	1,123,236
Program Income	9,522	-	9,522
Program Fundraiser	236,432	-	236,432
Interest Income	10	-	10
Rental Income	194,260	-	194,260
Other Income	102,536	-	102,536
Net assets released from restrictions	400,594	(400,594)	-
Total Support and Revenues	7,555,270	(2,293)	7,552,977
EXPENSES			
Program Services	7,132,822	-	7,132,822
Management and General	145,302	-	145,302
Foundation Expenses	272,396	-	272,396
Total Expenses	7,550,520	-	7,550,520
CHANGE IN NET ASSETS	4,750	(2,293)	2,457
NET ASSETS, BEGINNING OF YEAR	1,112,572	120,896	1,233,468
NET ASSETS, END OF YEAR	\$ 1,117,322	\$ 118,603	\$ 1,235,925

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, 2010

	PROGRAM SERVICES										Total Program Services	Mgmt & General	Foundation	Total All Funds	
	Adult Res. Care	Residential Women /Child	Outpatient	COPSD Dual/Diag	Prevention	WHO Harris Co.	HUD Housing	HOPWA	ESG / Emergency Shelter	BAMBI					All Others
Salaries	\$ 897,953	\$ 810,112	\$ 177,764	\$ 266,079	\$ 107,320	\$ 459,290	\$ 280,179	\$ 159,116	\$ 50,759	\$ 100,542	\$ 83,732	\$ 3,392,845	\$ 15,332	\$ 0	\$ 3,408,177
Fringe ben.	125,641	127,880	24,590	37,147	26,065	74,933	43,541	20,078	15,695	13,764	60,452	569,785	0	0	569,785
Total Pers.	1,023,594	937,992	202,355	303,226	133,385	534,223	323,720	179,194	66,454	114,305	144,184	3,962,630	15,332	0	3,977,962
Contractual	26,660	30,495	21,191	42,358	877	16,808	21,510	21,028	165	3,083	31,661	215,836	0	0	215,836
Conferences	5,029	5,097	813	1,776	1,376	2,802	1,279	736	520	545	2,336	22,308	5,062	0	27,370
Occupancy	67,735	35,745	39,716	4,421	894	53,175	22,022	19,890	894	5,243	5,350	255,085	0	0	255,085
Prof. Fees	206,490	169,332	11,546	28,538	1,250	31,325	93,073	27,641	4,687	3,598	8,387	585,866	35,989	437	622,293
Rents/Main.	91,444	75,156	8,513	12,771	2,246	66,551	43,182	28,071	6,301	12,034	36,068	382,337	0	0	382,337
Supplies	64,913	97,900	2,607	5,363	2,629	32,197	17,083	13,110	6,658	12,473	18,658	273,592	94	0	273,686
Telephone	16,958	24,402	3,311	7,824	1,778	10,772	8,693	3,449	3,466	2,745	10,116	93,514	0	0	93,514
Travel	17,543	16,230	9,945	6,045	7,136	9,547	9,158	2,177	4,204	1,705	4,227	87,917	5	0	87,922
Printing	2,306	2,122	489	474	173	1,019	769	431	336	259	645	9,021	344	0	9,365
Postage	2,472	2,146	151	207	1	1,135	655	293	297	323	609	8,290	0	0	8,290
Utilities	37,020	53,159	1,542	6,807	1,669	41,504	58,344	29,533	4,327	5,905	20,744	260,615	0	0	260,615
Other	184,124	200,710	20,067	23,464	2,524	97,090	70,852	38,625	18,287	24,753	227,101	907,596	88,476	154,569	1,150,641
Total Exp.	1,746,287	1,650,486	322,247	443,273	155,940	898,208	670,338	364,178	116,595	186,972	510,085	7,064,608	145,302	155,007	7,364,917
Depr.	5,889	9,451	1,080	3,154	47	14,297	12,454	1,700	4,048	1,251	14,844	68,214	0	117,389	185,603
Total Exp.	\$ 1,752,176	\$ 1,659,937	\$ 323,327	\$ 446,427	\$ 155,986	\$ 912,504	\$ 682,792	\$ 365,878	\$ 120,643	\$ 188,223	\$ 524,929	\$ 7,132,822	\$ 145,302	\$ 272,396	\$ 7,550,520

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, 2010

CASH FLOWS FROM OPERATING ACTIVITIES:	
Increase (decrease) in net assets	\$ 2,457
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:	
Depreciation	185,603
(Increase) decrease in accounts receivable	(19,210)
(Increase) decrease in grants receivable	(51,660)
(Increase) decrease in other receivable	(11,238)
(Increase) decrease in other assets	11,287
Increase (decrease) in accounts payable	75,493
Increase (decrease) in accrued vacation and sick pay	(43,488)
Increase (decrease) in payroll tax payable	<u>2,086</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>151,330</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of fixed assets	<u>(78,283)</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(78,283)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Repayment of long-term Debt	<u>(185,436)</u>
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>(185,436)</u>
NET INCREASE (DECREASE) IN CASH	(112,389)
CASH AT BEGINNING OF YEAR	<u>693,152</u>
CASH AT END OF YEAR	<u>\$ 580,763</u>

See accompanying notes to the financial statements

SANTA MARIA HOSTEL, INC. AND
SANTA MARIA HOSTEL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2010

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 State Health Services 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

SMH, Inc. reports its financial information based on 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.

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.

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. No amounts have been reflected in the financial statements for donated services since no objective basis is available to measure 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.

SANTA MARIA HOSTEL, INC. AND
SANTA MARIA HOSTEL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2010

B. Summary of Significant Accounting Policies: Continued

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.

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	5
Computer Equipment	5
Software	3

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.

SANTA MARIA HOSTEL, INC. AND
SANTA MARIA HOSTEL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2010

B. Summary of Significant Accounting Policies: Continued

INCOME TAXES:

SMH and SMHF qualify as a tax-exempt organizations 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 a bank. The accounts at this institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. The bank accounts, at times, exceeded federally insured limits.

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, 2010:

Receivables in less than one year	\$ 72,307
Receivable in one to five years	<u>-0-</u>
Total Pledges receivable	<u>\$ 72,307</u>

Conditional promises to give consist of the following at August 31, 2010:

Contingent upon goal attainment	<u>\$ -0-</u>
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D. Temporarily Restricted Net Assets:

Temporarily restricted net assets at August 31, 2010, are available for the following purposes or periods:

Periods after August 31, 2010	<u>\$ 118,603</u>
United Way of the Texas Gulf Coast	46,057
United Way Emergency Grant	17,500
St. Luke's UMC	50,000
HCHD Grant	<u>5,046</u>
Total temporarily restricted net assets	<u>\$ 118,603</u>

SANTA MARIA HOSTEL, INC. AND
SANTA MARIA HOSTEL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2010

D. 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	\$ 139,969
Contributions and Grants	<u>260,625</u>
 Total restrictions released	 <u>\$ 400,594</u>

E. Operating Lease Commitments:

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

<u>Year ending August 31</u>	<u>Amount</u>
2011	\$ 238,995
2012	175,902
2013	165,135
2014	165,135
2015	133,176
Thereafter	<u>104,676</u>
	<u>\$ 983,019</u>

Operating lease expense amounted to \$ 57,364 for the twelve months ended August 31, 2010.

F. Notes Payable:

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

Note payable to Chase Bank. The note is dated June 26, 2006, has a 6.9% interest rate, and a face amount of \$743,750. Date of maturity is June 26, 2013. \$ 494,473

Note payable to Marek Family Foundation. The note is dated October 31, 2008, has a 6.0% interest rate, and a face amount of \$513,128. Date of maturity is August 31, 2013. Payment to the Foundation will be offset in full by committed future private contributions. \$ 418,118

Note payable to Chase Bank. The note is dated April 15, 2004, has a 3.85% interest rate, and a face amount of \$1,720,000. Date of maturity is April 15, 2015. \$ 1,174,996

SANTA MARIA HOSTEL, INC. AND
SANTA MARIA HOSTEL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2010

F. Notes Payable: Continued

Note payable to Chase Bank. The note is dated August 12, 2010, has a 7.75% interest rate, and a face amount of \$88,000. Date of maturity is July 12, 2011.

\$ 88,000

Total notes payable

2,175,587

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

<u>Year Ending August 31,</u>	<u>Amount</u>
2011	\$ 356,824
2012	184,449
2013	459,319
2014	0
2015	<u>1,174,995</u>
Total	<u>\$ 2,175,587</u>

G. Cafeteria Plan

SMH, Inc. 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. Concentrations:

The majority of Santa Maria Hostel, Inc.'s income comes from the Texas Department of State Health Services. SMH is subject to the administrative directives, rules, and regulations of Texas Department of State Health Services 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 State Health Services 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.

I. Lawsuits:

SMH, Inc. is involved in litigation in the ordinary course of business. The Organization is a Defendant in one pending personal liability lawsuit at August 31, 2010. The financial impact of an adverse decision may impact annual organization insurance cost; however, it will not have a material adverse effect on the financial position of the company.

SANTA MARIA HOSTEL, INC.
SCHEDULE OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2010

Governmental grantor/Pass-through grantor/ Program Title	CFDA number	Pass-through grantor's number	Expenditures
FEDERAL ASSISTANCE:			
U.S. Department of Health & Human Services Passed through Texas Department of State Health Services: Public Health Service II; Block Grant for the Prevention & Treatment of Substance Abuse	93.959	2010-031990-001	\$ 3,357,315
	93.958	2010-032151-001	444,915
	93.959	2010-032738-001	127,233
Substance Abuse and Mental Health Services – Access to Recovery	93.275	2010-033239-001	2,370
	93.275	2010-033360-001	29,663
Refugee and Entrant Assistance Discretionary Grants	93.576	2009-030487-001	30,256
Social Service Block Grant	93.667	2010-034987-001	<u>11,613</u>
Total U.S. Department of Health & Human Services			<u>4,003,365</u>
U.S. Department of Housing & Urban Development Passed through Harris County Housing Opportunity for Persons with AIDS	14.241		281,081
Supportive Housing Program	14.238		459,924
Emergency Shelter Grants Program	14.231		<u>74,609</u>
Total U.S. Department of Housing & Urban Development			<u>815,614</u>
Total Federal Financial Assistance			<u>4,818,979</u>

SANTA MARIA HOSTEL, INC.

SCHEDULE OF FEDERAL AWARDS

FOR THE YEAR ENDED AUGUST 31, 2010

Governmental grantor/Pass-through grantor/ Program Title	CFDA number	Pass-through grantor's number	Expenditures
STATE ASSISTANCE:			
Texas Department of State Health Services: Public Health Service II; Block Grant for the Prevention & Treatment of Substance Abuse		2010-032151-001	11,481
		2010-032738-001	<u>19,533</u>
Total Texas Department of State Health Services			<u>31,014</u>
Total State Financial Assistance			<u>31,014</u>
Total Governmental Assistance			<u>\$ 4,849,993</u>

SANTA MARIA HOSTEL, INC.
NOTES TO SCHEDULE OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2010

NOTE 1- SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying schedule of federal, state, and local awards is prepared 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.

GOMEZ & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS
6750 W. LOOP SOUTH, SUITE 520
HOUSTON, TEXAS 77401
TEL: (713) 666-5900
FAX: (713) 666-1049
<http://www.gomezandco.com>

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 Foundation
Houston, Texas

We have audited the financial statements of Santa Maria Hostel, Inc. (the Organization) as of and for the year ended August 31, 2010, and have issued our report thereon dated December 3, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect 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.

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of Santa Maria Hostel, Inc. in a separate letter dated December 3, 2010.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and the 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.

Amey & Company
December 3, 2010

GOMEZ & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS
6750 W. LOOP SOUTH, SUITE 520
HOUSTON, TEXAS 77401
TEL: (713) 666-5900
FAX: (713) 666-1049
<http://www.gomezandco.com>

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

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

Compliance

We have audited the compliance of Santa Maria Hostel, Inc. (SMH, Inc.) (a nonprofit organization) 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 August 31, 2010. SMH, 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 SMH, Inc.'s management. Our responsibility is to express an opinion on SMH, 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 SMH, 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 on SMH, Inc.'s compliance with those requirements.

In our opinion, SMH, 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 August 31, 2010.

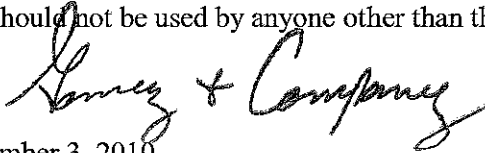
Internal Control Over Compliance

The management of SMH, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered SMH, Inc.'s internal control over compliance with the 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 of internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness on SMH, Inc.'s internal control over compliance.

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

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and the 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 "Hamez + Company". The signature is written in black ink and is positioned above the date.

December 3, 2010

SANTA MARIA HOSTEL, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED AUGUST 31, 2010

Summary of Audit Results

1. Unqualified opinion issued on the financial statements.
2. No significant deficiencies or material weaknesses on internal control over financial statements.
3. No instances of noncompliance, which is material to the financial statements.
4. No significant deficiencies or material weaknesses on internal control over major federal award programs.
5. Unqualified opinion issued on compliance with major federal award programs.
6. The audit did not disclose any audit findings which are required to be reported under section .510 (a) of OMB A-133.
7. Major programs:

U.S. Department of Health & Human Services

Passed through Texas Department of State

Health Services:

Public Health Service II; Block Grant for the
Prevention & Treatment of Substance Abuse
Community Mental Health Services

CFDA Number 93.959

CFDA Number 93.958

Department of Housing and Urban Development

CFDA Number 14.238

8. A \$300,000 threshold was used to distinguish between Type A and Type B programs as described in section .520 (b) of OMB A-133
9. Santa Maria Hostel, Inc. qualifies as a low-risk auditee.

Current Year Findings

Questioned
Costs

No audit findings were noted as per governmental auditing standards and Section .510 (a) of section .520 (b) of OMB A-133

\$ -0-

Summary Schedule of Prior Year Findings

No audit findings were noted as per section .300 (f) of OMB A-133 for the twelve months ended August 31, 2009.

\$ -0-

SUPPLEMENTARY SCHEDULES

SANTA MARIA HOSTEL, INC. AND
SANTA MARIA HOSTEL FOUNDATION

SUPPLEMENTAL STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2010

ASSETS:

	Santa Maria Foundation	Santa Maria Hostel, Inc.	Combined	Elimination's	Total
Cash	\$ 62,258	\$ 518,505	\$ 580,763	\$ -	\$ 580,763
Accounts Receivable	12,114	176,423	188,537	-	188,537
Grants Receivable	-	465,691	465,691	-	465,691
Other Receivable	-	11,238	11,238	-	11,238
Land	344,719	21,280	365,999	-	365,999
Automobiles	-	116,002	116,002	-	116,002
Buildings and Improvement	2,347,788	742,352	3,090,140	-	3,090,140
Furniture, Fixture, and Equipment	-	161,909	161,909	-	161,909
Accumulated Depreciation	(282,899)	(729,818)	(1,012,717)	-	(1,012,717)
Other Assets	-	6,033	6,033	-	6,033
	<u>\$ 2,483,980</u>	<u>\$ 1,489,615</u>	<u>\$ 3,973,595</u>	<u>\$ -</u>	<u>\$ 3,973,595</u>
Total Assets					

LIABILITIES AND NET ASSETS:

Liabilities					
Accounts Payable	\$ 25,558	\$ 372,698	\$ 398,256	\$ -	\$ 398,256
Accrued Vacation and Sick Pay	-	152,251	152,251	-	152,251
Payroll Taxes Payable	-	11,576	11,576	-	11,576
Notes Payable	2,175,587	-	2,175,587	-	2,175,587
	<u>2,201,145</u>	<u>536,525</u>	<u>2,737,670</u>	<u>-</u>	<u>2,737,670</u>
Total Liabilities					
Net Assets					
Unrestricted	282,835	834,487	1,117,322	-	1,117,322
Temporarily Restricted	-	118,603	118,603	-	118,603
	<u>282,835</u>	<u>953,090</u>	<u>1,235,925</u>	<u>-</u>	<u>1,235,925</u>
Total Net Assets					
Total Liabilities and Net Assets	<u>\$ 2,483,980</u>	<u>\$ 1,489,615</u>	<u>\$ 3,973,595</u>	<u>\$ -</u>	<u>\$ 3,973,595</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, 2010

	<u>Santa Maria Hostel Foundation</u>	<u>Santa Maria Hostel, Inc.</u>	<u>Combined</u>	<u>Elimination's</u>	<u>Total</u>
SUPPORT AND REVENUE					
Contributions and Grants	\$ 122,865	\$ 785,528	\$ 908,393	\$ -	\$ 908,393
United Way Allocation	-	140,130	140,130	-	140,130
Federal Assistance	-	4,838,458	4,838,458	-	4,838,458
State and Local Assistance	-	1,123,236	1,123,236	-	1,123,236
Program Income	-	9,522	9,522	-	9,522
Program Fundraiser	-	236,432	236,432	-	236,432
Interest Income	-	10	10	-	10
Rental Income	194,260	-	194,260	-	194,260
Other Income	-	102,536	102,536	-	102,536
Total Support and Revenues	<u>317,125</u>	<u>7,235,852</u>	<u>7,552,977</u>	<u>-</u>	<u>7,552,977</u>
EXPENSES					
Program Services	-	7,132,822	7,132,822	-	7,132,822
Management and General	-	145,302	145,302	-	145,302
Foundation Expenses	272,396	-	272,396	-	272,396
Total Expenses	<u>272,396</u>	<u>7,278,124</u>	<u>7,550,520</u>	<u>-</u>	<u>7,550,520</u>
CHANGE IN NET ASSETS	<u>44,729</u>	<u>(42,272)</u>	<u>2,457</u>	<u>-</u>	<u>2,457</u>
NET ASSETS, BEGINNING OF YEAR	<u>238,105</u>	<u>995,363</u>	<u>1,233,468</u>	<u>-</u>	<u>1,233,468</u>
NET ASSETS, END OF YEAR	<u>\$ 282,834</u>	<u>\$ 953,091</u>	<u>\$ 1,235,925</u>	<u>\$ -</u>	<u>\$ 1,235,925</u>

See accompanying notes to the financial statements.