

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

**CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

FOR THE YEAR ENDED AUGUST 31, 2016

TABLE OF CONTENTS

	Page No.
Independent Auditor's Report	1
FINANCIAL STATEMENTS	
Consolidated Statement of Financial Position	3
Consolidated Statement of Activities	4
Consolidated Statement of Functional Expenses	5
Consolidated Statement of Cash Flows	6
Notes to Financial Statements	7
Schedule of Federal and State Awards	14
Notes to Schedule of Federal and State Awards	16
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 <i>Government Auditing Standards</i>	17
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by <i>The Uniform Guidance</i> and the State of Texas Single Audit Circular	19
Schedule of Findings and Questioned Costs	21
Summary Schedule of Prior Year Findings	22
Supplemental Schedules	
Supplemental Statement of Financial Position	23
Supplemental Statement of Activities	24

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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) (a nonprofit organization), which comprise the consolidated statement of financial position as of August 31, 2016, 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, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 20, 2017 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 20, 2017

SANTA MARIA HOSTEL, INC. AND
SANTA MARIA HOSTEL FOUNDATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2016

ASSETS

Current Assets:

Cash	\$ 2,829,588
Grants Receivable	593,203
Prepaid Expenses	7,891
Deposits	<u>2,000</u>

Total Current Assets 3,432,682

Property, Plant & Equipment:

Land	364,827
Buildings and Improvements	4,198,000
Equipment and Furniture	511,234
Automobiles	<u>100,117</u>

5,174,178

Accumulated Depreciation (2,363,458)

Total Property, Plant & Equipment 2,810,720

Total Assets \$ 6,243,402

LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts Payable	\$ 208,255
Other Liabilities	609,749
Current Portion of Notes Payable	<u>178,941</u>

Total Current Liabilities 996,945

Long-term Liabilities:

Notes Payable, less Current Portion 1,445,984

Total Liabilities 2,442,929

Net Assets:

Unrestricted	3,735,545
Temporarily Restricted	<u>64,928</u>

Total Net Assets 3,800,473

Total Liabilities and Net Assets \$ 6,243,402

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, 2016

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
Contributions and Grants	\$ 359,716	\$ 164,133	\$ 523,849
United Way Allocation		197,164	197,164
Federal Assistance		7,243,152	7,243,152
State and Local Assistance	605,597	1,719,472	2,325,069
Miscellaneous Program Revenue	657,659		657,659
Program Fundraiser	105,770		105,770
Rental Income	398,105		398,105
Other Income	62,437		62,437
Net assets released from restrictions	<u>9,331,825</u>	<u>(9,331,825)</u>	
Total Support and Revenues	<u>11,521,109</u>	<u>(7,904)</u>	<u>11,513,205</u>
EXPENSES			
Program Services	10,205,261		10,205,261
Management and General	257,595		257,595
Fundraising	159,594		159,594
Foundation Expenses	<u>305,602</u>		<u>305,602</u>
Total Expenses	<u>10,928,052</u>		<u>10,928,052</u>
CHANGE IN NET ASSETS	593,057	(7,904)	585,153
NET ASSETS, BEGINNING OF YEAR	<u>3,142,488</u>	<u>72,832</u>	<u>3,215,320</u>
NET ASSETS, END OF YEAR	<u>\$ 3,735,545</u>	<u>\$ 64,928</u>	<u>\$ 3,800,473</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, 2016

	PROGRAM SERVICES				Total Program Services	Management & General	Fundraising	Foundation	Total All Funds
	Substance Abuse Treatment	Veteran Services	Supportive Housing/ Bonding	Adjunct Services					
Salaries	\$ 2,933,233	\$ 177,262	\$ 704,287	\$ 1,283,437	\$ 5,098,219	\$ 26,627	\$ 89,026	\$	\$5,213,872
Fringe Benefits	789,897	46,901	183,880	342,917	1,363,595	5,995	18,105		1,387,695
Total Personnel Expenses	3,723,130	224,163	888,167	1,626,354	6,461,814	32,622	107,131		6,601,567
Conference & Meeting	12,137	964	2,321	41,357	56,779	118	2,433		59,330
Insurance	102,413	6,083	44,778	31,958	185,232	2,081	851	20,754	208,918
Professional Fees	429,099	24,785	90,609	298,327	842,820	24,038	7,003	1,680	875,541
Repair & Maintenance	216,337	18,609	96,056	27,011	358,013	217	839		359,069
Rent	257,106	20,014	126,756	37,131	441,007	112	1,801		442,920
Supplies	785,473	23,495	190,615	70,256	1,069,839	1,428	13,392		1,084,659
Telephone	38,656	4,109	8,492	33,542	84,799	46	1,236		86,081
Travel	13,161	1,733	3,669	36,882	55,445	299	847		56,591
Utilities	133,360	15,607	80,357	26,322	255,646	34	817		256,497
Interest	11,575	694	3,966	4,394	20,629	24	145	56,239	77,037
Other	154,160	2,698	15,059	63,572	235,489	196,461	22,205	68,241	522,396
Total Expenses	5,876,607	342,954	1,550,845	2,297,106	10,067,512	257,480	158,700	146,914	10,630,606
Depreciation Expenses	72,290	7,803	23,675	33,981	137,749	115	894	158,688	297,446
Total Expenses	\$ 5,948,897	\$ 350,757	\$ 1,574,520	\$ 2,331,087	\$ 10,205,261	\$ 257,595	\$ 159,594	\$ 305,602	\$ 10,928,052

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, 2016

CASH FLOWS FROM OPERATING ACTIVITIES:	
Increase (decrease) in net assets	\$ 585,153
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:	
Depreciation	297,446
(Increase) decrease in grants receivable	51,622
(Increase) decrease in other receivable	(38,373)
(Increase) decrease in other assets	20,674
Increase (decrease) in accounts payable	(17,041)
Increase (decrease) in accrued liabilities	<u>(151,577)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>747,904</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of fixed assets	(129,163)
Disposal of fixed assets	<u>64,909</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(64,254)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Repayment of long-term debt	<u>(112,867)</u>
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>(112,867)</u>
NET INCREASE (DECREASE) IN CASH	570,783
CASH AT BEGINNING OF YEAR	<u>2,258,805</u>
CASH AT END OF YEAR	<u>\$ 2,829,588</u>
<u>Cash Paid During the Year for:</u>	
Interest	<u>\$ 77,037</u>

See accompanying notes to the financial statements

SANTA MARIA HOSTEL, INC. AND
SANTA MARIA HOSTEL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2016

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.

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, 2016

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. 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.

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	5
Computer Equipment	5
Software	3

SANTA MARIA HOSTEL, INC. AND
SANTA MARIA HOSTEL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2016

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, 2016:

Receivables in less than one year	\$	64,928
Receivable in one to five years		-0-
Total Pledges receivable	\$	<u>64,928</u>

Conditional promises to give consist of the following at August 31, 2016:

Contingent upon goal attainment	\$	<u>-0-</u>
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SANTA MARIA HOSTEL, INC. AND
SANTA MARIA HOSTEL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2016

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
2017	\$ 239,295
2018	26,124
2019	699
Total	\$ 266,118

Operating lease expense amounted to \$ 316,348 for the twelve months ended August 31, 2016.

E. Notes Payable

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

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. \$ 927,750

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. 355,041

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 January 17, 2012 with a face amount of \$81,834 at a 3.74% interest rate, 60 monthly installments of \$341. Date of maturity is January 17, 2017. 63,079

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. \$ 12,045

SANTA MARIA HOSTEL, INC. AND
SANTA MARIA HOSTEL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2016

E. Notes Payable: (Continued)

Note payable from Santa Maria Hostel to Mobilease, Inc., secured by a vehicle. The note is dated June 1, 2016 with a face amount of \$19,573 at a 4.89% interest rate, 48 monthly installments of \$368. The date of maturity is May 31, 2020.	\$ 15,118
Note payable from Santa Maria Hostel to Mobilease, Inc., secured by a vehicle. The note is dated August 20, 2016 with a face amount of \$19,651 at a 4.89% interest rate, 48 monthly installments of \$370. The date of maturity is August 19, 2020.	16,094
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>235,798</u>
Total notes payable	1,694,925
Less: current portion of notes payables	<u>178,941</u>
Notes payable net of current portion	<u><u>\$ 1,445,984</u></u>

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

Year Ending August 31,	Amount
2017	178,941
2018	122,405
2019	129,343
2020	128,960
2021	60,086
Thereafter	<u>1,005,190</u>
Total	<u><u>\$ 1,624,925</u></u>

F. Temporarily Restricted Net Assets

Temporarily restricted net assets at August 31, 2016, are available for the following purposes or periods:

Periods after August 31, 2016	<u>\$ 64,928</u>
United Way of the Texas Gulf Coast	<u>64,928</u>
Total temporarily restricted net assets	<u><u>\$ 64,928</u></u>

SANTA MARIA HOSTEL, INC. AND
SANTA MARIA HOSTEL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2016

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	\$ 205,068
Contributions and Grants	164,133
Federal Assistance	7,243,152
State Assistance	1,719,472
Total restrictions released	<u>\$ 9,331,825</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. TX Healthcare Transformation and Quality Improvement Program 1115 Waiver

Santa Maria Hostel, Inc. added a major source of funding during FYE 8.31.15, as a sub recipient under MHMRA, now extended through December 2017, 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 8.31.16 was due to the receipt of Waiver 1115 DSRIP (Delivery System Reform Incentive Payment) funds, which provide incentive payments above cost reimbursement for select detoxification services, based on performance on contracted outcome measures.

The current fund balance reflects the receipt of these incentive payments and allows SMH to operate with a fund balance equivalent to 86+ days of expenditure, edging us closer to the targeted fund balance standard for nonprofit organizations of many major banking institutions and the United Way of 90 to 120 days. (To note: the FYE 8.31.16 SMH operating margin of \$530,695 only supports 18 days of expenditure at the current rate of \$29,103 per day.)

After December 2017, the Federal Government will be faced with the decision of whether to grant the State with an extension of this waiver, which to a large extent has plugged major gaps in the mental health and substance abuse programs in Texas. HHSC has filed for a 5 year extension with CMS and has informed MHMRA that all their projects, including sub recipient projects, have been approved by HHSC and were included in the Waiver 2.0 extension request.

SANTA MARIA HOSTEL, INC. AND
SANTA MARIA HOSTEL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2016

I. 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.

J. Evaluation of Subsequent Events:

The Organization has evaluated subsequent events through February 20, 2017, 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, 2016

<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 State Health Services: Public Health Service II; Block Grant for the Prevention & Treatment of Substance Abuse	93.959	2016-048315-002	\$ 2,921,123
	93.959	2016-048503-001	415,059
	93.959	2016-048024-001	260,827
	93.959	2016-048385-001	225,000
	93.959	2016-048439-001	132,740
	93.959	2016-048315-001	302,739
Community Mental Health Services	93.958	2016-048315-001	4,714
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		1,672,060
Passed through Substance Abuse and Mental Health Service Administration (SAMHSA): Pregnant and Postpartum Substance Abuse and Mental Health	93.243	1H79TI025581-01	543,408
Passed through Baylor College of Medicine: TCE-HIV: High Risk Populations	93.243	1H79TI026186-01	171,314
Total U.S. Department of Health & Human Services			<u>6,648,984</u>
U.S. Department of Housing & Urban Development Supportive Housing Program	14.235		474,486
Passed through Texas Department of Housing and Community Affairs: Passed through Northwest Assistance Ministries: Emergency Solutions Grant Program	14.231		11,370
Total U.S. Department of Housing & Urban Development			<u>485,856</u>

SANTA MARIA HOSTEL, INC. AND
SANTA MARIA HOSTEL FOUNDATION

SCHEDULE OF FEDERAL AND STATE AWARDS

FOR THE YEAR ENDED AUGUST 31, 2016

<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 Veterans Affairs			
VA Homeless Providers Grant and Per Diem Program	64.024		99,345
Total U.S. Department of Veterans Affairs			<u>99,345</u>
U.S. Department of Justice			
Second Chance Act Adult Mentoring Program	16.812	2013-CY-BX-0020	8,967
Total U.S. Department of Justice			<u>8,967</u>
Total Federal Financial Assistance			<u>\$ 7,243,152</u>
STATE ASSISTANCE:			
Texas Department of State Health Services:			
Public Health Service II; Block Grant for the			
Prevention & Treatment of Substance Abuse			
		2016-048315-002	\$ 944,068
		2016-048503-001	160,767
		2016-048315-001	95,507
		2016-048024-001	32,357
		2016-048439-001	299,247
Total Texas Department of State Health Services			<u>1,531,946</u>
Total Texas Veterans Commission			<u>187,526</u>
Total State Financial Assistance			<u>1,719,472</u>
Total Governmental Assistance			<u><u>\$ 8,962,624</u></u>

SANTA MARIA HOSTEL, INC. AND
SANTA MARIA HOSTEL FOUNDATION

NOTES TO SCHEDULE OF FEDERAL AND STATE AWARDS

FOR THE YEAR ENDED AUGUST 31, 2016

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, 2016. 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.

GOMEZ & COMPANY
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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, 2016, 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 20, 2017.

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 cursive script that reads "Ramsey & Company".

Houston, TX
February 20, 2017

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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, 2016. 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, 2016.

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.

A handwritten signature in cursive script that reads "Ramirez & Company". The signature is written in dark ink and is positioned above the typed name and date.

Houston, TX
February 20, 2017

SANTA MARIA HOSTEL, INC. AND
SANTA MARIA HOSTEL FOUNDATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED AUGUST 31, 2016

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 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 Texas Department of State
Health Services:
Public Health Service II; Block Grant for the
Prevention & Treatment of Substance Abuse

CFDA
Number

93,959

State Grantor

Texas Department of State Health Services:
Public Health Service II; Block Grant for the
Prevention & Treatment of Substance Abuse

2016-048315-002
2016-048503-001
2016-048315-001
2016-048024-001
2016-048439-001

8. A \$750,000 Federal threshold and a \$750,000 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, 2016

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, 2015.

\$ -0-

SUPPLEMENTARY SCHEDULES

SANTA MARIA HOSTEL, INC. AND
SANTA MARIA HOSTEL FOUNDATION

SUPPLEMENTAL STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2016

	Santa Maria Hostel Foundation	Santa Maria Hostel, Inc.	Combined	Elimination's	Total
ASSETS					
Current Assets:					
Cash	\$ 306,206	\$ 2,523,382	\$ 2,829,588	\$	\$ 2,829,588
Accounts Receivable	38,923		38,923	(38,923)	
Grants Receivable		593,203	593,203		593,203
Prepaid Expenses	7,891		7,891		7,891
Deposits		2,000	2,000		2,000
Total Current Assets	<u>353,020</u>	<u>3,118,585</u>	<u>3,471,605</u>	<u>(38,923)</u>	<u>3,432,682</u>
Property, Plant & Equipment					
Land	343,547	21,280	364,827		364,827
Buildings and Improvement	3,173,786	1,024,214	4,198,000		4,198,000
Furniture, Fixture, and Equipment		511,234	511,234		511,234
Automobiles		100,117	100,117		100,117
	<u>3,517,333</u>	<u>1,656,845</u>	<u>5,174,178</u>		<u>5,174,178</u>
Accumulated Depreciation	<u>(1,303,862)</u>	<u>(1,059,596)</u>	<u>(2,363,458)</u>		<u>(2,363,458)</u>
Total Property, Plant & Equipment	<u>2,213,471</u>	<u>597,249</u>	<u>2,810,720</u>		<u>2,810,720</u>
Total Assets	<u>\$ 2,566,491</u>	<u>\$ 3,715,834</u>	<u>\$ 6,282,326</u>	<u>\$ (38,923)</u>	<u>\$ 6,243,402</u>
LIABILITIES AND NET ASSETS:					
Current Liabilities					
Accounts Payable	\$	\$ 247,178	\$ 247,178	\$ (38,923)	\$ 208,255
Other Liabilities	1,376	608,373	609,749		609,749
Current Portion of Notes Payable	114,214	64,727	178,941		178,941
Total Current Liabilities	<u>115,590</u>	<u>920,278</u>	<u>1,035,868</u>	<u>(38,923)</u>	<u>996,945</u>
Long-term Liabilities					
Notes Payable, less Current Portion	<u>1,231,657</u>	<u>214,327</u>	<u>1,445,984</u>		<u>1,445,984</u>
Total Liabilities	<u>1,347,247</u>	<u>1,134,605</u>	<u>2,481,852</u>	<u>(38,923)</u>	<u>2,442,929</u>
Net Assets					
Unrestricted	1,219,244	2,516,301	3,735,545		3,735,545
Temporarily Restricted		64,928	64,928		64,928
Total Net Assets	<u>1,219,244</u>	<u>2,581,229</u>	<u>3,800,473</u>		<u>3,800,473</u>
Total Liabilities and Net Assets	<u>\$ 2,566,491</u>	<u>\$ 3,715,834</u>	<u>\$ 6,282,325</u>	<u>\$ (38,924)</u>	<u>\$ 6,243,402</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, 2016

	Santa Maria Hostel Foundation	Santa Maria Hostel, Inc.	Combined	Eliminations	Total
SUPPORT AND REVENUE					
Contributions and Grants	\$ 60	\$ 523,789	\$ 523,849	\$	\$ 523,849
United Way Allocation		197,164	197,164		197,164
Federal Assistance		7,243,152	7,243,152		7,243,152
State and Local Assistance		2,325,069	2,325,069		2,325,069
Miscellaneous Program Revenue		657,659	657,659		657,659
Program Fundraiser		105,770	105,770		105,770
Rental Income	360,000	38,105	398,105		398,105
Other Income		62,437	62,437		62,437
Total Support and Revenues	<u>360,060</u>	<u>11,153,145</u>	<u>11,513,205</u>		<u>11,513,205</u>
EXPENSES					
Program Services		10,205,261	10,205,261		10,205,261
Management and General		257,595	257,595		257,595
Fundraising		159,594	159,594		159,594
Foundation Expenses	305,602		305,602		305,602
Total Expenses	<u>305,602</u>	<u>10,622,450</u>	<u>10,928,052</u>		<u>10,928,052</u>
CHANGE IN NET ASSETS	<u>54,458</u>	<u>530,695</u>	<u>585,153</u>		<u>585,153</u>
NET ASSETS, BEGINNING OF YEAR	<u>1,164,785</u>	<u>2,050,535</u>	<u>3,215,320</u>		<u>3,215,320</u>
NET ASSETS, END OF YEAR	<u>\$ 1,219,243</u>	<u>\$ 2,581,230</u>	<u>\$ 3,800,473</u>	<u>\$</u>	<u>\$ 3,800,473</u>

See accompanying notes to the financial statements.