SANTA MARIA HOSTEL, INC. AND
SANTA MARIA HOSTEL FOUNDATION

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED AUGUST 31, 2009

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GOMEZ & COMPANY

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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, 2009, 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, 2009, 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 January 15, 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 should be considered in assessing the results of our audit.

Our audit was conducted 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.

Gomez & Company

January 15, 2010

SANTA MARIA HOSTEL, INC. AND
SANTA MARIA HOSTEL FOUNDATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2009

ASSETS:		
Cash	$	693,152
Accounts Receivable		169,327
Grants Receivable		414,031
Land		365,999
Automobiles		116,002
Buildings and Improvement		3,042,777
Furniture, Fixture, and Equipment		130,989
Accumulated Depreciation		(827,114)
Other Assets		17,320
Total Assets	$	4,122,483
LIABILITIES AND NET ASSETS:		
Liabilities		
Accounts Payable	$	322,763
Accrued Vacation and Sick Pay		195,739
Payroll Taxes Payable		9,490
Notes Payable		2,361,023
Total Liabilities		2,889,015
Net Assets		
Unrestricted		1,112,572
Temporarily Restricted		120,896
Total Net Assets		1,233,468
Total Liabilities and Net Assets	$	4,122,483

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, 2009

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
Contributions and Grants	$ 486,957	$ 241,516	$ 728,473
United Way Allocation	-	141,006	141,006
Federal Assistance	4,523,216	-	4,523,216
State and Local Assistance	1,170,078	-	1,170,078
Program Income	1,467	-	1,467
Program Fundraiser	165,062	-	165,062
Interest Income	80	-	80
Rental Income	161,624	-	161,624
Insurance Proceeds-Hurricane Ike	166,945	-	166,945
Other Income	90,571	-	90,571
Net assets released from restrictions	310,641	(310,641)	-
Total Support and Revenues	7,076,641	71,881	7,148,522
EXPENSES			
Program Services	6,755,233	-	6,755,233
Management and General	194,904	-	194,904
Foundation Expenses	175,948	-	175,948
Total Expenses	7,126,085	-	7,126,085
CHANGE IN NET ASSETS	(49,444)	71,881	22,437
NET ASSETS, BEGINNING OF YEAR	1,162,016	49,015	1,211,031
NET ASSETS, END OF YEAR	$ 1,112,572	$ 120,896	$ 1,233,468

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, 2009

	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	Other Transitional	SAFE 4 KIDZ	Ancillary Services	Gulf Coast	All Others				
Salaries	$ 947,414	$ 865,086	$205,432	$313,909	$ 104,932	$504,898	$ 136,298	$ 67,182	$ 7,364	$32,169	$ 0	$ 27,900	$ 56,755	$3,269,340	$ 61,728	$ 0	$3,331,069
Fringe ben.	141,021	128,810	36,971	51,698	17,675	63,858	6,703	3,223	4,036	8,269	0	12,111	12,576	486,951	0	0	486,951
Total Pers.	1,088,435	993,897	242,403	365,607	122,608	568,755	143,001	70,406	11,400	40,439	0	40,011	69,331	3,756,291	61,728	0	3,818,020
Contractual	90,838	72,635	18,501	5,112	0	25,905	15,125	580	2,715	5,862	2,690	8,867	6,057	254,888	0	0	254,888
Conferences	5,487	4,898	981	1,233	1,124	2,630	63	63	2,204	245	0	249	413	19,590	6,259	0	25,849
Occupancy	84,482	46,390	44,428	8,514	4,182	50,837	0	0	902	4,419	0	4,966	4,848	253,969	70	0	254,039
Prof. Fees	212,738	207,610	12,173	30,292	0	35,939	48,796	22,581	2,041	3,091	0	3,381	4,828	583,470	36,347	2,655	622,472
Rents/Main.	127,138	120,142	18,267	11,995	419	70,426	10,934	5,975	10,818	7,317	981	7,529	4,872	396,811	0	0	396,810
Supplies	88,849	76,101	4,036	10,771	6,525	21,917	488	13,780	1,253	3,330	1,489	4,697	4,696	237,931	450	0	238,381
Telephone	23,037	24,310	6,659	6,609	1,792	10,707	4,093	1,738	5,389	1,594	0	1,854	1,885	89,668	60	0	89,728
Travel	22,761	15,911	7,112	12,692	6,800	7,649	1,159	245	1,277	800	4,185	1,682	1,156	83,429	261	0	83,690
Printing	4,128	2,577	546	921	718	1,071	88	53	154	205	0	344	305	11,109	827	0	11,936
Postage	2,308	1,550	286	434	11	1,099	23	65	20,674	136	32	17,888	247	44,753	34	0	44,787
Utilities	62,608	62,053	12,285	4,106	593	37,276	33,500	17,426	6,243	3,501	0	3,525	1,186	244,302	0	0	244,302
Other	201,536	161,975	18,270	16,936	1,841	85,489	37,583	3,650	5,194	16,708	120,429	24,971	22,752	717,335	97,201	86,330	900,866
Total Exp.	2,014,347	1,790,050	385,947	475,221	146,613	919,700	294,851	136,560	70,264	87,647	129,806	119,964	122,577	6,693,546	203,237	88,985	6,985,768
Depr.	8,911	12,176	10,222	1,723	0	7,982	0	0	7,092	512	0	769	3,967	53,355	0	86,963	140,318
Total Exp.	$2,023,258	$1,802,226	$396,169	$476,944	$ 146,613	$927,682	$ 294,851	$136,560	$ 77,356	$88,159	$129,806	$120,733	$126,544	$6,746,901	$203,237	$175,948	$ 7,126,085

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, 2009

CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	$	22,437
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation		140,318
(Increase) decrease in accounts receivable		32,356
(Increase) decrease in grants receivable		(404,673)
(Increase) decrease in other assets		18,565
Increase (decrease) in accounts payable		73,255
Increase (decrease) in payroll tax payable		683
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		(117,059)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed assets		(1,827,736)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES		(1,827,736)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from loans and leases		1,804,002
Repayment of long-term Debt		(66,080)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES		1,737,922
NET INCREASE (DECREASE) IN CASH		(206,873)
CASH AT BEGINNING OF YEAR		900,025
CASH AT END OF YEAR	$	693,152

See accompanying notes to the financial statements

SANTA MARIA HOSTEL, INC. AND
SANTA MARIA HOSTEL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2009

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 housing, residential treatment for drug abuse, psychological and medical stabilization, job readiness, vocational training, and parenting education. Services are provided to the residents, their children, and other family members through a highly structured Intensive Residential program, which includes a children and family counseling program. The organization is also licensed by the Texas Department of State Health Services to provide Residential and Intensive Residential 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

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.

CONTRIBUTIONS:
In accordance with Statement of Financial Accounting Standards (SFAS) No. 116, "Accounting for Contributions Received and Contributions Made," 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.

B. Summary of Significant Accounting Policies: Continued

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:

	Years
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.

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.

B. Summary of Significant Accounting Policies: Continued

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, 2009:

Receivables in less than one year	$ 45,896
Receivable in one to five years	-0-
Total Pledges receivable	$ 45,896

Conditional promises to give consist of the following at August 31, 2009:

Contingent upon goal attainment	$ -0-

D. Temporarily Restricted Net Assets:

Temporarily restricted net assets at August 31, 2009, are available for the following purposes or periods:

Periods after August 31, 2009	$ 120,896
United Way of the Texas Gulf Coast	45,896
Chapelwood United Methodist Church	25,000
HCHD Grant	50,000
Total temporarily restricted net assets	$ 120,896

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	$ 144,125
Contributions and Grants	166,516
Total restrictions released	$ 310,641

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:

Year ending August 31	Amount
2010	$ 61,590
2011	61,590
2012	61,590
2013	61,590
2014	61,590
Thereafter	23,096
	$ 331,046

Operating lease expense amounted to $ 45,372 for the twelve months ended August 31, 2009.

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.	$ 561,021
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.	$ 513,128
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.	$ 1,190,874
Note payable to Chase Bank. The note is dated April 15, 2007, has a 3.85% interest rate, and a face amount of $100,000. Date of maturity is April 15, 2010.	$ 96,000
Total notes payable	$ 2,361,023

F. Notes Payable: Continued

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

Year Ending August 31,	Amount
2010	$ 353,738
2011	173,246
2012	184,449
2013	458,716
Thereafter	1,190,874
Total	$ 2,361,023

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 two pending lawsuits at August 31, 2009. The first case involves a former client who sustained a shoulder injury as a resident; settlement by the insurance company is anticipated. The second case involves a breach of contract with an employee. The financial impact of an adverse decision on either lawsuit 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, 2009

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	2009-029101-001	$ 3,298,503
	93.958	2009-029101-002	396,516
	93.959	2009-029683-001	132,780
Substance Abuse and Mental Health Services – Access to Recovery	93.275	2009-030502-001	21
Refugee and Entrant Assistance Discretionary Grants	93.576	2009-030487-001	120,429
Total U.S. Department of Health & Human Services			3,948,249
U.S. Department of Homeland Security			
Passed through Texas Department of Public Safety Division of Emergency Management			
FEMA – Hurricane Ike	97.036		89,366
Total U.S. Department of Homeland Security			89,366
U.S. Department of Housing & Urban Development			
Passed through Harris County			
Housing Opportunity for Persons with AIDS	14.241		140,396
Supportive Housing Program	14.238		296,445
Total U.S. Department of Housing & Urban Development			436,841
Total Federal Financial Assistance			4,474,456

SANTA MARIA HOSTEL, INC.

SCHEDULE OF FEDERAL AWARDS

FOR THE YEAR ENDED AUGUST 31, 2009

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		2009-029101-002	80,428
		2009-029683-001	12,723
Total Texas Department of State Health Services			93,151
Total State Financial Assistance			93,151
Total Governmental Assistance			$ 4,567,607

SANTA MARIA HOSTEL, INC.

NOTES TO SCHEDULE OF FEDERAL AWARDS

FOR THE YEAR ENDED AUGUST 31, 2009

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.

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

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

We have audited the financial statements of Santa Maria Hostel, Inc. (SMH, Inc.) (a nonprofit organization) as of and for the year ended August 31, 2009, and have issued our report thereon dated January 15, 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 SMH, Inc.'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 SMH, Inc'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 control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 below.

Compliance and Other Matters

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

We noted certain other matters that we reported to management of Santa Maria Hostel, Inc. in a separate letter dated January 15, 2010.

This report is intended solely for the information and use of management, the Board of Directors, the audit committee, 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.

Gomez & Company

January 15, 2010

GOMEZ & COMPANY

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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.
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, 2009. 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 of 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, 2009.

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, 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's Inc. internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 the audit committee, management, 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.

Gomez & Company

January 15, 2010

SANTA MARIA HOSTEL, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED AUGUST 31, 2009

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	CFDA Number	93.959
Community Mental Health Services	CFDA Number	93.958

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, 2008.

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SUPPLEMENTARY SCHEDULES

SANTA MARIA HOSTEL, INC. AND
SANTA MARIA HOSTEL FOUNDATION

SUPPLEMENTAL STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2009

ASSETS:

	Santa Maria Foundation	Santa Maria Hostel, Inc.	Combined	Eliminations	Total
Cash	$ 97,786	$ 595,366	$ 693,152	$ -	$ 693,152
Accounts Receivable	-	169,327	169,327	-	169,327
Grants Receivable	-	414,031	414,031	-	414,031
Land	344,719	21,280	365,999	-	365,999
Automobiles	-	116,002	116,002	-	116,002
Buildings and Improvement	2,347,788	694,989	3,042,777	-	3,042,777
Furniture, Fixture, and Equipment	-	130,989	130,989	-	130,989
Accumulated Depreciation	(165,510)	(661,604)	(827,114)	-	(827,114)
Other Assets	-	17,320	17,320	-	17,320
Total Assets	$ 2,624,783	$ 1,497,699	$ 4,122,483	$ -	$ 4,122,483
LIABILITIES AND NET ASSETS:					
Liabilities					
Accounts Payable	$ 25,656	$ 297,107	$ 322,763	$ -	$ 322,763
Accrued Vacation and Sick Pay	-	195,739	195,739	-	195,739
Payroll Taxes Payable	-	9,490	9,490	-	9,490
Notes Payable	2,361,023	-	2,361,023	-	2,361,023
Total Liabilities	2,386,679	502,336	2,889,015	-	2,889,015
Net Assets					
Unrestricted	238,105	874,468	1,112,572	-	1,112,572
Temporarily Restricted	-	120,896	120,896	-	120,896
Total Net Assets	238,105	995,364	1,233,468	-	1,233,468
Total Liabilities and Net Assets	$ 2,624,783	$ 1,497,699	$ 4,122,483	$ -	$ 4,122,483

See accompanying notes to the financial statements.

SANTA MARIA HOSTEL, INC. AND
SANTA MARIA HOSTEL FOUNDATION

SUPPLEMENTAL STATMENT OF ACTIVITIES

FOR THE TWELVE MONTHS ENDED AUGUST 31, 2009

	Santa Maria Hostel Foundation	Santa Maria Hostel, Inc.	Combined	Eliminations	Total
SUPPORT AND REVENUE					
Contributions and Grants	$ -	$ 728,473	$ 728,473	$ -	$ 728,473
United Way Allocation	-	141,006	141,006	-	141,006
Federal Assistance	-	4,523,216	4,523,216	-	4,523,216
State and Local Assistance	-	1,170,078	1,170,078	-	1,170,078
Program Income	-	1,467	1,467	-	1,467
Program Fundraiser	-	165,062	165,062	-	165,062
Interest Income	-	80	80	-	80
Rental Income	161,624	-	161,624	(161,624)	-
Insurance Proceeds-Hurricane Ike	-	166,945	166,945	-	166,945
Other Income	-	90,571	90,571	-	90,571
Total Support and Revenues	161,624	6,986,899	7,148,522	(161,624)	6,986,898
EXPENSES					
Program Services	-	6,755,233	6,755,233	(161,624)	6,593,609
Management and General	-	194,904	194,904	-	194,904
Foundation Expenses	175,948	-	175,948	-	175,948
Total Expenses	175,948	6,950,138	7,126,085	(161,624)	6,964,461
CHANGE IN NET ASSETS	(14,324)	36,761	22,437	-	22,437
NET ASSETS, BEGINNING OF YEAR	252,428	958,603	1,211,031	-	1,211,031
NET ASSETS, END OF YEAR	$ 238,104	$ 995,364	$ 1,233,468	$ -	$ 1,233,468

See accompanying notes to the financial statements.