

ODYSSEY HOUSE LOUISIANA, INC.

**Financial Statements as of June 30, 2012 and 2011
and for the Years Then Ended
and Independent Auditors' Report
and Supplementary Information**

ODYSSEY HOUSE LOUISIANA, INC.

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS AS OF JUNE 30, 2012 AND 2011 AND FOR THE YEARS THEN ENDED:	
Statements of Financial Position	3
Statements of Activities and Changes in Net Assets	4
Statements of Functional Expenses	6
Statements of Cash Flows	8
Notes to Financial Statements	9
OTHER INDEPENDENT AUDITORS' REPORTS	
Independent Auditors' 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 Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with Office of Management and Budget (OMB) Circular A-133	19
SUPPLEMENTARY INFORMATION	
Schedule of Expenditures of Federal Awards	22
Notes to Schedule of Expenditures of Federal Awards	23
Schedule of Findings and Questioned Costs	24
Schedule of Prior Year Findings and Questioned Costs	25



Certified Public Accountants & Consultants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Odyssey House Louisiana, Inc.
New Orleans, Louisiana

We have audited the accompanying statements of financial position of Odyssey House Louisiana, Inc. (a non-profit organization) (the Organization) as of June 30, 2012 and 2011, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Organization as of June 30, 2012 and 2011, and the results of its activities and its cash flows for the years 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 a report dated December 14, 2012, on our consideration of Organization'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 as of June 30, 2012, and for the year then ended. 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 the 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.

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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 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 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 audits 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.

Silva Gurtner & Abney, LLC

December 14, 2012

ODYSSEY HOUSE LOUISIANA, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 215,068	\$ 308,288
Restricted cash	40,026	5
Investments	10,516	10,641
Receivables:		
Receivables - government grants and programs, net	1,013,937	891,049
Other receivables	5,694	988
Unconditional promise to give	37,838	45,462
Inventory	2,000	2,000
Prepaid expenses and deposits	<u>74,414</u>	<u>52,292</u>
 Total current assets	 1,399,493	 1,310,725
 PROPERTY, BUILDINGS, AND EQUIPMENT, net	 <u>6,301,257</u>	 <u>5,479,112</u>
 TOTAL ASSETS	 <u><u>\$ 7,700,750</u></u>	 <u><u>\$ 6,789,837</u></u>
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 560,438	\$ 605,680
Program advances	20,000	-
Line of credit	25,000	-
Current maturities of long-term debt	<u>137,783</u>	<u>124,860</u>
 Total current liabilities	 743,221	 730,540
 LONG-TERM DEBT, net of current maturities	 2,736,156	 2,860,385
 NET ASSETS		
Unrestricted	4,177,433	3,147,348
Temporarily restricted	37,838	45,462
Permanently restricted	<u>6,102</u>	<u>6,102</u>
 Total net assets	 <u>4,221,373</u>	 <u>3,198,912</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$ 7,700,750</u></u>	 <u><u>\$ 6,789,837</u></u>

See accompanying independent auditors' report and notes to financial statements.

ODYSSEY HOUSE LOUISIANA, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND OTHER SUPPORT				
United Way grant revenue	\$ 49,106	\$ 37,838	\$ -	\$ 86,944
Contributions	34,849	-	-	34,849
Government grants and programs:				
Medicaid programs	-	1,044,479	-	1,044,479
Alternative housing finance program	-	1,142,300	-	1,142,300
Office of Addictive Disorders	-	3,673,321	-	3,673,321
Substance abuse and mental health services administration	-	547,394	-	547,394
Unity of Greater New Orleans	-	1,128,669	-	1,128,669
Other	-	657,650	-	657,650
Investment return	223	-	-	223
Rental income	142,213	-	-	142,213
Other	103,031	-	-	103,031
Net assets released from restrictions	8,239,275	(8,239,275)	-	-
 Total revenues and other support	 8,568,697	 (7,624)	 -	 8,561,073
EXPENSES				
Program services				
Residential/detox services	4,418,009	-	-	4,418,009
Outpatient/medical services	921,132	-	-	921,132
Sober living/housing services	1,159,270	-	-	1,159,270
Other	3,519	-	-	3,519
Supporting activities				
Management and general	868,384	-	-	868,384
 Total expenses	 7,370,314	 -	 -	 7,370,314
Loss on disposal of property	168,298	-	-	168,298
 Total expenses and losses	 7,538,612	 -	 -	 7,538,612
CHANGES IN NET ASSETS	1,030,085	(7,624)	-	1,022,461
NET ASSETS - Beginning of year	3,147,348	45,462	6,102	3,198,912
NET ASSETS - End of year	<u>\$ 4,177,433</u>	<u>\$ 37,838</u>	<u>\$ 6,102</u>	<u>\$ 4,221,373</u>

(Continued)

See accompanying independent auditors' report and notes to financial statements.

ODYSSEY HOUSE LOUISIANA, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND OTHER SUPPORT				
United Way grant revenue	\$ 19,390	\$ 45,462	\$ -	\$ 64,852
Contributions	151,747	-	-	151,747
Government grants and programs:				
Medicaid programs	-	554,094	-	554,094
Alternative housing finance program	-	-	-	-
Office of Addictive Disorders	-	3,702,636	-	3,702,636
Substance abuse and mental health services administration	-	414,387	-	414,387
Unity of Greater New Orleans	-	1,187,408	-	1,187,408
Other	-	1,411,621	-	1,411,621
Investment return	1,550	-	-	1,550
Rental income	-	-	-	-
Other	293,578	-	-	293,578
Net assets released from restrictions	7,319,236	(7,319,236)	-	-
 Total revenues and other support	 7,785,501	 (3,628)	 -	 7,781,873
EXPENSES				
Program services				
Residential/detox services	4,325,922	-	-	4,325,922
Outpatient/medical services	919,614	-	-	919,614
Sober living/housing services	1,202,626	-	-	1,202,626
Case management services	366,430	-	-	366,430
Other	44,515	-	-	44,515
Supporting activities				
Management and general	791,272	-	-	791,272
Fundraising	19,029	-	-	19,029
 Total expenses	 7,669,408	 -	 -	 7,669,408
 CHANGES IN NET ASSETS	 116,093	 (3,628)	 -	 112,465
 NET ASSETS, Beginning of year	 3,031,255	 49,090	 6,102	 3,086,447
 NET ASSETS, End of year	 \$ 3,147,348	 \$ 45,462	 \$ 6,102	 \$ 3,198,912
				(Concluded)

See accompanying independent auditors' report and notes to financial statements.

ODYSSEY HOUSE LOUISIANA, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012							
	Program Services					Supporting Activities		Total
	Residential/ Detox	Outpatient/ Medical	Sober Living/ Housing	Case Management	Other	Management and General	Fundraising	
EXPENSES								
Compensation	\$2,666,543	\$ 513,010	\$ 238,323	\$ -	\$ -	\$ 597,074	\$ -	\$ 4,014,950
Occupancy	239,125	37,884	29,682	-	60	37,633	-	344,384
Travel and transportation	50,884	20,186	1,616	-	-	36,988	-	109,674
Specific assistance	19,537	1,092	785,709	-	-	-	-	806,338
Equipment	27,571	15,894	-	-	-	4,898	-	48,363
Copying & Printing	33,678	6,564	3,873	-	-	23,309	-	67,424
Insurance	142,405	24,838	22,916	-	-	11,861	-	202,020
Kitchen	396,401	-	-	-	55	175	-	396,631
Development	300	120	-	-	-	11,577	-	11,997
Shipping & Postage	1,229	164	-	-	-	3,023	-	4,416
Building repairs & maintenance	14,667	1,023	6,687	-	-	4,654	-	27,031
Supplies	121,718	21,839	6,456	-	-	18,267	-	168,280
Catering	-	-	-	-	3,404	-	-	3,404
Special Events	-	-	-	-	-	80	-	80
Vehicles	30,926	-	3,663	-	-	5,013	-	39,602
Contractual	361,695	224,463	-	-	-	73,716	-	659,874
Interest Expense	117,822	13,250	163	-	-	57	-	131,292
General & Administrative	18,044	19,908	225	-	-	38,150	-	76,327
Total expenses before depreciation	4,242,545	900,235	1,099,313	-	3,519	866,475	-	7,112,087
Depreciation expense	175,464	20,897	59,957	-	-	1,909	-	258,227
TOTAL EXPENSES	\$ 4,418,009	\$ 921,132	\$ 1,159,270	\$ -	\$ 3,519	\$ 868,384	\$ -	\$ 7,370,314

(Continued)

See accompanying independent auditors' report and notes to financial statements.

ODYSSEY HOUSE LOUISIANA, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2011							
	Program Services				Supporting Activities			
	Residential/ Detox	Outpatient/ Medical	Sober Living/ Housing	Case Management	Other	Management and General	Fundraising	Total
EXPENSES								
Compensation	\$2,599,541	\$ 615,753	\$ 284,165	\$ 259,237	\$ 29,731	\$ 488,987	\$ 18,984	\$ 4,296,398
Occupancy	256,417	18,606	33,130	53,056	797	38,398	-	400,404
Travel and transportation	40,677	30,402	3,446	4,651	120	49,679	-	128,975
Specific assistance	70,606	100	773,991	1,649	-	-	-	846,346
Equipment	36,671	7,992	14,212	193	-	3,262	-	62,330
Copying & Printing	44,531	194	4,873	9,228	-	5,806	-	64,632
Insurance	153,595	37,257	21,191	534	-	9,040	-	221,617
Kitchen	320,991	-	-	-	-	-	-	320,991
Development	350	313	2	554	721	9,369	-	11,309
Shipping & Postage	2,140	583	103	638	-	3,305	45	6,814
Building repairs & maintenance	27,178	1,331	1,580	126	-	2,133	-	32,348
Supplies	149,052	14,449	19,330	1,984	155	28,813	-	213,783
Catering	75	3	-	83	12,991	183	-	13,335
Special Events	21	119	-	67	-	1,137	-	1,344
Vehicles	42,304	83	1,213	146	-	2,478	-	46,224
Contractual	292,373	183,123	320	30,765	-	82,239	-	588,820
Interest Expense	90,019	1,471	3,518	2,605	-	44,068	-	141,681
General & Administrative	18,885	940	2,620	914	-	14,540	-	37,899
Total expenses before depreciation	4,145,426	912,719	1,163,694	366,430	44,515	783,437	19,029	7,435,250
Depreciation expense	180,496	6,896	38,932	-	-	7,834	-	234,158
TOTAL EXPENSES	\$ 4,325,922	\$ 919,615	\$ 1,202,626	\$ 366,430	\$ 44,515	\$ 791,271	\$ 19,029	\$ 7,669,408

(Concluded)

See accompanying independent auditors' report and notes to financial statements.

ODYSSEY HOUSE LOUISIANA, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 1,022,461	\$ 112,465
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation expense	258,227	234,158
Real estate received from government grant	(1,142,300)	-
Loss on disposal of assets	168,298	-
Unrealized appreciation (depreciation) of investments	125	(1,205)
Changes in operating assets and liabilities:		
Receivables - government grants and programs, net	(122,888)	431,972
Other receivables	(4,706)	4,328
Unconditional promise to give	7,624	3,627
Prepaid expenses and deposits	(22,122)	(11,376)
Accounts payable and accrued expenses	(45,242)	(141,479)
Program advances	20,000	(137,167)
Net cash provided by operating activities	139,477	495,323
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, buildings, and equipment-net of disposals	(106,370)	(288,400)
Change in restricted cash	(40,021)	137,450
Net cash used in investing activities	(146,391)	(150,950)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from (payments on) line of credit	25,000	(48,254)
Payments on note payable	(111,306)	-
Net cash used in financing activities	(86,306)	(48,254)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(93,220)	296,119
CASH AND CASH EQUIVALENTS - Beginning of year	308,288	12,169
CASH AND CASH EQUIVALENTS - End of year	\$ 215,068	\$ 308,288
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	\$ 131,292	\$ 141,680
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Real estate received from government grant	\$ 1,142,300	\$ -
Refinancing of lines of credit to note payable	\$ 2,935,000	\$ -

See accompanying independent auditors' report and notes to financial statements.

ODYSSEY HOUSE LOUISIANA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization – Odyssey House Louisiana, Inc. (the Organization) is a non-profit corporation organized under the laws of the State of Louisiana. The Organization was established in 1973 as a non-profit residential substance abuse treatment facility with the mission of empowering people to conquer addiction in Louisiana. Today, the Organization offers a professional, structured and caring therapeutic community with comprehensive services and effective support systems that enable individuals to chart new lives and return to their communities as contributing members. The Organization's primary source of revenue is from federal grants and programs.

Basis of Presentation – The Organization's financial statements are prepared on the accrual basis of accounting. The Organization is required to report information regarding its financial position and activities and changes in net assets according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets depending on the existence and/or nature of any donor restrictions.

Permanently Restricted Net Assets – These are net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes.

Temporarily Restricted Net Assets – These are net assets subject to donor-imposed stipulations that may or will be met by actions of the Organization and/or the passage of time.

Unrestricted Net Assets – These are net assets not subject to donor-imposed stipulations. Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gain and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets are reported as reclassifications between the applicable classes of net assets.

Restricted and Unrestricted Revenues and Support – Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets, if the restrictions expire in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished) temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions. Grant revenue is recognized as it is earned in accordance with approved contracts.

ODYSSEY HOUSE LOUISIANA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

Income Taxes – The Organization is a not-for-profit corporation that is exempt from both federal and Louisiana income taxes under Section 501(c)(3) of the Internal Revenue Code and R.S. 12:201 of Louisiana statutes. Management has evaluated its tax positions and has determined that there are no uncertainties in income taxes that require adjustments to or disclosures in the financial statements.

Use of Estimates in the Preparation of Financial Statements – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents – For purposes of the statements of cash flows, the Organization considers all restricted highly liquid debt instruments purchased with an initial maturity of three months or less to be cash equivalents. Restricted cash is limited in use to receipts and payments associated with federal and state grants. Restricted cash consists of funds received from Louisiana Public Health Institute. This program requires funds be deposited into a restricted account.

Investments – The Organization carries investments in marketable securities with readily determinable fair values (all Level 1 measurements) in the statements of financial position.

FASB ASC 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 – Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs are other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted proceeds for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability or inputs that are derived principally from or corroborated by observable market data.

Level 3 – Inputs are unobservable for the asset or liability. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing or liability developed based on the best information available in the circumstances.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Receivables – Receivables consisted of amounts owed from various federal, state, and local government agencies for grants and fees for service programs. During the year ended June 30, 2012, management established an allowance for doubtful accounts due to the uncertainty in the timing and amount of expense reimbursements. As of June 30, 2012, the allowance for doubtful accounts and bad debt expense were \$45,529. There was no allowance for doubtful accounts or bad debt expense for the year ended June 30, 2011.

ODYSSEY HOUSE LOUISIANA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

Inventory – Inventory consisted of food purchased in connection with the long-term care provided to clients and is accounted for at cost on the first-in first-out (FIFO) basis.

Property, Buildings, and Equipment – Property, buildings and equipment are recorded at cost. Donations of assets are recorded at estimated fair market value on the date of donation. Depreciation is provided over the estimated useful lives of the respective assets using the straight-line basis over three to thirty years.

It is the policy of the Organization to capitalize all property, buildings, and equipment that are acquired as a result of a bulk purchase with an aggregate cost that exceeds \$5,000. Other property, buildings and equipment not acquired by bulk purchase are capitalized when the acquisition cost is in excess of \$5,000. Costs incurred for repairs and maintenance are expensed as incurred.

Functional Expenses – The expenses of providing the programs and other activities have been summarized on a functional basis between program services and supporting activities in the statements of functional expenses. Some functional expenses have been allocated among program services and supporting activities based on estimates by management.

In-Kind Contributions – A variety of noncash items, such as clothing, toys, books and building supplies were donated to the Organization throughout the year. These items are recorded as contributions based on their fair market value as of the date of the contribution. The total amount of in-kind contributions reported in the statements of activities and changes in net assets for the years ended June 30, 2012 and 2011 was estimated to be \$16,786 and \$54,604, respectively.

Compensated Absences – Full time salaried employees are allowed to accrue up to 200 hours of paid time off. The balance was \$73,032 and \$106,935 as of June 30, 2012 and 2011, respectively. Compensated absences are included in accounts payable and accrued liabilities.

NOTE B – RECEIVABLES FROM GOVERNMENT GRANTS AND PROGRAMS

The Organization had the following grants receivable as of June 30:

	2012	2011
State of Louisiana:		
Department of Health and Hospitals	\$ 855,693	\$ 659,682
GNOCHC	190,476	-
Disaster Housing Assistance Program	-	103,087
U.S. Department of Health and Human Services	35,996	-
U.S. Probations Office	9,205	28,155
Unity for the Homeless, Inc.	155,572	100,125
	1,056,466	891,049
Less: allowance for doubtful accounts	(45,529)	-
Receivables, net	<u>\$ 1,010,937</u>	<u>\$ 891,049</u>

ODYSSEY HOUSE LOUISIANA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE C – UNCONDITIONAL PROMISE TO GIVE

The unconditional promise to give represents the United Way allocation for the program years July 1, 2012 to June 30, 2012 and July 1, 2011 to June 30, 2012, respectively. The United Way allocation totaled \$37,838 and \$45,462 for the years ended June 30, 2012 and 2011, respectively. These amounts are temporarily restricted until the Organization satisfies the time restrictions.

NOTE D – INVESTMENTS

Investments at June 30, 2012 consisted of the following:

	Cost	Fair Market Value	Temporarily Restricted	Permanently Restricted
Mutual Fund	<u>\$ 6,836</u>	<u>\$ 10,516</u>	<u>\$ 4,414</u>	<u>\$ 6,102</u>

Investments at June 30, 2011 consisted of the following:

	Cost	Fair Market Value	Temporarily Restricted	Permanently Restricted
Mutual Fund	<u>\$ 7,025</u>	<u>\$ 10,641</u>	<u>\$ 4,539</u>	<u>\$ 6,102</u>

The mutual fund was created with an initial investment of \$6,077 into an endowment fund administered by the Greater New Orleans Foundation. Annually, the Greater New Orleans Foundation distributes a portion of the earnings to Odyssey House Louisiana, Inc. while maintaining the integrity of the corpus.

Unrealized appreciation for the years ended June 30, 2012 and 2011 was \$64 and \$1,205, respectively, and the cumulative unrealized appreciation as of June 30, 2012 and 2011 was \$3,680 and \$3,616, respectively.

Investment returns consisted of the following as of June 30:

	2012	2011
Interest	\$ 122	\$ 345
Net realized and unrealized gain	101	1,205
	<u>\$ 223</u>	<u>\$ 1,550</u>

ODYSSEY HOUSE LOUISIANA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE E – PROPERTY, BUILDINGS, AND EQUIPMENT

Property, buildings and equipment consisted of the following at June 30:

	2012	2011
Buildings and improvements	\$ 6,252,180	\$ 4,406,301
Furniture and fixtures	774,491	720,087
Land	472,174	567,927
Construction in progress	-	406,409
Buildings not in service	23,670	341,419
	7,522,515	6,442,143
Accumulated depreciation	(1,221,258)	(963,031)
	<u><u>\$ 6,301,257</u></u>	<u><u>\$ 5,479,112</u></u>

Depreciation expense for the years ended June 30, 2012 and 2011 was \$258,227 and \$234,158, respectively.

Buildings not placed in service consist of adjudicated properties received after Hurricane Katrina and property currently under renovation.

The State of Louisiana (the State) entered into a cooperative endeavor agreement effective June 1, 2010 and terminating on December 31, 2011 with Odyssey House to assist in fulfilling its obligation under a federal grant agreement to provide housing in Orleans parish. The agreement provided for the construction of 11 residential properties to provide affordable housing rental or purchase opportunities for individuals meeting certain eligibility requirements. The City of New Orleans donated 11 parcels of land totaling \$61,700 recorded in prior years related to this grant project. The State constructed the residences and upon completion of construction, the total value for these properties under this grant of \$1,142,300 was recorded as buildings in 2012.

NOTE F – LINE OF CREDIT

On November 10, 2011, the Organization established a line of credit with JP Morgan Chase Bank for a maximum borrowing of \$100,000. On July 5, 2012, the maximum borrowing on this line was increased to \$500,000. The line of credit becomes due on July 5, 2013 and the interest rate is equal to the LIBOR rate plus 3.703%. The line of credit is collateralized by eleven properties owned by the Organization. As of June 30, 2012, the outstanding balance of the line of credit was \$25,000.

ODYSSEY HOUSE LOUISIANA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE G – LONG-TERM DEBT

As of June 30, 2012 and 2011, long-term debt consisted of the following:

	<u>2012</u>	<u>2011</u>
Operating line of credit arrangement with a local financial institution with interest at 3.19475%. The line of credit limit is \$2,000,000.	\$ -	\$ 1,834,996
Operating line of credit arrangement with a local financial institution with interest at 4.19235%. The line of credit limit is \$100,000.	-	53,725
Operating line of credit arrangement with a local financial institution with interest at 4.4425%. The line of credit limit is \$1,100,000.	-	1,096,524
Note payable to a financial institution, collateralized by property with interest at 5.25%	<u>2,873,939</u>	<u>-</u>
Total debt	2,873,939	2,985,245
Less: current maturities	<u>(137,783)</u>	<u>(124,860)</u>
Long-term debt	<u>\$ 2,736,156</u>	<u>\$ 2,860,385</u>

In November 2011, the Organization paid down one line of credit and refinanced the two remaining lines of credit with JP Morgan Chase Bank into one business loan with a principal balance of \$2,935,000. The note matures on November 10, 2016 and the interest rate is 5.25%. The note is collateralized by seven properties owned by the Organization.

The schedule of maturities for the years ending June 30 is as follows:

<u>Year ending</u>	
2013	\$ 137,783
2014	145,193
2015	153,002
2016	161,230
2017	2,276,731
Thereafter	<u>-</u>
	<u>\$ 2,873,939</u>

Interest expense for the years ended June 30, 2012 and 2011, was \$131,292 and \$141,680, respectively.

NOTE H – BOARD OF DIRECTORS COMPENSATION

The board of directors is a voluntary board and, therefore, no compensation was paid to any board member during the years ended June 30, 2012 and 2011.

ODYSSEY HOUSE LOUISIANA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE I – MEDICAID PROGRAM REVENUES

The Organization is reimbursed on a per diem basis on rates set by the Medicaid program of the State of Louisiana. If there was an overpayment due to an error in setting the rate, the State could pursue recoupment. Since the number of beds eligible for state funding exceeded those submitted for reimbursement, management does not believe a change in rate would result in any retroactive adjustment.

In addition, the Organization received Medicaid funds from the Greater New Orleans Community Health Connection (GNOCHC) Medicaid waiver program which is a new program established by Medicaid to provide funding for primary and behavioral healthcare services to low income uninsured residents in select parishes. The GNOCHC program period is from October 2010 to December 2013.

NOTE J – ECONOMIC DEPENDENCY

The Organization received the majority of its revenue from funds provided through grants administered by the City of New Orleans and the State of Louisiana. The grant amounts are appropriated each year by the federal and state governments. If significant budget cuts are made at the federal and/or state level, the amount of funds the Organization receives could be reduced significantly and have an adverse impact on its operations.

The Organization's support through federal, state and local grants and programs totaled 96% and 93% of revenues for the years ended June 30, 2012 and 2011, respectively.

NOTE K – RETIREMENT PLAN

The Organization has a 401(k) Profit Sharing Plan that provides for discretionary matching contributions determined by the employer covering all full-time employees at least twenty-one years of age with one year of eligible experience. The Organization makes matching contributions to the account of each eligible participant in an amount equal to the sum of 100% of the participants' elective deferrals but not to exceed 4% of the participants' compensation. Contributions to the plan during the years ended June 30, 2012 and 2011 were \$37,010 and \$32,058, respectively.

NOTE L – SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date that the financial statements were available to be issued, December 14, 2012, and determined that no events occurred that require disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

OTHER INDEPENDENT AUDITORS' REPORTS



Certified Public Accountants & Consultants

**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
Odyssey House Louisiana, Inc.
New Orleans, Louisiana

We have audited the financial statements of Odyssey House Louisiana, Inc. (the Organization) as of and for the year ended June 30, 2012, and have issued our report thereon dated December 14, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Organization is responsible for establishing and maintaining effective 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Organization'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.

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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*.

This report is intended for the information and use of management, the Board of Directors, the Louisiana Legislative Auditor, federal awarding agencies, and pass-through entities, and it is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Silva Gurtner & Abney, LLC

December 14, 2012



Certified Public Accountants & Consultants

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OFFICE OF MANAGEMENT
AND BUDGET (OMB) CIRCULAR A-133**

To the Board of Directors of
Odyssey House Louisiana, Inc.
New Orleans, Louisiana

Compliance

We have audited the compliance of Odyssey House Louisiana, Inc. (the 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 June 30, 2012. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization'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 for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of Office of Management and Budget (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 the Organization'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 the Organization's compliance with those requirements.

In our opinion, the Organization, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2012.

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Internal Control over Compliance

The management of the Organization 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 the Organization's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 the Organization'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.

Our consideration of 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 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 for the information and use of management, the Board of Directors, the Louisiana Legislative Auditor, federal awarding agencies, and pass-through entities, and it is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Silva Gurtner & Abney, LLC

December 14, 2012

SUPPLEMENTARY INFORMATION

ODYSSEY HOUSE LOUISIANA, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass-through Grantor/Program	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. Department of Health and Human Services			
Funds passed through the State of Louisiana			
Department of Health and Hospitals			
MHSD LAPPW	93.243	675153	\$ 3,978
SAMHSA - AAFT	93.243	1H79T1023197-01	328,402
SAMHSA- No AIDS Task Force	93.243	1H79T1019798-01	16,296
SAMHSA - Home First New Orleans	93.243		53,769
SAMHSA - Health Information Technology Initiative	93.243	1H79T1023814-01	148,823
Temporary Assistance to Needy Families	93.558	674709	264,208
ARRA - Health Information Technology - Beacon Communities	93.727	90BC0014	36,047
LA Public Health Institute - Primary Care Access and Stabilization Grant	93.779	155580164	22,893
MHSD Residential	93.959	673662	95,478
Total U.S. Department of Health and Human Services			<u>969,894</u>
U.S. Department of Housing and Urban Development			
Funds passed through Unity of Greater New Orleans, Inc.			
Unity - Permanent Supportive Housing	14.235	LA 48B 60 3001	499,811
Unity - Permanent Supportive Housing II	14.235	LA 48B 40 3001	455,995
Unity - Supportive Housing	14.235	LA0081B6BH30801	179,863
Total U.S. Department of Housing and Urban Development			<u>1,135,669</u>
U.S. Department of Justice			
Funds passed through the State of Louisiana:			
U.S. Probation Grant	16.593	07-DP-002B	<u>117,143</u>
Total U.S. Department of Justice			<u>117,143</u>
U.S. Department of Homeland Security			
Funds passed through the State of Louisiana Housing Finance Agency:			
Alternative Housing Pilot Program ("AHPP")	97.087		<u>1,142,300</u>
Total U.S. Department of Homeland Security			<u>1,142,300</u>
Total Federal Awards			<u><u>\$ 3,365,006</u></u>

See independent auditors' report.

ODYSSEY HOUSE LOUISIANA, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Odyssey House Louisiana, Inc. and is presented on the accrual basis of accounting. Grant revenues are recorded, for financial reporting purposes, when Odyssey House Louisiana, Inc. has met the cost of reimbursement or funding qualifications for the respective grants.

ODYSSEY HOUSE LOUISIANA, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified		
Internal control over financial reporting:			
Material weaknesses identified?	_____ yes	_____ X	no
Significant deficiencies identified			
not considered to be material weaknesses?	_____ yes	_____ X	none reported
Noncompliance material to financial statements noted?	_____ yes	_____ X	no

Federal Awards

Internal control over major programs:			
Material weaknesses identified?	_____ yes	_____ X	no
Significant deficiencies identified			
not considered to be material weaknesses?	_____ yes	_____ X	none reported
Type of auditors' report issued on compliance for major programs:	Unqualified		
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510 (a)?	_____ yes	_____ X	no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
14.235	Supportive Housing Program Cluster
93.727	ARRA - Health Information Technology - Beacon Communities
97.087	Alternative Housing Pilot Program ("AHPP")

Dollar threshold used to distinguish between Type A and Type B programs:	_____ \$300,000 _____
Auditee qualified as low-risk audit?	_____ X _____ yes _____ no

Section II - Findings related to the financial statements that are required to be reported in accordance with *Governmental Auditing Standards*

No findings noted for the year ended June 30, 2012.

Section III - Findings and questioned costs for federal awards under OMB Circular A-133 §510 (a)

No findings noted for the year ended June 30, 2012.

ODYSSEY HOUSE LOUISIANA, INC.
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

**Section II - Findings related to the financial statements that are required to be reported
in accordance with *Governmental Auditing Standards***

No findings noted for the year ended June 30, 2011.

Section III - Findings and questioned costs for federal awards under OMB Circular A-133 §510 (a)

No findings noted for the year ended June 30, 2011.

Silva Gurtner & Abney

Certified Public Accountants & Consultants

December 14, 2012

To the Board of Directors of
Odyssey House Louisiana, Inc.
New Orleans, Louisiana

We have audited the financial statements of Odyssey House Louisiana, Inc. (the "Organization") for the year ended June 30, 2012, and have issued our report thereon dated December 14, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 28, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Organization are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2012. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

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Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are attached in the drafted management representation letter dated November 19, 2012.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Directors and management of Odyssey House Louisiana, Inc. and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Silva Gurtner & Albney, LLC

December 14, 2012