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GATEHOUSE FOUNDATION, INC.
FINANCIAL STATEMENTS AND INDEPENDENT
AUDITORS' REPORTS

June 30, 2005

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date

12/28/05

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INDEPENDENT AUDITORS' REPORT

MEMBER
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SOCIETY OF LOUISIANA C P A S

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To the Board of Directors
Gatehouse Foundation, Inc.
Lafayette, Louisiana

We have audited the accompanying statement of financial position of Gatehouse Foundation, Inc. (Gatehouse) (a not-for-profit corporation) as of June 30, 2005, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of Gatehouse's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the provisions of the Louisiana Governmental Audit Guide. 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position on Gatehouse as of June 30, 2005, and the changes in net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that Gatehouse Foundation, Inc. will continue as a going concern. As discussed in Note J to the financial statements, Gatehouse has suffered losses for the past three years and has no plans to obtain new funding sources, which raises substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Our audit was made for the purpose of forming an opinion on the basic financial statements of Gatehouse taken as a whole. The accompanying Schedule of Federal Awards for the year ended June 30, 2005 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information in this schedule has been subjected to the 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 4, 2005, on our consideration of Gatehouse's internal control over financial reporting and our test of compliance with certain provisions of laws, regulations, contracts, and grants.

A handwritten signature in black ink, appearing to read "L. Rolfes II", with a long horizontal flourish extending to the right.

Louis R. Rolfes II, CPA
Lafayette, Louisiana
November 4, 2005

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE (337) 237-8620
AND ON INTERNAL CONTROL OVER FINANCIAL FAX (337) 289-5989
REPORTING BASED ON AN AUDIT OF BASIC FINANCIAL STATEMENTS E-mail: lrr@rolfescpa.com
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Gatehouse Foundation, Inc.
Lafayette, Louisiana

We have audited the financial statements of Gatehouse Foundation, Inc. (Gatehouse) (a not-for-profit corporation) as of and for the year ended June 30, 2005, and have issued our report thereon dated November 4, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the provisions of the Louisiana Governmental Audit Guide.

COMPLIANCE As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Gatehouse's compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

INTERNAL CONTROL OVER FINANCIAL REPORTING In planning and performing our audit, we considered Gatehouse's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Gatehouse Foundation Board of Directors, management, the Louisiana Department of Health and Hospitals, Office for Addictive Disorders as licensing agency for Gatehouse, the local Board of United Way of Acadiana, and the Community Development Department of Lafayette Consolidated Government. However, this report is a matter of public record, and its distribution is not limited.

A handwritten signature in black ink, appearing to read "L. Rolfes II", with a long horizontal flourish extending to the right.

Louis R. Rolfes II, CPA
Lafayette, Louisiana
November 4, 2005

GATEHOUSE FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION

June 30, 2005

ASSETS

CURRENT ASSETS

Cash	\$ 1,443
Prepaid expenses	2,343
Employee advances	569
Grants/contracts receivable (Notes A & C)	<u>20,170</u>

Total Current Assets \$ 24,525

PROPERTY AND EQUIPMENT - AT COST
(Notes A & B)

Land	87,000
Building	42,575
Building renovations	38,266
Furniture and fixtures	34,622
Equipment	<u>47,872</u>

250,335

Less: accumulated
depreciation (132,744)

Net Property and Equipment 117,591

OTHER ASSETS

Deposits 2,101

TOTAL ASSETS \$ 144,217

The accompanying notes are an integral
part of this statement.

GATEHOUSE FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION

June 30, 2005

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	19,925
Accrued payroll taxes	5,380
Current portion of debt (Note B)	14,074
United Way payable	941
Garnishments payable	868
Loan - Other	1,500
Contract advance	1,065
Canon Lease Obligation (Note I)	<u>8,548</u>

Total Current Liabilities		\$ 52,301
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LONG-TERM LIABILITIES

Long-term debt, net of current portion (Note B)	<u>24,321</u>
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Total Liabilities		76,622
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NET ASSETS (Note A)

Unrestricted	
Operating	(12,437)
Plant	<u>70,647</u>
	58,210

Temporarily restricted		<u>9,385</u>
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Total net assets		<u>67,595</u>
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TOTAL LIABILITIES AND
NET ASSETS

\$ 144,217

The accompanying notes are an integral
part of this statement.

GATEHOUSE FOUNDATION, INC.

STATEMENT OF ACTIVITIES

For the year ended June 30, 2005

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Public Support and Revenue:			
Revenue from State contract (Notes A, C, G)	\$ -	\$126,950	\$ 126,950
United Way of Acadiana (Notes A & C)	21,000	-	21,000
Lafayette Consolidated Government (Note C)	-	14,000	14,000
LEAP/LRS/Client rents/fees (Notes C & D)	30,364	-	30,364
Fundraising/donations	6,561	-	6,561
Miscellaneous	<u>511</u>	<u>-</u>	<u>511</u>
Total public support and revenue	58,436	140,950	199,386
In-Kind: (Notes E & F)			
Dietician services	1,040	-	1,040
Donated food/supplies	<u>6,353</u>	<u>-</u>	<u>6,353</u>
Total donated services	<u>7,393</u>	<u>-</u>	<u>7,393</u>
Total support and revenue	65,829	140,950	206,779
Expenses:			
Program services:			
Dietary & medical	21,476	-	21,476
Physical plant	18,123	-	18,123
Supervision	<u>115,012</u>	<u>-</u>	<u>115,012</u>
Total program services	154,611	-	154,611
Supporting services:			
Management and general	74,811	-	74,811
Fundraising	<u>774</u>	<u>-</u>	<u>774</u>
Total supporting services	<u>75,585</u>	<u>-</u>	<u>75,585</u>
Total expenses	230,196	-	230,196
Net assets released from restrictions	<u>146,473</u>	<u>(146,473)</u>	<u>-</u>
Change in net assets	(17,894)	(5,523)	(23,417)
Net assets, beginning of year	<u>76,104</u>	<u>14,908</u>	<u>91,012</u>
Net assets, end of year	\$ <u>58,210</u>	\$ <u>9,385</u>	\$ <u>67,595</u>

The accompanying notes are an integral
part of this statement.

GATEHOUSE FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2005

	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Bank charges	-	886	886
Benefit functions	28	-	28
Client programs/assistance	5,617	-	5,617
Contract labor	5,140	-	5,140
Depreciation (Note A)	11,208	-	11,208
Dietary contract, including donated	2,160	-	2,160
Employee screen	-	453	453
Food	19,316	-	19,316
Fundraising expense	-	774	774
(Gain) Loss on disposal of assets	56	-	56
Gifts	413	-	413
Insurance - general	5,194	118	5,312
Insurance - medical	-	-	-
Interest	-	3,825	3,825
Legal, accounting & auditing	-	6,600	6,600
Miscellaneous	635	259	894
Office supplies	-	2,152	2,152
Payroll taxes	6,151	4,286	10,437
Permits and licenses	-	976	976
Postage	-	180	180
Repairs and maintenance	1,721	-	1,721
Salaries	71,213	49,624	120,837
Supplies	6,376	-	6,376
Taxes and penalties	36	-	36
Telephone	-	5,452	5,452
Training - in service	-	-	-
Travel	1,017	-	1,017
Utilities	<u>18,330</u>	<u>-</u>	<u>18,330</u>
	<u>\$ 154,611</u>	<u>\$ 75,585</u>	<u>\$ 230,196</u>

The accompanying notes are an integral part of this statement.

GATEHOUSE FOUNDATION, INC.

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2005

CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets – (decrease)		(\$ 23,417)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	\$ 11,208	
Loss on disposal of assets	56	
Decrease in prepaid expenses/advances	1,403	
Decrease in grants/contracts receivable	2,655	
Increase in accounts payable	8,069	
Increase in United Way payable	502	
Increase in accrued payroll taxes/expenses	<u>13,916</u>	
Total adjustments		<u>37,809</u>
Net cash provided by operating activities		14,392
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property and equipment	<u>(11,818)</u>	
Net cash (used) by investing activities		(11,818)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds on line of credit debt and loans	9,107	
Payment on line of credit, mortgage, and loans	<u>(10,752)</u>	
Net cash (used) by financing activities		<u>(1,645)</u>
Net increase in cash		929
Cash at June 30, 2004		<u>514</u>
Cash at June 30, 2005		\$ <u><u>1,443</u></u>

Supplemental disclosure:

Interest paid amounted to \$3,825

The accompanying notes are an integral part of this statement.

GATEHOUSE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note A - Nature of Activities and Summary of Significant Accounting Policies

Nature of activities

Gatehouse Foundation, Inc. operates a state-licensed private, not-for-profit, residential (fifteen beds), educational and rehabilitation program for persons recovering from alcoholism and other chemical dependencies. The halfway house facility provides extended care to chemically dependent males and females in a supervised living environment. The purpose of the program is to assist the resident in developing a healthy transition back into the community via counseling and therapeutic support. As provider, Gatehouse must allow a sliding fee scale policy, and must not refuse services to persons on account of race, religion, sex or ability to pay. The primary source of funding for this program is a contract with the State of Louisiana, Department of Health and Hospitals, Office of Human Services, Division of Alcohol and Drug Abuse, through a Federal Block Grant. Gatehouse is licensed by the Louisiana Department of Health and Hospitals. Under this license, Gatehouse agrees to provide room and board, individual and group counseling and peer support in a structured therapeutic environment.

Financial Statement Presentation

Effective for fiscal year ended June 30, 1996, Gatehouse began the application of the new accounting standards as prescribed by SFAS 117, Financial Statements of Not-for-Profit Organizations. Under SFAS 117, Gatehouse 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. In addition, Gatehouse is required to present a statement of cash flows. As permitted by this new statement, Gatehouse has altered its use of fund accounting (for reporting purposes) and has, accordingly, reclassified its financial statements to present the three classes of net assets required.

Gatehouse has only unrestricted and temporarily restricted classes. The reclassification had no effect on the change in net assets for the fiscal year ended June 30, 2005.

Continued

Contributions

Effective for fiscal year ended June 30, 1996, Gatehouse began the application of the new accounting standards as prescribed by SFAS 116, **Accounting for Contributions Received and Contributions Made**. In accordance with SFAS 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Under SFAS 116, such contributions are now required to be reported as temporarily restricted support and are then reclassified to unrestricted net assets upon expiration or expenditures of the funds. In effect, the recognition of this as support occurs at the receipt of the award, regardless of when the money is spent.

Deferred Revenue – Grants and Exchange Transactions

Some grants are actually “exchange transactions” that do not qualify as contributions under SFAS 116. In such cases, revenue is not recognized until the services required by the grant are rendered. Until the revenue is recognized, any cash or grant receivable asset must be offset by a “deferred or unearned revenue” liability. These exchange transactions differ from contributions in that the method or type of services rendered is stipulated by the granting authority and not by the nonprofit organization.

Estimates

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

Compensated absences / Post-employment benefits

Under SFAS 43 and 112, an employer generally is required to accrue a liability for employees' rights to receive compensation for future absences and post-employment benefits. The amount of the compensation is not reasonably estimable and, therefore, no such liability has been accrued. However, with only four full-time staff members, any unrecorded amounts at June 30, 2005 would be immaterial.

Functional expenses

Expenses are charged to one of three program services (dietary, medical, physical plant, supervision) based on direct expenditures incurred. Any expenditures not directly chargeable are allocated to the respective programs based on related salary expenses, time sheets, or other appropriate method that is reasonable and measurable. The statement of functional expenses lists both program service expenses and management expenses by natural classifications.

Continued

Income tax status

The organization qualifies as a tax-exempt organization under Section 501 (c) (3) of the Internal Revenue Code and, therefore, has no provision for federal income taxes.

Property and equipment

Property and equipment purchased is recorded at cost; the fair market value of donated assets is similarly capitalized and the donation recorded as restricted or unrestricted support. Depreciation is computed on the straight-line method over the estimated useful lives of the individual assets, ranging from five to twenty years.

Grants and contract revenue

Grants and contract revenue received that are of a cost reimbursement nature are recognized as revenue at the time the cost is incurred for the purpose for which the revenue was billed. Unreceived amounts from previously awarded grants are recorded as grants receivable. Unrestricted grants, such as United Way, are recognized as revenue when awarded.

Accrual Basis of Accounting

The books are routinely maintained on a cash basis and are converted to the accrual basis at year-end for these financial statements. Accrual basis accounting records revenue when earned rather than when received and records expenses when incurred rather than when paid, in accordance with U.S. generally accepted accounting principles.

Cash Equivalents

For purposes of the statement of cash flows, Gatehouse considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Note B - Note Payable – Midsouth Bank

The Board of Directors approved a corporate resolution to borrow \$33,922 on October 3, 2003 to pay off the Iberia Bank loan, to fund new roofs on both the men's and women's houses, a new A/C-heat unit, and working capital. The mortgage loan is collateralized by the men's house at 206 S. Magnolia Street and the women's house at 305 S.E. Evangeline Thruway. The board also approved a \$10,000 line of credit with Midsouth Bank for additional working capital and repairs. The mortgage interest rate is 6.00% and the line of credit rate is 9.00%.

Continued

On June 30, 2005, the balance on the second mortgage was \$28,319 and the balance on the line of credit was \$10,076. The mortgage is on an 8-year amortization schedule ending October 15, 2011, and the line of credit is not being amortized. Interest only payments have been made through June 30, 2005. The line of credit must be renewed annually.

Scheduled payments under current obligations:

Year Ended June 30,

2006	\$14,074
2007	4,019
2008	4,267
2009	4,530
2010 and thereafter	<u>11,505</u>
Total	\$38,395

Note C - Federal, State and Local Financial Assistance and Grant Awards

<u>Grantor/Program Title</u>	<u>Amount Earned Y/E June 30, 2005</u>
State of Louisiana, Department of Health and Hospitals, Office for Addictive Disorders (through a Federal Block Grant) CFDA #93.959	\$126,950
Consolidated Government of Lafayette ESG Grant	14,000
LEAP/LRS Funding	<u>10,220</u>
Total governmental funding	<u>\$151,170</u>
United Way of Acadiana	<u>\$ 21,000</u>

The aforementioned contract with the State of Louisiana is operated on a per diem reimbursement basis. The 2004-2005 contract was renewed for 2005-2006 for a maximum reimbursement of \$127,750, effective July 1, 2005. This represents a per diem of \$25 for 14 beds.

The aforementioned grants from the United Way of Acadiana, LEAP/LRS, and the Consolidated Government can be used for operational expenses.

The following is a breakdown of Grants/Contracts Receivable:

State Contract	\$10,450
LEAP/LRS	720
United Way Grant - 2005	<u>9,000</u>
Total Grants/Contracts Receivable	<u>\$20,170</u>

Continued

Note D - Client Rent

The organization, as part of their recovery program for the residents as well as a source of income, charges and collects rent on a weekly, sliding scale basis. Rental revenue of \$18,668 reflected in the financial statements is recorded on the cash basis. Because rent is collected and recorded weekly, any adjustment to the accrual basis is deemed immaterial.

Note E - Donated Materials, Food, & Supplies

Donated materials, food, and supplies are reflected as In-kind Donations in the accompanying statements at their fair market value. For the year ended June 30, 2005, food donations were valued at \$1,925, and office, bathroom, and kitchen supplies were valued at \$4,428.

Note F - Contributed Services (In-Kind)

Effective for the fiscal year ended June 30, 1996, Gatehouse began the application of the new accounting standards as prescribed by SFAS 116 and 117. Accordingly, contributed services of volunteers shall only be recognized in the statement of activities if the services received:

- a) Create or enhance non-financial assets (land, buildings, etc.); or,
- b) Require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donations.

Dietician services totaling \$1,040 contributed during the year are reflected in the accompanying financial statements.

Note G - Concentrations

Approximately 62% of Gatehouse's cash support was provided by revenue from the state contract with the Louisiana Department of Health & Hospitals (OAD). The new contract for 2005-2006 has been approved for \$127,750 (14 beds), and the DHH license has been renewed through June 30, 2006.

Note H - Subsequent Events

Subsequent to the balance sheet date, the state authorized a contract for \$127,750. This represents a per diem rate of \$25 for 14 beds authorized. The actual amount realized from the contract will be determined by occupancy during the contract year. Additionally, the Lafayette Consolidated Government has awarded \$13,500 in HUD/ESG funds for the July 1, 2005 – June 30, 2006 program year. This is a decrease of \$500.

Continued

Note I - Canon Financial Lease Obligation

On October 4, 2004, a lease agreement was signed between Gatehouse Foundation, Inc. and Canon Financial Services, Inc. for a new Canon IR2200 copier. The terms of the lease require Gatehouse to make 60 payments of \$92.50 each and includes an option to purchase the copier at the end of the lease for \$3,133.07. This lease has been recorded in the financial statements as a capital lease with a corresponding asset in Equipment. As of June 30, 2005, the balance on the lease is \$8,548. Gatehouse is in default under this lease obligation; however, the amount any contingent liability cannot be reasonably estimated at this time.

Note J - Going Concern Issues

For the past 3 consecutive years, Gatehouse Foundation, Inc. has reported a negative change in net assets of approximately \$15,000 to \$20,000 per year. These consecutive years' losses are being funded by borrowings against the men's and women's houses. As of June 30, 2005, the loans against the houses are at the maximum permitted by the bank. With no plans to obtain new funding sources, there is substantial doubt that Gatehouse Foundation will be able to continue as a going concern beyond fiscal year ending June 30, 2006. The state contract per diem only covers about 60% of the necessary expenses, and the other sources of revenue (client rent, United Way and ESG grant) are not enough to make up the difference.

Concluded

GATEHOUSE FOUNDATION, INC.
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED 06-30-05

<u>Federal Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Award</u>	<u>Federal Disbursements</u>
U.S. Department of H.U.D./ Emergency Shelter Grant (A)	14.231	\$ 14,000	\$ 14,000
U.S. Department of Health & Human Services (B)	93.959	<u>\$127,750</u>	<u>\$126,950</u>
Total		<u>\$141,750</u>	<u>\$140,950</u>

(A) Through Lafayette Consolidated Government

(B) Through Louisiana Department of Health and Hospitals, Office of Addictive Disorders. This is a State contract paid on a per diem basis of \$25 per day per bed, 14 bed maximum.