PROMISE HOUSE, INC.

Financial Statements

As of and For the Years Ended
August 31, 2012 and 2011

(With Independent Auditors' Report)

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HL&B

Hartman Leito & Bolt, LLP
Accountants and Consultants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Promise House, Inc.

We have audited the accompanying statements of financial position of Promise House, Inc. (the "Organization") as of August 31, 2012 and 2011, and the related statements of activities, 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 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 audits 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 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 Promise House, Inc. as of August 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting standards generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated January 16, 2013 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 audits were conducted for the purpose of forming an opinion on the financial statements taken 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 audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Hartman Leito & Bolt, LLP

January 16, 2013
Dallas, Texas

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PROMISE HOUSE, INC.
Statements of Financial Position
August 31, 2012 and 2011

	2012	2011
ASSETS		
Cash and cash equivalents	$ 242,947	$ 599,517
Grants and program services receivable	153,843	175,576
Unconditional promises to give	52,880	28,043
Prepaid expenses	7,608	6,565
Investments	445,213	444,858
Property and equipment, net	1,376,070	1,436,589
Total assets	$ 2,278,561	$ 2,691,148
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	$ 136,883	$ 163,811
Notes payable	8,401	230,914
Total liabilities	145,284	394,725
Net assets:		
Unrestricted	1,173,839	1,146,337
Temporarily restricted	959,438	1,150,086
Total net assets	2,133,277	2,296,423
Total liabilities and net assets	$ 2,278,561	$ 2,691,148

The accompanying notes are an integral part of these financial statements.

PROMISE HOUSE, INC.
Statements of Activities
For the Years Ended August 31, 2012 and 2011

	2012	2011
UNRESTRICTED NET ASSETS		
Revenues and support:		
Government grants	$ 1,969,216	$ 2,213,235
Contributions	815,020	485,758
Donated goods and services	16,001	120,262
Program service fees	1,278	265
Special event, net of direct benefit costs of $52,824 and $34,224 for 2012 and 2011, respectively	122,022	141,742
Other	19,119	32,718
	2,942,656	2,993,980
Net assets released from restriction	190,648	-
Total revenues and support	3,133,304	2,993,980
Expenses:		
Program services	2,255,000	2,482,618
General and administrative	448,221	358,591
Fundraising	402,581	416,827
Total expenses	3,105,802	3,258,036
Increase (decrease) in unrestricted net assets	27,502	(264,056)
TEMPORARILY RESTRICTED NET ASSETS		
Contributions and grants	-	289,089
Net assets released from restriction	(190,648)	-
(Decrease) increase in temporarily restricted net assets	(190,648)	289,089
(Decrease) increase in net assets	$ (163,146)	$ 25,033

The accompanying notes are an integral part of these financial statements.

PROMISE HOUSE, INC.
Statements of Changes in Net Assets
For the Years Ended August 31, 2012 and 2011

	Unrestricted	Temporarily Restricted	Total
Balances at September 1, 2010	$ 1,410,393	$ 860,997	$ 2,271,390
Increase (decrease) in net assets	(264,056)	289,089	25,033
Balances at August 31, 2011	1,146,337	1,150,086	2,296,423
Increase (decrease) in net assets	27,502	(190,648)	(163,146)
Balances at August 31, 2012	$ 1,173,839	$ 959,438	$ 2,133,277

The accompanying notes are an integral part of these financial statements.

PROMISE HOUSE, INC.
Statement of Functional Expenses
For the Year Ended August 31, 2012

	Program Services	General and Administrative	Fundraising	Total
Salaries and related expenses	$ 1,598,011	$ 239,554	$ 345,885	$ 2,183,450
Client assistance and program supplies	249,515	-	-	249,515
Depreciation	40,035	65,210	4,141	109,386
Professional services, fees and memberships	35,566	21,422	22,185	79,173
Building expense	58,079	15,219	3,539	76,837
Utilities	60,240	295	5,658	66,193
Furniture and small equipment	34,239	2,136	10,031	46,406
Telecommunications	30,812	15,608	2,635	49,055
Donated goods and services	16,001	-	-	16,001
Insurance	28,863	9,025	192	38,080
Food and supplies	23,241	233	87	23,561
Office supplies	23,347	8,584	3,529	35,460
Bad debts	-	5,931	-	5,931
Staff travel	8,131	2,446	5	10,582
Automobile expenses	17,641	333	-	17,974
Interest	-	23,976	-	23,976
Professional development	26,798	123	4,065	30,986
Other	64	5,244	-	5,308
Scholarships	3,000	-	-	3,000
Board and related consulting expenses	-	32,808	-	32,808
Security	1,417	74	629	2,120
	$ 2,255,000	$ 448,221	$ 402,581	$ 3,105,802

The accompanying notes are an integral part of these financial statements.

PROMISE HOUSE, INC.
Statement of Functional Expenses
For the Year Ended August 31, 2011

	Program Services	General and Administrative	Fundraising	Total
Salaries and related expenses	$ 1,843,694	$ 119,178	$ 361,526	$ 2,324,398
Client assistance and program supplies	290,759	6,158	-	296,917
Depreciation	33,039	58,556	3,570	95,165
Professional services, fees and memberships	40,227	47,775	24,354	112,356
Building expense	59,666	8,710	2,659	71,035
Utilities	56,490	190	4,701	61,381
Furniture and small equipment	14,414	4,058	7,463	25,935
Telecommunications	35,342	8,474	2,432	46,248
Donated goods and services	2,767	37,494	-	40,261
Insurance	26,732	3,396	1,976	32,104
Food and supplies	23,204	2,258	-	25,462
Office supplies	11,968	13,990	2,775	28,733
Bad debts	-	5,485	-	5,485
Staff travel	10,009	3,934	1,464	15,407
Automobile expenses	16,593	1,281	-	17,874
Interest	-	17,889	-	17,889
Professional development	14,015	4,122	2,561	20,698
Other	11	7,031		7,042
Scholarships	2,715	5,688	-	8,403
Board expenses	-	850	-	850
Security	730	1,361	645	2,736
Staff recruitment	243	713	701	1,657
	$ 2,482,618	$ 358,591	$ 416,827	$ 3,258,036

The accompanying notes are an integral part of these financial statements.

PROMISE HOUSE, INC.
Statements of Cash Flows
For the Years Ended August 31, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ (163,146)	$ 25,033
Adjustment to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	109,386	95,165
Donated property	-	(80,000)
(Increase) decrease in assets:		
Grants and program services receivable	21,733	67,570
Unconditional promises to give	(24,837)	(22,733)
Prepaid expenses	(1,043)	7,027
Decrease in liabilities:		
Accounts payable and accrued expenses	(26,928)	(3,620)
Net cash (used in) provided by operating activities	(84,835)	88,442
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	(48,867)	(31,078)
Purchase of investments	(355)	(870)
Net cash used by investing activities	(49,222)	(31,948)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of notes payable	(230,914)	(34,041)
Additions to notes payable	8,401	-
Net cash used by investing activities	(222,513)	(34,041)
Net (decrease) increase in cash	(356,570)	22,453
Cash at beginning of year	599,517	577,064
Cash at end of year	$ 242,947	$ 599,517
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	$ 23,976	$ 17,889

The accompanying notes are an integral part of these financial statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Organization

Promise House, Inc. (the "Organization") is a Texas nonprofit corporation created to provide emergency residential care and counseling services for youth. The Organization also provides temporary housing and support services for homeless and runaway youth.

(b) Financial Statement Presentation

The accompanying financial statements are presented on the accrual basis of accounting.

Net assets and revenues, support, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Unrestricted net assets - Net assets not subject to donor-imposed stipulations.

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

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that will never lapse; thus, requiring the funds to be retained permanently. As of August 31, 2012 and 2011 the Organization has no permanently restricted net assets.

Revenues and support are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed and/or time restrictions. Support and revenues that are restricted by the donor are reported as an increase in unrestricted net assets if the restriction expires in the same reporting period in which the support is recognized. Expenses are reported as decreases in unrestricted net assets. Gains 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 temporarily restricted net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Contributions are recognized as support in the period in which unconditional promises to give are received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than monetary assets are recorded at their estimated fair value.

(c) Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues, support and expenses. Significant estimates used in preparing these financial statements include those assumed in recording depreciation and amortization, the realizable value of accounts receivable, and allocation of expenses by function. It is at least reasonably possible that the significant estimates used will change within the next year.

(Continued)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Cash, Cash Equivalents and Investments

For purposes of the statements of cash flows, the Organization considers all investments with original maturity terms of ninety days or less to be cash equivalents. The Organization places cash and cash equivalents, which at times may exceed federally-insured limits, with high-credit quality financial institutions. Investments consist of certificates of deposit with original maturities over ninety days and are stated at their fair market value, which approximates cost. The Organization has not experienced any losses on such assets.

(e) Grants and Program Services Receivable/Allowance for Doubtful Accounts

The Organization maintains receivables due from various grantors and contractors, primarily composed of federal and local government agencies, which are included in grants and program services receivable on the Statements of Financial Position. The Organization considers all receivable balances which are over six months past due as uncollectible. As of August 31, 2012 and 2011, all receivables were considered collectible and no allowance for doubtful accounts was considered necessary.

(f) Unconditional Promises to Give

Unconditional promises to give are recognized at the estimated fair value of the gift as of the date the promise was made. As of August 31, 2012 and 2011, all receivables were considered collectible and no allowance for doubtful accounts was considered necessary. Also, all unconditional promises to give are expected to be collected within one year and, therefore, no valuation allowance was considered necessary.

(g) Property and Equipment

Property and equipment are carried at cost (if purchased) or at fair market value at the date the equipment is donated (if donated), if cost/value exceeds $1,000. Property and equipment are reported net of accumulated depreciation and amortization. Major expenditures and expenditures which substantially increase useful lives are capitalized. Maintenance, repairs and replacements, which do not improve or extend the lives of the respective assets, are charged to expense when incurred. When property and equipment is sold or otherwise disposed, the asset and related accumulated depreciation or amortization are removed, and any gain or loss is included on the Statement of Activities.

(h) Depreciation and Amortization

Depreciation and amortization is provided for using the straight-line method over the estimated useful lives of the assets, as follows:

Building and leasehold improvements	10 to 30 years
Equipment and furniture	3 to 7 years
Automobiles	4 years

(Continued)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Impairment of Long-Lived Assets

The Organization periodically reviews the carrying value of its long-lived assets, including property and equipment, whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognized to the extent fair value of a long-lived asset is less than the carrying amount. Fair value is determined based upon the estimated future cash inflows attributable to the asset less estimated future cash outflows. No such losses were recognized during the years ended August 31, 2012 and 2011.

(j) Support and Revenues

The Organization receives funding to support its programs from a variety of sources. A significant source of the Organization's revenue is derived from governmental agencies. In addition, the Organization receives support through public contributions from individuals, corporations, and other nonprofit organizations.

(k) Donated Assets and Services

Donations of noncash assets are recorded as contributions at their estimated fair value. Donated services are recognized as contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. For the years ending August 31, 2012 and 2011, the Organization recognized $16,001 and $120,262 of such noncash contributions, including contributions that resulted in additions to fixed assets of $0 and $80,000, respectively. Volunteers also provided various services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria above were not met.

(l) Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the Statements of Activities. Further, certain indirect costs have been allocated using a direct-cost-based methodology consistent with Federal OMB Circular A-122 requirements. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

(m) Federal Income Taxes

The Organization is exempt for federal income tax purposes under Internal Revenue Code Section 501(c) (3). Therefore, no tax provision or liability has been reported in the accompanying financial statements. The Organization applied the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) topic for *Accounting for Uncertainty in Income Taxes* during the year. Under this ASC topic, an organization must recognize the tax benefit associated with tax positions taken for tax return purposes when it is more-likely-than-not that the position will be sustained. This ASC topic had no impact on the financial statements. The Organization does not believe there are any unrecognized tax benefits that should be recorded. For the years ended August 31, 2012 and 2011, there were no interest or penalties recorded or included in the Statements of Activities related to taxes.

(Continued)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Federal Income Taxes (Continued)

The Organization is not under examination for tax purposes by any jurisdiction. Years 2008 through present are subject to examination.

(n) Fair Value of Financial Instruments

Accounting standards generally accepted in the United States requires disclosure of an estimate of fair value of certain financial instruments. The Organization's significant financial instruments are cash, program and services receivable, investments, and other short-term assets and liabilities. For these financial instruments, carrying values approximate fair value.

(o) Recent Accounting Pronouncements

The Organization has evaluated the recently issued accounting pronouncements through the date that these financial statements were available to be issued and has determined the application of these pronouncements will have no material impact on its financial position and changes in net assets.

2. PROPERTY AND EQUIPMENT

Property and equipment, at August 31, 2012 and 2011, consisted of the following:

	2012	2011
Land	$ 146,439	$ 146,439
Buildings and leasehold improvements	2,261,890	2,255,905
Equipment and furniture	478,767	435,885
Automobiles	219,319	219,319
	3,106,415	3,057,548
Less accumulated depreciation and amortization	(1,730,345)	(1,620,959)
	$ 1,376,070	$ 1,436,589

3. NOTES PAYABLE

The Organization had a mortgage promissory note, secured by the deed of trust on the Organization's property, with an interest rate of 7%. Principal and interest payments of $4,313 were due monthly through December 2016. The balance on the mortgage payable at August 31, 2011 was $230,914. The note was paid-off by the Organization during 2012.

The Organization had a $100,000 revolving line of credit obtained from a financial institution in April 2007. The line of credit carried an interest rate of prime (3.25% at August 31, 2011) plus 0.5%; is secured by a second lien deed of trust on the property; and was to mature in March 2017. The line was paid-off and terminated by the Organization during 2012.

(Continued)

3. NOTES PAYABLE (Continued)

The Organization entered into a $500,000 revolving line of credit agreement in May 2012, secured by the deed of trust on the Organization's property, with an interest rate of prime (3.25% at August 31, 2012) plus 1% with a floor of 5%. Accrued but unpaid interest payments are due monthly through May 2017 when the entire amount of principal and interest outstanding is due. The balance on the revolving line of credit at August 31, 2012 was $8,401.

4. TEMPORARILY RESTRICTED NET ASSETS

At August 31, 2012 and 2011, temporarily restricted net assets consisted of the following:

	2012	2011
Residential programs	$ 602,375	$ 783,595
Psychiatric and mental health services	48,620	48,620
Scholarships	308,443	308,443
Other	-	9,428
	$ 959,438	$ 1,150,086

5. FAIR VALUE MEASUREMENTS

FASB ASC topic *Fair Value Measurements* establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under the ASC are described as follows:

Level 1 — Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 — Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 — Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

(Continued)

5. FAIR VALUE MEASUREMENTS (Continued)

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Assets measured at fair value on a recurring basis include investments. Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at August 31, 2012 and 2011.

Investments consist primarily of certificates of deposit which are carried at fair market value as reported by the related banks. Investments are classified in Level 2 of the fair value hierarchy.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

6. EMPLOYEE BENEFIT PLAN

The Organization has a voluntary 401(k) retirement plan available to full-time employees after completion of an eligibility period. Employees may make contributions, subject to certain limitations, on a pre-tax basis. For the years ended August 31, 2012 and 2011 the Organization made no contributions to the plan.

7. CONCENTRATIONS OF RISK

At August 31, 2012 and 2011, 74% and 86%, respectively, of the Organization's receivables were due from governmental agencies, and 67% of the Organization's support and revenues were from governmental agencies each year.

At August 31, 2012 and 2011, substantially all of the Organization's liquid assets are obligated by donor restrictions.

8. OPERATING LEASES

The Organization has obligations under several non-cancelable lease agreements for the use of certain office equipment which are on a month-to-month basis. The Organization also has obligations under several non-cancelable lease agreements for the use of certain office equipment, homes and apartments with future minimum payments approximately as follows for the years ending August 31:

2013	$ 164,238
2014	19,266
2015	5,922
	$ 189,426

8. OPERATING LEASES (Continued)

Rent expense for the years ending August 31, 2012 and 2011 was approximately $182,000 and $194,000, respectively.

9. GOVERNMENT GRANTS

The Organization participates in federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Organization has not complied with the rules and regulations governing the grant, refunds of any money received may be required. In the opinion of the Organization's management, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the grant; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

10. SUBSEQUENT EVENTS

The date to which events occurring after August 31, 2012, the date of the most recent statement of financial position, have been evaluated for possible adjustment to the financial statements or disclosure is January 16, 2013, which is the date on which the financial statements were available to be issued.

Subsequent to August 31, 2012, the Organization entered into an agreement with another entity that traded a piece of land in Dallas, Texas from the Organization to the other entity in exchange for separate property in Dallas, $65,000 in cash for improvements to the acquired land, the cost of fencing the property, and $15,000 additional cash.

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Hartman Leito & Bolt, LLP
Accountants and 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
Promise House, Inc.

We have audited the financial statements of Promise House, Inc. (the "Organization") as of and for the year ended August 31, 2012, and have issued our report dated January 16, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

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The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance, and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control over financial report or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control over financial reporting and compliance. Accordingly, this report is not suitable for any other purpose.

Hartman Leito + Bolt, LLP

January 16, 2013
Dallas, Texas

HL&B

Hartman Leito & Bolt, LLP
Accountants and Consultants

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 OMB CIRCULAR A-133

To the Board of Directors
Promise House, Inc.

Compliance

We have audited Promise House, Inc.'s (the "Organization") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended August 31, 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 the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of 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 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 Agencies. 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 our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Organization's compliance with those requirements.

In our opinion, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2012.

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.

Internal Control Over Compliance (Continued)

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 was not designed to identify all deficiencies in internal control 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.

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This report is intended solely for the information of the Board of Directors, management, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Hartman Leito & Bolt, LLP

January 16, 2013
Dallas, Texas

PROMISE HOUSE, INC.
Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2012

Program	CFDA No.	Federal Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Basic Center Program for Runaway and Homeless Youth	93.623	$ 399,960
Transitional Living for Homeless Youth	93.550	199,999
Education and Prevention Grant to Reduce Sexual Abuse of Runaway, Homeless and Street Youth	93.557	100,000
Total Direct Awards		699,959
Passed through the Texas Department of Family and Protective Services -		
Promoting Safe and Stable Families	93.556	387,202
U.S. DEPARTMENT OF JUSTICE		
Passed through the North Texas Crime Commission -		
Anti-Gang Initiative	16.744	14,038
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
Supportive Housing Program	14.235	494,874
Passed through the City of Dallas Environmental Health Services -		
Emergency Shelter Grant Program	14.231	39,691
Total Federal Expenditures		$ 1,635,764

(1) Basis of Accounting

The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting and includes the federal grant activity of Promise House, Inc. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audit of States, Local Governments, and Non-Profit Agencies. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

(2) Dollar Threshold

The dollar threshold used to distinguish between type A and type B programs was $300,000.

(3) Insurance

The amount of insurance in effect as of August 31, 2012 was as follows:

Insurer	Line of Coverage	Description
Care Providers	Commercial Property	Blanket building: $2,834,280 Blanket Personal Property: $472,400 Blanket Business Income Loss: $1,000,000
Care Providers	General Liability	$1,000,000 per occurrence/ $3,000,000 aggregate $1,000,000 personal and advertising injury $100,000 damage to rented premises $1,000,000 Employee Benefits $5,000 medical expense (per person)
Care Providers	Crime	Employee Dishonesty: $200,000 Forgery or Alteration: $25,000 Theft, disappearance, and destruction: $10,000 (per, inside and outside) Robbery and safe burglary: $3,000 (inside), $10,000 (outside) Money and securities: $10,000 (inside), $3,000 (outside)
Care Providers	Auto	$1,000,000 per occurrence; $3,000,000 aggregate comprehensive coverage (liability & uninsured/ underinsured motorists) $2,500 PIP (per person limit)
Care Providers	Employee Benefits	$1,000,000 per occurrence/ $1,000,000 aggregate
Care Providers	Professional Liability	$1,000,000 per occurrence/ $3,000,000 aggregate

(Continued)

(3) Insurance (Continued)

Insurer	Line of Coverage	Description
Care Providers	Directors & Officers Liability	$1,000,000
Care Providers	Umbrella	Additional coverage on top of underlying insurance; $1,000,000 each occurrence
Care Providers	Abuse and Molestation	$1,000,000 per occurrence/ $1,000,000 aggregate
Care Providers	Employment Practices	$1,000,000
Care Providers	Workplace Violence	$100,000
Care Providers	Internet Liability	$1,000,000
Texas Mutual Ins. Co.	Worker's Compensation Insurance	Bodily injury by accident: $100,000 (each accident) Bodily injury by disease: $100,000 (each employee); $500,000 (policy limit)

(Concluded)

PROMISE HOUSE, INC.
Schedule of Findings and Questioned Costs
For the Year Ended August 31, 2012

SUMMARY OF AUDITORS' RESULTS

A. Summary of Auditors' Results

Financial Statements

Type of auditor's report issued: unqualified

Internal control over financial reporting:
Material weakness identified? ____ yes _X_ no
Significant Deficiency(s) 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 weakness identified? ____ yes _X_ no
Significant Deficiency(s) identified not considered to be material weaknesses?
____ yes _X_ none reported

Type of auditor's 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:

Anti-Gang Initiative, CFDA # 16.744
Basic Center Grant, CFDA # 93.623

Dollar threshold used to distinguish between Type A and Type B programs: $300,000

Auditee qualified as low-risk auditee? _X_ yes ____ no

B. Findings - Related to the Financial Statements Which are Required to be Reported in Accordance With Generally Accepted Government Auditing Standards

None

C. Findings and Questioned Costs—For Federal Awards

None

(Concluded)

PROMISE HOUSE, INC.
Summary Schedule of Prior Audit Findings
For the Year Ended August 31, 2012

Findings Relating to the Financial Statements Which are Required to be Reported in Accordance with Generally Accepted Government Auditing Standards.

No audit findings were noted for the year ended August 31, 2011.

Findings and Questioned Costs for Federal Awards

No audit findings were noted for the year ended August 31, 2011.

Findings and Questioned Costs for State Awards

No audit findings were noted for the year ended August 31, 2011.