PROMISE HOUSE, INC.

Financial Statements

As of and For the Years Ended
August 31, 2013 and 2012

(With Independent Auditor's Report)

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Hartman Leito & Bolt
HLB
Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Promise House, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Promise House, Inc. (the "Organization") (a nonprofit organization), which comprise the statements of financial position as of August 31, 2013 and 2012, and the related statements of activities, changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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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, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations,* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards,* we have also issued our report dated January 29, 2014, on our consideration of the Organization's internal control over financial reporting on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Hartman Leito + Bolt, LLP

January 29, 2014
Dallas, Texas

PROMISE HOUSE, INC.
Statements of Financial Position
August 31, 2013 and 2012

	2013	2012
ASSETS		
Cash and cash equivalents	$ 447,318	$ 242,947
Grants and program services receivable	167,578	153,843
Unconditional promises to give	13,693	52,880
Prepaid expenses	45,660	7,608
Investments	446,784	445,213
Property and equipment, net	1,395,363	1,376,070
Total assets	$ 2,516,396	$ 2,278,561
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	$ 125,320	$ 136,883
Notes payable	-	8,401
Total liabilities	125,320	145,284
Net assets:		
Unrestricted	1,223,574	1,173,839
Temporarily restricted	1,167,502	959,438
Total net assets	2,391,076	2,133,277
Total liabilities and net assets	$ 2,516,396	$ 2,278,561

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

PROMISE HOUSE, INC.
Statements of Activities
For the Years Ended August 31, 2013 and 2012

	2013	2012
UNRESTRICTED NET ASSETS		
Revenues and support:		
Government grants	$ 1,747,032	$ 1,969,216
Contributions	811,640	815,020
Donated goods and services	15,414	16,001
Program service fees	3,721	1,278
Special events, net of direct benefit costs of $47,616 and $54,220 for 2013 and 2012, respectively	169,919	122,022
Other	74,630	19,119
	2,822,356	2,942,656
Net assets released from restriction	-	190,648
Total revenues and support	2,822,356	3,133,304
Expenses:		
Program services	1,942,037	2,255,000
General and administrative	465,563	448,221
Fundraising	365,021	402,581
Total expenses	2,772,621	3,105,802
Increase in unrestricted net assets	49,735	27,502
TEMPORARILY RESTRICTED NET ASSETS		
Contributions and grants	208,064	-
Net assets released from restriction	-	(190,648)
Increase (decrease) in temporarily restricted net assets	208,064	(190,648)
Increase (decrease) in net assets	$ 257,799	$ (163,146)

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, 2013 and 2012

	Unrestricted	Temporarily Restricted	Total
Balances at September 1, 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
Increase in net assets	49,735	208,064	257,799
Balances at August 31, 2013	$ 1,223,574	$ 1,167,502	$ 2,391,076

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

PROMISE HOUSE, INC.
Statement of Functional Expenses
For the Year Ended August 31, 2013

	Program Services	General and Administrative	Fundraising	Total
Salaries and related expenses	$ 1,307,869	$ 338,845	$ 303,125	$ 1,949,839
Client assistance and program supplies	279,486	-	-	279,486
Depreciation	90,494	13,330	3,716	107,540
Professional services, fees and memberships	22,662	21,336	36,414	80,412
Building expense	30,691	15,753	1,140	47,584
Utilities	44,780	229	4,087	49,096
Furniture and small equipment	30,200	5,910	6,734	42,844
Telecommunications	32,580	10,583	3,988	47,151
Donated goods and services	15,414	-	-	15,414
Insurance	29,723	4,740	-	34,463
Food and supplies	24,854	-	39	24,893
Office supplies	6,525	9,180	3,271	18,976
Bad debts	-	11,376	-	11,376
Staff travel	3,307	1,504	1,154	5,965
Automobile expenses	12,768	-	-	12,768
Interest	-	1,500	-	1,500
Professional development	3,473	7,783	1,294	12,550
Other	337	953	-	1,290
Scholarships	4,500	-	-	4,500
Board and related consulting expenses	-	21,222	-	21,222
Staff recruitment	94	45	59	198
Security	2,280	1,274	-	3,554
	$ 1,942,037	$ 465,563	$ 365,021	$ 2,772,621

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.
Statements of Cash Flows
For the Years Ended August 31, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 257,799	$ (163,146)
Adjustment to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	107,540	109,386
(Increase) decrease in assets:		
Grants and program services receivable	(13,735)	21,733
Unconditional promises to give	39,187	(24,837)
Prepaid expenses	(38,052)	(1,043)
Decrease in liabilities:		
Accounts payable and accrued expenses	(11,563)	(26,928)
Net cash provided by (used in) operating activities	341,176	(84,835)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	(126,833)	(48,867)
Purchase of investments	(1,571)	(355)
Net cash used in investing activities	(128,404)	(49,222)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of notes payable	(9,526)	(230,914)
Additions to notes payable	1,125	8,401
Net cash used in investing activities	(8,401)	(222,513)
Net increase (decrease) in cash	204,371	(356,570)
Cash and cash equivalents at beginning of year	242,947	599,517
Cash and cash equivalents at end of year	$ 447,318	$ 242,947
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	$ 1,500	$ 23,976

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, 2013 and 2012 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, 2013 and 2012, 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, 2013 and 2012, 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 Statements of Activities.

(h) Depreciation

Depreciation 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

Leasehold improvements are amortized over the life of the lease, if that is less than the life of the asset itself.

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, 2013 and 2012.

(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, 2013 and 2012, the Organization recognized $15,414 and $16,001 of such noncash contributions. 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, 2013 and 2012, 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 2009 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, 2013 and 2012, consisted of the following:

	2013	2012
Land	$ 146,439	$ 146,439
Buildings and leasehold improvements	2,318,038	2,261,890
Equipment and furniture	517,252	478,767
Automobiles	251,518	219,319
	3,233,247	3,106,415
Less accumulated depreciation and amortization	(1,837,884)	(1,730,345)
	$ 1,395,363	$ 1,376,070

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 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, 2012) plus 0.5%; was 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 and 2013) 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, 2013 and 2012 was $0 and $8,401, respectively.

4. TEMPORARILY RESTRICTED NET ASSETS

At August 31, 2013 and 2012, temporarily restricted net assets consisted of the following:

	2013	2012
Residential programs	$ 809,811	$ 602,375
Psychiatric and mental health services	48,620	48,620
Scholarships	308,443	308,443
Other	628	-
	$ 1,167,502	$ 959,438

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.

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, 2013 and 2012.

> 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, 2013 and 2012 the Organization made no contributions to the plan.

7. CONCENTRATIONS OF RISK

At August 31, 2013 and 2012, 93% and 74%, respectively, of the Organization's receivables were due from governmental agencies, and 57% and 67%, respectively, of the Organization's support and revenues were from governmental agencies each year.

At August 31, 2013 and 2012, 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:

2014	$ 180,368
2015	8,724
	$ 189,092

8. OPERATING LEASES (Continued)

Rent expense for the years ending August 31, 2013 and 2012, was approximately $183,000 and $182,000, 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, 2013, the date of the most recent statement of financial position, have been evaluated for possible adjustment to the financial statements or disclosure is January 29, 2014, which is the date on which the financial statements were available to be issued.

Hartman Leito & Bolt
HLB
Accountants and Consultants

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

To the Board of Directors
Promise House, Inc.

We have audited the financial statements of Promise House, Inc. (the "Organization") (a nonprofit organization), which comprise the statement of financial position as of August 31, 2013, and the related statements of activities, changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dates January 29, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described as Finding 1 in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency.

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 Organization's Response to Findings

The Organization's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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 29, 2014
Dallas, Texas

Hartman Leito & Bolt
HLB
Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors
Promise House, Inc.

Report on Compliance for Each Major Federal Program

We have audited Promise House, Inc.'s (the "Organization") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended August 31, 2013. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2013.

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Report on Internal Control Over Compliance

The management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Hartman Leito + Bolt, LLP

January 29, 2014
Dallas, Texas

PROMISE HOUSE, INC.
Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2013

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	200,000
Education and Prevention Grant to Reduce Sexual Abuse of Runaway, Homeless and Street Youth	93.557	200,000
Total Direct Awards		799,960
DEPARTMENT OF HOMELAND SECURITY		
Passed through the United Way -		
United Way Emergency Food and Shelter	97.024	26,051
U.S. DEPARTMENT OF JUSTICE		
Passed through the Mosaic Family Services -		
Anti-Gang Initiative	16.744	27,140
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
Supportive Housing Program	14.235	487,431
Passed through the Texas Department of Housing and Community Affairs -		
Emergency Shelter Grant Program	14.231	47,920
Passed through the City of Dallas Environmental Health Services -		
Emergency Shelter Grant Program	14.231	34,489
Total Federal Expenditures		$ 1,422,991

(Continued)

(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, 2013 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)

SUMMARY OF AUDITOR'S RESULTS

A. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: unmodified

Internal control over financial reporting:
Material weakness identified? ____ yes _X_ no
Significant Deficiency(s) identified not considered to be material weaknesses?
_X_ yes __ 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: unmodified

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

Criteria and Condition: During the audit, we proposed an adjustment that removed $52,063 of grant revenue and receivables which represented amounts that were duplication of other amounts in the financial statements. The correction had no impact on federal grants.

Context: See above.

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

Cause: The error was caused by failing to remove a duplicate posting and inadequate investigation of aging receivables.

Effect: See above for dollar impact on revenue and support. No federal grants were impacted by the error.

Recommendation: Monthly review of accounts receivable and investigation of outstanding balances will help detect any material duplication of revenue and receivable balances.

Management's Response: The errors note during the audit were caused because, in order to present accurate financial statements for board meetings, at times a journal entry is used to post a batch of receivables. The journal entry should then be reversed as the individual receivable entries are recorded. The reversing journal entries were overlooked in two months, causing a duplication of revenue and receivable. Going forward, the Vice President – Internal Affairs will review the detail of outstanding receivables and document whether any balance over 30 days old is a valid receivable. This process will detect any duplicated receivable postings.

C. Findings and Questioned Costs-For Federal Awards

None

PROMISE HOUSE, INC.
Summary Schedule of Prior Audit Findings
For the Year Ended August 31, 2013

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, 2012.

Findings and Questioned Costs for Federal Awards

No audit findings were noted for the year ended August 31, 2012.