PENDLETON PLACE, INC.

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2013

PENDLETON PLACE, INC.

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Independent Auditor's Report

The Board of Directors
Pendleton Place, Inc.
Greenville, South Carolina

We have audited the accompanying financial statements of Pendleton Place, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, functional expenses, and cash flows for the six-month period 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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.

PENDLETON PLACE, INC.

STATEMENT OF CASH FLOWS
SIX-MONTH PERIOD ENDED JUNE 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in net assets	$	(180,799)
Adjustment to reconcile changes in net assets		
to net cash provided by operating activities		
Depreciation		91,033
Net realized and unrealized (gain) loss on investments		(16,510)
(Increase) in accounts receivable		(9,663)
Decrease in prepaid expenses		303
Decrease in pledges receivable		8,200
Increase in accrued expenses and payroll liabilities		16,293
NET CASH USED BY OPERATING ACTIVITIES		(91,143)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment		(23,795)
NET CASH USED BY INVESTING ACTIVITIES		(23,795)
NET DECREASE IN CASH		(114,938)
CASH AND CASH EQUIVALENTS, beginning of period		541,465
CASH AND CASH EQUIVALENTS, end of period	$	426,527

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Pendleton Place Youth Hostelry of Greenville, Inc. was established in December 1975 and changed its name to Pendleton Place, Inc. (Pendleton Place or the Organization) in 1983. Pendleton Place is a non-profit, 501(c)(3) organization which strives to provide a safe, temporary home for children and to support families in crisis through prevention, assessment, and intervention. Pendleton Place serves children and families through a focus on residential care, supportive community services for teenagers, safe family visitation and custody exchange, and comprehensive assessment for children and families in the foster care system.

Basis of Accounting and Fiscal Year

The financial statements of the Organization have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities. During 2013, the Organization changed its fiscal year for financial statement reporting purposes to June 30. Thus, these financial statements report activity for the six-month period ended June 30, 2013.

Financial Statement Presentation

The Organization has presented its financial statements in accordance with generally accepted accounting principles for not-for-profit organizations. Under this guidance, the Organization 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, the Organization is required to present a statement of cash flows.

Contributions: Consistent with the provisions of FASB ASC 958-605, *Accounting for Contributions Received and Contributions Made*, the Organization recognizes contributions received, including unconditional promises to give, as revenues in the period(s) received at their fair values. Contributions received and unconditional promises to give with payments in future periods are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets, if the restriction expires in the reporting period which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Organization considers all unrestricted, highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Property and Equipment

Property and equipment are reported at cost. Maintenance and repairs are charged to expense as incurred and renewals and improvements, valued at $500 or more, are capitalized.

The Organization provides for depreciation using the straight-line method over the estimated useful lives of the assets ranging from five to twenty years. Depreciation expense for the six-month period ended June 30, 2013 was $91,033.

Investments

Investments with readily determinable fair values are stated at their fair values in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets.

Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, accounts and pledges receivable, and accrued expenses and payroll liabilities approximate fair value because of the terms and relative short maturity of the financial instruments. The carrying values, which are the fair values of investments, are based on values provided by an external investment manager or comparison to quoted market values.

Advertising

Advertising costs are expensed as incurred by the Organization. During the six-month period ended June 30, 2013, advertising expenses were $3,866.

Income Taxes

The Organization has obtained exemption from federal income taxes under Section 501(c)(3) of the Internal Revenue Code as an organization which is not a private foundation as well as eleemosynary corporation recognized in South Carolina. Therefore, no provision for income taxes has been included in the financial statements.

Financial Accounting Standards Board (FASB) ASC 740-10 prescribes a comprehensive model for how an organization should measure, recognize, present, and disclose in its financial statements uncertain tax positions that the Organization has taken or expects to take on a tax return. In accordance with ASC 740-10, the Organization recognizes the tax benefits from uncertain tax positions only if it is more-likely-than-not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The Organization's income tax filings are subject to audit by various taxing authorities. The Organization's open audit periods are 2009-2012.

Contributed Assets and Services

Donated marketable securities and other noncash donations are recorded as contributions at their estimated fair values at the date of donation. In-kind donations such as volunteer services and advertising are not recorded in the financial statements.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, all costs have been allocated among the program and supporting services benefited.

Estimates

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

Endowment Funds

The Organization reports endowment funds consistent with the provisions of FASB ASC 958-205-50-1A, Reporting Endowment Funds, which provides guidance on the net asset classification of donor restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA").

NOTE 2 – CONCENTRATION OF CREDIT RISK

During 2010, the Federal Deposit Insurance Corporation ("FDIC") permanently increased coverage to $250,000 for substantially all depository accounts. The Organization's cash deposits at financial institutions may exceed insured limits at various times during the year. The Organization has not experienced losses in such deposit accounts. Management believes it is not exposed to any significant credit risk on cash and cash equivalents.

NOTE 3 – PLEDGES RECEIVABLE

Pledges receivable represents the amount of unconditional promises to give expected to be collected during the next fiscal year.

NOTE 4 – FAIR VALUE MEASUREMENTS

The accounting standards establish 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) and the lowest priority to measurements involving significant unobservable inputs (Level 3). The three levels of the fair value hierarchy are as follows:

Level 1 – financial instruments with quoted prices in active markets for identical assets or liabilities.

Level 2 – financial instruments with valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 – financial instruments that are not actively traded on a market exchange and require using significant unobservable inputs in determining fair value. The inputs into the determination of fair value require significant judgment or estimation by the investment manager.

Inputs refer broadly to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics and other factors. Accounting standards require that the fair value determination be based on maximum use of observable inputs (Levels 1 and 2) and minimum use of unobservable inputs (Level 3). The Organization considers observable data to be that market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary and provided by independent sources that are actively involved in the relevant market.

The following tables summarize the valuation of the Organization's financial assets and liabilities measured at fair value as of June 30, 2013, based on the level of input utilized to measure fair value:

	Level 1	Total
Short-term investments		
Money Market Funds	$ 97,727	$ 97,727
Fixed income investments	654,817	654,817
Equity investments	511,772	511,772
Total assets at fair value	$ 1,264,316	$ 1,264,316

The following methods and assumptions were used to estimate the fair value for each class of financial instrument measured at fair value.

Short-term investments - The fair value of short-term investments, consisting primarily of money market funds, is classified as Level 1. The money market mutual fund consists primarily of domestic commercial paper and other cash management instruments, such as repurchase agreements and master notes, U.S. government and corporate obligations and other securities of foreign issuers. The fund seeks to maintain a stable net asset value ("NAV") of $1.

Equity Investments - Investments in equity vehicles are comprised of corporate stocks and daily traded mutual funds. Securities held in corporate stocks and daily traded mutual funds are generally valued based on quoted market prices in active markets obtained from exchange or dealer markets for identical assets, and are accordingly categorized as Level 1, with no valuation adjustments applied.

While 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 estimate of fair value at the reporting date.

NOTE 5 – INVESTMENTS

Investments are summarized as follows as of June 30, 2013:

	Cost	Fair Value
Money Market Funds	$ 97,727	$ 97,727
Fixed income investments	655,679	654,817
Equity investments	450,805	511,772
Total investments	$ 1,204,211	$ 1,264,316

Investment income from cash equivalents and investments is comprised of the following for the six-month period ended June 30, 2013:

	Unrestricted
Dividends and interest	$ 11,325
Unrealized gains (losses)	9,768
Account fees	(4,338)
	$ 16,755

NOTE 6 – PROPERTY AND EQUIPMENT

A summary of property and equipment as of June 30, 2013 is as follows:

Land	$ 64,285
Buildings	2,151,651
Furniture and equipment	367,956
Leasehold improvements	235,697
Vehicles	111,750
	2,931,339
Accumulated depreciation	1,749,739
	$ 1,181,600

NOTE 7 – ENDOWMENT ASSETS

At June 30, 2013, the Organization's endowment consists of one individual fund that includes funds designated by the Board of Directors to function as an endowment. Net assets associated with the endowment fund are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") enacted July 1, 2008 in the State of South Carolina as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization would classify as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulation of earnings required to be added to the permanent endowment as stipulated by the donor-applicable donor gift instrument. At June 30, 2013, the Organization has not received any gifts that are classified as permanently restricted net assets.

The Organization considers the following factors in making a determination to appropriate or accumulate endowment funds:

1. The duration and preservation of the fund.
2. The purposes of the Organization and the Board-designated endowment fund.
3. General economic conditions.
4. The possible effect of inflation and deflation.
5. The expected total return from income and the appreciation of investments.
6. Other resources of the Organization.
7. The investment policies of the Organization.

Endowment net assets consist of the following at June 30, 2013:

	Unrestricted
Board-designated endowment funds	$ 1,264,316
Total endowed net assets	$ 1,264,316

Changes in endowment net assets for the six-month period ending June 30, 2013 are as follows:

	Unrestricted - Board Designated
Endowment Fund net assets, December 31, 2012	$ 1,247,806
Investment return	
Investment income	6,742
Net appreciation (realized and unrealized)	9,768
	16,510
Endowment Fund net assets, June 30, 2013	$ 1,264,316

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a relatively predictable, stable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include Board-designated funds. As authorized by Board-approved policies, these assets are invested to maximize long-term returns, while simultaneously mitigating risk through maintaining a diversified portfolio. A multi-generational window not only allows for the typical diversification across asset classes, but also for time diversification across both up and down markets. The assets are invested in a manner that is intended to produce results that meet or exceed the composite return and are within the risk parameters of an appropriate benchmark. The long-term objective is to attain, within acceptable risk parameters, an average annual total return that exceeds the sum of the Organization's approved payout rate plus inflation, plus investment management and related fees plus the endowment growth rate. The objective is expected to be obtained over time but not in each and every reporting period.

Strategies Employed for Achieving Objectives

To address its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The current spending policy of the Organization proposes that the endowment assets grow through new gifts and investment return. Accordingly, over the long-term, the Organization expects current spending policy to allow its endowment assets to grow at an average rate to enable the Organization to maintain the purchasing power of the endowment assets, achieve a reasonable degree of stability and predictability in income availability for operation, and to achieve a balance between present and future needs. Under the current spending policy, up to ninety percent of the annual income, if needed, may be transferred to the general account of the Organization to be used for operating purposes.

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2013, consist of contributions collected during the first six months of 2013 but not yet disbursed for intended purposes. Temporarily restricted net assets are comprised of the following amounts and purposes at June 30, 2013:

Emergency Shelter	$	1,531
Smith House		80
Capacity Building		75,000
Capital Improvements		20,493
Family and Child Assessment		50,000
Programs		34,291
Children's Clothing		3,625
Vehicle		29,000
Medical Room		26,000
Other		61,921
	$	301,941

Net assets were released from donor restrictions during the first six months of 2013 by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by donors.

NOTE 9 – RISK AND UNCERTAINTIES

The Organization's investments are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with these investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

The Organization receives a significant amount of revenue from the state of South Carolina Department of Social Services (SCDSS). The awarding of appropriations and contracts is at the sole discretion of the SCDSS.

NOTE 10 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 31, 2013, which is the date the financial statements were available to be issued.