PROMISE HOUSE, INC.

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

August 31, 2018

Promise House, Inc.
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August 31, 2018

SALMON SIMS THOMAS
Accountants and Consultants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Promise House, Inc.

We have audited the accompanying financial statements of Promise House, Inc. (a nonprofit organization), which comprise the statement of financial position as of August 31, 2018, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year 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.

Auditors' 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 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 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.

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, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Other Information

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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 Reports Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 10, 2019, on our consideration of Promise House, Inc.'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Promise House, Inc.'s internal control over financial reporting and compliance.

Salmon Sims Thomas

Salmon Sims Thomas & Associates
A Professional Limited Liability Company

July 10, 2019

Promise House, Inc.
Statement of Financial Position
August 31, 2018

ASSETS

Cash and cash equivalents	$ 461,730
Grants and program services receivable, net	487,786
Unconditional promises to give	12,753
Investments	306,888
Property and equipment, net	1,320,051
Prepaid expenses	65,539
Security deposits	9,750
TOTAL ASSETS	$ 2,664,497

LIABILITIES AND NET ASSETS

Liabilities	
Accounts payable and accrued expenses	$ 45,922
Accrued payroll and related expenses	88,935
Total Liabilities	134,857
Net Assets	
Unrestricted	
Undesignated	1,674,385
Board designated	549,136
	2,223,521
Temporarily restricted	306,119
Total Net Assets	2,529,640
TOTAL LIABILITIES AND NET ASSETS	$ 2,664,497

The accompanying notes are an integral part of this financial statement.

Promise House, Inc.
Statement of Activities and Changes in Net Assets
For the Year Ended August 31, 2018

	Unrestricted	Temporarily Restricted	Total
Revenues and Support			
Government grants	$ 1,468,211	$ -	$ 1,468,211
Shelter reimbursement	2,113,643	-	2,113,643
Contributions	480,904	633,470	1,114,374
Special events, net	435,046	-	435,046
Other	5,236	-	5,236
Net assets released from restriction	629,893	(629,893)	-
Total Revenues and Support	5,132,933	3,577	5,136,510
Expenses			
Program	3,637,335	-	3,637,335
Supporting	697,539	-	697,539
Fundraising	871,811	-	871,811
Total Expenses	5,206,685	-	5,206,685
Increase (Decrease) in Net Assets	(73,752)	3,577	(70,175)
Net Assets, Beginning of Year	2,297,273	302,542	2,599,815
Net Assets, End of Year	$ 2,223,521	$ 306,119	$ 2,529,640

The accompanying notes are an integral part of this financial statement.

Promise House, Inc.
Statement of Functional Expenses
For the Year Ended August 31, 2018

	Program Expenses	Supporting Expenses	Fundraising Expenses	Total Expenses
Salaries and related expenses	$ 2,496,774	$ 517,314	$ 665,888	$ 3,679,976
Client assistance and program supplies	281,329	-	-	281,329
Food and supplies	59,749	-	-	59,749
Child care	6,223	-	-	6,223
Professional services, fees and memberships	132,937	31,924	75,749	240,610
Building expense	148,402	25,781	20,221	194,404
Utilities	71,086	9,654	6,558	87,298
Furniture and small equipment	68,967	15,789	7,590	92,346
Depreciation	185,666	15,732	-	201,398
Telecommunications	40,336	20,562	8,958	69,856
Insurance	45,200	7,741	5,745	58,686
Office supplies	12,834	16,111	5,940	34,885
Recognition	12,038	20	844	12,902
Professional development	12,194	16,980	15,615	44,789
Staff travel	3,790	5,623	1,381	10,794
Automobile expenses	12,942	290	-	13,232
Interest	957	70	-	1,027
Scholarships	2,301	-	-	2,301
Board and related consulting expenses	-	11,238	-	11,238
Printing and postage	4,121	610	2,651	7,382
Bad debts	38,290	-	-	38,290
Events and marketing	-	101	54,671	54,772
Other general and administrative	1,199	1,999	-	3,198
	$ 3,637,335	$ 697,539	$ 871,811	$ 5,206,685

The accompanying notes are an integral part of this financial statement.

Promise House, Inc.
Statement of Cash Flows
For the Year Ended August 31, 2018

Cash Flows From Operating Activities	
Change in Net Assets	$ (70,175)
Adjustments to reconcile increase in net assets	
to net cash provided by operating activities:	
Depreciation	201,398
Bad debts	38,290
Reinvested interest	(173)
Changes in operating assets and liabilities:	
Grants and program services receivable	(149,836)
Unconditional promises to give	(10,518)
Prepaid expenses	(48,471)
Accounts payable and accrued expenses	19,815
Accrued payroll and related expenses	(115,333)
Net Cash Used by Operating Activities	(135,003)
Cash Flows From Investing Activities	
Security deposits	(5,400)
Purchase of equipment	(75,060)
Net Cash Used by Investing Activities	(80,460)
Cash Flows From Financing Activities	
Borrowing on line of credit	30,000
Repayment of line of credit	(30,000)
Net Cash Provided by Investing Activities	-
Net Decrease in Cash and Cash Equivalents	(215,463)
Cash and cash equivalents, beginning of year	677,193
Cash and cash equivalents, end of year	$ 461,730
Supplemental Cash Flow Information	
Interest paid	$ 1,027

The accompanying notes are an integral part of this financial statement.

NOTE 1: ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES

The summary of significant accounting policies of Promise House, Inc. (Organization) is presented to assist in understanding the financial statements. The financial statements and notes are representations of the Organization's management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and have been consistently applied in the preparation of the financial statements.

Organization – 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. 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.

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 and expenses. Significant estimates used in preparing these financial statements include those assumed in recording functional allocation of expenses and depreciation. It is at least reasonably possible that the significant estimates used will change within the next year. Actual results could vary from estimates.

Cash and Cash Equivalents - The Organization considers all short-term investments with an original maturity of ninety days or less to be cash equivalents. Cash equivalents at August 31, 2018 totaled $139,668. The Organization places cash and marketable securities, which at times may exceed federally-insured limits, with high-credit quality financial institutions. The Organization has not experienced any losses on such assets.

Investments - Investments, consisting of certificates of deposit with maturity dates of more than ninety days, are stated at their current market values as long-term assets.

Contributed Goods and Services - Donations of noncash assets are recorded as contributions at their estimated fair value as of the date of donation. Donated services are recognized as contributions in accordance with U.S. GAAP, if the services (a) create or enhance nonfinancial assets or (b) require and are provided by individuals with specialized skills and if not provided by donation would typically need to be purchased.

Functional Allocation of Expenses - The costs of providing the various programs and supporting services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs, supporting services, and fundraising benefited.

NOTE 1: ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Contribution Receivables and Promise to Give - Contributions are recognized when a donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires or is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets.

Unconditional promises to give that are due more than one year beyond the statement of financial position date are discounted to a net present value using an estimated discount factor for risk-free borrowing.

Contributions receivable are considered past due when payments are not made under the terms of the contribution agreement. There were no past due contributions receivable at August 31, 2018 and no provision was made for uncollectible pledges receivable as of that date. Contributions receivable are considered uncollectible and written off to uncollectible pledges when the donor withdraws the contribution commitment or fails to provide a reasonable revised schedule of contributions.

Grants and Program Services Receivable - 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 Statement of Financial Position. The Organization considers all receivable balances which are over six months past due as uncollectible. As of August 31, 2018, the allowance for doubtful accounts was $27,033.

Financial Statement Presentation - Net assets and revenues, 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:

> <u>Unrestricted net assets</u> - Net assets not subject to donor-imposed stipulations.
>
> <u>Temporarily restricted net assets</u> – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time.

Revenues are reported as increases in unrestricted net assets unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. 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 of assets other than cash are recorded at their estimated fair value.

NOTE 1: ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Income Taxes - The Organization is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (IRC) of 1986, as amended, as an organization described in Section 501(c)(3) of the IRC. The Organization has been classified as an organization that is not a private foundation under IRC Section 509(a)(2), and as such, contributions to the Organization qualify for deductions as charitable contributions. However, income generated from activities unrelated to the Organization's exempt purpose is subject to tax under IRC Section 511.

Accounting for Uncertainty in Income Taxes - Management has concluded that any tax positions that would not meet the more-likely-than-not criterion of Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) Topic 740-10, *Accounting for Income Taxes*, would be immaterial to the financial statements taken as a whole. Accordingly, the accompanying financial statements do not include any provision for uncertain tax positions, and no related interest or penalties have been recorded in the statement of activities or accrued in the statement of financial position. Federal and state tax returns of the Organization are generally open to examination by the relevant taxing authorities for a period of three years from the date the returns are filed.

Property, Equipment, Depreciation - Property and equipment are stated at cost when purchased or fair value at the date the equipment is donated, less accumulated depreciation. Major expenditures and those that substantially increase useful lives are capitalized. All equipment purchases in excess of $1,000 and having a useful life of one year or more are capitalized. Maintenance, repairs, and replacements, which do not improve or extend the lives of the respective assets, are charged to operations when incurred. When property and equipment is sold or otherwise disposed of, the asset and related accumulated depreciation is removed, and any gain or loss is included in operations. Depreciation has been computed using the straight-line method over the useful lives of the assets as follows:

Building and building improvements	10-30 years
Equipment and furniture	3-7 years
Automobiles	4 years

Recent Accounting Pronouncements - In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases*, which will supersede the current lease requirements ASC Topic 840. The new standard requires lessees to recognize a right-of-use (ROU) asset and a related lease liability for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statements of activities and changes in net assets. Currently, leases are classified as either capital or operating, with only capital leases recognized on the statements of financial position. The new standard is effective for private entities for annual periods beginning after December 15, 2019. The Organization is currently assessing the impact on its statement of position but expects that the guidance will not result in significant changes to the results of operations.

NOTE 1: ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements - In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, as an update to ASC Topic 958, Not-for-Profit Entities. This update makes several improvements to current reporting requirements that address complexities in the use of the currently required three classes of net assets and enhance required disclosures related to donor restrictions of net assets. The updated guidance will result in a change in the classes of net assets reported on the face of the statements of financial position from three classes (unrestricted, temporarily restricted, and permanently restricted) to two classes (net assets without donor restrictions and net assets with donor restrictions).

The update also requires all not-for-profit entities to report expenses by function and by natural classification, either on the face of the financial statements or in the footnotes. Additional qualitative information about the methods used to allocate costs is also required to be disclosed. The updated guidance will be effective for annual periods beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. Early adoption is permitted. The new guidance should be applied on a retrospective basis. The Organization will be adopting this update in fiscal year 2019. No other material impact is expected.

In November 2016, the FASB issued ASU 2016-18, *Restricted Cash*, as an update to ASC Topic 230, Statement of Cash Flows. This update requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The updated guidance will be effective for annual periods beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The Organization will be adopting this update in fiscal year 2018. The new guidance will be applied on a retrospective basis. The updated guidance will result in a change in the statements of cash flows to include restricted cash and restricted cash equivalents. No other material impact is expected.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606), which will supersede the current revenue recognition requirements in Topic 605, Revenue Recognition. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The statement is effective for annual periods beginning after December 15, 2018. The Organization are in the process of evaluating the potential impact of ASU 2014-09 on its financial statements and have not yet determined the method by which the standard will be adopted in 2019.

NOTE 1: ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements - In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made,* as an update to ASC Topic 958, *Not-for-Profit Entities*, and to ASU 2014-09. The guidance provides a framework for evaluating whether grants should be accounted for as exchange transactions or as nonexchange transactions. For nonexchange transactions, the new guidance clarifies the contribution accounting model's guidance regarding whether arrangements are conditional or unconditional. The ASU applies to all entities that make or receive contributions but is primarily related to grants. The statement is effective for annual periods beginning after December 15, 2018.

Date of Management's Review – Subsequent events have been evaluated for potential recognition or disclosure through July 10, 2019, which is the date the financial statements were available to be issued.

NOTE 2: INVESTMENTS

As of August 31, 2018, investments consisted of one certificate of deposit for $306,888. The Organization received interest income of $174 for the year ended August 31, 2018.

NOTE 3: PROPERTY AND EQUIPMENT

Property and equipment as of August 31, 2018 consisted of the following:

Land	$ 146,439
Buildings and building improvements	3,103,232
Equipment and furniture	608,267
Automobiles	185,980
	4,043,918
Less accumulated depreciation	(2,723,867)
	$ 1,320,051

NOTE 4: BOARD DESIGNATED NET ASSETS

At August 31, 2018, board designated net assets consisted of $549,136 set aside for cash reserves.

NOTE 5: TEMPORARILY RESTRICTED NET ASSETS

At August 31, 2018, temporarily restricted net assets approximately consisted of $280,000 for scholarships, $13,300 for the LGBTQ program and $12,700 due to time restrictions.

Net assets released from restriction during the year ended August 31, 2018 were approximately as follows:

Residential programs	$ 493,800
Psychiatric and mental services	15,300
Scholarships	2,200
LGBTQ programs	2,800
Technology	51,700
Special event and volunteer personnel	53,900
Time restricted	2,600
Other	7,600
	$ 629,900

NOTE 6: IN-KIND CONTRIBUTIONS

During the year ended August 31, 2018, the Organization received $23,365 of contributed goods donated for an auction for a special event held by the Organization and is included in net special event revenue.

NOTE 7: CONCENTRATIONS OF RISK

At August 31, 2018, approximately 24% of the Organization’s receivables were due from governmental agencies, and approximately 31% of the Organization’s support and revenues were from governmental agencies.

NOTE 8: EMPLOYEE RETIREMENT 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 year ended August 31, 2018, the Organization made approximately $42,700 in discretionary contributions to the plan.

NOTE 9: LEASE OBLIGATIONS

Operating Leases

The Organization leases various office equipment under noncancelable operating leases expiring between 2019 and 2023. The Organization also leases apartments and homes under six month to one year terms.

Future minimum lease payments are approximately as follows:

For the years ending August 31,

2019	$	112,700
2020		23,400
2021		1,900
2022		1,900
2023 and thereafter		1,900

Lease expense for the year ended August 31, 2018 was approximately $143,100.

NOTE 10: LINE OF CREDIT

The Organization has a revolving line of credit of $500,000, secured by the deed of trust on the Organization's property, with an interest rate of prime plus 1% with a floor of 5%. The interest rate at August 31, 2018 was 6.25%. Accrued but unpaid interest payments are due monthly through May 2022 when the entire amount of principal and interest outstanding is due. The Organization borrowed and repaid $30,000 during the year ended August 31, 2018. The balance on the revolving line of credit at August 31, 2018 was $0.

SALMON SIMS THOMAS
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, in accordance with the 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, the financial statements of Promise House, Inc. (a nonprofit organization), which comprise the statement of financial position as of August 31, 2018, and the related statements of activities and 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 dated July 10, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Promise House, Inc.'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 Promise House, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Promise House, Inc.'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 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. 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.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Promise House, Inc.'s financial statements are free from 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*.

Purpose of this Report

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

Salmon Sims Thomas

Salmon Sims Thomas & Associates
A Professional Limited Liability Company

July 10, 2019

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
Promise House, Inc.

Report on Compliance for Each Major Federal Program

We have audited Promise House, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Promise House, Inc.'s major federal programs for the year ended August 31, 2018. Promise House, Inc.'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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Promise House, Inc.'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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 Promise House, Inc.'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 Promise House, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Promise House, Inc. 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, 2018.

Report on Internal Control over Compliance

Management of Promise House, Inc. 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 Promise House, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each 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 the Uniform Guidance, 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 Promise House, Inc.'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.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Salmon Sims Thomas

Salmon Sims Thomas & Associates
A Professional Limited Liability Company
July 10, 2019

Promise House, Inc.
Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2018

FEDERAL AGENCY/PASS-THROUGH AGENCY	CFDA NO.	PASS-THROUGH ENTITY IDENTIFYING NUMBER	AMOUNT
U.S. Department of Health and Human Services			
Direct Programs:			
Basic Center Program for Runaway and Homeless Youth	93.623		$ 216,664
Transitional Living for Homeless Youth	93.550		194,726
Transitional Living Program for LGBTQ and Former Foster Youth	93.550		317,327
			728,717
U.S. Department of Homeland Security			
Federal Emergency Management Agency Program	97.024		37,500
U.S. Department of Housing and Urban Development			
Supportive Housing Program	14.235		334,612
Emergency Shelter Grant Program	14.231		42,938
			377,550
U.S. Department of Justice/ Texas Office of the Governor	16.575		324,444
Total Federal Expenditures			$ 1,468,211

NOTE 1: BASIS OF ACCOUNTING
The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

NOTE 2: INDIRECT COSTS
Expenditures reported on the Schedule are recognized following, as applicable, either the cost principles in OMB Circular A-122, *Cost Principles for Non-Profit Organizations,* or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Promise House has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Promise House, Inc.
Schedule of Findings and Questioned Costs
August 31, 2018

SUMMARY OF AUDITORS' RESULTS

1. We have issued an unmodified opinion on the financial statements of Promise House, Inc. as of and for the year ended August 31, 2018.

2. No significant deficiencies or material weaknesses relating to the audit of the financial statements were found.

3. The results of the financial statement audit disclosed no instances of noncompliance which were considered material to the financial statements.

4. We issued an unmodified opinion in our report on compliance for major programs for the year ended August 31, 2018.

5. No significant deficiencies or material weaknesses relating to the audit of internal control over compliance for the major federal award program were found.

6. There were no audit findings that are required to be reported in accordance with 2CFR 200.516(a).

7. The program tested as a major program for the year ended August 31, 2018 is as follows:

Transitional Living Program	93.550
Transitional Living Program for LGBTQ and Former Foster Youth	93.550

8. The threshold used for distinguishing between type A and B programs was $750,000.

9. Promise House, Inc. did qualify as a low-risk auditee.

Promise House, Inc.
Schedule of Findings and Questioned Costs
August 31, 2018

FINDINGS – FINANCIAL STATEMENT AUDIT

No matters are reportable.

FINDINGS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

No matters are reportable.

Promise House, Inc.
Schedule of Prior Year Findings and Questioned Costs
August 31, 2017

FINDINGS – FINANCIAL STATEMENT AUDIT

No matters were reportable.

FINDINGS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

No matters were reportable.