

# annual report 2016

Releasing Potential • Empowering Innovation • Transforming Communities

prison  
entrepreneurship  
program

# PEP BY THE NUMBERS IN 2016

Another **Record Breaking** Year!

prison  
entrepreneurship  
program



**718**  
men served



**259**  
Graduates



**76**  
Graduates  
of eSchool



**294**  
Men Welcomed Home



Average  
wage

**50%**  
over  
minimum  
wage



**100%**  
**Employment Rate**  
within 90 days of release,  
for 6 consecutive years!



**704**  
Unique Volunteers

**781**  
Unique Donors

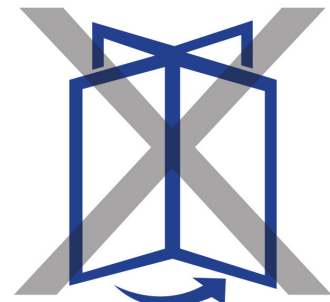
**3,031**  
Donations

**338**  
New Donors



**78**  
**new businesses**  
formed — more than six report  
over \$1,000,000 in revenue

Recidivism  
**only**  
**7%**



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# letter from the CEO

**PEP** completed a very strong year in 2016. By God's grace, we were able to overcome difficulties in several areas and achieve a number of significant milestones:

- We again set a new record for the number of men recruited into PEP (687, up 18% over 2015).
- Attrition declined, and the completion rate of men entering the Business Plan Competition increased by a healthy 16%.
- We welcomed home a record 294 men, up 16% from 2015, and served 238 of those men released, also a record. A strong 75% of men served were released to PEP transition housing, which remained at high levels of occupancy throughout the year.
- For the sixth consecutive year, 100% of our active graduates secured their first job within 90 days of release, and the average starting wage remained 50% above minimum wage.
- Business formation strengthened, with at least 78 new businesses being formed – a 37% increase over the number of new businesses formed in the prior year.
- We hosted two B2B events, “From Barbed Wire to Business,” in Houston and in Dallas, featuring almost two dozen graduate entrepreneurs and impressing about 200 guests with the fruits of PEP.
- Thanks to an amazingly strong fourth quarter, we exceeded our budget targets in all donation categories except individuals, and set records for corporate and church giving. We also set a new record for in-prison volunteer visits, often reaching “sold out” status at Cleveland.

We begin 2017 extremely well-positioned and resourced, enabling us to continue to facilitate transformative change in the lives of our men, their families and our communities. Thank you for your interest and support.

**Bert Smith**  
CEO

*At PEP, we are servant leaders on a mission to transform inmates and executives by unlocking God-given potential through entrepreneurial passion, education and mentoring.*



# operations

## RECRUITING

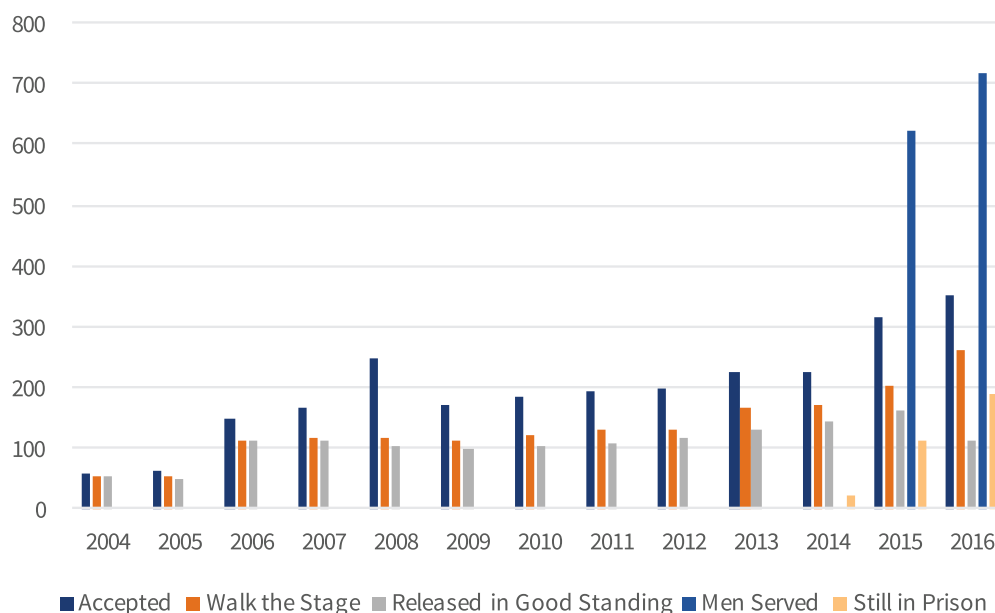
Anticipating future growth, we made changes to our recruiting process to improve efficiency in how we send invitations to prospective applicants. As a result, in 2016 we reached more candidates and reviewed more applications while we reduced the number of prison visits.

	2015	2016	
Invitation Sent	7,272	9,748	34%
Requests for Applications	2,170	2,251	4%
Applications Received	1,707	2,041	20%
Prisons Visited	108	51	-53%
Men Interviewed	1,319	569	-57%
Men Accepted	581	687	18%
Men Transferred*	465	584	26%

\* Some of the men were accepted in previous years

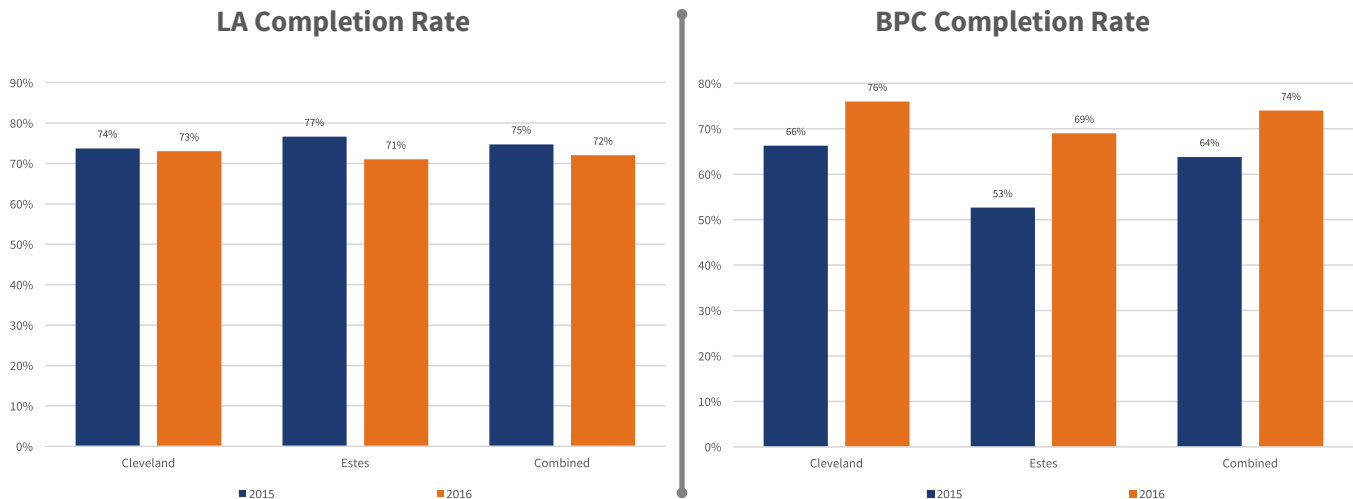
## IN-PRISON PROGRAM

### Men Served Each Year



Our plan to start the Leadership Academy in another unit in the second half of 2016 was delayed due to changes that occurred within TDCJ's Regional Administration. Consequently, we were delayed in the recruiting and training of six peer educators from that unit. Ultimately, the expansion was approved and six men are currently on the Cleveland Unit being trained to facilitate the Leadership Academy at the Gib Lewis unit in East Texas. Our 2016 plan for in-prison was to work with 854 unique individuals, which would have been 38% more than 2015. The actual number was 718 in calendar 2016, approximately a 16% increase. The "Men Served" in 2015 and 2016 are unique men served during the calendar year and reflect the creation of Leadership Academy in 2015.

Besides growing in men recruited and men served, we also improved our completion efficiency. The results are shown in the charts below.



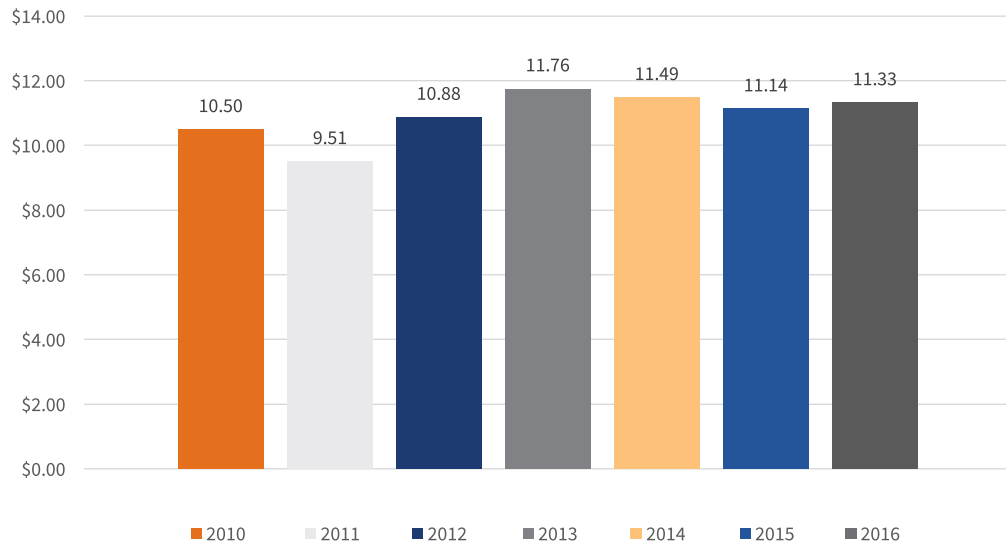
We had a small decrease in completion rate (4%) in the LA class; however, we had a larger increase in completion rate (16%) in the BPC class. In Leadership Academy, we also implemented a revamped curriculum emphasizing balancing character to achieve better alignment with PEP's 10 Driving Values.

## RE-ENTRY

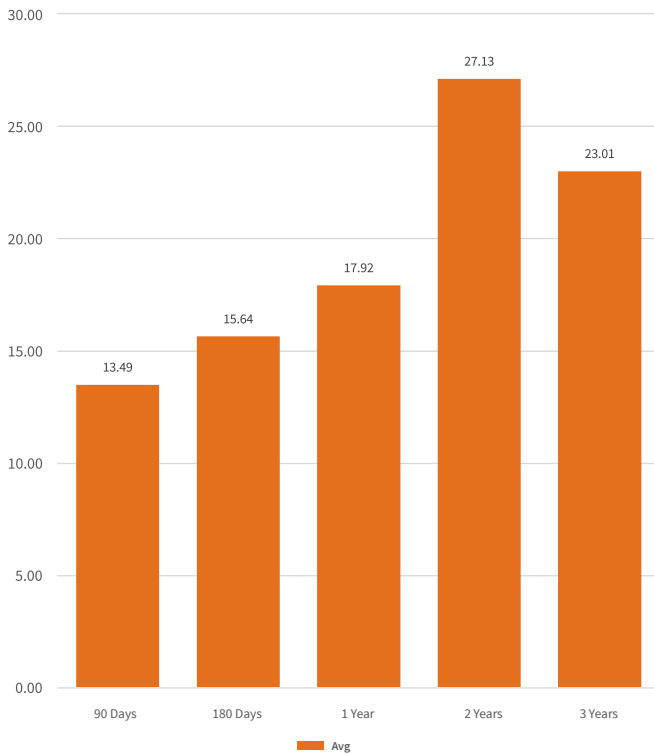
In re-entry, we had a 16% increase of released men in 2016 over 2015 (294 vs. 254). Fifty-six men (19%) elected not to continue a relationship with us on the outside; twenty-nine (51%) of those men had less than three months of involvement with PEP in prison. The remaining 238 received re-entry services, 178 (75%) of whom requested employment assistance from us, and all were employed within 90 days, with the average days to hire being 21 days, and \$11.33 the average starting wage.

In the last quarter of 2015, we implemented an automated system that sends out surveys to our participants who are within 30 days of release and participants when they reach a release anniversary of 90 days, 180 days, 1 year, 2 years and 3 years. The results are very interesting and are included on the following pages. We will learn from the results and adjust the program, as needed, to assist them more.

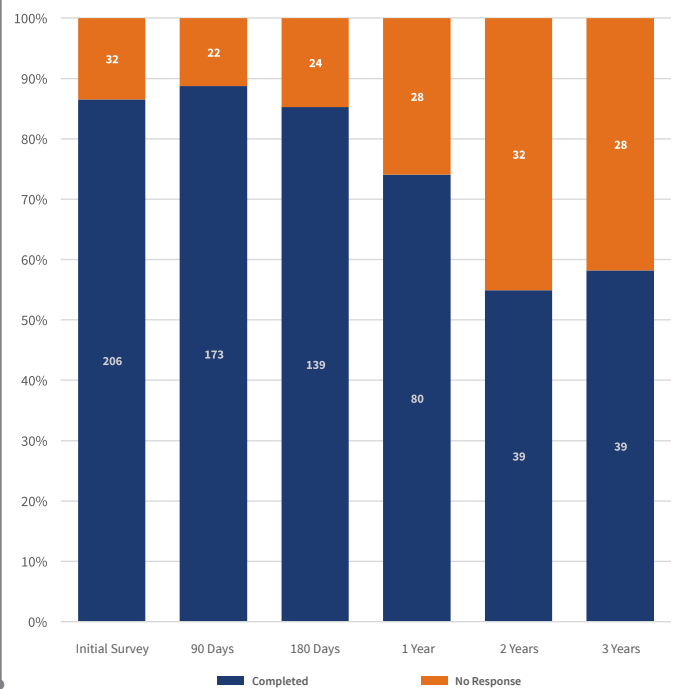
### Average Starting Wage



### Average Current Salary (\$/hr)

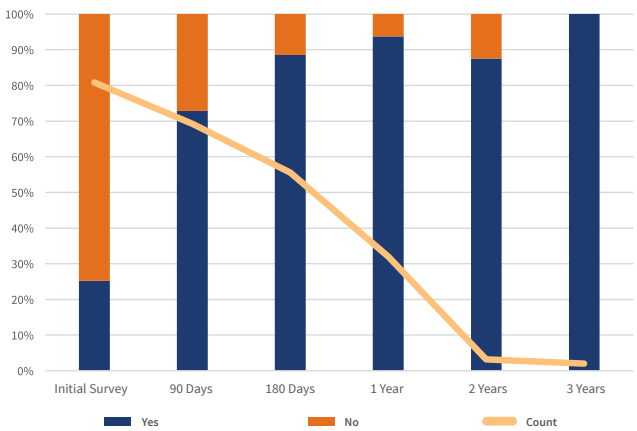


### Survey Response Rate

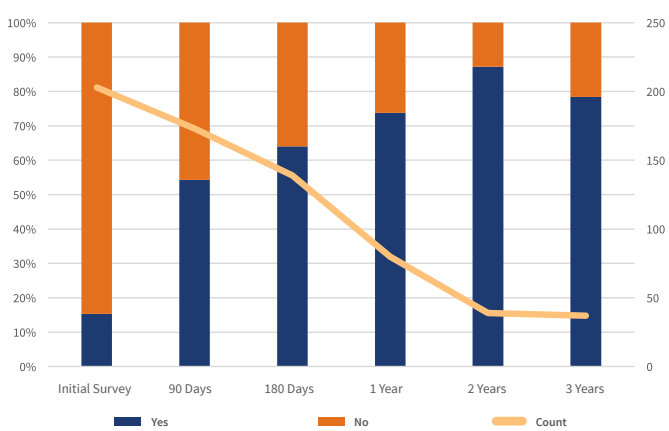




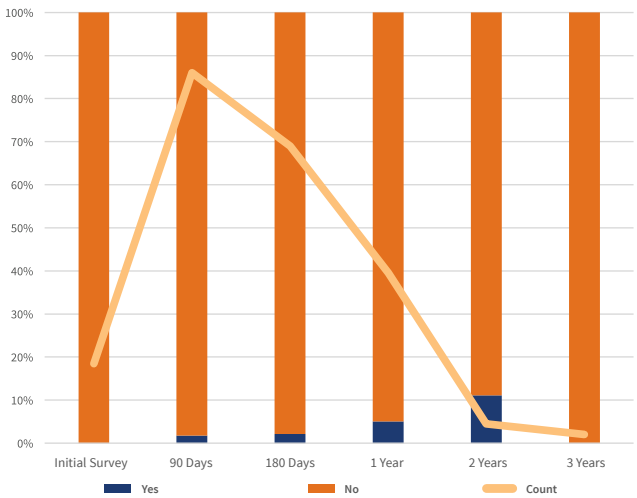
Checking Account



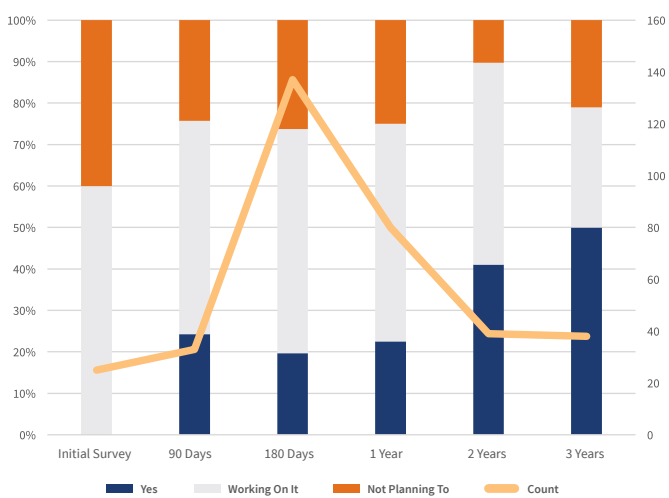
Savings Account



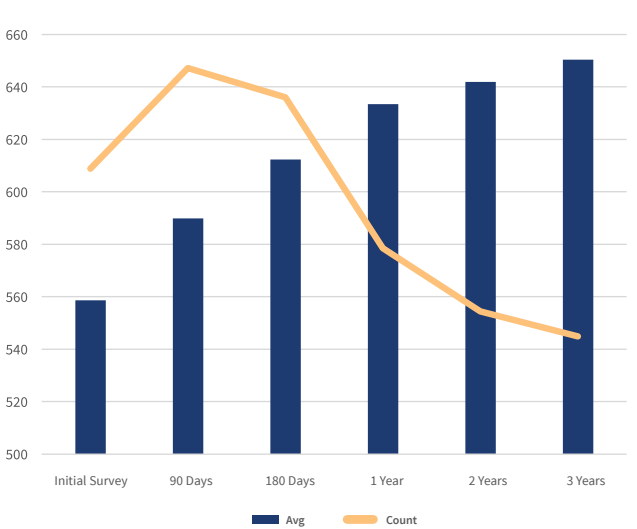
Payday Loan in the Past 3 Months



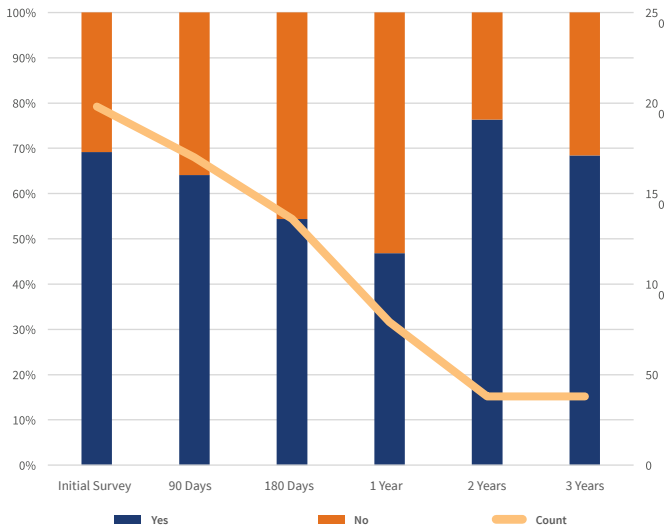
Business Established



Average FICO Score



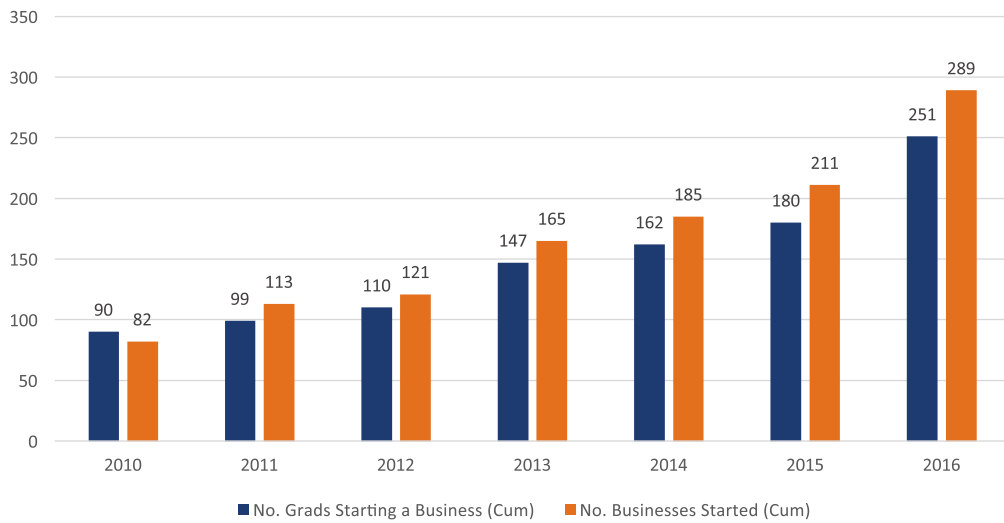
Debt That Affects FICO Score



## PARTICIPANT BUSINESSES

The entrepreneurship spirit we instill in our in-prison curriculum continues on the outside as our participants continue to start their own businesses. Another 78 businesses were started by PEP graduates in 2016 – an increase of 37% over the number reported at the end of last year. The number of PEP graduate entrepreneurs (251) represents 18% of all released PEP graduates.

### Entrepreneurship

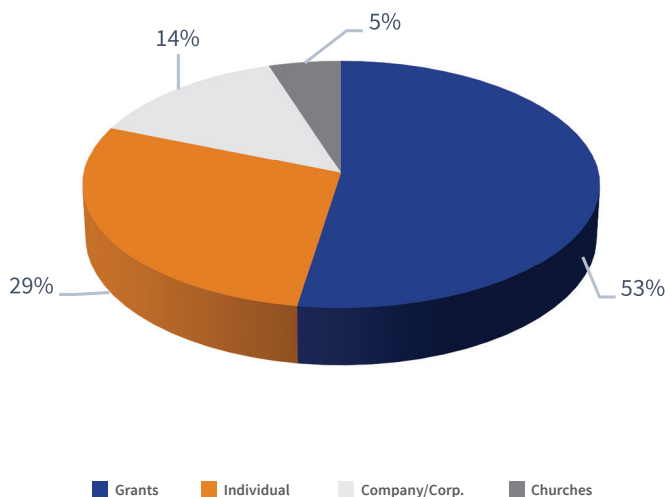


# development

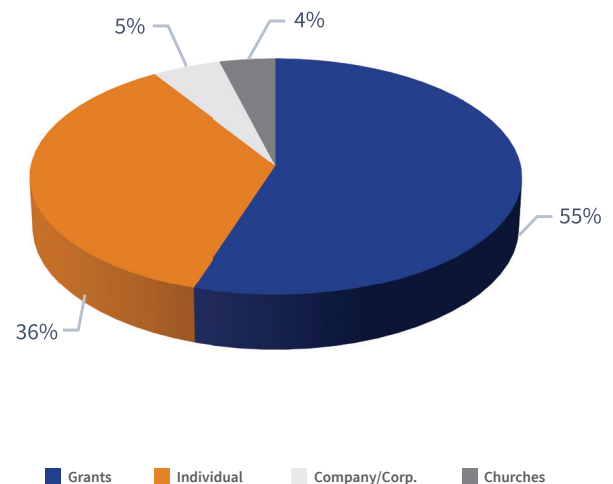
## FUNDRAISING

For all of 2016, total donations were \$85,000 (4%) above the 2016 budget goal and \$298,000 (14%) above 2015. For the year, individual donations (including donor advised fund contributions and stock gifts) on a dollar basis were significantly higher at \$707,000 but represented only 29% of our total giving, down from 36% in 2015. We had a total of 338 new donors for all of 2016, and the total number of donors (781) was up 19%. Corporate giving was up significantly from 4% to 14% due to a large grant from Securus Technologies. Church giving was in line with 2015 at 5% of our total giving, and the support from foundation grants was down to 53% from 55%.

2016 Donations



2015 Donations



*“PEP is exactly the type of organization that we want to partner with because their program provides significant training that goes right to the core of reducing recidivism, and they get spectacular results.”*  
*Richard Smith, CEO.*

### Churches Supporting PEP

- Christ Chapel Bible Church
- Church of St. John the Divine
- Faithbridge UMC
- Gateway Church
- Memorial Drive Presbyterian Church
- St. Luke's UMC
- St. Martin's Episcopal Church
- St. Paul's Methodist Church
- Sunnyvale Baptist Church
- Watermark Church
- Wilshire Baptist Church

### Foundations Supporting PEP

- Accenture Foundation
- Bank of America Charitable Foundation
- Bellows Foundation
- Louis Brandt Foundation
- Brown Foundation
- Clayton Foundation

- JES Edwards Foundation
- Good Earth Foundation
- Guill Foundation
- Herzstein Foundation
- Hoglund Foundation
- Houston Social Venture Partners
- K.T. Family Foundation
- Kayser Foundation
- Lowenstein Foundation
- McNair Foundation
- Merced Foundation
- Oden Foundation
- Rathmell Foundation
- Rockwell Fund
- Schissler Foundation
- Scurlock Foundation
- Simmons Foundation
- Souder Foundation
- Diana Davis Spencer Foundation
- United Way of Metropolitan Dallas

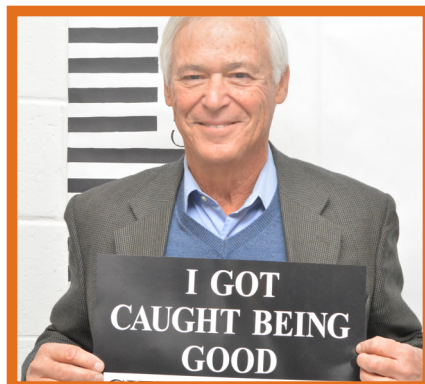
## SPECIAL EVENTS

During 2016, we hosted two, first-ever B2B events, “From Barbed Wire to Business,” one in Houston and another in Dallas. The Houston event in June included 11 graduate entrepreneurs and over 100 guests; for about 60 of the guests, this was their first exposure to PEP. The second event in Dallas at the end of September included 10 graduate entrepreneurs and about 90 guests; about half the guests were new to PEP.

In Houston, we also hosted a dinner celebrating the graduation of another 76 men from eSchool. Approximately 150 guests attended, including the Warden from the Cleveland unit and a Harris County District Judge.

## VOLUNTEER ENGAGEMENT

We had over 700 volunteers attend an in prison event, and a total of 1819 volunteer visits which exceeded our original goal by 14%. Other volunteers served as Business Plan Advisors, Mentors, Hosts for transition house dinners, and eSchool teachers. We are blessed by the many gifts of time, talent, and love that are given by our dedicated volunteers.

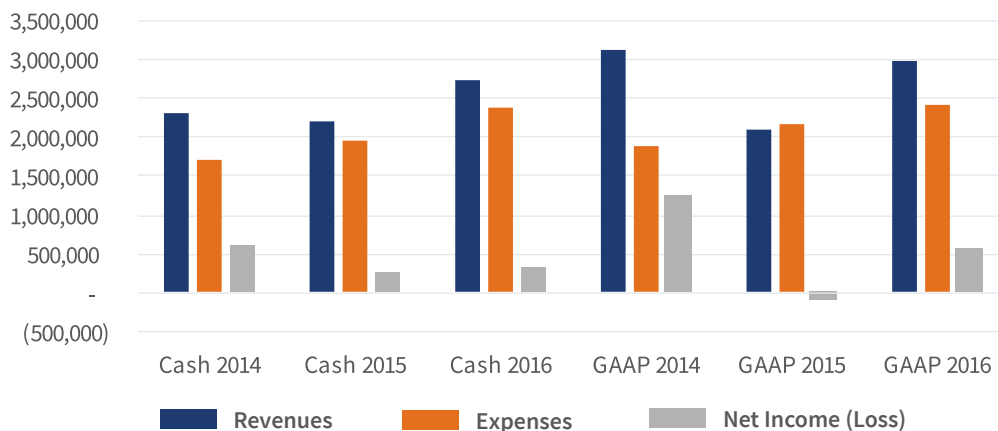


# finance

## RESULTS

PEP was blessed with a record fourth quarter in 2016 with \$1,262,000 in donations received. This enabled us to overcome a nine-month deficit, surpass the 2016 total revenue budget and realize record annual cash basis revenue. This, along with several large, multi-year grants awarded, drove GAAP revenue to within 5% of the 2014 record revenue of \$3,133,000.

### Cash Basis - GAAP Comparison (Full Year)



On a cash basis, total expenses for the year were \$2,095,000, or \$256,000 (11%) under budget. This controlled spending combined with record cash donations resulted in a 2016 cash basis profit of \$384,000, which was \$331,000 ahead of budget. On a GAAP basis, PEP ended 2016 with a \$565,000 surplus.

A comparison of GAAP and cash basis presentation methods follows:

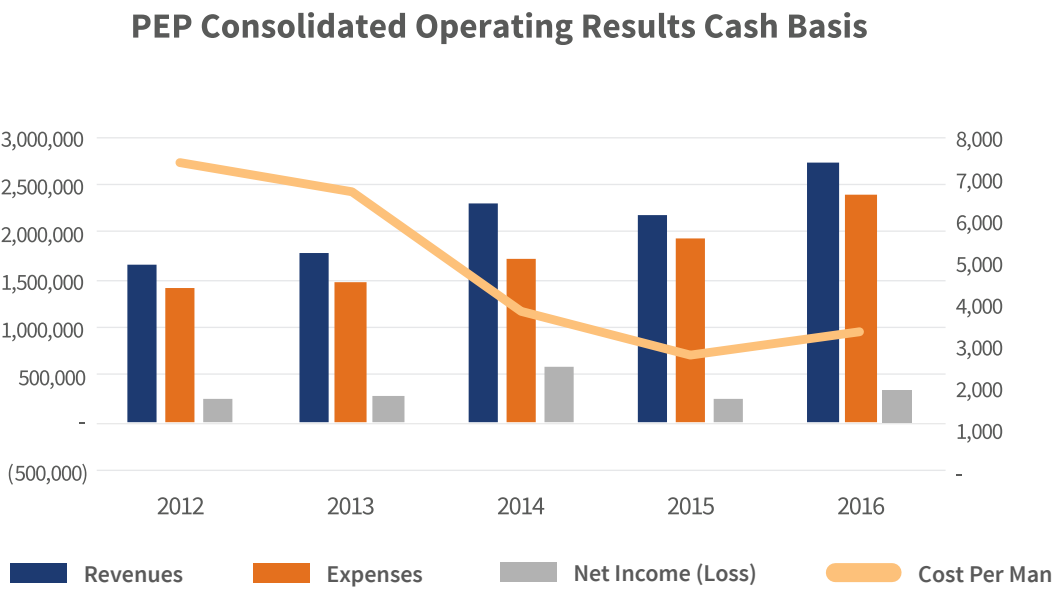
### PEP Consolidated GAAP to Cash Comparison 2016

	GAAP	Cash	Difference
Support	2,658,000	2,454,000	204,000
Rental income	244,000	244,000	-
Other	86,000	25,000	61,000
Total revenue	2,988,000	2,723,000	265,000
Total expenses	2,423,000	2,379,000	44,000
Net surplus	565,000	344,000	221,000



## EFFICIENCY

The following graph illustrates PEP expenses growing as we have expanded both our in-prison and re-entry services. However, as PEP has scaled from serving 306 unique men in prison in 2012 to serving 718 unique men last year, we have generated efficiencies yielding a declining curve for cost per unique man served in prison. The curve bent upward slightly in 2016 partly attributable to increased staff cost incurred ahead of men actually served. We project a slight decrease in the 2017 cost per man served.



# prison entrepreneurship program

## BALANCE SHEET

	Accrual Basis Actual				
	Unaudited	Audited			
	12/31/2016	12/31/2015	12/31/2014	12/31/2013	12/31/2012
Cash	1,875,376	1,524,956	1,504,722	1,030,955	818,781
Receivables	855,541	605,699	880,332	202,949	264,897
Prepays, deposits, other	18,749	24,451	51,977	14,908	9,563
PPE	1,216,392	1,169,633	1,022,705	578,627	569,951
Accum Depr	(254,577)	(176,077)	(242,899)	(227,990)	(225,125)
Minority investment in subs	17,031	17,685	18,045	-	-
<b>Total assets</b>	<b>3,728,513</b>	<b>3,166,347</b>	<b>3,234,882</b>	<b>1,599,449</b>	<b>1,438,067</b>
Accounts payable	67,654	54,206	50,276	19,406	27,553
Accrued salaries and taxes	48,962	50,610	36,797	34,195	31,499
LT Debt - Current Maturities	13,827	13,668	13,008	5,234	4,942
LT Debt - Later	463,526	477,995	492,074	161,070	166,304
<b>Total liabilities</b>	<b>593,969</b>	<b>596,479</b>	<b>592,155</b>	<b>219,905</b>	<b>230,298</b>
Net assets, beginning	2,569,868	2,642,727	1,379,544	1,207,769	1,124,240
Current year change	564,676	(72,859)	1,263,183	171,775	83,529
<b>Total net assets</b>	<b>3,134,544</b>	<b>2,569,868</b>	<b>2,642,727</b>	<b>1,379,544</b>	<b>1,207,769</b>
<b>Total liabilities &amp; net assets</b>	<b>3,728,513</b>	<b>3,166,347</b>	<b>3,234,882</b>	<b>1,599,449</b>	<b>1,438,067</b>

# consolidated financial statements

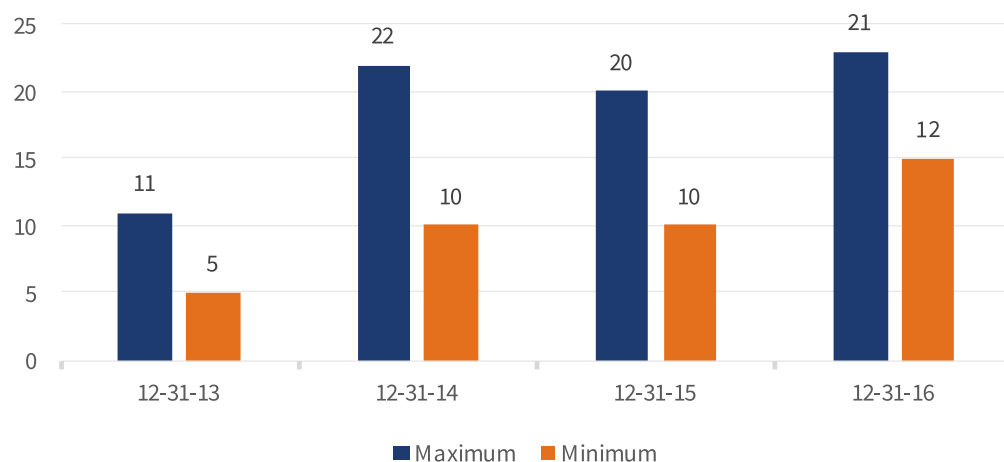
OPERATIONS

	Accrual Basis Actual					
	Unaudited	Audited				
	2016	2015	2014	2013	2012	2011
Support	2,657,504	1,806,922	2,846,507	1,519,074	1,444,246	1,682,220
Rental income	244,162	175,012	124,809	76,700	64,908	52,683
Interest and other income	26,508	45,805	52,642	35,352	25,495	39,779
In-kind	59,803	77,192	108,678	92,281	6,631	8,357
<b>Total support &amp; revenue</b>	<b>2,987,976</b>	<b>2,104,931</b>	<b>3,132,636</b>	<b>1,723,407</b>	<b>1,541,280</b>	<b>1,783,039</b>
Program	1,980,543	1,813,255	1,557,040	1,164,595	1,051,601	1,207,785
Fundraising	209,509	180,831	152,901	214,121	229,935	224,482
Administrative	233,249	183,704	159,512	172,916	176,215	196,656
<b>Total expenses</b>	<b>2,423,300</b>	<b>2,177,790</b>	<b>1,869,453</b>	<b>1,551,632</b>	<b>1,457,751</b>	<b>1,628,923</b>
<b>Change in net assets</b>	<b>564,676</b>	<b>(72,859)</b>	<b>1,263,183</b>	<b>171,775</b>	<b>83,529</b>	<b>154,116</b>
<b>Net assets, beginning</b>	<b>2,569,868</b>	<b>2,642,727</b>	<b>1,379,544</b>	<b>1,207,769</b>	<b>1,124,240</b>	<b>970,124</b>
<b>Net assets, ending</b>	<b>3,134,544</b>	<b>2,569,868</b>	<b>2,642,727</b>	<b>1,379,544</b>	<b>1,207,769</b>	<b>1,124,240</b>
<b>Unique men served in prison</b>	<b>718</b>	<b>698</b>	<b>451</b>	<b>223</b>	<b>197</b>	<b>193</b>
<b>Total expenses / Unique men served</b>	<b>3,375</b>	<b>3,120</b>	<b>4,145</b>	<b>6,958</b>	<b>7,400</b>	<b>8,440</b>

# outlook & plans for 2017

With 2016 being the fifth consecutive year that PEP has ended with a cash surplus, we continue to maintain a strong balance sheet. Given its strong cash balance and about \$900,000 in pledges expected to be received in 2017, we have sufficient financial resources to fund our expected capital requirements (mostly for transition housing) and to cover our projected operating costs (including expansion of the Leadership Academy to the Gib Lewis Unit and of re-entry services to Austin) for at least another 12 months, i.e., through December 2017.

## Runway Months of Operating Cash



# goals for 2017

We plan in 2017 to expand the Leadership Academy to the Gib Lewis Unit and to expand re-entry services to Austin, as well as to lay the groundwork for the addition of a third BPC unit in 2018. Clearly, we will need to continue to work smart and hard, and remain prayerful and hopeful that all the human, financial and other resources required will be available to us, as and when we need them. Our goals for 2017 are ambitious, once again:

- To start a new Leadership Academy at a **3<sup>rd</sup>** unit in Texas
- To serve >**690** men and graduate >**520** men in 6 Leadership Academies at 3 units
- To serve >**461** men and graduate >**351** men from BPC at Cleveland and Estes
- Means more Families at graduations (1200+), more Children in Xmas Project (300+), more Employers, etc.
- To run a pilot program for women
- To challenge each BPC Class to achieve the lowest attrition ever -- < 10%
- To begin providing re-entry services in Austin
- To acquire transition housing in Austin
- To replace / increase available transition housing in Dallas and Houston
- To support the formation and success of >20 businesses by PEP graduates

In aid of these goals, we will also need:

- To recruit >**845** Executive Volunteers to attend > **2,200** times
- To have enlisted >**264** PEP Partners by year end
- To submit >**240** grant proposals
- To attract >**940** unique donors
- To receive >**3,245** gifts for **\$2,700,000**

# conclusion

We continue to set increased goals in all areas of our current program, but this is in line with our Vision 2026 strategy which, by 2026, will allow us to serve 4,000 men per year in prison, or 10% of all men expected to come home that year. In so doing, we hope to bring the fruits of redemption and reconciliation to thousands of men, family members, co-workers, customers and communities. We will need wise counsel and plenty of hard work from our boards, our staff, and our volunteers to achieve these goals. We appreciate your willingness to invest or contemplate investing in our mission.

*Welcome to  
the PEP  
Revolution!*

**TODAY**

**2016**



**800**

**Men Served in  
Prison**

**OUR GOAL**

**2026**



**4,000**

**Men Served**  
**10% of those Released**



# governing board

100% donate to PEP.

## Mike Humphrey, Chair

Chairman, Communitas Auto Group

## Mr. Robert Barkley

Managing Director,  
Client Development,  
Barrow, Hanley, Mewhinney & Strauss,  
Inc

## Dr. Gary Carini

Associate Dean of Graduate Studies,  
Baylor University

## Pat Gotcher

CEO, OptimaMinds

## Brandon Holcomb

Vice President-Investment  
Management Division,  
Goldman, Sachs, and Co.

## John Jackson\*

Individual Investor

## Roger Manny\*

EVP and CFO,  
Range Resources Corporation

## Bill Meyer

Secretary\*  
(Retiring from the board as of  
12/31/16)  
Technology Finance Executive,  
Meyer Consulting

## Britanie Olvera

President/Owner, B.I.T. Construction  
Services, Inc.

## Nancy White

Timex Corporation (Retired)

\*Audit Committee

# staff

100% donate to PEP. Over 80% of  
our full-time staff members are  
graduates of our program.

## LEADERSHIP

**Bert Smith, CEO**

**Phi Tran, COO**

**Tim Hamilton, CFO**

**Tony Mayer, CDO**

**Kristie Wisniewski, Chief of Staff**

## DEVELOPMENT

**Charles Hearne**

Executive Relations Manager,  
Houston

**Bryan Kelley**

Executive Relations Manager,  
Dallas

**Chase Mayr**

Development Associate

## ADMINISTRATION

**Edison Nguyen, IT Specialist**

**John Conratt, Bookkeeper**

**Max Han, Office Supervisor**

## FAMILY REUNIFICATION

**Theresa Black, Family Liaison\***

**Laura Stiehl, Family Liaison\***

**Sandra Jasso, Family Liaison\***

## IN-PRISON

**Pat McGee**

Director of Prison Initiatives

**Michael Potts**

In Prison Manager, Cleveland

**Gami Jasso**

In Prison Manager, Estes

**Alfredo Manning**

Character Development Specialist

## RE-ENTRY

### HOUSTON TEAM

**Harvey Mai**

Re-Entry Manager

**Manny Rodriguez**

Transition Coordinator

**Jorge Castillo**

Transition Coordinator

### NORTH TEXAS TEAM

**Jason Moore**

Re-Entry Manager

**Benjamin DeLeon**

Transition Coordinator

**David Flores**

Transition Coordinator

### AUSTIN & ALUMNI RELATIONS

**Al Massey**

Re-Entry Manager

\* Part-time employees

# advisory boards

## NATIONAL ADVISORY BOARD

### Elizabeth English

Research Associate,  
American Enterprise  
Institute

### Bob Graham

Ret. Chairman,  
AIM Management

### Noah Kramer

Financial Services  
Executive

### Jerry Madden

Senior Fellow, Right on  
Crime

### Paul Morris

President, SupportFocus,  
Inc.

### Jeff Smith

Concordance Academy

## NORTH TEXAS ADVISORY BOARD

### Keith Berry

General Manager,  
Hazel's Hot Shot

### Keith Bird

VP, Global Engineering &  
Manufacturing Strategy,  
Alcon

### Marc Birnbaum

CEO, MAB Investments

### Timothy Black

Oracle Corporation

### David Blanchard

Voya Financial

### Robert Callahan

Hewlett-Packard Co.  
(Retired)

### Javier Creixell

Trinity Fiduciary Partners

### Ken Dunham

Vice President, HR,  
Rogers-O'Brien  
Construction Co.

### Ivan Giraldo

Clean Scapes, LP

### Jon Goodale

Goodale Exploration  
LLC, and Group Chair at  
Leaven Exchange

### Steve Hausman

President,  
Advance Business  
Capital

### Kyle Henderson

Pastor,  
First Baptist Church  
Athens

### Steven J. Heussner

Co-Founder and  
Chairman, Mogul Wealth  
Strategies, LLC

### Jim Holloway

Owner, hGroup

### Mabrie Jackson

Director of Community  
Affairs, HEB Central  
Market

### Lynn Newman

McCaslin Barrow  
Henderson, LLC

### David Rains

Commercial Finance  
Consultants

### John Selzer

Septariate, LLC

### Linda Thomas

PR Incorporated

## HOUSTON ADVISORY BOARD

### Bruce Anderson

Managing Partner,  
Thinking Partners, Inc.

### Daniel Cahill

Cahill & Vela PLLC

### Dougal Cameron

Cameron Management

### Mike Coffey

Intex Commercial  
Flooring

### Sandi Dillon

Corporate Development  
Specialist

### Karen El-Tawil

TGS-NOPEC Geophysical  
(Retired)

### Genie Erneta

Genie Erneta Inc.—  
Homes and Designs Inc.

### John Harrell

Deloitte (Retired)

### Dave Jacobs

TechKnowledge  
Consulting

### Melvin Maltz

Sr. Account Manager,  
Lone Star Advisory Group

### Keith McJunkin

President, McJunkin &  
Associates, Inc.

### Guillermo Mendoza

Impact Coaching  
Solutions

### Bill Miller

Retired, Goldman, Sachs  
& Co.

### Ben Morris

Former CEO, Sanders  
Morris Harris

### Monte Pendleton

Business Mentor, Silver  
Fox Advisors

### Lauren-Kristine Pryzant

Mercury Fund

### Alan Stewart

Executive Director &  
Treasurer, The Cullen  
Foundation

### Thomas Suffield

Managing Director, OFS  
Capital

### Jay Wall

Senior Vice-President,  
Moody Rambin

### Scott Wesley

Project Manager, Marek  
Brothers Construction

### J. Wayne Wisniewski

President & COO, Eagle  
Hydrocarbons, Inc.



*We thank Bill Meyer for his service on the board as a founding member, and recognize his 12 year commitment to PEP.*



*Horace is a Class 9 Graduate of PEP. At the end of 2016, he graduated from the University of Houston Victoria with a Masters of Science in Accounting. He will take his first CPA exam in May 2017.*

website  
[www.PEP.org](http://www.PEP.org)

blog  
[www.iWasInPrison.com](http://www.iWasInPrison.com)

email  
[info@PEP.org](mailto:info@PEP.org)



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