PEP BY THE NUMBERS IN 2016
Another Record Breaking Year!

- 718 men served
- 259 Graduates
- 76 Graduates of eSchool
- 294 Men Welcomed Home
- 100% Employment Rate within 90 days of release, for 6 consecutive years!
- Average wage 50% over minimum wage
- 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
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.

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

* Some of the men were accepted in previous years

In-Prison Program

Men Served Each Year

[Graph showing progress over years]
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.

![LA Completion Rate](image)

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.
Initial Survey
90 Days
180 Days
1 Year
2 Years
3 Years

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.
**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%.
“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.
**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:

<table>
<thead>
<tr>
<th></th>
<th>GAAP</th>
<th>Cash</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Support</td>
<td>2,658,000</td>
<td>2,454,000</td>
<td>204,000</td>
</tr>
<tr>
<td>Rental income</td>
<td>244,000</td>
<td>244,000</td>
<td>-</td>
</tr>
<tr>
<td>Other</td>
<td>86,000</td>
<td>25,000</td>
<td>61,000</td>
</tr>
<tr>
<td>Total revenue</td>
<td>2,988,000</td>
<td>2,723,000</td>
<td>265,000</td>
</tr>
<tr>
<td>Total expenses</td>
<td>2,423,000</td>
<td>2,379,000</td>
<td>44,000</td>
</tr>
<tr>
<td>Net surplus</td>
<td>565,000</td>
<td>344,000</td>
<td>221,000</td>
</tr>
</tbody>
</table>
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.
## Accrual Basis Actual

<table>
<thead>
<tr>
<th></th>
<th>Unaudited</th>
<th>Audited</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash</strong></td>
<td>1,875,376</td>
<td>1,524,956</td>
</tr>
<tr>
<td><strong>Receivables</strong></td>
<td>855,541</td>
<td>605,699</td>
</tr>
<tr>
<td><strong>Prep, Deposits, Other</strong></td>
<td>18,749</td>
<td>24,451</td>
</tr>
<tr>
<td><strong>PPE</strong></td>
<td>1,216,392</td>
<td>1,169,633</td>
</tr>
<tr>
<td><strong>Accum Depr</strong></td>
<td>(254,577)</td>
<td>(176,077)</td>
</tr>
<tr>
<td>Minority Investment in Subs</td>
<td>17,031</td>
<td>17,685</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>3,728,513</td>
<td>3,166,347</td>
</tr>
<tr>
<td><strong>Accounts Payable</strong></td>
<td>67,654</td>
<td>54,206</td>
</tr>
<tr>
<td><strong>Accrued Salaries and Taxes</strong></td>
<td>48,962</td>
<td>50,610</td>
</tr>
<tr>
<td><strong>LT Debt - Current Maturities</strong></td>
<td>13,827</td>
<td>13,668</td>
</tr>
<tr>
<td><strong>LT Debt - Later</strong></td>
<td>463,526</td>
<td>477,995</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>593,969</td>
<td>596,479</td>
</tr>
<tr>
<td><strong>Net Assets, Beginning</strong></td>
<td>2,569,868</td>
<td>2,642,727</td>
</tr>
<tr>
<td><strong>Current Year Change</strong></td>
<td>564,676</td>
<td>(72,859)</td>
</tr>
<tr>
<td><strong>Total Net Assets</strong></td>
<td>3,134,544</td>
<td>2,569,868</td>
</tr>
<tr>
<td><strong>Total Liabilities &amp; Net Assets</strong></td>
<td>3,728,513</td>
<td>3,166,347</td>
</tr>
</tbody>
</table>
# consolidated financial statements

## Accrual Basis Actual

<table>
<thead>
<tr>
<th></th>
<th>Unaudited</th>
<th>Audited</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Support</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Support</td>
<td>2,657,504</td>
<td>1,806,922</td>
</tr>
<tr>
<td>Rental income</td>
<td>244,162</td>
<td>175,012</td>
</tr>
<tr>
<td>Interest and other income</td>
<td>26,508</td>
<td>45,805</td>
</tr>
<tr>
<td>In-kind</td>
<td>59,803</td>
<td>77,192</td>
</tr>
<tr>
<td><strong>Total support &amp; revenue</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2,987,976</td>
<td>2,104,931</td>
</tr>
<tr>
<td><strong>Program</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Program</td>
<td>1,980,543</td>
<td>1,813,255</td>
</tr>
<tr>
<td><strong>Fundraising</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fundraising</td>
<td>209,509</td>
<td>180,831</td>
</tr>
<tr>
<td><strong>Administrative</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administrative</td>
<td>233,249</td>
<td>183,704</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2,423,300</td>
<td>2,177,790</td>
</tr>
<tr>
<td><strong>Change in net assets</strong></td>
<td></td>
<td>(72,859)</td>
</tr>
<tr>
<td><strong>Net assets, beginning</strong></td>
<td>2,569,868</td>
<td>2,642,727</td>
</tr>
<tr>
<td><strong>Net assets, ending</strong></td>
<td>3,134,544</td>
<td>2,569,868</td>
</tr>
<tr>
<td><strong>Unique men served in prison</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unique men served in prison</td>
<td>718</td>
<td>698</td>
</tr>
<tr>
<td><strong>Total expenses / Unique men served</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>3,375</td>
<td>3,120</td>
</tr>
</tbody>
</table>
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

<table>
<thead>
<tr>
<th>Year</th>
<th>Maximum</th>
<th>Minimum</th>
</tr>
</thead>
<tbody>
<tr>
<td>12-31-13</td>
<td>11</td>
<td>5</td>
</tr>
<tr>
<td>12-31-14</td>
<td>22</td>
<td>10</td>
</tr>
<tr>
<td>12-31-15</td>
<td>20</td>
<td>10</td>
</tr>
<tr>
<td>12-31-16</td>
<td>21</td>
<td>12</td>
</tr>
</tbody>
</table>
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 3rd 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.
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

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

DEVELOPMENT
Charles Hearne
Executive Relations Manager, Houston

Bryan Kelley
Executive Relations Manager, Dallas

Chase Mayr
Development Associate

ADMINISTRATION
Edison Nguyen, IT Specialist
John Conradt, Bookkeeper
Max Han, Office Supervisor

FAMILY REUNIFICATION
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Laura Stiehl, Family Liaison*
Sandra Jasso, Family Liaison*

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Michael Potts
In Prison Manager, Cleveland

Gami Jasso
In Prison Manager, Estes

Alfredo Manning
Character Development Specialist
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Mabrie Jackson
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Commercial Finance Consultants

John Selzer
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Linda Thomas
PR Incorporated

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TechKnowledge Consulting

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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.