annual report 2017

Releasing Potential • Empowering Innovation • Transforming Communities

prison entrepreneurship program

PEP BY THE NUMBERS IN 2017

Another **Record Breaking** Year!

987 MEN & WOMEN SERVED

291 graduates

overall our 2000th graduate

100% EMPLOYMENT RATE within 90 days of release for 7 consecutive years

average wage was **$12.20**

68% over minimum wage

75 graduates of eSchool

recidivism ONLY **7.5%**

859 unique donors

762 unique volunteers

363 new donors

3,583 donations

OPEN

62 new businesses STARTED

over **350** businesses formed

360 men WELCOMED HOME

contents

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.

letter from the CEO

Bryan Kelley

PEP completed another strong year in 2017. By God's grace, we were able to achieve a number of significant milestones:

- We expanded to our third and fourth prisons, the Gib Lewis unit and the Lockhart unit.
- We served a record 987 participants (an increase of 18% over 2016), including our first ever cohort of 44 women.
- A record 497 men completed our Leadership Academy (26% more than last year) and a record 291 men graduated from our Business Plan Competition (a 12% increase).
- We welcomed home a record 360 men (up 20% from 2016), and provided re-entry services to 297 of those men released, also a record. A strong 62% of men served were released to PEP transition housing, which remained at high levels of occupancy throughout the year.
- For the seventh consecutive year, 100% of our active graduates secured their first job within 90 days of release, and the average starting hourly wage was a record $12.20.
- Business formation remained strong, with at least 62 new businesses being formed, bringing the cumulative total to 352, an increase of 22% over last year.
- We hosted the PEP Round Up, our first ever major fundraiser, successfully raising about $335,000 ($250,000 net) and inspiring almost 500 people with the mission and the outcomes of PEP.
- Thanks to another record fourth quarter, and good cost control over the whole year, we closed the books with a cash basis profit for the sixth consecutive year.

We begin 2018 very well-positioned strategically and well resourced, enabling us to continue to move ambitiously toward Vison 2026, our goal of serving at least 10% (4,000) of the men (and women) released from prison in Texas, thereby facilitating transformative change in the lives of our graduates, their families and our communities.

Bert Smith

It has been my privilege to serve PEP as its CEO for the past 8 years, but I have decided to transition my CEO responsibilities during 2018. Bryan Kelley, who currently serves as our Executive Relations Manager in North Texas, has been named as my successor. Bryan is a Class XXI graduate of the program, although his involvement with PEP goes back to 2008 when he served PEP in prison at the Hamilton Unit outside College Station, TX. He has served PEP as a staff member since 2014, working as Re-Entry Manager in North Texas and most recently as Executive Relations Manager for North Texas. He has a bachelor's degree in psychology, is engaged to be married and is an active member at Watermark Church in Dallas, TX.

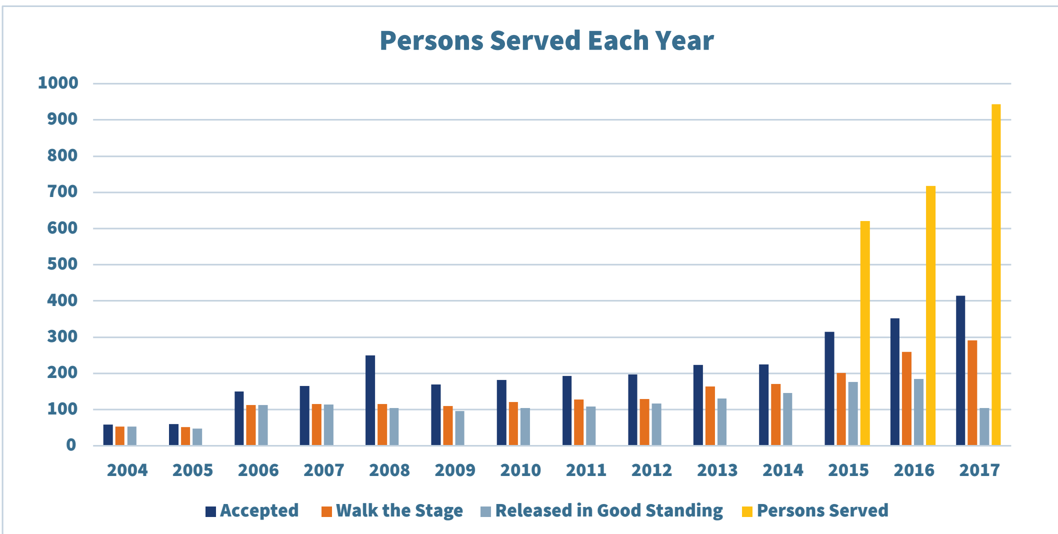
I will continue to serve PEP as an in-prison instructor and will assist Bryan and the rest of our team with special projects. I will join the Governing Board in 2019, and will continue to pray for the PEP Revolution. Onward!

Bert Smith
aka "Chocolate Truffles"
CEO

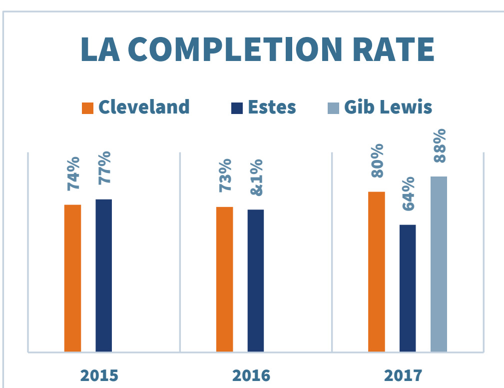
operations

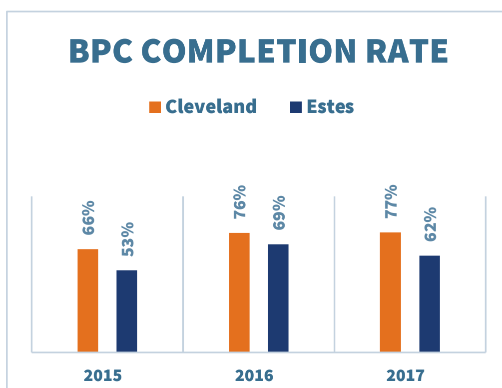
In-Prison Programs

PEP's growth has been very strong, as seen in the following chart. After institutional delays in 2016, we were able to train peer educators in early 2017 and complete one Leadership Academy (LA) class at Gib Lewis during Q4. Our 2017 plan for in-prison was to work with 690 LA participants, which represented 26% budgeted growth over 2016 actual. The actual 2017 number was 647, or 18% growth. "Persons Served" are the unique men and women served during the calendar year and in 2017 reflect the addition of Leadership Academy at the Gib Lewis unit and the pilot BPC for women at the Lockhart unit. The total number of unique persons served last year was 987.



We recruited the first class (44 women) for the program at the Lockhart unit at the end of Q4 2017 and will graduate this class in April 2018. While expanding, we have also focused on improving existing operations at our existing BPC campuses. Retention at Cleveland has risen with the unit being fully staffed by PEP on a full-time basis. At Estes, we have retrained our In-Prison staff to coincide with emphasizing positive affirmation. Also, the Character Assessment process was altered, to shift the focus to the 10 Driving Values (growth and alignment) as opposed to focusing on negative character traits. We believe this shift by staff has led to a shift in participant thinking and will help further strengthen the PEP culture.



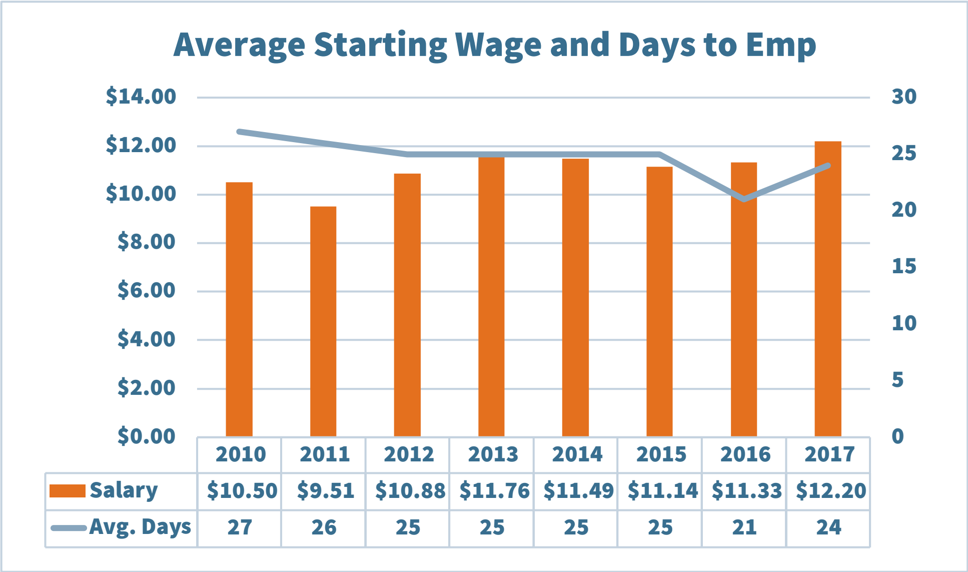


Re-entry

A total of 357 PEP men were released from prison in 2017. Sixty of those did not request any reentry services. Of those 60, 85% did not complete the inside part of our program, underscoring that longer participation inside results in longer participation outside. Of the 297 men who received reentry service, 62% were released to one of our transition houses. Of all the releases, 42% went to DFW and 39% to Houston. All of our transition houses except for Midtown consistently maintained 80% to 100% occupancy in 2017. For the year, there were 260 unique individuals who stayed at our transition houses. The average men per month who stayed in a transition house is shown in the table below, which highlights how full most of the houses were over the course of the year.

House	Max Bed Space	Average Men Per Month Stayed in House
Caleb	16	16.6
Columbia	24	23.3
Covington	15	16.1
Fresh Start	12	.4
O'Brien	12	14.4
Midtown	40	20.3
Monthly total	**119**	**91.1**

We had 75 men who achieved alumni status in 2017 by attending eSchool regularly.



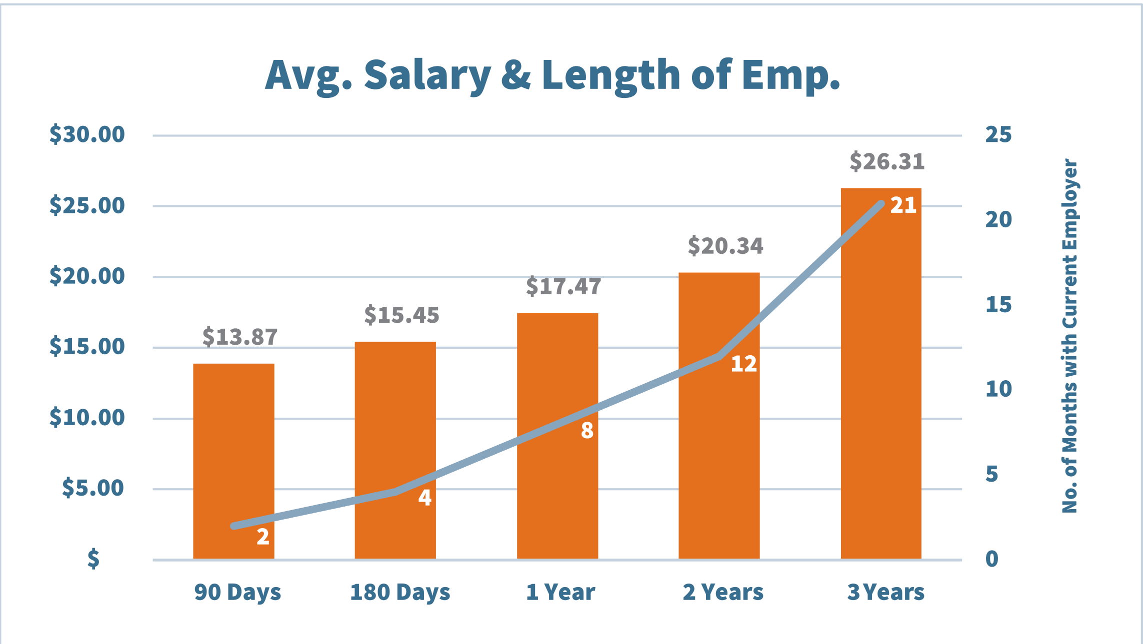
Our employment data remain very strong. We maintained 100% participant employment within 90 days of release with an average of 24 days from prison to paycheck and average starting wage of $12.20. This graph compares last year's starting wage and days to employment with those of previous years.

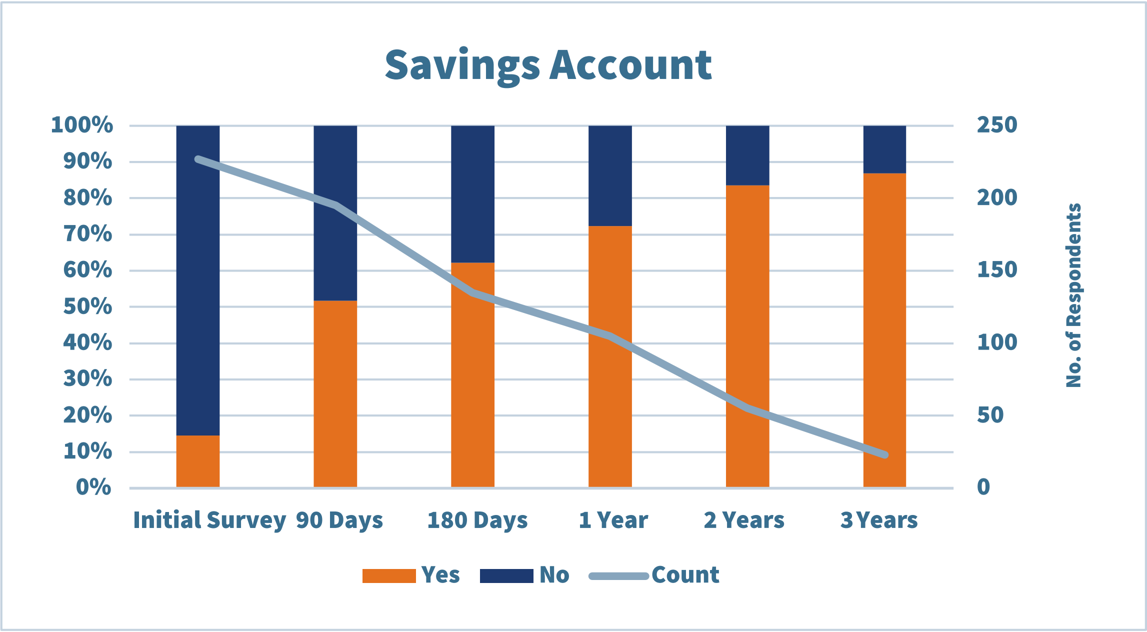
We collect employment data when each participant reaches 90 days, 180 days and 1 year from his release.

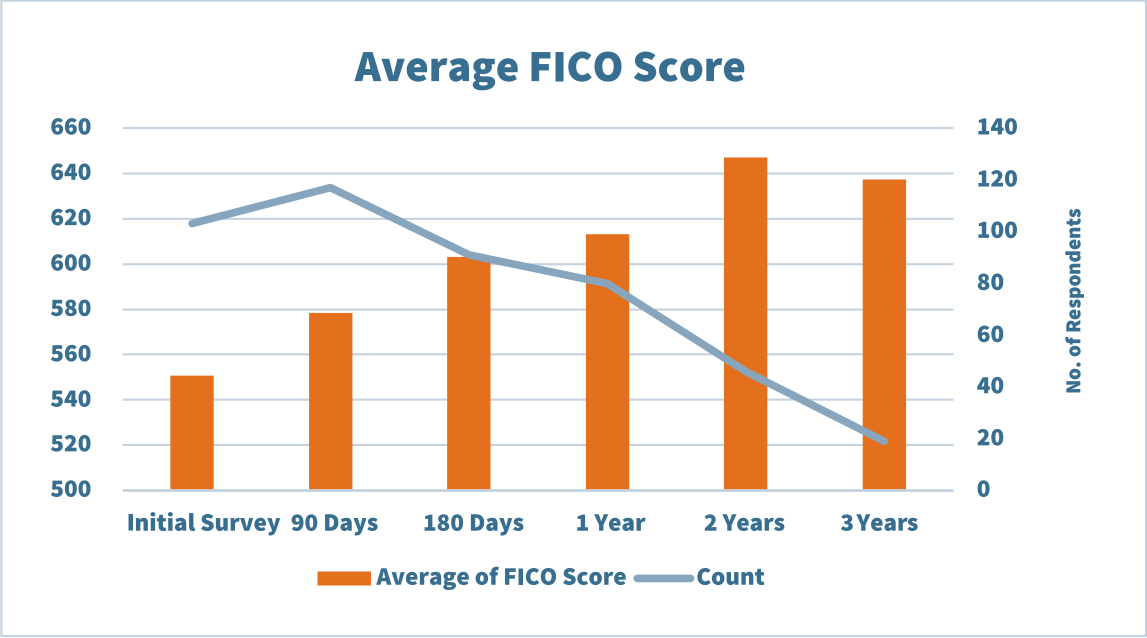
All 2017	90 Days Released Ann.	180 Days	1 Year
Total	237	195	153
Average Salary	$13.69	$15.79	$17.08
Contacted	92%	81%	74%
Employed	98%	96%	96%
Reported Salary	94%	93%	92%

Graduate Surveys

In 2017, we collected 778 total surveys from 472 unique participants. The next graphs come from the results of the release anniversary surveys; 96-98% of respondents reported being employed. Our men report not only increased earnings but also increasing job stability and financial strength.

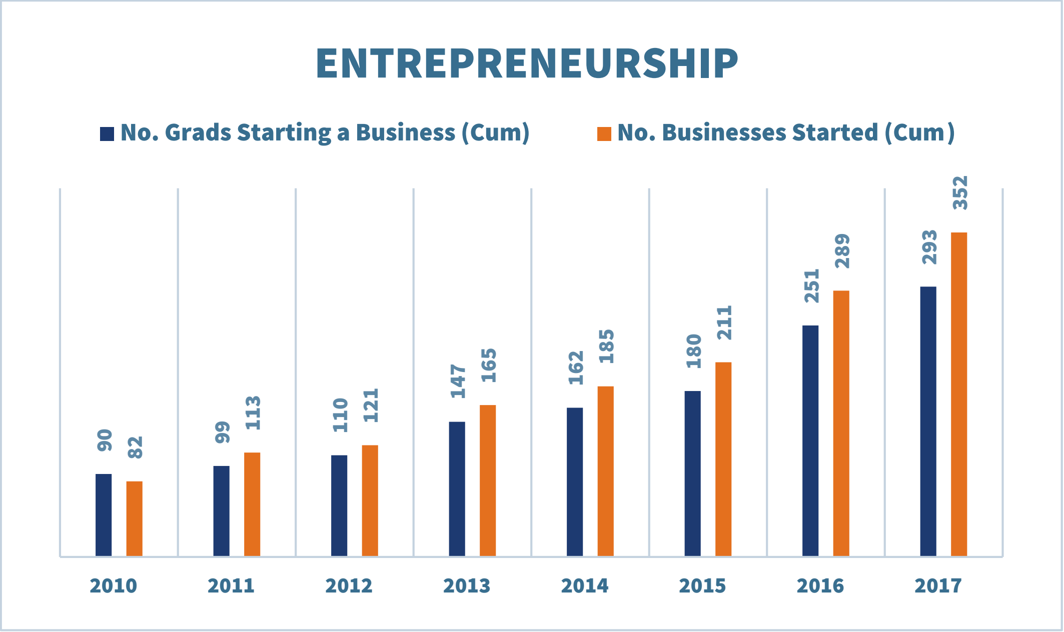



Savings Account
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
250
200
150
100
50
0
No. of Respondents
Initial Survey
90 Days
180 Days
1 Year
2 Years
3 Years
Yes
No
Count


Average FICO Score
660
640
620
600
580
560
540
520
500
140
120
100
80
60
40
20
0
No. of Respondents
Initial Survey
90 Days
180 Days
1 Year
2 Years
3 Years
Average of FICO Score
Count

Entrepreneurship

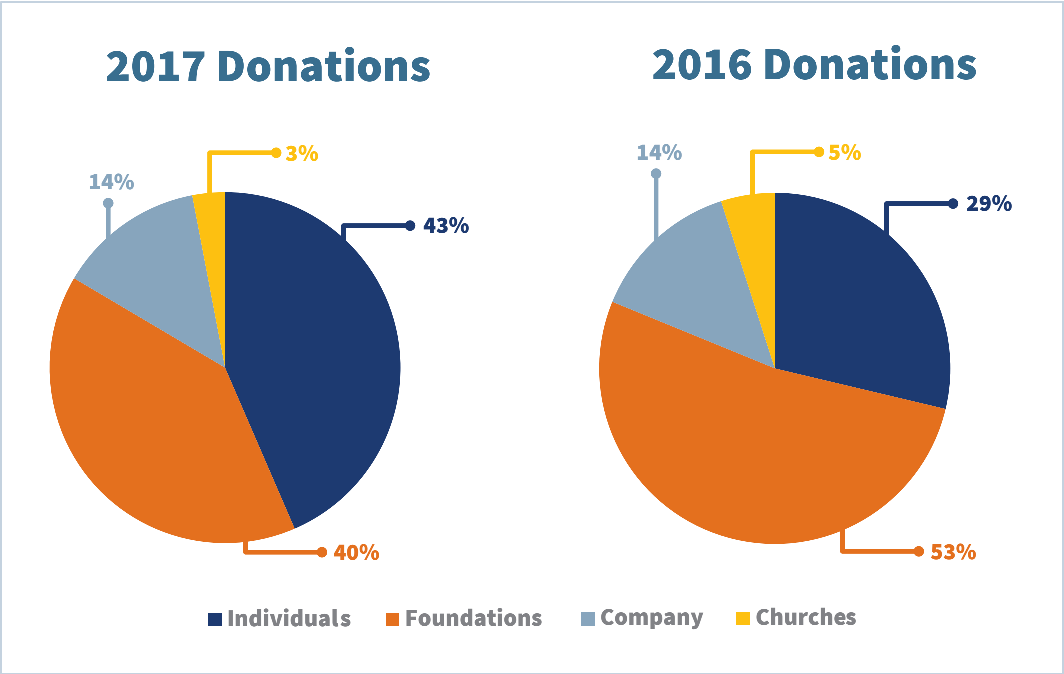
In 2017, 42 more participants started a business; the total number of businesses that have been started increased by 62 to 352, an increase of 22%.



development

Fundraising Review

In 2017, we had 859 unique donors (an increase of 10% over 2016), of which 363 were first-time donors to PEP (an increase of 7% over 2016). We retained 64% of last year's new donors, in line with our 7-year average. Total donations of $2,449,000 were $251,000 (9.2%) below the 2017 budget goal but just $6,000 behind 2016. For the year, individual donations (including donor advised fund contributions and stock gifts) were $1,065,000 and represented 44% of our total giving, up from 32% in 2016. Corporate giving of $329,000 was down slightly from 2016 but represented the same percentage (14%) of total giving. Church giving (at $76,000) declined 33% from 2016 and the support from foundation grants declined $235,000 (or 19%) to $979,000 which represented 40% of total giving vs. 53% from foundations in 2016.



PEP's Round Up--October 2017

Financial support from the Governing Board and our Advisory Boards remained strong, and the percentage participating increased from 82% to 87%. Overall, 81% of all Advisory Board members donated in 2017 (up from 67% in 2016); and total giving by board members was $628,091 (up from $418,000 in 2016).

Board	# Members	% Giving	Total Giving*
Governing	9	100%	$347,752
Houston Advisory	20	100%	$196,294
N. Texas Advisory	19	79%	$38,865
National Advisory	6	33%	$45,180
	54	**87%**	**$628,091**

**Includes Foundation giving directed or influenced by a board member.*

PEP's Round Up--October 2017

Volunteer Engagement

We recruited 762 executive volunteers who made almost 2,000 visits to our in-prison events. In addition, we had 210 business plan advisors (BPAs) serving the men at Cleveland and Estes. We continue to have a "sold out" status for many of our Cleveland events, and are also beginning to host large volunteer cohorts at Estes. Thus, our executive volunteers and BPAs donated over 14,000 hours of priceless service to our men. The initial response to the launch of the women's program at Lockhart was very positive and we hope to attract many new volunteers from the Austin and San Antonio areas there.

Supporters

Companies and Corporations

- Amerisource
- Arena Energy
- Goldman Sachs
- Hunt Corporation
- Intex Flooring
- JITA Printing
- Leads Online
- Locke Lord
- Securus Technologies
- Support Focus
- TGS
- Triumph Capital Bank

Churches

- Faithbridge UMC
- Gateway Church
- Memorial Drive Presbyterian Church
- St. John the Divine
- St. Luke's UMC
- St. Martin's Episcopal Church
- Wilshire Baptist Church

Foundations

- Andras Foundation
- Andrews Foundation
- Bank of America Charitable Foundation
- Bellows Foundation
- Brown Foundation
- Communities Foundation of Texas
- Community Ventures
- Foster Foundation
- Grainger Foundation
- Guill Foundation
- Hankamer Foundation
- Hasty Awards
- Helm Foundation
- Herzstein Foundation
- Hildebrand Foundation
- Hillcrest Foundation
- Hoglund Foundation
- JPMorgan Chase Foundation
- McNair Foundation
- Merced Foundation
- Qavah Open Hands Foundation
- Phillips Family Foundation
- Rathmell Foundation
- Redman Foundation
- Rockwell Fund
- Saunders Foundation
- Scurlock Foundation
- John T. Shea Foundation
- Silicon Valley Community Foundation
- Simmons Foundation
- Diana Davis Spencer Foundation
- The Tapeats Fund
- United Way of Metropolitan Dallas
- Zale Foundation

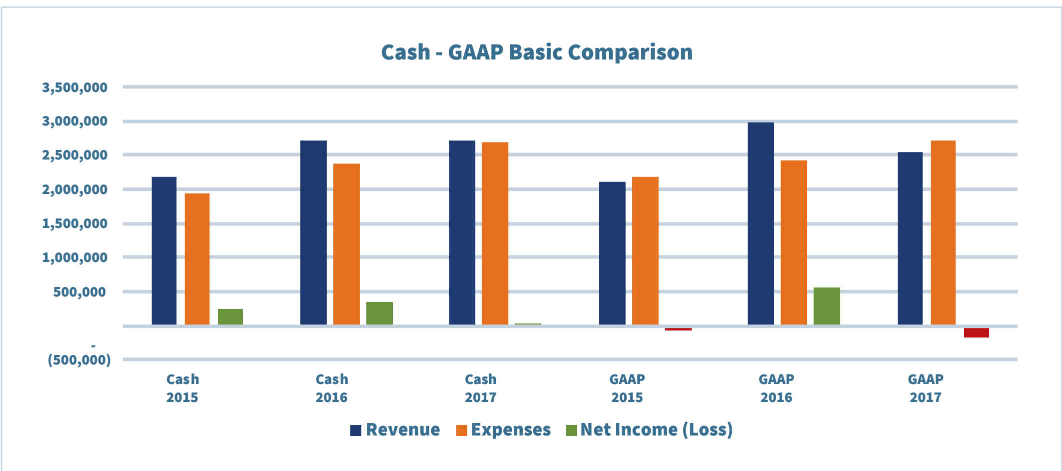
finance

Results

For 2017, PEP had a consolidated net loss of $175,000 on a GAAP basis and a profit of $108,000 on a cash basis. A comparison of the two presentation methods follows:

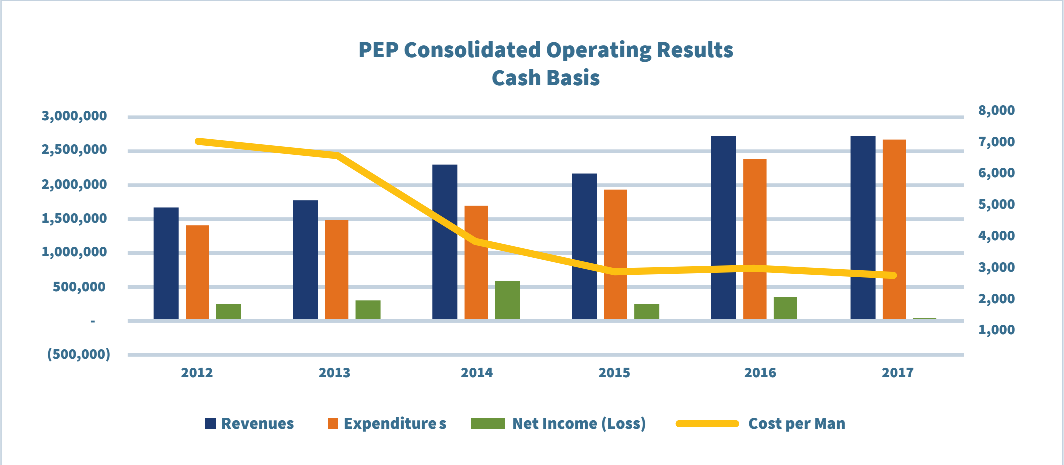
	GAAP	Cash	Difference
Support	2,257,000	2,449,000	(192,000)
Rental income	229,000	229,000	-
Other	49,000	49,000	-
Total revenue	**2,535,000**	**2,727,000**	**(192,000)**
Total expenses	2,710,000	2,619,000	19,000
Net income (loss)	**(175,000)**	**108,000**	**(211,000)**

PEP's donation shortfall was offset by lower spending. On a cash basis, total spending for 2017 was $2,619,000, or $427,000 (14%) under budget. The following chart compares the cash basis and GAAP basis results for the past three years.

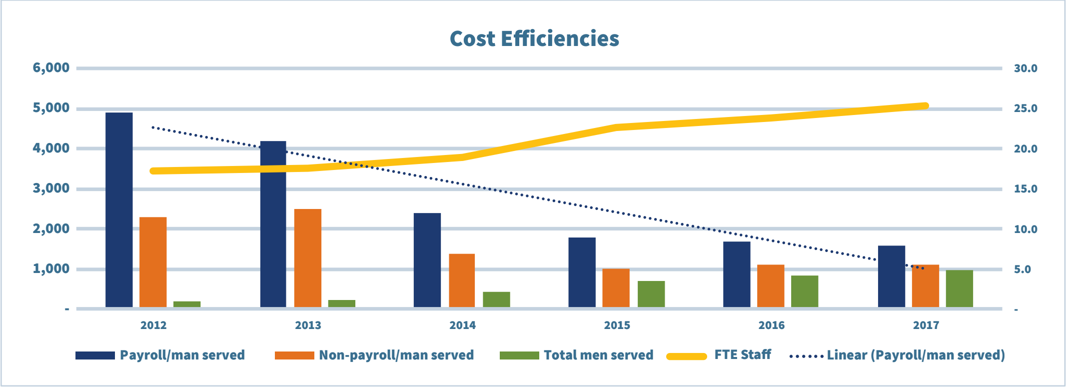


Efficiency

The following graph illustrates how PEP expenses have grown as we expanded both our in-prison and re-entry services. However, as PEP scales, we continue to generate efficiencies, yielding a declining curve for cost per unique man in prison. We continue to believe that with our current program structure and methods, we are near the bottom of the cost curve. The curve bent upward slightly in 2016 partly attributable to increased staff cost incurred ahead of men actually served.



The majority of our cost efficiency has been through controlled staffing increases. Full Time Equivalent (FTE) staff have increased from 17.2 in 2012 to 25.3 in 2017 (a 47% increase) while the number of men served has increased 331%. This has resulted in a 64% reduction in payroll per man served.



prison entrepreneurship program

Balance Sheets

	Unaudited	Audited				
	12/31/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
Cash	1,681,786	1,417,717	1,524,956	1,504,722	1,030,955	818,781
Short-term investments	250,000	450,030	-	-	-	-
Receivables	693,086	855,541	605,699	880,332	202,949	264,897
Prepaids, deposits, other	34,137	26,282	24,451	51,977	14,908	9,563
Property and Equipment	1,295,114	1,215,967	1,169,633	1,022,705	578,627	569,951
Accumulated Depreciation	(337,464)	(254,633)	(176,077)	(242,899)	(227,990)	(225,125)
Minority investment in subs	16,441	17,031	17,685	18,045	-	-
Total assets	**3,633,100**	**3,727,935**	**3,166,347**	**3,234,882**	**1,599,449**	**1,438,067**
Accounts payable	83,795	62,884	54,206	50,276	19,406	27,553
Accrued salaries and taxes	123,261	49,852	50,610	36,797	34,195	31,499
Long Term Debt - Current Maturities	15,263	13,827	13,668	13,008	5,234	4,942
Long Term Debt - Later	447,589	463,526	477,995	492,074	161,070	166,304
Total liabilities	**669,908**	**590,089**	**596,479**	**592,155**	**219,905**	**230,298**
Net assets, beginning	3,137,846	2,569,868	2,642,727	1,379,544	1,207,769	1,124,240
Current year change	(174,654)	567,978	(72,859)	1,263,183	171,775	83,529
Total net assets	**2,963,192**	**3,137,846**	**2,569,868**	**2,642,727**	**1,379,544**	**1,207,769**
Total liabilities & net assets	**3,633,100**	**3,727,935**	**3,166,347**	**3,234,882**	**1,599,449**	**1,438,067**

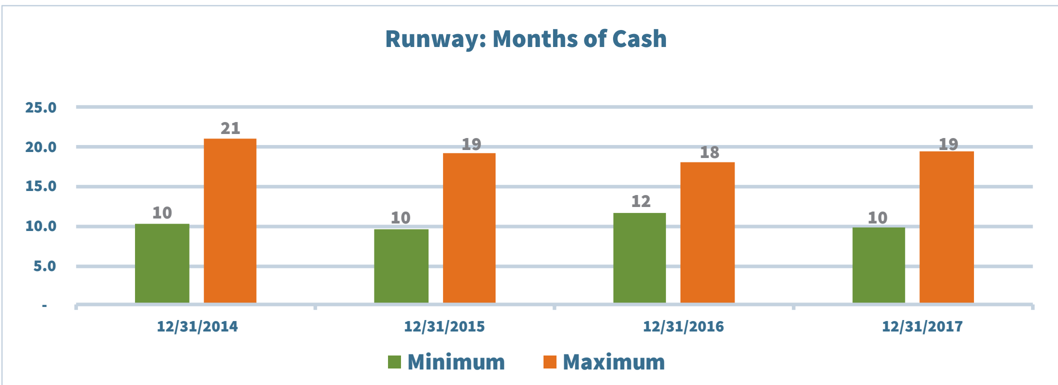
consolidated financial statements

Operations

	Unaudited	Audited					
	2017	2016	2015	2014	2013	2012	2011
Support	2,177,776	2,657,534	1,806,922	2,846,507	1,519,074	1,444,246	1,682,220
Rental income	228,863	217,688	175,012	124,809	76,700	64,908	52,683
Interest and other income	49,180	52,759	45,805	52,642	35,352	25,495	39,779
In-kind	79,409	59,803	77,192	108,678	92,281	6,631	8,357
Total support & revenue	**2,535,228**	**2,987,784**	**2,104,931**	**3,132,636**	**1,723,407**	**1,541,280**	**1,783,039**
Program	2,114,238	1,964,460	1,813,255	1,557,040	1,164,595	1,051,601	1,207,785
Fundraising	363,123	241,432	180,831	152,901	214,121	229,935	224,482
Administrative	232,521	213,914	183,704	159,512	172,916	176,215	196,656
Total expenses	**2,709,882**	**2,419,806**	**2,177,790**	**1,869,453**	**1,551,632**	**1,457,751**	**1,628,923**
Change in net assets	**(174,654)**	**567,978**	**(72,859)**	**1,263,183**	**171,775**	**83,529**	**154,116**
Net assets, beginning	**3,137,846**	**2,569,868**	**2,642,727**	**1,379,544**	**1,207,769**	**1,124,240**	**970,124**
Net assets, ending	**2,963,192**	**3,137,846**	**2,569,868**	**2,642,727**	**1,379,544**	**1,207,769**	**1,124,240**
Unique men served in prison	987	836	698	451	223	197	193
Total expenses / Unique man served	**2,746**	**2,895**	**3,120**	**4,145**	**6,958**	**7,400**	**8,440**

outlook and plans 2018

With 2017 being the sixth consecutive year that PEP has operated at a cash basis profit, we continue to maintain a strong cash surplus. Given its strong cash balance and more than $700,000 in pledges and other revenue expected to be received in 2018, we have sufficient financial resources to cover our projected operating and capital costs for at least another 10 months (through October 2018). By meeting our budgeted fundraising and expense goals for 2018, we would extend this runway for another 19 months (through July 2019.)



goals for 2018

Our plans for 2018 are ambitious, as we continue to pursue Vision 2026, our goal to serve at least 10% (4,000) of the men (and women!) released from prison in Texas each year. Major elements of our plan for 2018 include:

- Continue to grow our men's programs at Cleveland, Estes and Gib Lewis
- Expand the Lockhart Women's Program
- Add one new Leadership Academy unit
- Prepare to add three additional units in 2019
- Add two Transition Coordinators in Houston and one in Austin
- Acquire one new transition house
- Add a Small Business Development Specialist to better support our entrepreneurs

This will require about $3 million in funding. Clearly, we will need to execute our operating and development plans with excellence, remaining prayerful that all the creativity and resources required will be available to us, as and when we need them. Your continuing prayers, time, talents and treasure are enormous blessings to PEP and the men and women it serves, for which we are extremely grateful.


Alicia
Sarah
Tamia


Chandra


Shelly

governing board 2017

100% donate to PEP.

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Chairman, Communitas Auto Group

Mr. Robert Barkley
Managing Director,
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Baylor University

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Individual Investor

Roger Manny*
EVP and CFO,
Range Resources Corporation

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.

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Phi Tran, *COO*
Tim Hamilton, *CFO*
Tony Mayer, *CDO*
Kristie Wisniewski, *Chief of Staff*

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Executive Relations Manager, Houston

Bryan Kelley
Executive Relations Manager, Dallas

Chase Mayr
Development Associate

ADMINISTRATION

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John Conradt, *Bookkeeper*
Max Han, *Office Supervisor*
Mi Hai, *Recruitment**

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

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Al Massey
In Prison Manager, Cleveland

Gami Jasso
In Prison Manager, Estes

Kevin Bailey
Character Development Specialist, Estes

Greg Phillips
Character Development Specialist, Cleveland

RE-ENTRY

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Harvey Mai
Re-Entry Manager

Marc Gomez
Transition Coordinator

Jorge Castillo
Transition Coordinator

North Texas Team

Jason Moore
Re-Entry Manager

Benjamin DeLeon
Transition Coordinator

David Flores
Transition Coordinator

Austin

Joshua Munoz
Re-Entry Manager

* Part-time employees

advisory boards 2017

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Project Manager, Marek Brothers Construction

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President & COO, Eagle Hydrocarbons, Inc.

MIKE HUMPHREY

(aka, “Poodle Doo”)

has faithfully served on the Governing Board of PEP for more than 10 years. He courageously assumed the role of Chair in 2010 at a particularly difficult time in PEP’s history. In addition, in 2013, Mike and his wife, Janene, helped to create Communitas Auto Group, the for-profit initiative to build a successful auto repair business for the benefit of PEP and its graduates, and they remain its driving force. As if those gifts were not sufficient, Mike has frequently presented graduate business school cases to our men in prison and Mike and Janene have been faithful and generous financial supporters for many years. Thankfully, Mike will be continuing his service on the Governing Board at least through 2018 so that we may continue to be blessed by his wise counsel.

Thank you, Mike!

HARVEY may have come to Houston with vengeance, but our PEP Brothers responded with love! More than 40 of our men served Houston in wonderful ways during the storm and in the weeks that followed.

The brothers of PEP mobilized quickly to help serve Houston and counter Harvey's punch! They served at shelters, used their own business assets to move goods and people, and two acted as dispatchers and coordinated with ABC-13 to assist with rescues. Supplies were delivered to shelters and food banks, and many people were rescued thanks to Fast and Easy Moves. Others helped muck out and clean up flooded homes and apartments.

"They all gave back in so many ways for what they have been given!"

Luke 12:48

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info@PEP.org

@PEPtweets

fb.com/PrisonEntrepreneurship

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