

ANNUAL REPORT 2018

TRANSFORMING LIVES • RESTORING FAMILIES • REBUILDING COMMUNITIES

prison
entrepreneurship
program

TABLE OF CONTENTS

Letter from the CEO	4
Impacts	6
Volunteer Engagement	12
Finance	14
Financial Statements	16
Governing Board	18
Staff	18
Advisory Boards	19



PEP unites executives and inmates through entrepreneurial passion and servant leadership to transform lives, restore families and rebuild communities.

LETTER FROM THE CEO



Transforming lives. Restoring families. Rebuilding communities.

That's who we are. That's what you and PEP working together do. Our shared belief in redemption, transformation and the power of entrepreneurship drives us individually and as a program collectively to impact our volunteers, participants and their communities.

As we look back, 2018 was a year of many accomplishments:

- 1,000+ volunteers invested their time in our participants.
- 350+ individuals graduated – our largest year ever.
- 1,100+ individuals were served on our four campuses.
- 480+ returning citizens were welcomed home.
- Those served in our re-entry program achieved 100% employment within 90 days of release – for the 8th consecutive year.
- They secured an average starting wage of \$12.60.
- 400+ businesses have been started since inception.
- PEP's impact was validated by Harvard's Initiative for a Competitive Inner City (ICIC) – \$4.3 million 2017 tax savings and 794% 5-year ROI on your donation.

As we look forward, PEP is blessed to have some amazing opportunities:

- Other states want what Texas has. We are exploring interstate opportunities to manage a disciplined and sustainable replication process.
- We are transitioning our women's pilot project into a full-service program.
- We are actively exploring collaboration partnerships to further improve our initiatives.

Our vision for the coming years is to multiply our effectiveness deeper, wider and further. Multiply deeper is lengthening our vertical integration to reach more inmates with longer sentences and extend our post-release services with a new transition house model and expanded entrepreneur support services. Multiply wider is expanding our Texas footprint with new BPC campuses and partnering with other nonprofits currently operating in Texas prisons. Multiply further is replicating our Texas results in other states. We are well positioned – strategically, staffing and financially – to capitalize on all that the future has in store for PEP.

Our 2018 achievements, 2019 opportunities and long-term vision are made possible only with your generous and gracious time, talent and treasure. PEP thanks you.

A handwritten signature in blue ink that reads "Bryan Kelley".

Bryan Kelley
CEO
AKA Dorthy



IMPACTS

Across our four Texas campuses and three re-entry cities, 2018 was another record year of inspiring change in PEP participants through the impact of executive volunteers, your generous donations and PEP staff. We worked with more than 1,100 men and women in various phases of our program – all made possible by you.

Third-party Validation

In connection with a generous grant by JPMorgan Chase Foundation, Harvard's Initiative for a Competitive Inner City (ICIC) validated the economic impacts arising from employment and entrepreneurship by PEP graduates.

The following are some of the highlights of their July 2018 study:

- 137% greater average wage (\$17.17) after 12 months than the Texas minimum wage
- 100% of graduates were employed or self-employed after 12 months.
- 361 businesses were launched as of mid-2018, including at least five that each generated over \$1MM in gross revenue.
- 57% of PEP businesses formed from 2004 to 2018 remain open, compared to 53% of all Texas businesses.
- \$122.5 million annual economic impact across the state of Texas from PEP graduate businesses with 471 jobs created
- 7% three-year recidivism rate, compared to 22% in Texas and 36% nationwide.
- \$4.3 million in total taxpayer savings for the State of Texas and Federal Government in 2017.
- \$12,053 cost savings to the state and federal government per graduate after one year.
- 159% ROI per program graduate after one year; 794% ROI per program graduate after five years.

In addition to this 2018 Harvard study, PEP's methodology and financial impact were validated in 2013 by Baylor University. You can request a copy of the full ICIC report by contacting info@pep.org or download from our website at www.pep.org/icic-report

PEP BY THE NUMBERS IN 2018

Another Record Breaking Year!



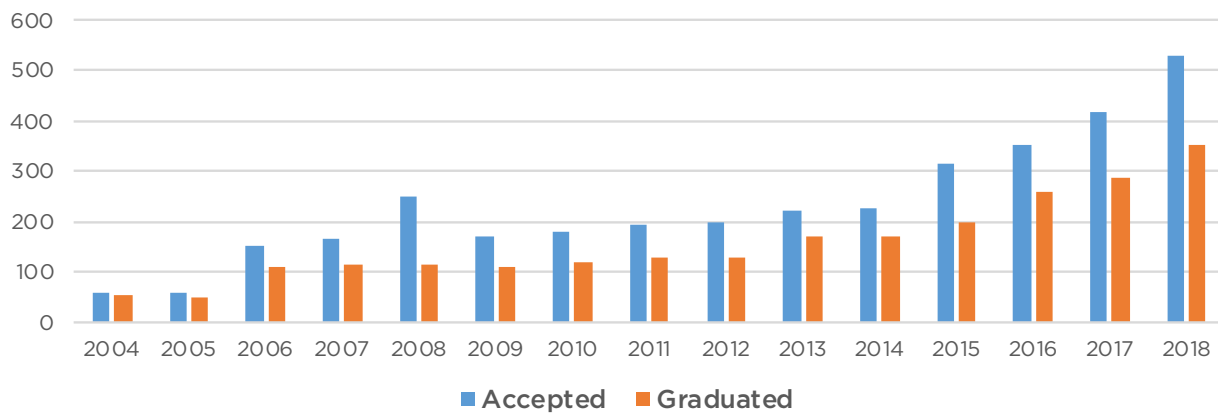
In-prison Program

We experienced a 20% increase in the number of men transferred to our Houston- and Dallas-area campuses to begin Leadership Academy. This first phase is a three-month, in-prison character development program. We help participants identify and rehabilitate behaviors standing in the way of positive life transformation.

After completing the Leadership Academy, participants begin the Business Plan Competition (BPC) - an intensive, six-month "mini-MBA" program. Using college textbooks, business school case studies, and classes taught by business executives and PEP staff, students craft business plans, with the intent to implement them following release. Participants also complete courses on financial literacy, business etiquette and public speaking. In recognition of PEP's program, all graduates receive a Certificate in Entrepreneurship from Baylor University's Hankamer School of Business.

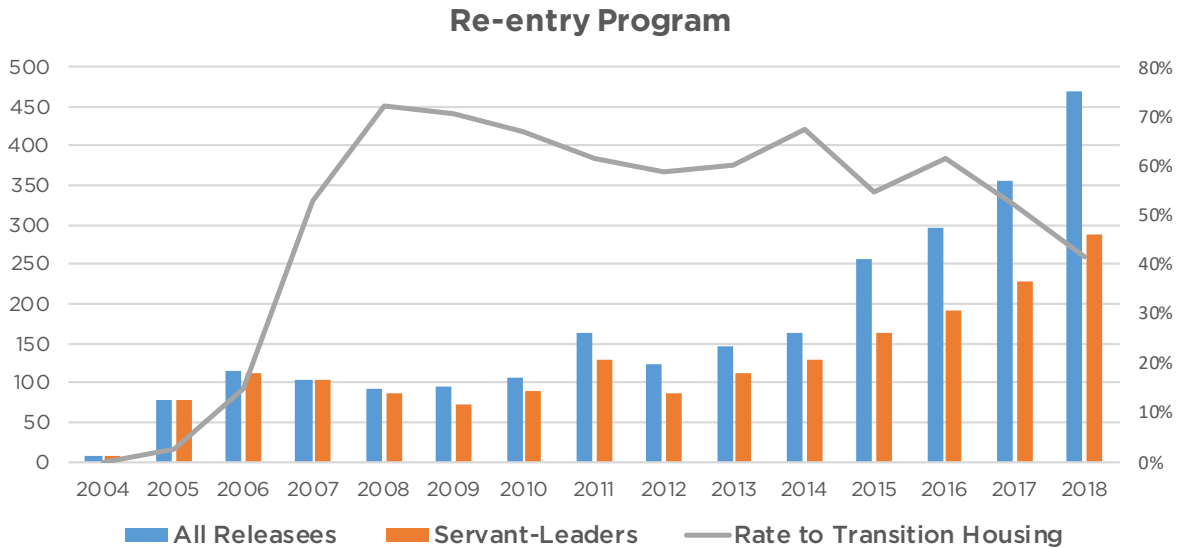
We worked with more than 1,100 men and women in various phases of our program in 2018 and graduated 353 from BPC - our largest year ever. Included in these graduate numbers are 79 women - the first two classes of our pilot women's program. In 2019 and 2020, we will transition this pilot program to a full service model. The following graph shows the dramatic and sustained growth in PEP graduates since inception.

Program Graduates



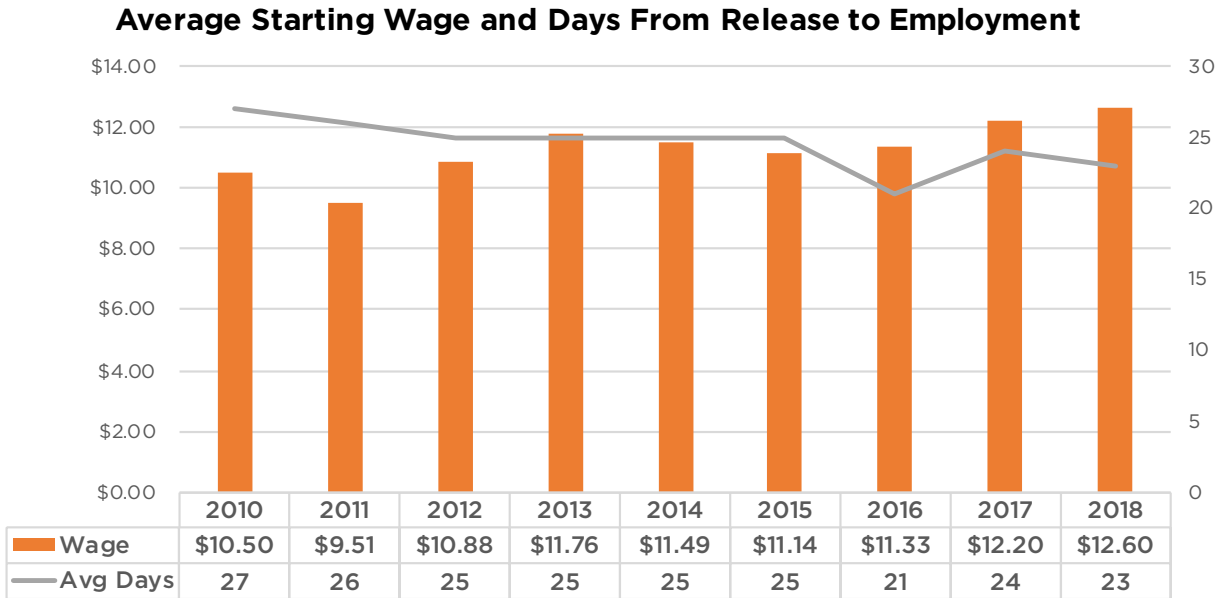
Re-entry Initiative

PEP provides re-entry services in the Houston, Dallas-Fort Worth and Austin metropolitan areas. Re-entry into society is a crucial time for our participants – studies show returning citizens are most vulnerable and impressionable within the first 72 hours following release. We provide our graduates with a warm greeting back to the “free world” by offering a structured environment of encouragement, support, and accountability. We offer comprehensive post-release services (subsidized housing, assistance gaining documents for employment, direction to social services, identification of employment opportunities, small business consulting, continuing education and executive mentoring) so our participants thrive, not merely survive. The following graph shows the growth in participant releases.

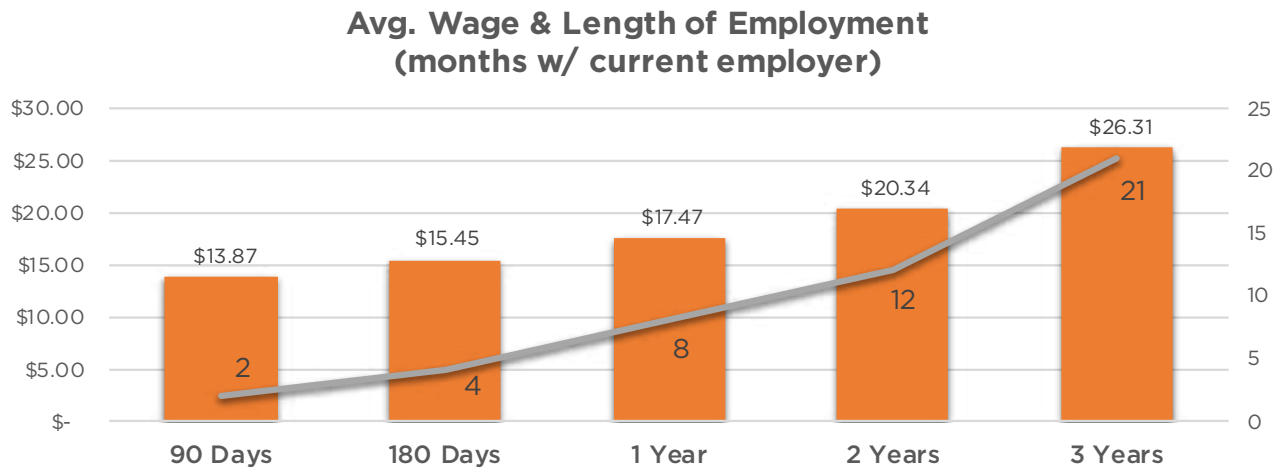


PEP believes quality transition housing is a key component driving program results. Accountability groups and character assessment help build/reshape an individual's values prior to release. Quality transition housing is critical to continuing/reinforcing that values education after release as an individual faces the stress of employment, finances and relationships - influences largely absent prior to release. At the end of 2018, PEP had 79 transition housing beds in our three markets. Subsequent to year-end, we purchased an additional Houston property to increase our transition house capacity by 14 beds.

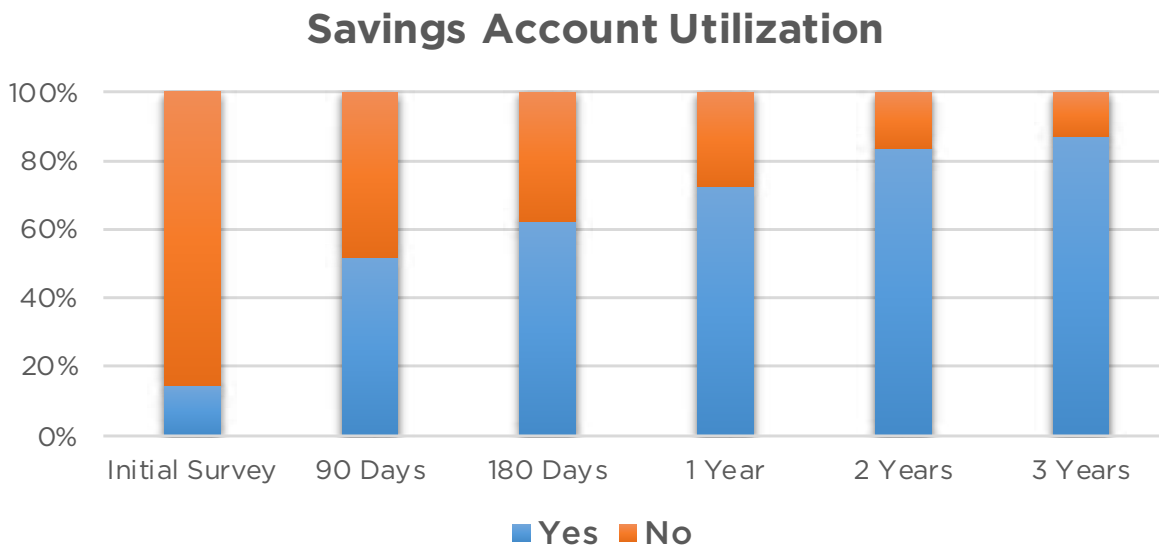
Employment is a key initiative to move our participants from tax consumers to taxpayers. PEP works with our participants pre-release to build resumes and sharpen their job interview skills. We want our participants to hit the ground running post-release to be employed as quickly as possible. In 2018, our participants averaged 23 days from release to employment with 100% employed within 90 days for the 8th consecutive year. The following graph shows the results of this emphasis.



Once participants are initially employed, the academic work ethic required in our pre-release program transfers successfully to post-release employment. The following graph shows the average length of employment with their current employer and the resulting growth in wages.



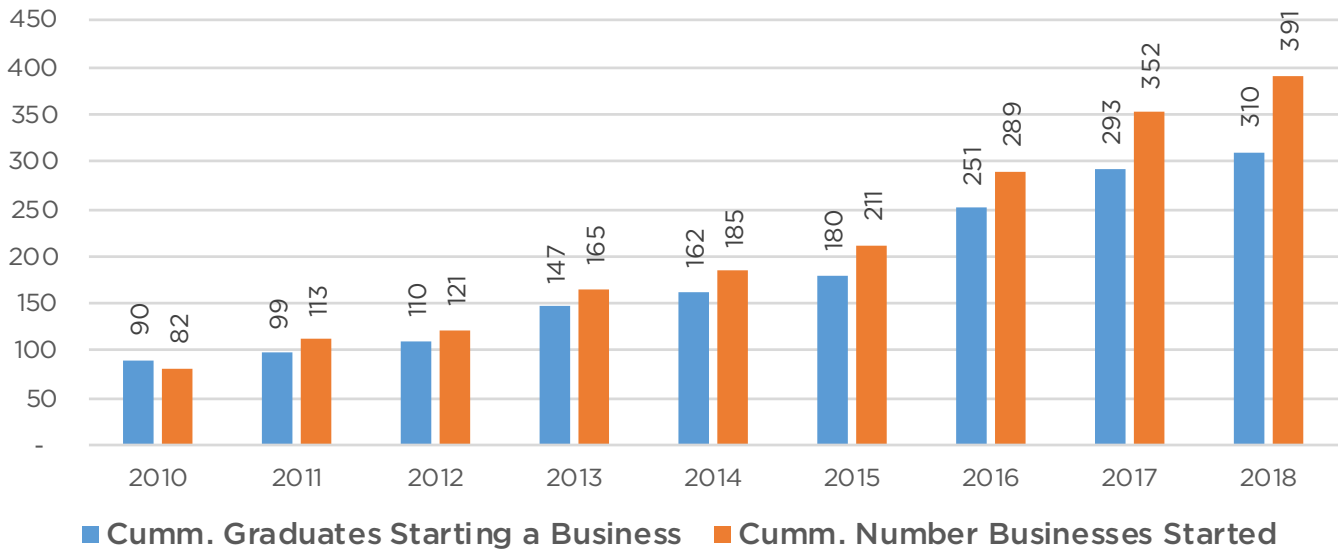
Our pre-release program emphasizes the need for savings to cover emergencies and intentionally build for a future. The following graph shows the percentage of participants with a savings account at different periods post-release.



Participant Entrepreneurship

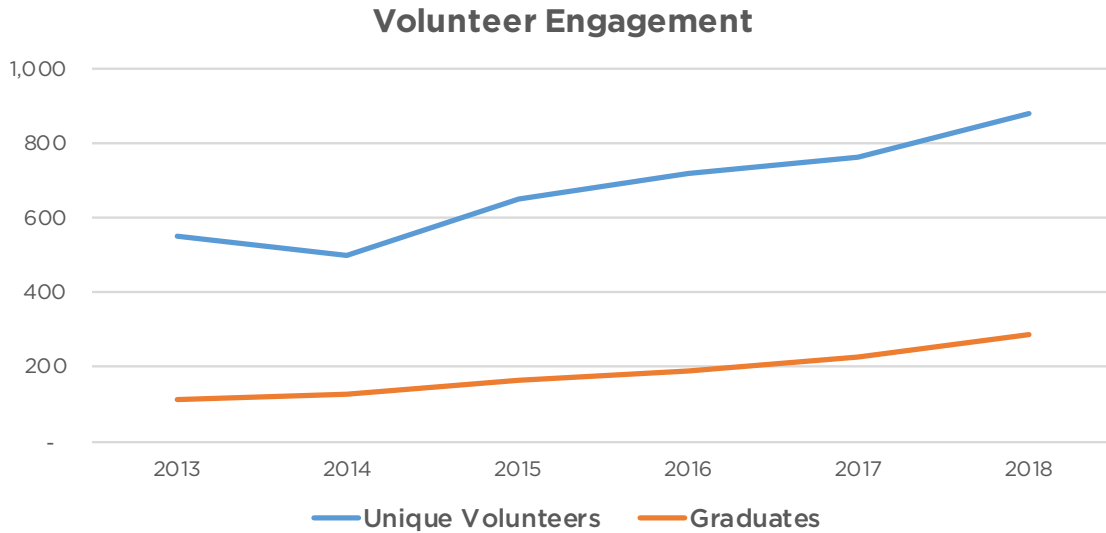
PEP believes the only sustainable social initiatives to mass imprisonment are through creating employment, specifically teaching entrepreneurship skills to empower individuals. We bring executive volunteers and participants together – combinations that are typically out of the social norm of both – with each group impacting the other. Our executive volunteers have significant impact on our participants – both in their confidence and willingness to take the risk to be an entrepreneur. The following graph shows the business formation rate for our participants. The ICIC report discussed earlier validates the economic impact these businesses have in their communities.

Entrepreneurship



VOLUNTEER ENGAGEMENT

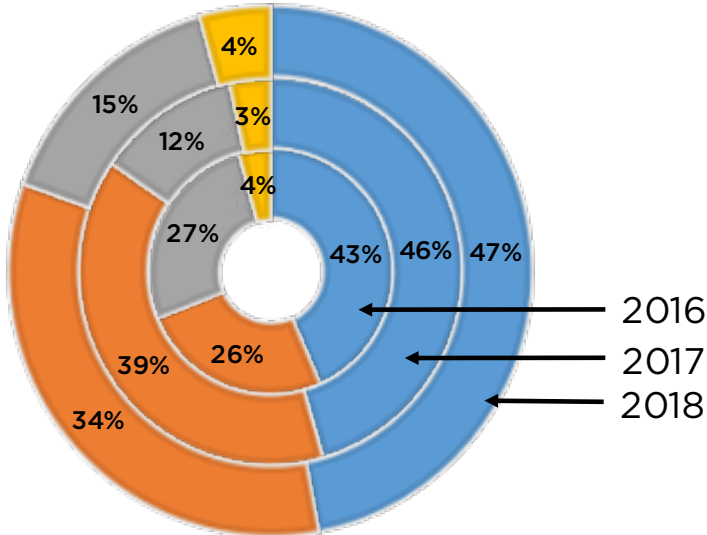
Volunteer engagement in the lives of our participants, both pre- and post-release, is a fundamental component of our program. Individuals in prison see successful business professionals who are willing to invest in others' lives - a critical piece in the transformation process of the incarcerated. On average, each unique volunteer annually invests more than 13.5 hours helping our participants (average for 2013-2018). The following chart shows we engage about 3.5 unique volunteers for each graduate.



Beginning with our Roundup Gala in 2017 and continuing with our Hall of Fame event in 2018, PEP is showcasing our participant businesses to our executive volunteers. These events are more than a fundraising venue; they are an opportunity to keep our volunteers and participants connected in a spirit of community.



Total Donations



■ Foundations
■ Corporations
■ Individuals
■ Churches

For 2018, PEP had total donations of \$2,421,000, up \$164,000 from 2017. We had 820 unique donors, of which 310 were first-time donors to PEP. Our program participants continue to be more than 15% of all unique donors - impacted individuals who pay it forward.

Companies & Corporations

- Big Bear Enterprises
- BPO LLC
- Bridgeway Capital Management
- Building Team Solutions
- FTS International, Inc.
- Goldman, Sachs & Co.
- Goodman Financial Corporation
- hGroup LLC
- Independent Bank
- Integrity Payment Systems
- Intex Flooring LLC
- JITA Printing
- Kaspar Companies
- KPMG Community Giving Campaign
- Locke Lord LLP
- McJunkin & Associates, Inc
- Newfield Exploration Company
- Petromax, LLC
- Steagall Oil Company
- TBK Bank, SSB
- Techknowledge Consulting Corporation
- Zuma Office Supply

Churches

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

Foundations

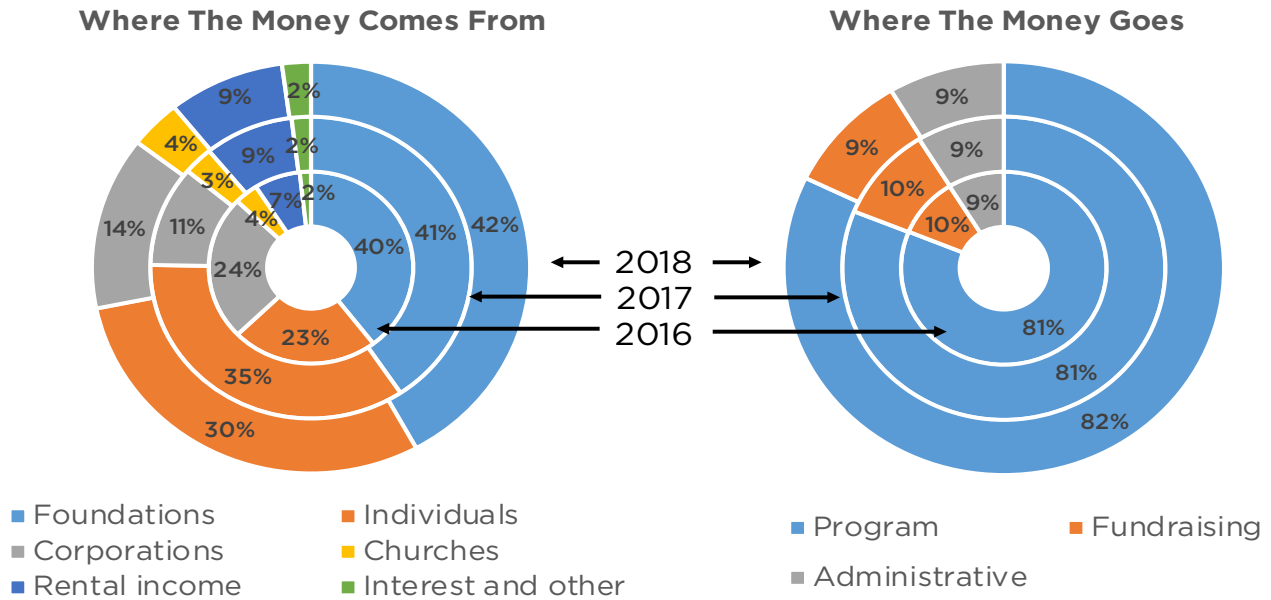
- Bank of America Charitable Foundation
- Chrest Foundation
- Clayton Fund
- Communities Foundation of Texas
- Curtis & Doris K Hankamer Foundation
- ECG Foundation
- Goldman Sachs Philanthropy Fund
- Greater Houston Community Foundation
- Guill Family Foundation
- Jesse W. Couch Charitable Foundation
- Louis Brandt Foundation
- Network for Good
- Perot Foundation
- PMI Educational Foundation
- Rockwell Fund, Inc.
- Scurlock Foundation
- Securus Foundation
- The Arena Energy Foundation
- The Brown Foundation
- The Hogle Foundation
- The Julia & Albert Smith Foundation
- The McNair Foundation
- The Simmons Foundation
- The Tapeats Fund
- United Way of Tarrant County
- United Way of Metro Dallas
- YourCause, LLC

Other

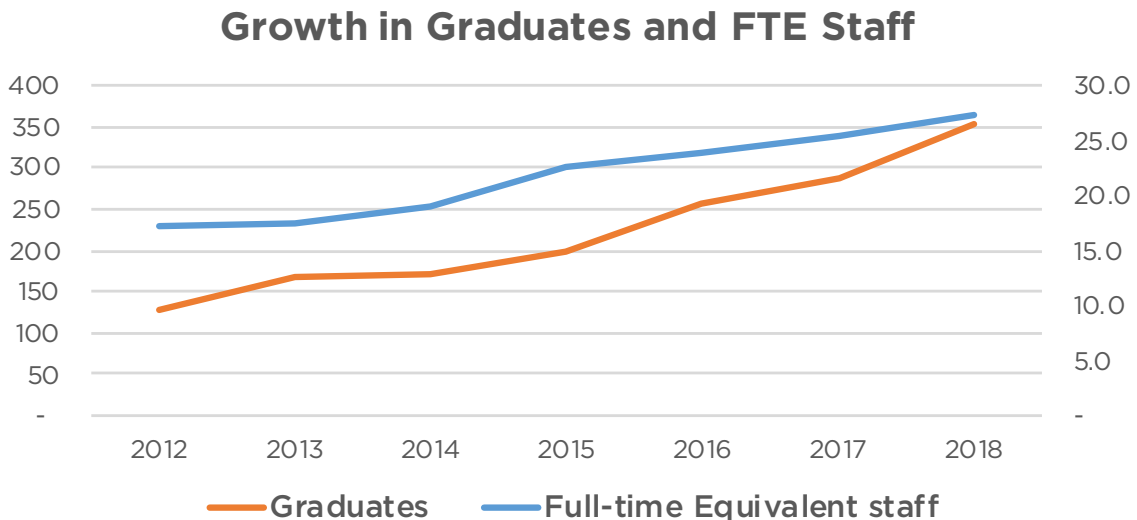
- Associated Students of Stanford Univ.
- Partners Group USA Impact
- West U Rotary

FINANCE

For 2018 consolidated results, PEP had a net loss of \$203,000 on a GAAP basis and net income of \$68,000 on a cash basis. This is PEP's seventh consecutive year of cash-basis profits. The primary difference in the two presentation methods is the timing of revenue recognition for multi-year foundation grants. The following charts show the major sources and uses of PEP's funding.



PEP is a high touch point program for our executive volunteers and participants with payroll-related costs averaging 62% of all expenses for the last three years. As PEP continues to scale, we are vigilant to look for operating efficiencies to use well our donors' support. The following chart shows the significant growth in program graduates with a slower rate of increase in full-time equivalent staff.

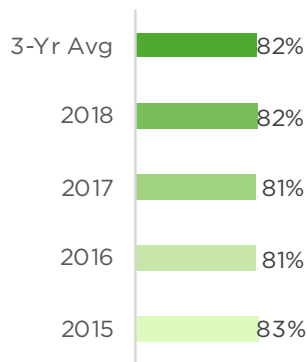


PEP is well positioned for disciplined and sustainable growth with a strong cash balance of \$1,981,000 as of December 31, 2018 - up \$28,000 from the prior year end. PEP ended 2018 with cash on hand and grant pledges sufficient to cover operating costs through about November 2019.

PEP’s three key financial performance indicators are:

Program Investment

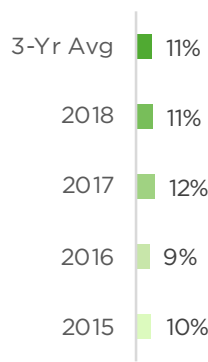
The program investment ratio is the total amount spent on PEP’s direct program delivery to executives and participants expressed as a percentage of total spending.



PEP, as a wise steward of the funds provided, is committed to maintaining a program investment ratio of 80% or better to our executives and participants.

Cost of Fundraising

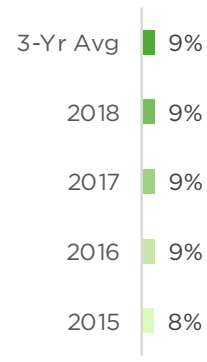
The cost of fundraising ratio is the total amount spent on fundraising expressed as a percentage of total support and in-kind revenues. It excludes funding that comes from rental income and earnings on investments.



Our cost of fundraising ratio increased in 2018 and 2017 with the introduction of annual fundraising galas that have a larger incremental cost relative to revenue.

Cost of Administration

The cost of administration ratio is the total amount spent on administration expressed as a percentage of total expenditures.



Our cost of administration ratio has remained constant as we maintain firm cost controls. PEP seeks to invest funds in programmatic activities and limit administration.

Consolidated GAAP financial statements are provided in this annual report. You can request a copy of PEP’s audited consolidated financial statements at accounting@pep.org or download from our website at www.pep.org.

PRISON ENTREPRENEURSHIP PROGRAM

BALANCE SHEETS

	Unaudited	Audited				
	12/31/2018	12/31/2017	12/31/2016	12/31/2015	12/31/2014	12/31/2013
Cash	1,634,000	1,662,000	1,418,000	1,525,000	1,505,000	1,031,000
Short-term investments	347,000	250,000	450,000	-	-	-
Receivables	526,000	707,000	856,000	606,000	880,000	203,000
Prepays, deposits, other	26,000	40,000	26,000	24,000	52,000	15,000
Property and equipment	1,341,000	1,295,000	1,216,000	1,170,000	1,023,000	578,000
Accumulated depreciation	(449,000)	(337,000)	(255,000)	(176,000)	(243,000)	(228,000)
Minority investment in sub	16,000	16,000	17,000	18,000	18,000	-
Total assets	3,441,000	3,633,000	3,728,000	3,167,000	3,235,000	1,599,000
Accounts payable	104,000	86,000	63,000	54,000	50,000	19,000
Accrued salaries and taxes	129,000	121,000	50,000	51,000	37,000	34,000
Long-term debt - current maturities	319,000	15,000	13,000	14,000	13,000	5,000
Long-term debt - later	129,000	448,000	464,000	478,000	492,000	161,000
Total liabilities	681,000	670,000	590,000	597,000	592,000	219,000
Net assets, beginning	2,963,000	3,138,000	2,570,000	2,643,000	1,380,000	1,208,000
Current year change	(203,000)	(175,000)	568,000	(73,000)	1,263,000	172,000
Total net assets	2,760,000	2,963,000	3,138,000	2,570,000	2,643,000	1,380,000
Total liabilities & net assets	3,441,000	3,633,000	3,728,000	3,167,000	3,235,000	1,599,000

CONSOLIDATED FINANCIAL STATEMENTS

OPERATIONS

	Unaudited	Audited				
	2018	2017	2016	2015	2014	2013
Support	2,374,000	2,166,000	2,657,000	1,807,000	2,847,000	1,519,000
Rental income	234,000	228,000	218,000	175,000	125,000	77,000
Interest and other income	58,000	49,000	53,000	46,000	53,000	35,000
In-kind	47,000	91,000	60,000	77,000	108,000	92,000
Total support & revenue	2,713,000	2,534,000	2,988,000	2,105,000	3,133,000	1,723,000
Program	2,397,000	2,197,000	1,965,000	1,813,000	1,557,000	1,164,000
Fundraising	270,000	274,000	241,000	181,000	153,000	214,000
Administrative	249,000	238,000	214,000	184,000	160,000	173,000
Total expenses	2,916,000	2,709,000	2,420,000	2,178,000	1,870,000	1,551,000
Change in net assets	(203,000)	(175,000)	568,000	(73,000)	1,263,000	172,000
Net assets, beginning	2,963,000	3,138,000	2,570,000	2,643,000	1,380,000	1,208,000
Net assets, ending	2,760,000	2,963,000	3,138,000	2,570,000	2,643,000	1,380,000
Graduates	353	289	257	198	171	169
Total expenses/Graduate	8,000	9,000	9,000	11,000	11,000	9,000

GOVERNING BOARD

Mr. Pat Gotcher (Chair)

CEO, LifeSynch, Inc. (Retired)

Mr. Robert Barkley

Managing Director, Barrow, Hanley, Mewhinney & Strauss, Inc. (Retired)

Mr. Dougal Cameron

President, Cameron Management, Inc

Mr. Mike Coffey

CEO, Intex Commercial Flooring LLC

Mr. Steve Hausman

CEO, Triumph Business Capital

Mr. Brandon Holcomb

VP – Investment Management, Goldman, Sachs & Co.

Mr. Mike Humphrey

Senior VP, Tanglewood Investments

Mr. Roger Manny

Executive VP & CFO, Range Resources Corporation (Retired)

Ms. Nancy White

Timex Corp. (Retired)

STAFF

Leadership

Bryan Kelley

CEO

Phi Tran

COO

Tim Hamilton

CFO

Development

Brian Troy

Executive Relations Manager, Houston

Stephen Fucile

Executive Relations Manager, Dallas

Roger Bewley

Development Associate, Houston

Brandon Green

Development Associate, Dallas

Administration

Edison Nguyen

IT Specialist

Courtney Dykstra

Bookkeeper

Max Han

Office Supervisor

Robert McCoy

Recruitment

Family Reunification

Theresa Black

Family Liason

Laura Stiehl

Family Liason

Sandra Jasso

Family Liason

Tara Freeman

Family Liason

In-Prison

Pat McGee

Director, Prison Initiatives

Greg Philips

In Prison Manager, Cleveland

Gami Jasso

In Prison Manager, Estes

Al Massey

Character Development Specialist, Cleveland

David Flores

Character Development Specialist, Estes

Kristie Wisniewski

Women's Program Coordinator

Re-Entry

Harvey Mai

Re-Entry Manager, Houston

Jason Moore

Re-Entry Manager, Dallas

Joshua Munoz

Re-Entry Manager, Austin

Marc Gamez

Life Caddie, Houston

Arturo Reynoso

Life Caddie, Houston

Timothy Daniels

Life Caddie, Houston

Timothy Washington

Life Caddie, Dallas

Jeremy Jones

Life Caddie, Dallas

ADVISORY BOARDS

NATIONAL ADVISORY BOARD

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Bob Graham

AIM Management (Retired)

Jo Kwong

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Jerry Madden

Texas Public Policy Foundation

Paul Morris

SupportFocus, Inc

Jeff Smith

Concordance Academy

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Insperty

J.W. Wall

Moody Rambin Interests

J. Wayne Wisniewski

Eagle Energy Trust

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Intermodal BridgeTransport

Keith Bird

Alcon

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PrisonEntrepreneurship



Prison-Entrepreneuership-Program



PrisonEntrepreneuershipProgram



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website
www.PEP.org

blog
www.PEP-blog.org

email
info@PEP.org