

**PRISON ENTREPRENEURSHIP PROGRAM
CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT
DECEMBER 31, 2018 AND 2017**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Prison Entrepreneurship Program
Houston, Texas

Report on the Financial Statements

We have audited the accompanying consolidated financial statements, which comprise the consolidated statements of financial position of Prison Entrepreneurship Program (the Organization), as of December 31, 2018 and 2017, and the related consolidated statements of activities, cash flows and expenses for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the consolidated 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 Organization'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Prison Entrepreneurship Program as of December 31, 2018 and 2017 and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Carlos Taboada & Company, P.C.

July 26, 2019

PRISON ENTREPRENEURSHIP PROGRAM
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash	\$ 1,633,984	\$ 1,661,886
Short-term investments	347,000	250,000
Receivables	525,529	706,686
Prepaid expenses, deposits and other assets	26,131	40,537
Property and equipment, net of accumulated depreciation and amortization of \$448,798 in 2018 and \$337,464 in 2017	892,280	957,650
Investments in closely held entities	<u>15,609</u>	<u>16,341</u>
Total Assets	<u>\$ 3,440,533</u>	<u>\$ 3,633,100</u>
LIABILITIES		
Accounts payable and accrued liabilities	\$ 110,345	\$ 86,343
Accrued salaries and payroll taxes	122,017	120,729
Long-term debt		
Due currently	15,113	15,263
Due afterwards	<u>432,439</u>	<u>447,589</u>
Total liabilities	<u>679,914</u>	<u>669,924</u>
NET ASSETS		
With donor restrictions	643,463	673,144
Without donor restrictions	<u>2,117,156</u>	<u>2,290,032</u>
Total net assets	<u>2,760,619</u>	<u>2,963,176</u>
Total Liabilities and Net Assets	<u>\$ 3,440,533</u>	<u>\$ 3,633,100</u>

PRISON ENTREPRENEURSHIP PROGRAM

CONSOLIDATED STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018			2017		
	Without donor Restrictions	With donor Restrictions	Total	Without donor Restrictions	With donor Restrictions	Total
SUPPORT AND REVENUE						
Support	\$ 1,923,202	\$ 451,014	\$ 2,374,216	\$ 1,743,703	\$ 422,500	\$ 2,166,203
Rental income	233,938	-	233,938	227,843	-	227,843
Interest and other income	57,769	-	57,769	49,180	-	49,180
In-kind support	<u>46,928</u>	<u>-</u>	<u>46,928</u>	<u>90,982</u>	<u>-</u>	<u>90,982</u>
Total support and revenue	2,261,837	451,014	2,712,851	2,111,708	422,500	2,534,208
RELEASE OF RESTRICTIONS	<u>480,695</u>	<u>(480,695)</u>	<u>-</u>	<u>594,675</u>	<u>(594,675)</u>	<u>-</u>
Total support, revenue and releases	<u>2,742,532</u>	<u>(29,681)</u>	<u>2,712,851</u>	<u>2,706,383</u>	<u>(172,175)</u>	<u>2,534,208</u>
OPERATING EXPENSES						
Programs	2,355,642	-	2,355,642	2,180,881	-	2,180,881
Fundraising	300,595	-	300,595	282,456	-	282,456
Administrative	<u>259,171</u>	<u>-</u>	<u>259,171</u>	<u>245,541</u>	<u>-</u>	<u>245,541</u>
Total expenses	<u>2,915,408</u>	<u>-</u>	<u>2,915,408</u>	<u>2,708,878</u>	<u>-</u>	<u>2,708,878</u>
DECREASE IN NET ASSETS	(172,876)	(29,681)	(202,557)	(2,495)	(172,175)	(174,670)
NET ASSETS						
BEGINNING OF YEAR	<u>2,290,032</u>	<u>673,144</u>	<u>2,963,176</u>	<u>2,292,527</u>	<u>845,319</u>	<u>3,137,846</u>
END OF YEAR	<u>\$ 2,117,156</u>	<u>\$ 643,463</u>	<u>\$ 2,760,619</u>	<u>\$ 2,290,032</u>	<u>\$ 673,144</u>	<u>\$ 2,963,176</u>

PRISON ENTREPRENEURSHIP PROGRAM
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

INCREASE (DECREASE) IN CASH

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in net assets	\$ <u>(202,557)</u>	\$ <u>(174,670)</u>
Adjustments		
Donated stocks	(18,826)	(29,603)
Donated vehicles	-	(7,200)
Loss on sale of donated stocks	84	121
Depreciation and amortization	111,334	98,983
Loss on sale of donated vehicle	1,200	-
Gain on fixed asset dispositions	-	(5,000)
Changes in		
Receivables	181,157	148,855
Prepaid expenses, deposits and other assets	8,206	(8,055)
Accounts payable and accrued liabilities	24,002	23,459
Accrued salaries and payroll taxes	<u>1,288</u>	<u>70,877</u>
Total adjustments	<u>308,445</u>	<u>292,437</u>
Net cash provided by operating activities	<u>105,888</u>	<u>117,767</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of donated stocks	18,742	29,482
Proceeds from sales of equipment	-	6,000
Proceeds from sale of donated vehicle	5,000	-
Change in investments, net	(96,268)	200,720
Purchase of property and equipment	<u>(45,964)</u>	<u>(95,299)</u>
Net cash provided (used) by investing activities	<u>(118,490)</u>	<u>140,903</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of long-term debt	<u>(15,300)</u>	<u>(14,501)</u>
Net cash used by financing activities	<u>(15,300)</u>	<u>(14,501)</u>
NET INCREASE (DECREASE) IN CASH	(27,902)	244,169
CASH BEGINNING OF YEAR	<u>1,661,886</u>	<u>1,417,717</u>
CASH END OF YEAR	<u>\$1,633,984</u>	<u>\$1,661,886</u>
SUPPLEMENTAL CASH FLOW DISCLOSURE		
CASH PAID FOR INTEREST	<u>\$ 24,086</u>	<u>\$ 24,925</u>

PRISON ENTREPRENEURSHIP PROGRAM
CONSOLIDATED STATEMENT OF EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Programs					Fundraising	Administrative	Total
	Prerelease	Re-entry	Housing	Other	Total			
Salaries	\$ 678,980	\$ 315,088	\$ 21,473	\$ 55,253	\$ 1,070,794	\$ 186,106	\$ 160,463	\$ 1,417,363
Automobile/transportation	32,680	15,165	1,034	2,659	51,538	8,957	7,724	68,219
Bank charges	5,009	2,325	2,425	408	10,167	1,373	1,184	12,724
Benefits/payroll taxes	146,487	67,979	4,633	11,921	231,020	40,152	34,618	305,790
Computer	9,417	2,535	173	444	12,569	1,497	1,291	15,357
Contractual Services	88,343	22,536	1,535	3,952	116,366	13,311	11,478	141,155
Curriculum	15,740	227	-	-	15,967	-	-	15,967
Depreciation	59,366	7,626	34,616	1,337	102,945	4,505	3,884	111,334
Events	89,697	27,339	1,262	3,246	121,544	10,934	9,427	141,905
Food/entertainment	7,137	26,633	99	1,498	35,367	844	727	36,938
Insurance	10,578	4,909	8,514	861	24,862	2,899	2,500	30,261
Interest	-	-	24,086	-	24,086	-	-	24,086
Other	8,486	26,091	3,310	7,483	45,370	1,988	1,713	49,071
Postage	14,133	1,910	130	1,104	17,277	1,128	972	19,377
Professional fees	5,174	2,401	1,463	621	9,659	1,418	1,223	12,300
Program education	5,143	2,387	163	418	8,111	1,410	1,214	10,735
Property lease	46,973	21,798	126,369	11,803	206,943	12,875	11,101	230,919
Property taxes	379	176	20,996	31	21,582	104	90	21,776
Re-entry housing	-	10,530	-	-	10,530	-	-	10,530
Repair and maintenance	8,174	3,793	16,315	1,175	29,457	2,240	1,932	33,629
Staff training/appreciation	4,300	1,995	136	350	6,781	1,179	1,015	8,975
Supplies	24,389	45,833	6,329	403	76,954	1,358	1,169	79,481
Travel	11,654	4,171	259	6,315	22,399	2,238	1,929	26,566
Utilities	14,881	6,906	60,356	1,211	83,354	4,079	3,517	90,950
	<u>\$ 1,287,120</u>	<u>\$ 620,353</u>	<u>\$ 335,676</u>	<u>\$ 112,493</u>	<u>\$ 2,355,642</u>	<u>\$ 300,595</u>	<u>\$ 259,171</u>	<u>\$ 2,915,408</u>



The accompanying notes are an integral part of these financial statements.

PRISON ENTREPRENEURSHIP PROGRAM
CONSOLIDATED STATEMENT OF EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017

	Programs				Total	Fundraising	Administrative	Total
	Prerelease	Re-entry	Housing	Other				
Salaries	\$ 538,707	\$ 359,174	\$ 22,064	\$ 56,438	\$ 976,383	\$ 180,737	\$ 157,118	\$ 1,314,238
Automobile/transportation	18,919	12,614	775	1,982	34,290	6,348	5,518	46,156
Bank charges	5,544	3,697	2,799	581	12,621	1,860	1,618	16,099
Benefits/payroll taxes	97,523	65,022	3,994	10,217	176,756	32,719	28,443	237,918
Computer	13,502	3,494	215	549	17,760	1,758	1,528	21,046
Contractual Services	74,797	24,036	1,477	3,777	104,087	12,095	10,514	126,696
Curriculum	13,818	-	-	-	13,818	-	-	13,818
Depreciation	49,380	8,219	32,363	1,291	91,253	4,136	3,594	98,983
Events	48,601	27,971	1,140	2,916	80,628	9,337	8,116	98,081
Food/entertainment	8,224	25,432	95	3,393	37,144	775	672	38,591
Insurance	5,952	4,441	9,069	624	20,086	1,997	1,735	23,818
Interest	-	-	24,925	-	24,925	-	-	24,925
Other	11,038	19,321	2,224	7,323	39,906	1,180	1,025	42,111
Postage	9,808	4,624	283	2,700	17,415	2,327	2,023	21,765
Professional fees	3,751	2,501	154	393	6,799	1,258	1,093	9,150
Program education	4,211	2,808	172	441	7,632	1,413	1,229	10,274
Property lease	35,572	22,697	149,067	22,680	230,016	11,934	10,375	252,325
Property taxes	43	29	18,489	4	18,565	14	12	18,591
Re-entry housing	-	16,335	-	-	16,335	-	-	16,335
Repair and maintenance	4,785	3,190	31,498	501	39,974	1,605	1,396	42,975
Staff training/appreciation	3,573	2,382	146	374	6,475	1,199	1,043	8,717
Supplies	37,562	48,699	9,942	1,506	97,709	4,823	4,194	106,726
Travel	5,565	1,362	44	22,242	29,213	360	313	29,886
Utilities	13,654	9,103	56,904	1,430	81,091	4,581	3,982	89,654
	<u>\$ 1,004,529</u>	<u>\$ 667,151</u>	<u>\$ 367,839</u>	<u>\$ 141,362</u>	<u>\$ 2,180,881</u>	<u>\$ 282,456</u>	<u>\$ 245,541</u>	<u>\$ 2,708,878</u>



The accompanying notes are an integral part of these financial statements.

PRISON ENTREPRENEURSHIP PROGRAM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

ORGANIZATIONAL

Prison Entrepreneurship Program (PEP) was organized in 2004 under the California Nonprofit Public Benefit Corporation Law for charitable purposes. Effective December 27, 2018, PEP redomesticated from a California Nonprofit Corporation to a Texas Nonprofit Corporation. Its mission is to unite executives and inmates through entrepreneurial passion and servant leadership to transform lives, restore families and rebuild communities. This enables the inmates to productively re-enter society. This concept of connecting executives and inmates to produce consequential change in society was developed in May 2004.

During 2010, PEP established a wholly-owned subsidiary, Houston Caleb House, LLC (HCH), to purchase property to be used as reliable housing available to participants upon their release. The financial position, results of operations and cash flows of HCH are consolidated with PEP in the consolidated financial statements as of and for the years ended December 31, 2018 and 2017.

During 2011, PEP established a wholly-owned subsidiary, Communitas Ventures, Inc. (CVI), to provide back office support for PEP participant businesses. Activities for CVI commenced in 2013. CVI was organized in the state of Texas as a for-profit company and is subject to income taxes. The financial position, results of operations and cash flows of CVI are consolidated with PEP in the consolidated financial statements as of and for the years ended December 31, 2018 and 2017. CVI is an investor in Communitas Auto Group LLC as more fully described in the Investments note on page 13.

PEP, HCH and CVI are collectively referred to as the Organization.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. All intercompany amounts have been eliminated in consolidation.

Financial Statement Presentation - The Organization adopted the guidance in Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which made certain changes to the presentation of the financial statements and disclosures. Among other items, ASU 2016-14 changes the classes of net assets presented on the face of the statement of financial position from three to two (with donor restrictions and without donor restrictions) and requires presentation of expenses by both natural classification and functional classification.

Support - The Organization follows the current provisions for contributions received and contributions made. Accordingly, unconditional contributions received are recorded as support with donor restrictions or without donor restrictions depending on the existence and nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or the purpose is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

PRISON ENTREPRENEURSHIP PROGRAM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Services - The impact of the Organization is multiplied many times over through the efforts of its executive volunteers and business plan advisors who annually donate significant time to the Organization's mission. Additionally, the Organization's on-unit activities are possible only with the gracious support of the Texas Department of Criminal Justice and its partnership with Management & Training Corporation. No amounts have been recorded in the consolidated financial statements for these services, in accordance with current accounting standards.

Cash - For purposes of the statement of cash flows, the Organization considers as cash, all cash on hand and all highly liquid investments with original maturities of three months or less.

Receivables - Receivables include unconditional promises to give and other loans. Promises to give that are expected to be collected in more than a year have been discounted to reduce the expected cash flow to present value. Conditional promises to give are not recorded as contributions until the condition is met.

Property and equipment - Acquisitions of property and equipment in excess of \$1,000 are capitalized. Property and equipment is carried at cost, or if donated, at the fair market value at the date of donation. Depreciation is provided using the straight-line method over the estimated useful life of the asset, ranging from 2 to 28 years. Repairs and maintenance are charged to expense as incurred.

Investments in closely held entities - Investments in closely held entities are carried at cost.

Long-Lived Assets - The Organization's long-lived assets are evaluated for impairment in accordance with authoritative guidance which requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable based on expected undiscounted cash flows attributable to that asset. This review requires significant judgments both in assessing events and circumstances as well as estimating future cash flows. Should events indicate that any of the assets are impaired, the amount of such impairment will be measured as the difference between the carrying value and the fair value of the impaired asset and the impairment will be recorded in earnings during the period of such impairment. No impairment was noted during the years ended December 31, 2018 and 2017.

Estimates - The preparation of financial statements with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimated. The most critical estimates are for the realization of receivables, the allocation of expenses by function, and depreciation.

Reclassifications - Certain amounts from 2017 have been reclassified to conform to the current year presentation.



PRISON ENTREPRENEURSHIP PROGRAM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements - The financial statements are presented under the authoritative guidance regarding Fair Value Measurements. The guidance establishes a single authoritative definition of fair value, sets a framework for measuring fair value and requires additional disclosures about fair value measurement. In accordance with the guidance, the Organization classifies its investments into Level 1, which refers to securities traded in an active market, Level 2, which refers to securities not traded on an active market but for which observable market inputs are readily available or Level 1 securities where there is a contractual restriction, and Level 3, which refers to securities not traded in an active market and for which no significant observable market inputs are available. As required by the guidance, the Organization's investment portfolio based on fair values at December 31, 2018 and 2017 are categorized according to these classifications. Additionally, the fair value guidance allows entities to choose, at specified election dates, to measure eligible financial assets and financial liabilities at fair value that are not otherwise required to be measured at fair value. If an entity elects the fair value option for an eligible item, changes in that item's fair value in subsequent reporting periods must be recognized in current earnings. The Organization did not elect the fair value option for measurement of any other eligible assets or liabilities. The Organization's financial instruments (primarily cash, short-term investments, receivables, payables and long-term debt) are carried in the accompanying statement of financial position at amounts which reasonably approximate fair value.

Federal Income Taxes - PEP is a nonprofit, tax-exempt, charitable organization, under Section 501(c)(3) of the Internal Revenue Code. Therefore, no provision for federal income tax has been included in these financial statements for PEP or its wholly-owned subsidiary HCH. CVI is a for-profit entity subject to income tax. CVI has net operating loss carryforwards of approximately \$21,800; therefore, no provision for income taxes has been recorded. Deferred tax assets related to these net operating loss carryforwards are fully reduced by a valuation allowance as it is uncertain that these deferred tax assets will be realized.

The Organization reviews and assesses its tax positions taken or expected to be taken in its tax returns. Based on this assessment, the Organization determines whether it is more likely than not that the positions would be sustained under examination by the tax authorities. The Organization's assessment has not identified any significant positions that it believes would not be sustained under examination. The Organization is no longer subject to Federal tax examinations by the tax authorities for years before 2015.

Allocation of Expenses - The financial statements report expenses that are attributable to more than one functional classification of expenses (programs, fundraising, and administrative). Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Salary, benefits and payroll taxes are allocated by function based on estimates of time and effort. Other expenses have been allocated by function based on this same percentage. The Organization has three primary programs: prerelease, re-entry and housing. The prerelease program, occurring at the Organization's unit campuses, provides character and entrepreneurship education. The re-entry program for returning citizens provides basic necessities, help securing documents to be legally employable, employment assistance, continuing education, mentoring by executive volunteers and support for participant entrepreneurs. The housing program provides reliable, below-market housing as participants rebuild their lives following release.

PRISON ENTREPRENEURSHIP PROGRAM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CASH

Cash includes cash at the bank and cash on hand. A summary of cash at December 31 follows:

	<u>2018</u>	<u>2017</u>
Checking and saving	\$ 446,563	\$ 260,947
Sweeps and other	<u>1,187,421</u>	<u>1,400,939</u>
Total	<u>\$1,633,984</u>	<u>\$1,661,886</u>

SHORT-TERM INVESTMENTS

Short-term investments consists of certificates of deposit with original maturities greater than three months. A summary of short-term investments at December 31 follows:

	<u>2018</u>	<u>2017</u>
Maturing April 2019	\$ 347,000	\$ -
Maturing June 2018	<u>-</u>	<u>250,000</u>
Total	<u>\$ 347,000</u>	<u>\$ 250,000</u>

RECEIVABLES

Receivables consist of unconditional promises to give and sundry loans. A summary of receivables at December 31 follows:

	<u>2018</u>	<u>2017</u>
Unconditional promises to give	\$ 518,463	\$ 673,144
Due from related party	325	23,423
Loans and other receivables, net	<u>6,741</u>	<u>10,119</u>
Total	<u>\$ 525,529</u>	<u>\$ 706,686</u>

Promises to give are considered fully collectible, hence no allowance for uncollectible pledges is considered necessary. Unconditional promises to give are expected to be collected as follow:

2019	\$ 384,506
2020	101,639
2021	6,761
2022	6,850
2023	6,939
Later	<u>11,768</u>
	<u>\$ 518,463</u>

PRISON ENTREPRENEURSHIP PROGRAM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

PROPERTY AND EQUIPMENT

A summary of property and equipment together with their accumulated depreciation and amortization at December 31 follows:

	<u>2018</u>	<u>2017</u>
Land	\$ 213,570	\$ 213,570
Buildings and leasehold improvements	689,736	686,618
Equipment and furniture	324,558	287,296
Vehicles	<u>113,214</u>	<u>107,630</u>
Total cost or donated value	1,341,078	1,295,114
Less accumulated depreciation and amortization	<u>448,798</u>	<u>337,464</u>
Property and equipment, net	<u>\$ 892,280</u>	<u>\$ 957,650</u>

Depreciation expense amounted to \$111,334 and \$98,983 for the years ending December 31, 2018 and 2017, respectively. These amounts are included in depreciation, housing and initiative expenses in the accompanying consolidated schedules of expenses.

INVESTMENTS IN CLOSELY HELD ENTITIES

A summary of investments in closely held entities at December 31 follows:

	<u>2018</u>	<u>2017</u>
Limited liability company	\$ 15,609	\$ 16,341
Subsidiary	<u>-</u>	<u>-</u>
Total	<u>\$ 15,609</u>	<u>\$ 16,341</u>

The limited liability company (LLC) investment consists of an 11.11% interest in a Texas LLC that was donated to PEP in 2014. The LLC's primary assets are two secured loans to the Organization. For tax purposes the LLC reports its activities to the taxing authorities as a partnership. At December 31, 2018 and 2017, the carrying value of the investment approximates PEP's interest in the LLC's equity.

The investment in subsidiary consists of CVI's 100% common ownership interest in Communitas Auto Group LLC (CAG), an auto repair business. CAG also has two Series A Preferred Shareholders, one of whom is related to PEP. All capital contributions to CAG were made by the related Preferred Shareholder. Based upon the terms of the CAG Company Agreement, CAG is majority controlled by the Preferred Shareholders. CVI is accounting for its interest in CAG's common shares on the cost basis, which is zero, as CVI does not exercise control over CAG. CAG's Company Agreement provides for a redemption of the preferred shares over a five-year period beginning in 2021. CAG is the sole owner of three subsidiary LLC's, each representing an auto repair location. Two locations are in northeast Harris County, Texas and began operations in 2015. The third location is in Montgomery County, Texas and had no operations in 2018 or 2017. The real property for each of the three locations is owned indirectly by the related Preferred Shareholder.

PRISON ENTREPRENEURSHIP PROGRAM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

LONG-TERM DEBT

A summary of long-term debt at December 31 follows:

	2018	2017
Note payable in the original principal amount of \$350,000, due in monthly installments of \$2,061 and one balloon payment of \$312,439; bearing interest at 5.0%; maturing February 3, 2019	\$ 310,693	\$ 319,410
Note payable in the original principal amount of \$100,000, due in monthly installments of \$702 and one balloon payment of \$64,662; bearing interest at 5.75%; maturing May 10, 2022	78,655	82,438
Note payable in the original principal amount of \$74,000, due in monthly installments of \$520 and one balloon payment of \$47,850; bearing interest at 5.75%; maturing May 10, 2022	<u>58,204</u>	<u>61,004</u>
Total	<u>\$ 447,552</u>	<u>\$ 462,852</u>

The notes payable are collateralized by the Organization's real property with a net carrying value of \$675,207 and \$699,381 at December 31, 2018 and 2017, respectively.

On February 1, 2019, the Organization refinanced its note payable to a bank that had a balloon payment of \$312,439 due on February 3, 2019. The new note is in the principal amount of \$311,120, due in monthly installments of \$1,895 and one balloon payment of \$227,252, bearing interest at 4% per annum and maturing on February 1, 2024.

The minimum future payments, after the refinancing, on the notes payable are as follows:

Year-ending	Principal	Interest	Total
2019	\$ 15,113	\$ 18,066	\$ 33,179
2020	18,012	19,383	37,395
2021	18,922	18,474	37,396
2022	126,245	14,424	140,669
2023	12,039	10,697	22,736
Thereafter	<u>257,221</u>	<u>2,651</u>	<u>259,872</u>
Total	<u>\$ 447,552</u>	<u>\$ 83,695</u>	<u>\$ 531,247</u>

NET ASSETS

A summary of net assets with donor restrictions at December 31 follows:

	2018	2017
Time restricted	\$ 443,463	\$ 523,144
Time and purpose restricted	75,000	150,000
Purpose restricted	<u>125,000</u>	-
Total	<u>\$ 643,463</u>	<u>\$ 673,144</u>

PRISON ENTREPRENEURSHIP PROGRAM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NET ASSETS (CONTINUED)

A summary of net assets without donor restrictions at December 31 follows:

	<u>2018</u>	<u>2017</u>
Internally-designated	\$ 250,000	\$ 250,000
Unrestricted	<u>1,867,156</u>	<u>2,040,032</u>
Total	<u>\$2,117,156</u>	<u>\$2,290,032</u>

SUPPORT

A summary of donations recognized during the years ended December 31 follows:

	<u>2018</u>	<u>2017</u>
Foundations	\$ 1,140,160	\$ 1,028,803
Individuals and participants	601,835	523,519
Corporations	363,486	218,968
Churches	103,669	76,200
Board members	<u>165,066</u>	<u>318,713</u>
Total	<u>\$ 2,374,216</u>	<u>\$ 2,166,203</u>

IN-KIND SUPPORT

A summary of in-kind support recognized during the years ended December 31 follows:

	<u>2018</u>	<u>2017</u>
Stock contributed from Board members	\$ 14,475	\$ 16,240
Professional services and supplies	28,102	54,180
Vehicles	-	7,200
Stock contributed from individuals	<u>4,351</u>	<u>13,362</u>
Total in-kind support	<u>\$ 46,928</u>	<u>\$ 90,982</u>

The stocks that were contributed in 2018 and 2017 were sold in the year they were contributed.

RELEASES

Net assets with donor restrictions have been released from the related restriction by the realization of funds or by making specific expenditures.

PRISON ENTREPRENEURSHIP PROGRAM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

OPERATING LEASE AGREEMENTS

The Organization has entered into non-cancelable operating lease agreements for the rental of its office facilities and certain equipment. Minimum future rentals, on an annual basis, for the years ended December 31 follows:

<u>Year ending</u>	<u>Facilities</u>	<u>Equipment</u>
2019	\$ 120,320	\$ 15,423
2020	50,544	15,423
2021	-	15,423
2022	-	3,856
Total	<u>\$ 170,864</u>	<u>\$ 50,125</u>

Lease expenses during 2018 and 2017 amounted to \$159,955 and \$119,307, respectively. These amounts are included in contractual services in the accompanying consolidated schedules of expenses.

LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Organization's working capital and cash flows have seasonal variation during the year attributable to a concentration of contributions received near calendar year-end. As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the Organization invests cash in excess of daily requirements in short-term investments.

Financial assets available within one year of the consolidated statements of financial position are reduced by amounts not available for general use within one year because of expected collection dates beyond one year, donor-imposed restrictions and internal designations. A summary of available financial assets at December 31 follows:

	<u>2018</u>	<u>2017</u>
Financial assets		
Cash	\$ 1,633,984	\$ 1,661,886
Short-term investments	347,000	250,000
Receivables	525,529	706,686
Less		
Receivables due in more than one year	(133,957)	(236,745)
Donor restricted for specific purposes	(200,000)	(150,000)
Internally-designated for property	<u>(250,000)</u>	<u>(250,000)</u>
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 1,922,556</u>	<u>\$ 1,981,827</u>

PRISON ENTREPRENEURSHIP PROGRAM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

EMPLOYEE BENEFIT PLAN

Organization employees who meet minimum qualifications for annual earnings and length of employment are eligible to participate in the Organization's SIMPLE IRA plan with the Organization matching each participating employee's contribution up to 3% of the employee's compensation. All plan assets are participant directed. For the years ended December 31, 2018 and 2017, the Organization's match was \$32,507 and \$27,595, respectively.

RELATED PARTY TRANSACTIONS

During 2017, PEP entered into a contract with a company providing an online donation platform, one of whose managers is related to PEP. The company collects cash donations and event revenue for a fee equal to credit card processing. In-kind support is collected for a fee equal to a 20% markup over PEP's cost of the in-kind item. For 2018 and 2017, PEP recognized revenue and expense for transactions with this company as follows:

	<u>2018</u>	<u>2017</u>
Support	\$ 325	\$ 13,693
In-kind support	9,945	11,573
Other income	-	2,400
Total support and revenue	<u>\$ 10,270</u>	<u>\$ 27,666</u>
Fees incurred	<u>\$ 1,667</u>	<u>\$ 2,412</u>

As of December 31, 2018 and 2017, PEP has \$325 and \$23,423, respectively, due as a receivable from this company. Subsequent to December 31, 2018, this online donation platform ceased operation.

SUBSEQUENT EVENTS

As previously disclosed, on February 1, 2019, the Organization refinanced its note payable to a bank that had a balloon payment of \$312,439 due on February 3, 2019. The new note is in the principal amount of \$311,120, due in monthly installments of \$1,895 and one balloon payment of \$227,252, bearing interest at 4% per annum and maturing on February 1, 2024.

On March 27, 2019, the Organization purchased a property for \$193,000 cash, to be used as a transition home.

Subsequent events have been evaluated through July 26, 2019 which is the date the consolidated financial statements were available to be issued. Based on this evaluation, no adjustments are required to the consolidated financial statements.