

**PRISON ENTREPRENEURSHIP PROGRAM
CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT
DECEMBER 31, 2019 AND 2018**

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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, 2019 and 2018, 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, 2019 and 2018 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 30, 2020

PRISON ENTREPRENEURSHIP PROGRAM
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash	\$ 1,424,284	\$ 1,633,984
Short-term investments	-	347,000
Receivables	722,248	525,529
Prepaid expenses, deposits and other assets	80,479	26,131
Property and equipment, net of accumulated depreciation and amortization of \$526,746 in 2019 and \$448,798 in 2018	1,112,294	892,280
Investments in closely held entities	<u>14,834</u>	<u>15,609</u>
Total Assets	<u>\$ 3,354,139</u>	<u>\$ 3,440,533</u>
LIABILITIES		
Accounts payable and accrued liabilities	\$ 252,401	\$ 110,345
Accrued salaries and payroll taxes	120,892	122,017
Long-term debt		
Due currently	18,011	15,113
Due afterwards	<u>473,213</u>	<u>432,439</u>
Total liabilities	<u>864,517</u>	<u>679,914</u>
NET ASSETS		
With donor restrictions	808,020	643,463
Without donor restrictions	<u>1,681,602</u>	<u>2,117,156</u>
Total net assets	<u>2,489,622</u>	<u>2,760,619</u>
Total Liabilities and Net Assets	<u>\$ 3,354,139</u>	<u>\$ 3,440,533</u>

PRISON ENTREPRENEURSHIP PROGRAM

CONSOLIDATED STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019			2018		
	Without donor Restrictions	With donor Restrictions	Total	Without donor Restrictions	With donor Restrictions	Total
SUPPORT AND REVENUE						
Support	\$ 1,550,365	\$ 763,877	\$ 2,314,242	\$ 1,923,202	\$ 451,014	\$ 2,374,216
Rental income	197,113	-	197,113	233,938	-	233,938
Interest and other income	39,116	-	39,116	57,769	-	57,769
In-kind support	<u>44,679</u>	<u>-</u>	<u>44,679</u>	<u>46,928</u>	<u>-</u>	<u>46,928</u>
Total support and revenue	1,831,273	763,877	2,595,150	2,261,837	451,014	2,712,851
RELEASE OF RESTRICTIONS	<u>399,520</u>	<u>(399,520)</u>	<u>-</u>	<u>480,695</u>	<u>(480,695)</u>	<u>-</u>
Total support, revenue and releases	<u>2,230,793</u>	<u>364,357</u>	<u>2,595,150</u>	<u>2,742,532</u>	<u>(29,681)</u>	<u>2,712,851</u>
OPERATING EXPENSES						
Programs	2,115,699	-	2,115,699	2,355,642	-	2,355,642
Fundraising	303,848	-	303,848	300,595	-	300,595
Administrative	<u>246,800</u>	<u>-</u>	<u>246,800</u>	<u>259,171</u>	<u>-</u>	<u>259,171</u>
Total expenses	<u>2,666,347</u>	<u>-</u>	<u>2,666,347</u>	<u>2,915,408</u>	<u>-</u>	<u>2,915,408</u>
Net operating	<u>(435,554)</u>	<u>364,357</u>	<u>(71,197)</u>	<u>(172,876)</u>	<u>(29,681)</u>	<u>(202,557)</u>
OTHER REVENUE AND EXPENSE						
Revenue	-	19,554	19,554	-	-	-
Expense	<u>-</u>	<u>(219,354)</u>	<u>(219,354)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net other	<u>-</u>	<u>(199,800)</u>	<u>(199,800)</u>	<u>-</u>	<u>-</u>	<u>-</u>
INCREASE (DECREASE) IN NET ASSETS	(435,554)	164,557	(270,997)	(172,876)	(29,681)	(202,557)
NET ASSETS						
BEGINNING 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>
END OF YEAR	<u>\$ 1,681,602</u>	<u>\$ 808,020</u>	<u>\$ 2,489,622</u>	<u>\$ 2,117,156</u>	<u>\$ 643,463</u>	<u>\$ 2,760,619</u>

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

PRISON ENTREPRENEURSHIP PROGRAM
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

INCREASE (DECREASE) IN CASH

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in net assets	\$ <u>(270,997)</u>	\$ <u>(202,557)</u>
Adjustments		
Donated stocks	(17,114)	(18,826)
Donated fixed assets	(23,400)	-
Loss on sale of donated stocks	631	84
Depreciation and amortization	100,410	111,334
Loss on sale of donated vehicle	-	1,200
Gain on sales of equipment	(4,257)	-
Changes in		
Receivables	(196,719)	181,157
Prepaid expenses, deposits and other assets	(54,348)	8,206
Accounts payable and accrued liabilities	142,056	24,002
Accrued salaries and payroll taxes	<u>(1,125)</u>	<u>1,288</u>
Total adjustments	<u>(53,866)</u>	<u>308,445</u>
Net cash provided (used) by operating activities	<u>(324,863)</u>	<u>105,888</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of donated stocks	16,483	18,742
Proceeds from sales of equipment	16,685	-
Proceeds from sale of donated vehicle	-	5,000
Change in investments, net	347,775	(96,268)
Purchase of property and equipment	<u>(309,452)</u>	<u>(45,964)</u>
Net cash provided (used) by investing activities	<u>71,491</u>	<u>(118,490)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt to Social Impact Investors	58,750	-
Payment of long-term debt	<u>(15,078)</u>	<u>(15,300)</u>
Net cash provided (used) by financing activities	<u>43,672</u>	<u>(15,300)</u>
NET DECREASE IN CASH	(209,700)	(27,902)
CASH BEGINNING OF YEAR	<u>1,633,984</u>	<u>1,661,886</u>
CASH END OF YEAR	<u>\$1,424,284</u>	<u>\$1,633,984</u>
SUPPLEMENTAL CASH FLOW DISCLOSURE		
CASH PAID FOR INTEREST	<u>\$ 19,782</u>	<u>\$ 24,086</u>

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PRISON ENTREPRENEURSHIP PROGRAM
CONSOLIDATED STATEMENT OF EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019

	Programs					Fundraising	Administrative	Total
	Prerelease	Re-entry	Housing	Other	Total			
Salaries	\$ 564,546	\$ 336,436	\$ 21,208	\$ 54,572	\$ 976,762	\$ 182,683	\$ 148,383	\$ 1,307,828
Automobile/transportation	19,573	11,664	735	1,892	33,864	6,334	5,145	45,343
Bank charges	4,090	2,437	3,286	395	10,208	1,323	1,076	12,607
Benefits/payroll taxes	126,837	75,588	4,765	12,261	219,451	41,044	33,337	293,832
Computer	8,812	2,569	162	417	11,960	1,395	1,134	14,489
Contractual Services	76,444	26,374	1,663	4,278	108,759	14,321	11,630	134,710
Curriculum	9,599	396	-	-	9,995	-	-	9,995
Depreciation	48,335	7,275	36,460	1,180	93,250	3,951	3,209	100,410
Events	80,880	30,300	1,734	4,462	117,376	14,938	12,134	144,448
Food/entertainment	5,763	45,101	88	3,602	54,554	760	618	55,932
Insurance	11,221	6,687	7,390	1,085	26,383	3,631	2,949	32,963
Interest	-	-	19,782	-	19,782	-	-	19,782
Other	2,856	10,001	3,236	4,697	20,790	874	710	22,374
Postage	6,716	2,197	138	4,015	13,066	1,193	970	15,229
Professional fees	7,011	4,178	1,729	1,702	14,620	2,269	1,843	18,732
Program education	3,026	1,803	114	292	5,235	979	795	7,009
Property lease	42,367	25,248	44,792	11,119	123,526	13,710	11,135	148,371
Property taxes	286	171	34,143	28	34,628	93	74	34,795
Re-entry housing	-	5,743	-	-	5,743	-	-	5,743
Repair and maintenance	7,911	4,714	8,203	1,460	22,288	2,560	2,079	26,927
Staff training/appreciation	4,202	2,504	158	406	7,270	1,360	1,104	9,734
Supplies	16,727	34,240	7,090	425	58,482	1,424	1,158	61,064
Travel	8,294	2,336	146	7,318	18,094	1,256	1,022	20,372
Utilities	23,949	14,272	69,077	2,315	109,613	7,750	6,295	123,658
	<u>\$ 1,079,445</u>	<u>\$ 652,234</u>	<u>\$ 266,099</u>	<u>\$ 117,921</u>	<u>\$ 2,115,699</u>	<u>\$ 303,848</u>	<u>\$ 246,800</u>	<u>\$ 2,666,347</u>

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

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

	Programs				Total	Fundraising	Administrative	Total
	Prerelease	Re-entry	Housing	Other				
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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

ORGANIZATIONAL

Prison Entrepreneurship Program (PEP or the Organization) 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, 2019 and 2018.

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, 2019 and 2018. CVI is an investor in Communitas Auto Group LLC as more fully described in the Investments note on page 13.

During 2019, PEP established a wholly-owned subsidiary, Entre Capital LLC (Entre) to be a private, commercial lender serving PEP alumni and other re-entry businesses. Entre's capital structure, as more fully described in the Long-term Debt note on page 14, attracts social impact investors to PEP's entrepreneurial mission through a combination of donor advised fund, corporate and personal monies. Entre's vision is to serve the re-entry community as a Community Development Financial Institution and to seek additional leverage through Community Reinvestment Act loans from banks. The financial position, results of operations and cash flows of Entre are consolidated with PEP in the consolidated financial statements as of and for the year ended December 31, 2019.

PEP, HCH, CVI and Entre 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 and the guidance in Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. All intercompany amounts have been eliminated in consolidation.

PRISON ENTREPRENEURSHIP PROGRAM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, 2019 and 2018.

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.

PRISON ENTREPRENEURSHIP PROGRAM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements - The Organization uses fair value to measure financial assets and liabilities and nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The fair value hierarchy establishes and prioritizes fair value measurements into three levels based on the nature of inputs. The hierarchy gives the highest priority to inputs based on data from independent sources (observable inputs - Level 1) and the lowest priority to a reporting entity's internal assumptions based upon the best information available when external market data is limited or unavailable (unobservable inputs - Level 3). 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 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 subsidiaries HCH and Entre. 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 2016.

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 commercial lending support for participant entrepreneurs. The housing program provides reliable, below-market housing as participants rebuild their lives following release.

Date of Management Review - Subsequent events have been evaluated through July 30, 2020 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.

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:

	2019	2018
Checking and saving	\$ 349,362	\$ 446,563
Sweeps and other	1,074,922	1,187,421
Total	\$1,424,284	\$1,633,984

SHORT-TERM INVESTMENTS

Short-term investments at December 31, 2018 consists of certificates of deposit with original maturities greater than three months. The certificates of deposits matured in April 2019.

RECEIVABLES

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

	2019	2018
Unconditional promises to give, as discounted	\$ 717,255	\$ 518,463
Due from related party	-	325
Loans and other receivables, net	4,993	6,741
Total	\$ 722,248	\$ 525,529

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

	Gross	Discount	Net
2020	\$ 367,407	8,155	359,252
2021	227,641	4,335	223,306
2022	117,392	849	116,543
2023	7,141	202	6,939
2024	7,141	111	7,030
Later	4,208	23	4,185
	\$ 730,930	\$ 13,675	\$ 717,255

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>2019</u>	<u>2018</u>
Land	\$ 238,747	\$ 213,570
Buildings and leasehold improvements	930,506	689,736
Equipment and furniture	373,974	324,558
Vehicles	<u>95,813</u>	<u>113,214</u>
Total cost or donated value	1,639,040	1,341,078
Less accumulated depreciation and amortization	<u>526,746</u>	<u>448,798</u>
Property and equipment, net	<u>\$1,112,294</u>	<u>\$ 892,280</u>

Depreciation expense amounted to \$100,410 and \$111,334 for the years ending December 31, 2019 and 2018, respectively.

INVESTMENTS IN CLOSELY HELD ENTITIES

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

	<u>2019</u>	<u>2018</u>
Limited liability company	\$ 14,834	\$ 15,609
Subsidiary	-	-
Total	<u>\$ 14,834</u>	<u>\$ 15,609</u>

The limited liability company (LLC) investment consists of an 11.11% interest in a Texas LLC that was donated to the Organization 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, 2019 and 2018, the carrying value of the investment approximates the Organization's interest in the LLC's equity.

The investment in subsidiary consists of the Organization'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 the Organization. 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. The Organization is accounting for its interest in CAG's common shares on the cost basis, which is zero, as the Organization 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 northwest Harris County, Texas and began operations in 2015. The third location is in Montgomery County, Texas and had no operations in 2019 or 2018. The real property for each of the three locations is owned indirectly by the related Preferred Shareholder.

The early 2020 onset of the coronavirus (COVID-19) led to a substantial decrease in store sales and material increase in ongoing operating losses. The related Preferred Shareholder undertook a comprehensive review of CAG's historical and prospective financial performance and in March 2020 implemented its decision to cease operations at both auto repair locations. On July 16, 2020, the related Preferred Shareholder sold the real and personal property of one location and is seeking a buyer or lessor of the second location.

PRISON ENTREPRENEURSHIP PROGRAM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

LONG-TERM DEBT

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

	2019	2018
Mortgage payable in the original principal amount of \$311,120, due in monthly installments of \$1,895 and one balloon payment of \$257,263; bearing interest at 4%; maturing February 1, 2024	\$ 302,587	\$ -
Mortgage 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%; maturing February 3, 2019	-	310,693
Mortgage 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	74,648	78,655
Mortgage 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	55,239	58,204
Notes payable to Social Impact Investors, in the original principal amount of \$58,750, due in monthly installments equal to the collections of the underlying PEP alumni business loans; bearing interest at 3%; maturing January 2025		
Donor advised funds	-	-
Companies	18,750	-
Individuals	40,000	-
Total	\$ 491,224	\$ 447,552

The mortgages payable are collateralized by the Organization's real property with a net carrying value of \$654,032 and \$675,207 at December 31, 2019 and 2018, respectively.

On February 7, 2020, Entre entered into a note payable agreement with a donor advised fund organization in the principal amount of \$140,750. The note is nonrecourse to the Organization. On May 1, 2020, the lending agreement was increased to \$178,750. The note payable proceeds will be used to fund loans to PEP alumni and other re-entry businesses and is collateralized by the re-entry business loans. The note payable bears interest at 3% and is payable in annual installments equal to Entre's principal collection of the underlying re-entry business loans. At December 31, 2019, there were no outstanding re-entry business loans.

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

Year-ending	Principal	Interest	Total
2020	\$ 18,011	\$ 21,147	\$ 39,158
2021	18,920	20,238	39,158
2022	126,243	16,188	142,431
2023	12,037	12,461	24,498
2024	257,263	3,531	260,794
Thereafter	58,750	147	58,897
Total	\$ 491,224	\$ 73,712	\$ 564,936

PRISON ENTREPRENEURSHIP PROGRAM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NET ASSETS

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

	<u>2019</u>	<u>2018</u>
Time restricted	\$ 717,255	\$ 443,463
Time and purpose restricted	-	75,000
Purpose restricted	<u>90,765</u>	<u>125,000</u>
Total	<u>\$ 808,020</u>	<u>\$ 643,463</u>

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

	<u>2019</u>	<u>2018</u>
Internally-designated	\$ -	\$ 250,000
Unrestricted	<u>1,681,602</u>	<u>1,867,156</u>
Total	<u>\$1,681,602</u>	<u>\$2,117,156</u>

SUPPORT

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

	<u>2019</u>	<u>2018</u>
Foundations	\$ 1,215,534	\$ 1,140,160
Individuals and participants	517,567	601,835
Corporations	282,066	363,486
Churches	58,500	103,669
Board members	<u>240,575</u>	<u>165,066</u>
Total	<u>\$ 2,314,242</u>	<u>\$ 2,374,216</u>

IN-KIND SUPPORT

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

	<u>2019</u>	<u>2018</u>
Stock contributed from Board members	\$ 10,359	\$ 14,475
Professional services and supplies	4,165	28,102
Property and equipment	23,400	-
Stock contributed from individuals	<u>6,755</u>	<u>4,351</u>
Total in-kind support	<u>\$ 44,679</u>	<u>\$ 46,928</u>

The stocks that were contributed in 2019 and 2018 were sold in the year they were contributed.

PRISON ENTREPRENEURSHIP PROGRAM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

RELEASES

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

OTHER REVENUE AND EXPENSE

In 2017, the Organization launched a pilot program for women modeling the curriculum, values and services of its successful unit program for men. Based on the experience of the pilot initiative, the Organization determined the unique needs of women were best served by and through a separate nonprofit entity wholly-dedicated to them. In 2019, the Organization worked with a group of interested individuals including several female Organization volunteers and the Organization's former CEO, all of whom desired to establish an independent, nonprofit entity to serve women. Based on the Organization's desire to be supportive to these founding parties in launching the independent entity, on September 6, 2019, the Organization entered into an assistance agreement with the independent entity whereby the Organization would transfer certain staff and unit-specific equipment and also provide intellectual property and staff training once the independent entity met specified conditions. Additionally, the remaining balance of donations restricted to women's programs would be transferred to the independent entity once the foundation donors approved the transfers and released the Organization from ongoing grant requirements.

For 2019, the activities of the pilot women's program have been presented as Other Revenues and Expenses. As of December 31, 2019, the Organization has an outstanding liability related to the women's pilot program of \$110,807 offset by equipment with a net carrying value of \$20,042. This liability is included in accounts payable and accrued liabilities on the consolidated statements of financial position. A summary of the other expense included on the consolidated statements of activities follows:

Program service	\$ 96,503
Administrative	7,044
Other	25,042
Donations	<u>90,765</u>
	<u>\$ 219,354</u>

Subsequent to December 31, 2019, the independent entity met the specified conditions, and the Organization secured the approval of two foundation donors. Accordingly, the Organization transferred control of the pilot program to the independent entity along with staff, specified equipment and cash of \$51,309. The Organization is working with the independent entity to secure approval from a third foundation donor for a remaining cash transfer of \$30,786. If the foundation donor does not approve the proposed transfer, the remaining \$30,786 will be returned to the foundation donor with the Organization having no liability to the independent entity.

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>
2020	\$ 115,689	\$ 13,565
2021	50,544	13,565
2022	-	3,391
Total	<u>\$ 166,233</u>	<u>\$ 30,521</u>

Lease expenses during 2019 and 2018 amounted to \$160,045 and \$159,955, respectively. These amounts are included in contractual services and property lease in the accompanying consolidated statements 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 may invest 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>2019</u>	<u>2018</u>
Financial assets		
Cash	\$ 1,424,284	\$ 1,633,984
Short-term investments	-	347,000
Receivables	722,248	525,529
Less		
Receivables due in more than one year	(363,523)	(133,957)
Donor restricted for specific purposes	(90,765)	(200,000)
Internally-designated for property	<u>-</u>	<u>(250,000)</u>
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 1,692,244</u>	<u>\$ 1,922,556</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, 2019 and 2018, the Organization's match was \$28,322 and \$32,507, respectively.

RELATED PARTY TRANSACTIONS

During 2017, the Organization entered into a contract with a company providing an online donation platform, one of whose managers is related to the Organization. The company collected cash donations and event revenue for a fee equal to credit card processing. In-kind support was collected for a fee equal to a 20% markup over the Organization's cost of the in-kind item. For 2019 and 2018, the Organization recognized revenue and expense for transactions with this company as follows:

	<u>2019</u>	<u>2018</u>
Support	\$ 175	\$ 325
In-kind support	<u>855</u>	<u>9,945</u>
Total support and revenue	<u>\$ 1,030</u>	<u>\$ 10,270</u>
Fees incurred	<u>\$ 148</u>	<u>\$ 1,667</u>

As of December 31, 2018, the Organization had \$325 due as a receivable from this company. This online donation platform ceased operation in 2019.

SUBSEQUENT EVENTS

On February 7, 2020, Entre entered into a nonrecourse note payable agreement with a donor advised fund organization. See the Long-Term Debt footnote for additional information.

During March 2020, the World Health Organization declared the coronavirus outbreak (COVID-19) a pandemic. While this event is expected to adversely impact the global economy, the extent to which the coronavirus impacts the Organization's results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and actions taken to contain the coronavirus or its impact, among others. The Organization has liquidity combined with robust management systems in place to both oversee the well-being of the key stakeholders and react quickly to new economic conditions.

PRISON ENTREPRENEURSHIP PROGRAM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SUBSEQUENT EVENTS (CONTINUED)

On April 10, 2020, the Organization entered into a note payable agreement with a bank in the amount of \$315,492 under the Paycheck Protection Program (PPP). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable after 24 weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower reduces employment or reduces salaries during the 24-week period. The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months. The Organization intends to use the proceeds for purposes consistent with the PPP. The forgiveness calculation is based on rules promulgated by the Small Business Administration (SBA) who has not issued its final regulations governing the forgiveness calculation. The Organization estimates at least \$260,000 of the loan proceeds will meet the forgiveness conditions.

Subsequent events have been evaluated through July 30, 2020 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.