



McConnell Jones

August 19, 2021

To the Board of Directors of
Educational Programs Inspiring Communities, Inc.

We have audited the financial statements of Educational Programs Inspiring Communities, Inc. (the “Organization”) for the years ended December 31, 2020 and 2019 and have issued our reports thereon dated August 16, 2021. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 28, 2021. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Organization are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the years ended December 31, 2020 and 2019. The Organization adopted new accounting standard relating to ASU 2014-09 – Revenue from Contract with Customers in 2020 financial statements. None of these standards resulted in no significant changes in the way the Organization were recognizing revenue. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Significant estimates included in the financial statements are depreciation expense, which is based on the estimated useful lives of the underlying depreciable assets, and the functional allocation of expenses. We evaluated the key factors and assumptions used to develop those accounting estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements appear neutral, consistent, and clear.

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Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. No such misstatements were identified as a result of this audit.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We obtained representations from management that are included in the management representation letter dated August 19, 2021.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Fraud Risk

We have performed the procedures required by Statement on Auditing Standards AU-C Section 240, *Consideration of Fraud in a Financial Statement Audit*, including discussion with management regarding the policies and procedures to prevent fraud. Management has represented to us that they have no knowledge of any significant fraud or suspected fraud affecting the Organization involving management, employees



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who have significant roles in internal control or others where the fraud could have a material effect on the financial statements. Management has further represented to us that they have no knowledge of any allegations of fraud or suspected fraud affecting the Organization received in communications from employees, former employees, or others.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the board of directors and management of the Organization and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**EDUCATIONAL PROGRAMS INSPIRING
COMMUNITIES, INC.**

(A Texas Nonprofit Corporation)

**Independent Auditor's Report and
Financial Statements**

Years Ended DECEMBER 31, 2020 AND 2019

EDUCATIONAL PROGRAMS INSPIRING COMMUNITIES, INC.
(A Texas Nonprofit Corporation)

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Educational Programs Inspiring Communities, Inc.

We have audited the accompanying financial statements of the Educational Programs Inspiring Communities, Inc. (the "Organization"), a Texas nonprofit corporation, which comprise the statements of financial position as of December 31, 2020 and 2019, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

McConnell & Jones

Houston, Texas
August 19, 2021

EDUCATIONAL PROGRAMS INSPIRING COMMUNITIES, INC.
(A Texas Nonprofit Corporation)

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Current assets:		
Cash	\$ 1,294,161	1,284,046
Restricted cash	-	100
Grants and other receivable	296,566	144,576
Deposits	<u>200</u>	<u>9,496</u>
Total current assets	<u>1,590,927</u>	<u>1,438,218</u>
Noncurrent assets:		
Property and equipment, net	<u>2,032,525</u>	<u>2,184,977</u>
Total noncurrent assets	<u>2,032,525</u>	<u>2,184,977</u>
Total assets	<u><u>\$ 3,623,452</u></u>	<u><u>\$ 3,623,195</u></u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 21,594	\$ 35,257
Current portion of long term debt and loan payable	<u>214,590</u>	<u>13,782</u>
Total current liabilities	<u>236,184</u>	<u>49,039</u>
Non-current liabilities:		
Long-term debt	<u>1,284,204</u>	<u>1,308,471</u>
Total non-current liabilities	<u>1,284,204</u>	<u>1,308,471</u>
Total liabilities	<u>1,520,388</u>	<u>1,357,510</u>
Net assets:		
Unrestricted	<u>2,103,064</u>	<u>2,265,685</u>
Total net assets	<u>2,103,064</u>	<u>2,265,685</u>
Total liabilities and net assets	<u><u>\$ 3,623,452</u></u>	<u><u>\$ 3,623,195</u></u>

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

EDUCATIONAL PROGRAMS INSPIRING COMMUNITIES, INC.
(A Texas Nonprofit Corporation)

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2020 AND 2019

	Net Assets without Donor Restrictions	Net Assets with Donor Restrictions	2020 Totals	2019 Totals
REVENUES				
Grants	\$ 844,579	-	\$ 844,579	\$ 1,218,314
Contributions	202,892	-	202,892	247,596
Vending sales	54,224	-	54,224	139,865
Concession services fees	9,009	-	9,009	61,622
Special events income	155,015	-	155,015	190,959
Less: Benefit to donors	(16,181)	-	(16,181)	(53,749)
Net Special events	138,834	-	138,834	137,210
Program fees	-	-	-	4,800
Interest and other income (loss)	(14,896)	-	(14,896)	16,510
Total Revenues	<u>1,234,642</u>	<u>-</u>	<u>1,234,642</u>	<u>1,825,917</u>
EXPENSES				
Program services	1,028,682	-	1,028,682	1,383,168
Total program services	<u>1,028,682</u>	<u>-</u>	<u>1,028,682</u>	<u>1,383,168</u>
Support services:				
Fundraising	204,698	-	204,698	192,070
Management and general	163,883	-	163,883	55,789
Total support services	<u>368,581</u>	<u>-</u>	<u>368,581</u>	<u>247,859</u>
Total expenses	<u>1,397,263</u>	<u>-</u>	<u>1,397,263</u>	<u>1,631,027</u>
CHANGE IN NET ASSETS	(162,621)	-	(162,621)	194,890
NET ASSETS, BEGINNING OF YEAR	<u>2,265,685</u>	<u>-</u>	<u>2,265,685</u>	<u>2,070,795</u>
NET ASSETS, END OF YEAR	<u>\$ 2,103,064</u>	<u>\$ -</u>	<u>\$ 2,103,064</u>	<u>\$ 2,265,685</u>

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

EDUCATIONAL PROGRAMS INSPIRING COMMUNITIES, INC.
(A Texas Nonprofit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2020

	Program Services							Support Services			Cost of Direct Benefits to Donor	Total expenditures	
	H.E.A.R.T.	Vending	Concessions	DR	Transportation	HGAC	Youth	Total program services	Management and general	Fund-raising			Total support services
Payroll & related costs	\$ 178,138	\$ 21,781	\$ 26,871	\$ 136,271	\$ 23,109	\$ 94,711	\$ 100,980	\$ 581,861	\$ 64,659	\$ 129,578	\$ 194,237	\$ -	\$ 776,098
Vending products	-	58,840	-	-	-	-	-	58,840	-	510	510	-	59,350
Transportation	683	24	-	623	1,300	-	-	2,630	-	35	35	-	2,665
Supplies	1,656	997	-	5,251	-	3,442	552	11,898	359	-	359	-	12,257
Telephone	5,528	14	-	11,560	-	2,305	-	19,407	1,497	-	1,497	-	20,904
Postage and delivery	170	-	-	309	-	1,465	-	1,944	330	675	1,005	-	2,949
Printing and reproduction	-	-	-	-	-	272	-	272	197	114	311	-	583
Facility rent	2,909	356	439	2,226	377	1,547	1,649	9,503	1,056	4,306	5,362	-	14,865
Marketing	-	-	-	-	-	1,299	-	1,299	1,095	8,027	9,122	-	10,421
Insurance	17,017	2,081	2,567	13,018	2,208	9,048	9,647	55,586	6,177	12,377	18,554	-	74,140
Utilities	2,702	516	-	5,209	-	-	-	8,427	1,486	-	1,486	-	9,913
Staff training and development	-	-	40	-	-	675	-	715	1,113	-	1,113	-	1,828
Repairs and maintenance	6,860	1,827	-	13,865	-	-	-	22,552	2,292	-	2,292	-	24,844
IT expense	526	-	-	852	-	-	605	1,983	3,012	1,386	4,398	-	6,381
Bank service charges	-	36	-	-	-	-	-	36	49,998	-	49,998	-	50,034
Depreciation	46,294	5,661	6,983	35,415	6,006	24,614	26,243	151,216	15,979	33,676	49,655	-	200,871
Background checks	14	-	-	226	-	-	-	240	-	-	-	-	240
Catering expense	-	44	402	-	-	-	-	446	-	664	664	-	1,110
Professional fees	18,310	2,239	2,762	14,007	2,375	9,735	10,380	59,808	6,647	13,320	19,967	-	79,775
Travel	-	-	-	-	-	25	-	25	-	-	-	-	25
Program expenses	-	-	-	-	-	-	39,029	39,029	7,806	-	7,806	-	46,835
Miscellaneous	-	260	-	-	-	675	30	965	180	30	210	-	1,175
Benefit to donors	-	-	-	-	-	-	-	-	-	-	-	16,181	16,181
Total Expenses	\$ 280,807	\$ 94,676	\$ 40,064	\$ 238,832	\$ 35,375	\$ 149,813	\$ 189,115	\$ 1,028,682	\$ 163,883	\$ 204,698	\$ 368,581	\$ 16,181	\$ 1,413,444
Less expenses included with revenues on the statement of activities													
Benefit to donors included in the expense section on the statement of	\$ 280,807		\$ 40,064	\$ 238,832	\$ 35,375	\$ 149,813	\$ 189,115	\$ 1,028,682	\$ 163,883	\$ 204,698	\$ 368,581	\$ -	\$ 1,397,263

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

EDUCATIONAL PROGRAMS INSPIRING COMMUNITIES, INC.
(A Texas Nonprofit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2019

	Program Services						Support Services			Cost of Direct		
	H.E.A.R.T.	Vending	Concessions	Transportation	HGAC	Youth	Total program services	Management and general	Fund-raising	Total support services	Benefits to Donor	Total expenditures
Payroll & related costs	\$ 188,594	\$ 30,478	\$ 36,214	\$ 64,529	\$ 332,192	\$ 115,290	\$ 767,297	\$ 22,131	\$ 122,769	\$ 144,900	\$ -	\$ 912,197
Vending products	-	111,127	64	-	-	-	111,191	-	132	132	-	111,323
Transportation	2,286	2,576	21	1,187	1,104	-	7,174	12	17	29	-	7,203
Supplies	4,051	2,910	214	312	18,115	6,850	32,452	673	354	1,027	-	33,479
Telephone	3,688	202	-	-	3,975	-	7,865	6,224	-	6,224	-	14,089
Postage and delivery	-	-	25	-	150	-	175	1,115	2,095	3,210	-	3,385
Printing and reproduction	-	-	-	-	-	-	-	888	5,071	5,959	-	5,959
Facility rent	6,761	1,093	1,298	2,313	11,908	4,133	27,506	793	4,401	5,194	-	32,700
Marketing	-	-	2,301	-	4,929	-	7,230	490	262	752	-	7,982
Insurance	12,085	1,953	2,321	4,135	21,287	7,388	49,169	1,418	7,867	9,285	-	58,454
Utilities	4,719	2,472	-	-	-	-	7,191	3,392	-	3,392	-	10,583
Staff training and development	-	-	590	-	-	-	590	4,419	400	4,819	-	5,409
Sales taxes	-	10	-	-	-	-	10	-	-	-	-	10
Repairs and maintenance	-	1,965	-	-	-	-	1,965	17,303	6	17,309	-	19,274
IT expense	-	106	-	-	-	-	106	4,404	3,648	8,052	-	8,158
Bank service charges	-	21	-	-	-	-	21	4,501	-	4,501	-	4,522
Depreciation	34,642	5,598	6,652	11,853	61,018	21,177	140,940	4,065	22,551	26,616	-	167,555
Background checks	290	-	-	254	-	-	544	122	19	141	-	685
Catering expense	-	50	10,432	-	1,046	-	11,528	1,213	101	1,314	-	12,842
Professional fees	34,376	5,555	6,601	11,762	60,549	21,014	139,857	4,034	22,378	26,412	-	166,269
Travel	-	-	-	-	1,828	-	1,828	-	-	-	-	1,828
Program expenses	-	-	-	-	-	46,831	46,831	-	-	-	-	46,831
Miscellaneous	-	260	-	-	-	-	260	-	-	-	-	260
Benefit to donors	-	-	-	-	-	-	-	-	-	-	53,749	53,749
Total Expenses	\$ 291,492	\$ 166,376	\$ 66,733	\$ 96,345	\$ 518,101	\$ 222,683	\$ 1,361,730	\$ 77,197	\$ 192,071	\$ 269,268	\$ 53,749	\$ 1,684,746
Less expenses included with revenues on the statement of												
Benefit to donors	-	-	-	-	-	-	-	-	-	-	(53,749)	(53,749)
included in the expense section	\$ 291,492	\$ 166,376	\$ 66,733	\$ 96,345	\$ 518,101	\$ 222,683	\$ 1,361,730	\$ 77,197	\$ 192,071	\$ 269,268	\$ -	\$ 1,630,997

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

EDUCATIONAL PROGRAMS INSPIRING COMMUNITIES, INC.
(A Texas Nonprofit Corporation)

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (162,621)	\$ 194,890
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	200,871	167,555
Loss on leasehold improvements	20,778	
Changes in operating assets and liabilities		
Grants and other receivable	(151,990)	6,690
Prepayments and deposits	9,296	781
Accounts payable and accrued expenses	(13,663)	7,118
Total adjustments	65,292	182,144
Net cash (used in) provided by operating activities	(97,329)	377,034
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(69,197)	(239,133)
Net cash used in investing activities	(69,197)	(239,133)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal paid on notes payable	176,541	(27,747)
Net cash provided by (used in) financing activities	176,541	(27,747)
NET INCREASE IN CASH	10,015	110,154
CASH, BEGINNING OF YEAR	1,284,146	1,173,992
CASH, END OF YEAR	\$ 1,294,161	\$ 1,284,146
Reconciliation of Cash to Amounts Reported in the Statements of Financial Position:		
Unrestricted cash	\$ 1,294,161	\$ 1,284,046
Restricted cash	-	100
	\$ 1,294,161	1,284,146

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

EDUCATIONAL PROGRAMS INSPIRING COMMUNITIES, INC.

(A Texas Nonprofit Corporation)

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Business

Educational Programs Inspiring Communities, Inc. (the “Organization”) is a Texas nonprofit corporation established in May 2002 for the purpose of providing job placements and life training to low-income people, empowering them to be independent of governmental assistance and taking charge of their lives mentally and physically.

The Organization operates the Housing, Entrepreneurship, and Readiness Training (H.E.A.R.T.) Program and H.E.A.R.T. Vending and Concessions along with transportation and technology programs. These programs provide vocational training and services to adults with developmental disabilities. Program participants are instructed in servicing vending machines and providing concessions service. Eligible participants are employed by H.E.A.R.T. Vending Concessions to work within the general community and in a supervised setting as appropriate, through the entrepreneurial venture.

The Organization is supported through funds received from federal, state and local governmental agencies, as well as from private donors including corporations and non-profit organizations. The proceeds from Vending and Concessions are used to purchase vending supplies and pay participant wages.

The Organization entered into a Bingo operations agreement along with other members with a third-party operator. Under the agreement, each licensee would be entitled to share in all revenues, authorized expenses, and inventory related to Bingo operations. Net proceeds from the Bingo operations, after deducting expenses, are used to support the program expenditures at the discretion of the Organization.

Basis of Accounting

The financial statements of the Organization are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

Financial Statement Presentation

The Organization’s financial statements are presented in accordance with Financial Accounting Standards Board’s (FASB) Accounting Standards Codification (ASC) 958-205, *Not-for-Profit Entities-Presentation of Financial Statements*. Under FASB ASC 958-205, the Organization is required to report information regarding its financial position and activities according to the two classes of net assets, as defined below:

EDUCATIONAL PROGRAMS INSPIRING COMMUNITIES, INC.

(A Texas Nonprofit Corporation)

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

Net assets without donor restrictions – These are resources that are not subject to donor-imposed stipulations and can be used for the general operations of the Organization.

Net assets with donor restrictions – These are resources that are subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time.

In addition, the Organization is also required by FASB ASC 958-205 to present statements of activities, cash flows and functional expenses.

Measurement of Operations

The statements of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to Organization's ongoing program services. Nonoperating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature.

Revenue Recognition

The Organization recognizes revenue based on the existence or absence of an exchange transaction. The Organization recognizes revenue from exchange transactions when it satisfies a performance obligation by providing a service to a customer or member or by transferring control over a product to a customer or member.

Revenue from non-exchange transactions consist of the following:

Grant contracts are conditional upon the incurrence of allowable qualifying expenses. Grant revenue is recorded as allowable qualifying expenses are incurred and the conditions of the grant.

Contributions of cash and promises to give – gifts received without donor stipulations are reported as revenue and net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as revenue and net assets with donor restrictions. When a donor-stipulated time restriction ends, or purpose restriction 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. Conditional promises are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. There were no donor-restricted contributions for the years ended December 31, 2020 and 2019.

EDUCATIONAL PROGRAMS INSPIRING COMMUNITIES, INC.

(A Texas Nonprofit Corporation)

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

The Organization uses the allowances method to determine uncollectible unconditional promises receivable. The allowance is based on management's analysis of specific promises made. There was no allowance for the years ended December 31, 2020 and 2019.

Revenue that has characteristics of both exchange and non-exchange transactions consist of the following:

Special event revenue – recognized equal to the cost of direct benefits to donors, and contribution revenue for the difference.

Revenue from exchange transactions consist of the following:

Interest income is recognized when earned based on passage of time. Program income, including revenue from vending and concession operations and bingo are recognized when performance obligations are met.

Contributed Services

Many individuals volunteer their time and perform a variety of tasks that assist the Organization in its operations. The Organization records the value of contributed services when there is an objective basis available to measure the value. During the years ended December 31, 2020 and 2019, the Organization received \$46,835 and \$46,831, respectively, in contributed services, which met the criteria for recognition in the financial statements. The contributed services represented cost of professional services incurred by the Organization in connection with modifications and fine tuning of internally developed software.

Cash and Cash Equivalents

The Organization considers all monies in banks and highly liquid investments with maturities of three months or less from the date of purchase to be cash and cash equivalents. The carrying values of any cash and cash equivalents are deemed to approximate their fair values because of the short maturities of those financial instruments. There were no cash equivalents for the years ended December 31, 2020 and 2019.

Property and Equipment

Property and equipment are generally recorded at cost or, if donated, at their estimated fair value at the date of donation. Such donations are reported as an increase in unrestricted net assets unless the donor has restricted the donated assets to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire or maintain property and equipment are reported as restricted contributions. The Organization does not presently have any assets which have donor-imposed restrictions.

EDUCATIONAL PROGRAMS INSPIRING COMMUNITIES, INC.

(A Texas Nonprofit Corporation)

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

The Organization follows the policy of capitalizing all expenditures for property and equipment in excess of \$500. Property and equipment items are depreciated using the straight-line method based on their estimated useful lives ranging from five to twenty years except for leasehold improvements, which are amortized over the shorter of the useful life of the improvements or the remaining lease term of the related leases. Maintenance and repairs are charged to operations when incurred. Major improvements and renewals that extend the life of the asset are capitalized.

Functional Allocation of Expenses

The costs of providing the Organization's various programs and activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated amongst the programs and supporting services benefited by various reasonable bases. Fundraising expenses are expenses that do not support programs and are paid to raise funds for the Organization. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

The expenses that are allocated are rent, insurance and depreciation which are allocated based on estimates of time and effort.

Reclassification

Certain amounts in the prior period financial statements have been reclassified to conform to the presentation of the current period financial statements. This reclassification had no effect on the previously reported net change in net assets.

Income Taxes

The Organization is a nonprofit corporation that is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code ("Code") and comparable State of Texas law. Accordingly, contributions to the Organization are tax deductible within the limitations prescribed by the Code. The Organization has also been qualified for the charitable contribution deduction under Section 170(b)(1)(A)(iv) of the Code and has been classified as an *organization* that is not a private foundation under Section 509(a)(1) of the Code. Accordingly, income taxes are not provided for in the accompanying financial statements.

The Organization applies the provisions of FASB ASC 740, *Income Taxes*, which prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FASB ASC 740 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. Management of the Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are significant to the financial statements.

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Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates included in the financial statements are depreciation and amortization expense, which is based on the estimated useful lives of the underlying depreciable assets, and the functional allocation of expenses.

Liquidity and Availability of Financial Assets

The Organization has \$1,590,727 and \$1,428,622 of financial assets available to meet cash needs for general operating expenditures as of December 31, 2020 and 2019 consisting of:

	<u>2020</u>	<u>2019</u>
Cash	\$ 1,294,161	\$ 1,284,046
Receivables	296,566	144,576
	<u>\$ 1,590,727</u>	<u>\$ 1,428,622</u>

Additionally, the Organization maintains a \$75,000 line of credit, of which no amount was drawn as of December 31, 2020 and 2019.

Accounting Pronouncements adopted

In August 2016, the FASB issued ASU 2016-15 – Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which clarified guidance on certain cash flow classification issues. The Organization has implemented this update for the year ended December 31, 2019 and the adoption of this ASU did not materially impact the Organization’s 2019 annual financial statements.

In August 2016, the FASB issued ASU 2016-14 – Not-for-Profit Entities (Topic 958): Presentation of Financial Statement for Not-for-Profit Entities, which makes improvements that address certain identified issues about the current financial reporting for not-for-profit entities. Management adopted ASU 2016-14 in 2018 and included all required disclosure and presentation in the financial statements. The Organization has implemented this update for the year ended December 31, 2019 and the adoption of this ASU did not materially impact the Organization’s 2019 annual financial statements.

Not-for-Profit Entities (Topic 230) – In November 2016, the FASB issued ASU 2016-18 – *Statement of Cash Flows: Restricted Cash*, which requires that a statement of cashflows explain the change during the period in the total of cash, cash equivalents, and amounts generally

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described as restricted cash or restricted cash equivalents. This update is effective for the Organization's 2019 annual financial statements. The Organization has implemented this update for the year ended December 31, 2019 and the adoption of this ASU did not materially impact the Organization's 2019 annual financial statements.

In June 2018, the FASB issued Accounting Standards Update (ASU) 2018-08 – Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions received and Contributions Made, which focuses on clarifying and improving the scope and the accounting guidance for contributions received and contributions made. The amendments in this update is intended to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. This ASU update has been implemented in Organization's 2019 annual financial statements.

In 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) which is a comprehensive new revenue recognition standard that will supersede existing revenue recognition guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The entity should recognize revenue when (or as) the entity satisfies a performance obligation. Not-for-profit entities must consider whether certain arrangements are fully or partially subject to Topic 606. Examples include, but are not limited to memberships, sponsorships, grants and contracts. Further, judgment is required to bifurcate transactions between contribution and exchange components. This ASU update has been implemented in Organization's 2020 annual financial statements.

Analysis of various provisions of the adopted ASUs resulted in no significant changes in the way the Organization recognizes revenue. The presentation and disclosures of revenue have been enhanced in accordance with the ASUs.

New Accounting Pronouncements

Not-for-Profit Entities (Topic 842) – In February 2016, the FASB issued ASU 2016-02 – *Leases*, which supersedes existing guidance on leases and amends and supersedes several other paragraphs throughout the FASB ASC. This update will be effective for the Organization's 2022 annual financial statements. Management is currently evaluating the impact this update will have on the Organization's financial statements.

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2. PROGRAMS AND SUPPORTING SERVICES

The following programs and supporting services are included in the accompanying financial statements:

- (a) H.E.A.R.T. Program: The program provides occupational skills training to low-income, developmentally disabled adults residing within the city limits of Houston, Texas. The purpose of the program is to prepare participants for gainful employment through an innovative client-managed entrepreneurial venture.
- (b) H.E.A.R.T. Vending and Concessions Program: Program participants, who are low-income, developmentally disabled adults, are instructed in servicing vending machines and providing concessions service. Eligible participants are employed by H.E.A.R.T. Vending Concessions to work within the general community and in a supervised setting as appropriate, through the entrepreneurial venture.
- (c) Transportation Program: The purpose of this program is to meet the transportation requirements of special-needs adults who rely upon non-traditional transportation in order to access educational programs, job training, and employment opportunities.
- (d) Technology Program: The purpose of this program is to develop innovative technology that will adapt education, job training, and employment opportunities for individuals with intellectual and developmental disabilities in a customized manner.
- (e) Youth Program: The youth program helps youth ages 16-22 with developmental disabilities to learn and share information, acquire leadership skills, and develop long-range advocacy plans. This program expands and advances the Organization's partnership with the Houston Independent School District known as the "H.I.S.D./H.E.A.R.T. Transition Program" that provides a year of employment and training to transitioning students during their final year in high school. The program is based at Houston Food Bank and is designed to integrate real-world workforce experience with the education curriculum. Community-based, integrated employment for at least minimum wage, is the backbone of young adults becoming independent. Working improves occupational and career skills, attitudes, and behaviors that are needed for success in the workplace.
- (f) Disaster Recovery Program (DR): This program is a disaster recovery program funded by CDBG-DR funds. The purpose of the program is to build resiliency for adults with I/DD by providing job training in conjunction with CVS Health locations and additional vending and concessions training.

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3. CASH AND CASH EQUIVALENTS AND CONCENTRATION OF CREDIT RISKS

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the Organization will not be able to recover its deposits. Although the Organization does not have a deposit policy for custodial credit risk, it maintains deposits at federally insured banks and strives to minimize its exposure to custodial credit risk by maintaining deposits at institutions with demonstrated financial strength. The Federal Deposit Insurance Corporation (FDIC) insures up to \$250,000 per bank. As of December 31, 2020 and 2019, the cash deposits at the Organization's banks were \$1,256,575 and \$1,205,950, respectively, which exceeded the FDIC limit per bank by \$756,575 and \$705,950, respectively, and were not otherwise insured. Management reviews balances frequently and maintains cash balances necessary to meet short term requirements.

Credit risk associated with grants receivable is minimal due to the credit worthiness of the awarding federal, state and local agencies.

Revenue from grants approximated 68% & 67% of the total revenues and support of the Organization for the years ended December 31, 2020 and 2019, respectively.

The value of cash and cash equivalents as of December 31, 2020 and 2019 was \$1,294,161 and \$1,284,146, respectively. Of these amounts, as of December 31, 2020 and 2019, \$0 and \$100 respectively was restricted for the Bingo event.

4. PROPERTY AND EQUIPMENT

The following is a summary of property and equipment, less accumulated depreciation, as of December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Land	\$ 345,000	\$ 345,000
Leasehold improvements	-	39,130
Furniture and equipment	161,951	162,951
Software	986,659	986,659
Vehicles	145,263	123,177
Building	<u>1,311,058</u>	<u>1,263,947</u>
	2,949,931	2,920,864
Less: Accumulated depreciation	<u>(917,406)</u>	<u>(735,887)</u>
Property and equipment, net	<u>\$ 2,032,525</u>	<u>\$ 2,184,977</u>

Depreciation expense for the years ended December 31, 2020 and 2019 was \$200,871 and \$167,555, respectively.

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5. LINES OF CREDIT

The Organization maintains a business credit card from a local bank, which is used to pay operating expenses. This business card has a credit limit of \$5,000. Balances outstanding on the credit card bear interest at the bank's prime rate plus 11.99% per annum; the effective interest rate at December 31, 2020 and 2019 was 15.24% and 16.74%, respectively, per annum. The outstanding balance on the credit card as of December 31, 2020 and 2019 was \$483 and \$1,507, respectively. No interest was incurred and charged to expense during 2020 and 2019. The credit card balance are included in accounts payable on the statements of financial position.

In June 2017, the Organization opened an unsecured line of credit with a local financial institution in the amount of \$75,000, which matures in June 2022. Amounts borrowed under this agreement bear interest at 5.75%. The purpose of the line of credit is to provide start-up capital for new projects of the Organization. There were no drawdowns on the line of credit during the years ended December 31, 2020 and 2019.

6. NOTES AND LOANS PAYABLE

Paycheck Protection Program Loan – On March 11, 2020 the World Health Organization classified the global coronavirus (COVID-19) outbreak as a pandemic. As a result of the CARES Act, the Paycheck Protection Program (PPP) was established. The Organization successfully applied for and received a loan in the amount of \$190,322 under the Small Business Administration's PPP 2020. The loan is forgivable if the Organization can demonstrate proper use of the proceeds from such loan and remain in compliance with the terms of this assistance from the federal government. Management adopted the guidance in FASB ASC 405-20-40-1 and recognized the entire amount of the loan received as a liability as of year-end. The PPP loan balance is included in the current portion and long-term portion of loans payable in the statements of financial position as of December 31, 2020. Loan was forgiven in April 2021, the Organization will reduce the liability by the amount of forgiveness and record the amount as contribution revenue in 2021.

During April 2018, the Organization purchased a building via financing from two different institutions.

The Organization entered into a promissory agreement with Allegiance Bank in the amount of \$1,080,000 bearing interest at the rate of 4.85% per annum. The Allegiance Bank note will be due and payable in eighty four (84) consecutive monthly installments, the first twelve (12) of which being in the amount of accrued interest only each, the next seventy one (71) of which being in the amount of \$6,262, including accrued interest each, and the eighty fourth (84th) and final installment being the amount of the balance of principal and accrued interest due at that time.

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The Organization entered into a promissory agreement with The Jacobson Family Foundation in the amount of \$270,000. bearing interest at the rate of 3.76% per annum. The Jacobson Family Foundation note will bear interest at a rate of LIBOR Rate plus 1.00% per annum (the “Applicable Rate”). During the period of commencement of the note through and including April 30, 2021, the Organization shall pay interest only at the Applicable Rate on the outstanding loan balance. From May 2021 through the maturity date of April 30, 2023, the Organization will pay interest at the Applicable Rate plus principal of \$2,250. The notes are secured by the purchased building.

Future principal payments and loans under these notes are summarized below:

Year ending December 31,

	Amount
2021	214,590
2022	50,844
2023	24,268
2024	5,890
Thereafter	1,203,202
	<u>\$ 1,498,794</u>

7. NET ASSETS

Net assets without restrictions amounted to \$2,103,064 and \$2,070,795 as of December 31, 2020 and 2019, respectively, and are available to support the programs and activities of the Organization.

8. CONTINGENCIES

The Organization receives grant funds from federal, state, and local governmental agencies for certain programs, which are governed by various laws and regulations. Expenditures charged to these programs are reimbursed to the Organization after review and adjustment by the grantors. The Organization may become liable to refund money to funding agencies where it fails to comply with contract provisions. Also, the ability of the Organization to collect related receivables at December 31, 2020 and 2019 is subject to the compliance approval process on the activities related to those reimbursable expenditures. Any liability for potential recoupment or reimbursement that could arise from such review is not considered material to the financial statements.

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9. RISKS AND UNCERTAINTIES

On March 11, 2020, the World Health Organization (“WHO”) classified the global coronavirus outbreak (COVID-19) as a pandemic, triggering volatility in financial markets and a significant negative impact on the global economy. The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses across the country for non-essential services. Organization’s business operations, fund raising and program activity are expected to be significantly affected by COVID-19. Organization is assessing risks, monitoring the evolving situation, and modifying its operations accordingly to continue to provide support and services to its programs they serve. The Organization believe they are well positioned to continue to respond to the pandemic and does not believe there is substantial doubt about the Organization’s ability to continue as a going concern.

10. RELATED PARTY TRANSACTIONS

Certain members of the board of directors made total cash contributions of \$23,960 and \$28,798, respectively, in support of the Organization for the years ended December 31, 2020 and 2019.

11. SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 19, 2021, the date that the financial statements were available to be issued. No changes were made, or are necessary to be made to the financial statements, as a result of this evaluation.