

**EDUCATIONAL PROGRAMS INSPIRING
COMMUNITIES, INC.**

(A Texas Nonprofit Corporation)

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

Years Ended December 31, 2017 and 2016

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, 2017 and 2016, 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.

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, 2017 and 2016, 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.



Houston, Texas

May 23, 2019

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

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2017

ASSETS

Current assets:

Cash	\$	1,028,851
Grants and other receivable		149,182
Deposits		<u>31,725</u>
Total current assets		<u>1,209,758</u>

Noncurrent assets:

Property and equipment, net		<u>854,377</u>
Total noncurrent assets		<u>854,377</u>

Total assets \$ 2,064,135

LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable and accrued expenses	\$	<u>68,283</u>
Total current liabilities		<u>68,283</u>

Total liabilities 68,283

Net assets:

Unrestricted		<u>1,995,852</u>
Total net assets		<u>1,995,852</u>

Total liabilities and net assets \$ 2,064,135

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

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

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2016

ASSETS

Current assets:

Cash	901,141
Grants and other receivable	119,506
Deposits	<u>1,725</u>
Total current assets	<u>1,022,372</u>

Noncurrent assets:

Property and equipment, net	<u>983,852</u>
Total noncurrent assets	<u>983,852</u>

Total assets \$ 2,006,224

LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable and accrued expenses	<u>\$ 66,094</u>
Total current liabilities	<u>66,094</u>

Total liabilities 66,094

Net assets:

Unrestricted	<u>1,940,130</u>
Total net assets	<u>1,940,130</u>

Total liabilities and net assets \$ 2,006,224

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

EDUCATIONAL PROGRAMS INSPIRING COMMUNITIES, INC.

(A Texas Nonprofit Corporation)

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2017

UNRESTRICTED REVENUES AND OTHER SUPPORT

Grants	\$ 609,299
Contributions	93,378
Vending sales	195,101
Concession services fees	56,601
Special events income and fundraisers, net of direct benefits to donors for \$28,762	226,044
Program fees	5,800
Interest and other income	<u>2,710</u>
Total unrestricted revenues and other support	<u>1,188,933</u>

EXPENSES

Program services	<u>797,969</u>
Total program services	<u>797,969</u>
Support services:	
Fundraising	108,444
Management and general	<u>226,798</u>
Total support services	<u>335,242</u>
Total expenses	<u>1,133,211</u>
CHANGE IN NET ASSETS	55,722
NET ASSETS, BEGINNING OF YEAR	<u>1,940,130</u>
NET ASSETS, END OF YEAR	<u>\$ 1,995,852</u>

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

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

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2016

UNRESTRICTED REVENUES AND OTHER SUPPORT

Grants	\$ 683,055
Contributions	215,143
Vending sales	215,403
Concession services fees	51,746
Special events income and fundraisers, net of direct benefits to donors for \$12,840	176,373
Program fees	14,551
Interest and other income	891
Total unrestricted revenues and other support	<u>1,357,162</u>

EXPENSES

Program services	<u>1,007,663</u>
Total program services	<u>1,007,663</u>
Support services:	
Fundraising	151,725
Management and general	<u>212,100</u>
Total support services	<u>363,825</u>
Total expenses	<u>1,371,488</u>
CHANGE IN NET ASSETS	(14,326)
NET ASSETS, BEGINNING OF YEAR	<u>1,954,456</u>
NET ASSETS, END OF YEAR	<u>\$ 1,940,130</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, 2017

	<u>Program Services</u>							<u>Support Services</u>			<u>Total expenditures</u>	
	<u>H.E.A.R.T.</u>	<u>Vending</u>	<u>Concessions</u>	<u>Technology</u>	<u>Transportation</u>	<u>Bingo</u>	<u>Youth</u>	<u>Total program services</u>	<u>Management and general</u>	<u>Fund-raising</u>		<u>Total support services</u>
Payroll & related costs	\$ 176,427	\$ 48,187	\$ 63,533	\$ 14,907	\$ 102,044	\$ -	\$ 15,693	\$ 420,791	\$ 54,021	\$ 54,064	\$ 108,085	\$ 528,876
Vending products	-	130,553	420	-	-	-	-	130,973	-	385	385	131,358
Transportation	3,005	280	175	-	2,058	-	-	5,518	30	11	41	5,559
Supplies	3,083	4,755	795	772	1,088	-	257	10,750	412	793	1,205	11,955
Telephone	2,688	72	-	1,508	-	-	52	4,320	8,564	-	8,564	12,884
Postage and delivery	-	27	122	-	-	-	-	149	179	2,826	3,005	3,154
Printing and reproduction	-	-	-	-	-	-	-	-	66	4,667	4,733	4,733
Facility rent	12,008	19,200	-	-	-	-	11,150	42,358	1,492	-	1,492	43,850
Marketing	-	-	5,660	-	-	-	-	5,660	281	12,353	12,634	18,294
Insurance	4,132	4,010	-	-	-	-	-	8,142	30,190	719	30,909	39,051
Utilities	3,526	2,816	-	-	-	-	1,948	8,290	2,773	-	2,773	11,063
Staff training and development	-	89	756	-	-	-	4,208	5,053	1,264	190	1,454	6,507
Sales taxes	-	-	50	-	-	-	-	50	-	-	-	50
Repairs and maintenance	-	1,942	2,641	-	-	-	-	4,583	404	-	404	4,987
IT expense	-	-	-	81,559	-	-	-	81,559	1,857	2,436	4,293	85,852
Bank service charges	-	-	-	-	-	-	-	-	7,113	-	7,113	7,113
Depreciation and amortization	-	13,081	-	35,929	-	-	-	49,010	110,381	-	110,381	159,391
Background checks	253	59	-	-	366	-	-	678	59	-	59	737
Catering expense	-	-	1,667	-	-	-	-	1,667	462	-	462	2,129
Professional fees	1,500	-	-	2,000	-	-	9,638	13,138	7,250	30,000	37,250	50,388
Bingo	-	-	-	-	-	5,000	-	5,000	-	-	-	5,000
Miscellaneous	-	280	-	-	-	-	-	280	-	-	-	280
Total Expenses	\$ 206,622	\$ 225,351	\$ 75,819	\$ 136,675	\$ 105,556	\$ 5,000	\$ 42,946	\$ 797,969	\$ 226,798	\$ 108,444	\$ 335,242	\$ 1,133,211

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

EDUCATIONAL PROGRAMS INSPIRING COMMUNITIES, INC.
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STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2016

	<u>Program Services</u>						<u>Support Services</u>			<u>Total expenditures</u>	
	H.E.A.R.T.	Vending	Concessions	Technology	Transportation	Bingo	Total program services	Management and general	Fund-raising		Total support services
Payroll & related costs	\$ 194,072	\$ 76,131	\$ 66,421	\$ 58,451	\$ 42,054	\$ -	\$ 437,129	\$ 44,128	\$ 91,213	\$ 135,341	\$ 572,470
Vending products	-	124,372	504	-	-	-	124,876	-	-	-	124,876
Transportation	3,422	1,558	152	-	1,679	-	6,811	-	337	337	7,148
Supplies	2,514	5,200	452	1,051	496	-	9,713	270	1,247	1,517	11,230
Telephone	3,163	266	-	6,934	-	-	10,363	2,529	-	2,529	12,892
Postage and delivery	-	-	-	-	-	-	-	450	1,986	2,436	2,436
Printing and reproduction	-	-	-	-	-	-	-	122	4,080	4,202	4,202
Facility rent	12,375	14,850	-	-	-	-	27,225	750	-	750	27,975
Marketing	-	90	2,553	-	-	-	2,643	45	40,703	40,748	43,391
Insurance	4,132	5,673	-	-	-	-	9,805	5,655	408	6,063	15,868
Utilities	4,127	3,761	-	-	-	-	7,888	750	-	750	8,638
Staff training and development	-	12	161	-	-	-	173	457	346	803	976
Repairs and maintenance	-	1,076	1,100	-	-	-	2,176	370	-	370	2,546
IT expense	-	-	-	204,040	-	-	204,040	134,590	-	134,590	338,630
Bank service charges	-	-	1	-	-	-	1	6,107	1	6,108	6,109
Depreciation and amortization	-	14,737	-	143,718	-	-	158,455	2,592	-	2,592	161,047
Background checks	177	-	-	-	59	-	236	-	-	-	236
Catering expense	-	-	1,289	-	-	-	1,289	1,425	-	1,425	2,714
Professional fees	-	-	-	2,000	-	-	2,000	8,500	7,500	16,000	18,000
Bingo	-	-	-	-	-	2,500	2,500	3,360	-	3,360	5,860
Miscellaneous	-	280	60	-	-	-	340	-	3,904	3,904	4,244
Total Expenses	\$ 223,982	\$ 248,006	\$ 72,693	\$ 416,194	\$ 44,288	\$ 2,500	\$ 1,007,663	\$ 212,100	\$ 151,725	\$ 363,825	\$ 1,371,488

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

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

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2017

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	<u>\$ 55,722</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	159,391
Changes in operating assets and liabilities	
Grants and other receivable	(29,676)
Prepayments and deposits	(30,000)
Accounts payable and accrued expenses	<u>2,189</u>
Total adjustments	<u>101,904</u>
Net cash provided by operating activities	<u>157,626</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchases of property and equipment	<u>(29,916)</u>
Net cash used in investing activities	<u>(29,916)</u>

NET INCREASE IN CASH 127,710

CASH, BEGINNING OF YEAR 901,141

CASH, END OF YEAR \$ 1,028,851

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

EDUCATIONAL PROGRAMS INSPIRING COMMUNITIES, INC.
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STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	<u>\$ (14,326)</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	161,047
Changes in operating assets and liabilities	
Grants and other receivable	17,423
Prepayments and deposits	12,000
Accounts payable and accrued expenses	<u>25,310</u>
Total adjustments	<u>215,780</u>
Net cash provided by operating activities	<u>201,454</u>
NET INCREASE IN CASH	201,454
CASH, BEGINNING OF YEAR	<u>699,687</u>
CASH, END OF YEAR	<u><u>\$ 901,141</u></u>

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

EDUCATIONAL PROGRAMS INSPIRING COMMUNITIES, INC.

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NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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 three classes of net assets, as defined below:

EDUCATIONAL PROGRAMS INSPIRING COMMUNITIES, INC.

(A Texas Nonprofit Corporation)

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YEARS ENDED DECEMBER 31, 2017 AND 2016

Unrestricted net assets – These are resources that are not subject to donor-imposed stipulations and can be used for the general operations of the Organization.

Temporarily restricted net assets – 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.

Permanently restricted net assets – These are resources that are subject to donor restrictions requiring that the principal be held in perpetuity and any income thereon be used by the Organization.

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

Revenue Recognition

Generally, grants are recognized as revenues when earned. Grants that operate on a reimbursement basis are recognized on the accrual basis as revenues only to the extent of disbursements and commitments that are allowable for reimbursement. Revenues from contributions, donations and other sources are recognized as unrestricted or temporarily restricted revenues when received or unconditionally promised by a third party. Revenues from special events are recognized when the events are held. Interest income is recognized when earned based on passage of time. Program income, including revenue from vending and concession operations, bingo, and other income are recognized when received.

Contributions and Promises to Give

In accordance with FASB ASC 958-605, *Not-for-Profit Entities-Revenue Recognition*, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Conditional promises to give cash or other assets are not recognized as revenues until received. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends, or purpose restriction is accomplished) in the same fiscal year in which the contributions are recognized. All other donor-restricted contributions would be reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restrictions and reported in the Statement of Activities as net assets released from restrictions. There were no donor-restricted contributions for the years ended December 31, 2017 and 2016.

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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, 2017 and 2016.

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, 2017 and 2016, the Organization received \$64,598 and \$130,560, 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, 2017 and 2016.

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.

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

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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.

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. The Organization’s Federal income tax returns for years 2013 through 2015 are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

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.

New Accounting Pronouncements

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14 – Not-for-Profit Entities (Topic 958), *Presentation of Financial Statements of Not-for-Profit Entities*, to make several improvements to the current reporting requirements for not-for-profit entities that address, among others, complexities about the use of the currently required three classes of net assets that focus on the absence or presence of donor-imposed restrictions, deficiencies in the transparency and utility of information useful in assessing an entity’s liquidity; inconsistencies in the type of information provided for expenses; and impediment of preparing the indirect method

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reconciliation if an entity chooses to use direct method of preparing operating cash flows. This FASB update will be effective for the Organization's 2018 annual financial statements. Management is currently evaluating the impact of this accounting update on the Organization's financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Restricted Cash*, to provide guidance on the presentation of restricted cash or cash equivalents in the statement of cash flows and require that such a statement explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents and, those be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This FASB update will be effective for the Organization's 2019 annual financial statements. Management has not determined the impact of this accounting update on the Organization's financial statements.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, to clarify, improve and provide a more robust framework to determine when a transaction should be accounted for as a contribution or as an exchange transaction. It also provides additional guidance about how to determine whether a contribution is conditional. This FASB update will be effective for the Organization depending on whether the Organization is a resource recipient or a resource provider. For transactions in which the Organization will be a resource recipient, it will be effective for its 2019 annual financial statements. For transactions in which the Organization will be a resource provider, it will be effective for its 2020 annual financial statements. Management has not determined the impact of this accounting update on the Organization's financial statements.

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.

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- (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.

3. 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, 2017 and 2016, the cash deposits at the Organization's banks were \$1,033,866 and \$965,080, respectively, which exceeded the FDIC limit per bank by \$533,866 and \$465,080, 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 51% of the total revenues and support of the Organization for the years ended December 31, 2017 and 2016, respectively.

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NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

4. PROPERTY AND EQUIPMENT

The following is a summary of property and equipment, less accumulated depreciation, as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Leasehold improvements	\$ 39,130	\$ 39,130
Furniture and equipment	161,151	161,151
Software	986,659	986,659
Vehicles	119,756	95,340
Building	<u>5,500</u>	<u>-</u>
	1,312,196	1,282,280
Less: Accumulated depreciation and amortization	<u>457,819</u>	<u>298,428</u>
Property and equipment, net	<u>\$ 854,377</u>	<u>\$ 983,852</u>

Depreciation and amortization expense for the years ended December 31, 2017 and 2016 was \$159,391 and \$161,047, respectively.

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, 2017 and 2016 was 16.49% and 15.74%, respectively, per annum. The outstanding balance on the credit card as of December 31, 2017 and 2016 was \$2,776 and \$10, respectively. Total interest incurred and charged to expense during 2017 and 2016 was \$0, respectively.

In October 2013, the Organization opened an unsecured line of credit with a local financial institution in the amount of \$62,500, which matures in June 2018. Amounts borrowed under this agreement bear interest at 5.5%. 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, 2017 and 2016.

EDUCATIONAL PROGRAMS INSPIRING COMMUNITIES, INC.
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NOTES TO THE FINANCIAL STATEMENTS

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6. NET ASSETS

Unrestricted net assets amounted to \$1,995,852 and \$1,940,130 as of December 31, 2017 and 2016, respectively, and are available to support the programs and activities of the Organization.

7. LEASE COMMITMENTS

The Organization has entered into a non-cancellable lease agreement for use of office space for administrative and program operation purposes. The lease agreement expires on January 31, 2018.

The minimum future lease rental payments are as follows for the years ended December 31, 2017 and 2016:

<u>Years Ended December 31,</u>	<u>Amount</u>
2017	\$ 26,700
2018	26,700
2019	<u>2,225</u>
	<u>\$ 55,625</u>

Annual lease rental expense for office space for the years ended December 31, 2017 and 2016 was \$43,850 and \$27,975, respectively.

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, 2017 and 2016 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.

EDUCATIONAL PROGRAMS INSPIRING COMMUNITIES, INC.
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NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

9. RELATED PARTY TRANSACTIONS

Certain members of the board of directors made total cash contributions of \$16,582 and \$28,519, respectively, in support of the Organization for the years ended December 31, 2017 and 2016.

10. SUBSEQUENT EVENTS

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, and a promissory agreement with The Jacobson Family Foundation in the amount of \$270,000. 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. 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.

In September 2018, the Organization became a member of the Neighborhood Builders Program, which addresses pressing community needs by providing leadership development. The program is organized by the Bank of America Charitable Foundation. The Organization will be funded for a total of \$200,000 over a two-year period.

In October 2018, the Organization was awarded a grant of \$570,972 by Houston-Galveston Area Council to provide services under the Workforce Solutions IDD Demonstration Project over a two-year period.

Management has evaluated subsequent events through May 23, 2019, the date 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.