

EASTER SEALS OF GREATER HOUSTON, INC.

**FINANCIAL STATEMENTS
AND SINGLE AUDIT REPORTS**

DECEMBER 31, 2021 AND 2020

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Easter Seals of Greater Houston, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Easter Seals of Greater Houston, Inc. (ESGH) (a Texas non-profit corporation), which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ESGH as of December 31, 2021 and 2020, and the changes in its nets assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *State of Texas Single Audit Circular*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ESGH and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ESGH's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 ESGH's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ESGH's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal and non-federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the *State of Texas Single Audit Circular*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the schedule of expenditures of federal and non-federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2022, on our consideration of ESGH's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ESGH's internal control over financial reporting and compliance.



HARPER & PEARSON COMPANY, P.C.

Houston, Texas
June 29, 2022

EASTER SEALS OF GREATER HOUSTON, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2021 AND 2020

ASSETS	2021	2020
ASSETS		
Cash and cash equivalents - unrestricted	\$ 3,030,769	\$ 8,767,373
Cash restricted for Caroline School	<u>239,825</u>	<u>1,214,594</u>
Total cash and cash equivalents	3,270,594	9,981,967
Accounts receivable	2,546,786	2,878,192
Contributions receivable	409,166	990,790
Investments	4,576,723	-
Other assets	154,875	13,597
Property and equipment, net	<u>69,964</u>	<u>92,053</u>
TOTAL ASSETS	<u>\$ 11,028,108</u>	<u>\$ 13,956,599</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 641,324	\$ 879,811
Deferred rent	509,505	420,596
Deferred revenue	775,214	1,474,653
Note payable, Paycheck Protection Program	<u>383,240</u>	<u>793,804</u>
TOTAL LIABILITIES	<u>2,309,283</u>	<u>3,568,864</u>
NET ASSETS		
Without donor restrictions	6,737,088	7,711,854
With donor restrictions	<u>1,981,737</u>	<u>2,675,881</u>
	<u>8,718,825</u>	<u>10,387,735</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 11,028,108</u>	<u>\$ 13,956,599</u>

See accompanying notes.

EASTER SEALS OF GREATER HOUSTON, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
REVENUES AND SUPPORT		
Government grants	\$ 10,551,689	\$ 14,579,757
Contributions	1,163,960	8,443,288
Program service fees/third party reimbursement	8,892,387	8,931,651
Special events	628,717	598,984
Other income	<u>78,288</u>	<u>12,937</u>
	21,315,041	32,566,617
Net Assets Released from Restrictions	<u>1,324,732</u>	<u>1,360,131</u>
Total Revenues and Support	<u>22,639,773</u>	<u>33,926,748</u>
EXPENSES		
Program Services:		
Infant Development	12,463,585	13,493,513
Respite Care	2,302,573	2,225,510
Veterans	2,651,128	1,879,438
Disaster Relief	1,812,586	4,174,042
Adult Program	20,294	75,091
Bridging Apps	409,502	263,873
Camps and Case Management	605,349	548,479
Children's Therapy	834,513	799,689
High School/High Tech	149,971	125,534
Housing	497,951	627,654
The Caroline School	373,419	370,367
Toy Tech	9,992	19,332
Transition	<u>217,846</u>	<u>233,103</u>
Total program services	22,348,709	24,835,625
Management and general	402,578	427,101
Fundraising	<u>863,252</u>	<u>470,576</u>
Total Expenses	<u>23,614,539</u>	<u>25,733,302</u>
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>(974,766)</u>	<u>8,193,446</u>
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	630,588	1,338,759
Net assets released from restrictions	<u>(1,324,732)</u>	<u>(1,360,131)</u>
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS	<u>(694,144)</u>	<u>(21,372)</u>
CHANGE IN NET ASSETS	(1,668,910)	8,172,074
NET ASSETS, BEGINNING OF YEAR	<u>10,387,735</u>	<u>2,215,661</u>
NET ASSETS, END OF YEAR	<u>\$ 8,718,825</u>	<u>\$ 10,387,735</u>

See accompanying notes.

EASTER SEALS OF GREATER HOUSTON, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2021

	2021								
	Programs						Management and General	Fundraising	TOTAL
	Infant Development	Respite Care	Veterans	Disaster Relief	Other Programs	Total Programs			
Salaries and benefits	\$ 11,114,578	\$ 309,766	\$ 1,443,858	\$ 72,424	\$ 2,052,207	\$ 14,992,833	\$ 278,266	\$ 429,135	\$ 15,700,234
Assistance to individuals	25,133	1,856,425	1,106,132	1,728,098	455,344	5,171,132	-	7,206	5,178,338
Professional fees	440,949	89,955	37,921	4,119	210,720	783,664	36,269	278,774	1,098,707
Occupancy	304,537	24,940	16,264	2,419	227,475	575,635	23,881	17,401	616,917
Mileage reimbursement	105,414	20	3,149	-	3,618	112,201	91	566	112,858
Supplies	120,925	4,031	15,191	424	50,047	190,618	9,962	10,746	211,326
Telephone	116,744	3,795	7,649	641	21,092	149,921	2,772	4,962	157,655
Direct donor benefits	-	-	-	-	-	-	-	49,801	49,801
In-kind	29,067	5,000	2,500	-	33,500	70,067	9,919	14,835	94,821
Miscellaneous	27,232	1,456	417	144	6,413	35,662	3,948	19,081	58,691
Travel	9,732	-	6,232	-	4,092	20,056	1,797	3,558	25,411
Dues	73,154	1,428	3,957	1,620	12,290	92,449	6,253	4,008	102,710
Equipment rental	33,754	1,282	2,224	618	9,058	46,936	2,216	1,017	50,169
Insurance	48,289	1,894	3,539	816	11,443	65,981	1,142	1,655	68,778
Printing	7,633	-	433	-	1,323	9,389	2,627	14,133	26,149
Postage and shipping	6,039	2,222	1,662	1,263	4,854	16,040	4,682	6,374	27,096
Depreciation	359	359	-	-	15,361	16,079	6,010	-	22,089
Interest	46	-	-	-	-	46	12,743	-	12,789
Total Expenses	\$ 12,463,585	\$ 2,302,573	\$ 2,651,128	\$ 1,812,586	\$ 3,118,837	\$ 22,348,709	\$ 402,578	\$ 863,252	\$ 23,614,539

See accompanying notes.

EASTER SEALS OF GREATER HOUSTON, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2020

	2020								
	Programs						Management and General	Fundraising	TOTAL
	Infant Development	Respite Care	Veterans	Disaster Relief	Other Programs	Total Programs			
Salaries and benefits	\$ 12,061,020	\$ 338,347	\$ 1,135,211	\$ 181,764	\$ 1,962,491	\$ 15,678,833	\$ 281,670	\$ 324,563	\$ 16,285,066
Assistance to individuals	13,232	1,804,492	677,368	3,972,574	592,485	7,060,151	-	7,227	7,067,378
Professional fees	479,967	35,927	17,890	4,482	90,095	628,361	51,175	25,339	704,875
Occupancy	339,749	27,729	16,273	2,422	228,730	614,903	30,425	15,978	661,306
Mileage reimbursement	95,738	32	2,772	138	8,504	107,184	111	1,289	108,584
Supplies	89,626	3,583	7,387	10	49,215	149,821	14,809	21,977	186,607
Telephone	159,816	8,844	6,573	2,057	23,842	201,132	8,927	2,899	212,958
Direct donor benefits	-	-	-	-	-	-	-	-	-
In-kind	19,849	-	2,500	5,000	42,698	70,047	-	22,460	92,507
Miscellaneous	52,920	150	191	-	3,971	57,232	5,218	23,478	85,928
Travel	18,647	84	2,473	-	7,957	29,161	3,296	1,076	33,533
Dues	61,323	1,404	3,369	1,592	14,037	81,725	7,050	9,307	98,082
Equipment rental	33,395	905	2,172	1,026	6,864	44,362	2,082	724	47,168
Insurance	51,163	1,590	3,142	1,427	10,453	67,775	665	1,172	69,612
Printing	1,736	-	688	70	740	3,234	1,647	10,041	14,922
Postage and shipping	11,485	2,064	1,429	1,480	4,818	21,276	-	3,046	24,322
Depreciation	3,847	359	-	-	16,222	20,428	7,818	-	28,246
Interest	-	-	-	-	-	-	12,208	-	12,208
Total Expenses	\$ 13,493,513	\$ 2,225,510	\$ 1,879,438	\$ 4,174,042	\$ 3,063,122	\$ 24,835,625	\$ 427,101	\$ 470,576	\$ 25,733,302

See accompanying notes.

EASTER SEALS OF GREATER HOUSTON, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (1,668,910)	\$ 8,172,074
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Net realized and unrealized gain on investments	(1,254)	-
Depreciation	22,089	28,246
Paycheck Protection Program loan forgiveness	(27,948)	(2,095,696)
Accounts receivable	331,406	(477,900)
Contributions receivable	581,624	266,001
Other assets	(141,278)	3,781
Accounts payable and accrued liabilities	(238,487)	(29,734)
Deferred rent	88,909	104,227
Deferred revenue	(699,439)	1,474,653
Grant advance payable	-	(801,248)
	<u>(84,378)</u>	<u>(1,527,670)</u>
Total adjustments		
Net cash (used) provided by operating activities	<u>(1,753,288)</u>	<u>6,644,404</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	26,777	-
Purchase of investments	(4,602,246)	-
Purchase of property and equipment	-	(12,586)
	<u>(4,575,469)</u>	<u>(12,586)</u>
Net cash used by investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on line of credit	-	704,516
Payments on line of credit	-	(1,004,516)
Borrowings on note payable, Paycheck Protection Program	-	2,889,500
Payments on note payable, Paycheck Protection Program	(382,616)	-
	<u>(382,616)</u>	<u>2,589,500</u>
Net cash (used) provided by financing activities		
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(6,711,373)	9,221,318
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>9,981,967</u>	<u>760,649</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 3,270,594</u>	<u>\$ 9,981,967</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	<u>\$ 12,789</u>	<u>\$ 12,208</u>

See accompanying notes.

NOTE A BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Easter Seals of Greater Houston, Inc. (ESGH) is a Texas nonprofit medical, educational, diagnostic and service institution founded in 1946 to serve individuals with all types of disabilities, as well as their families. ESGH offers a wide variety of programs in Houston and the surrounding counties.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentrations of Credit Risk - Financial instruments which subject ESGH to concentrations of credit risk consist principally of cash, contributions receivable and accounts receivable. Cash is maintained with financial institutions in the United States. Deposits with financial institutions exceeded the amount of federal deposit insurance provided on such deposits (approximately \$2,605,000 at December 31, 2021); however, these deposits typically may be redeemed upon demand and therefore, bear minimal risk. In monitoring this credit risk, ESGH periodically evaluates the stability of the financial institutions.

No collateral or other security is required to support contributions receivable and accounts receivable. Management believes that all receivables are collectible; therefore, no allowance for doubtful accounts has been recorded. If amounts become uncollectible, they will be charged to operations when that determination is made. At December 31, 2021 and 2020, two and three donors accounted for 64% and 98% of contributions receivable, respectively. One governmental agency accounted for 37% and 44% of accounts receivable at December 31, 2021 and 2020, respectively.

Investment Risk - ESGH's investments subject ESGH to various levels of risk associated with economic, operating, and political events beyond management's control. Consequently, management's judgment as to the level of losses that currently exist or may develop in the future involves the consideration of current and anticipated conditions and their potential effects on ESGH's investments. Due to the level of risk associated with investments and the level of uncertainty related to changes in the value of investments, it is possible that changes in risks in the near term could materially impact the amounts reflected herein.

Cash and Cash Equivalents - For the purposes of the statement of cash flows, cash and cash equivalents include demand deposits and a money market account.

Accounts Receivable - Accounts receivable include amounts due from program service fees. At December 31, 2021 and 2020, all are due within one year.

Contributions Receivable - Contributions receivable that are expected to be collected within one year are recorded at net realizable value. Amounts that are expected to be collected in future years are discounted, if material, to estimate the present value of future cash flows. Estimated discounts at December 31, 2021 and 2020 were considered immaterial.

NOTE A BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Investments - All investments are measured at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investment income or loss (including realized and change in unrealized gains and losses on investments, interest, and dividends) is included in the statements of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law. At December 31, 2021 investments restricted for the Caroline School endowment totaled \$996,750.

Property and Equipment - Property and equipment are stated at cost or estimated fair market value at the date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as support with donor restrictions. In the absence of such stipulations, contributions of property and equipment are recorded as support without donor restrictions. The cost of assets retired or otherwise disposed of and the related accumulated depreciation are removed from the accounts and any gain or loss is included in the statements of activities.

Additions are capitalized and depreciated using the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance and repairs are charged to the statements of activities as incurred.

Grant Advances Payable - Certain government grants contain provisions which allow for advances to be repaid throughout the grant period.

Deferred Revenue - Deferred revenue represents conditional promises to give which contain a measurable performance or other barrier and a right of return and are not recognized as support until the conditions on which they depend have been met. At December 31, 2021 and 2020, the total deferred revenue balance relates to support for disaster relief efforts where the conditions had not been met.

Contributions - All unconditional contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as support with donor restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the organization reports as support without donor restrictions.

Unconditional promises to give that are expected to be collected within one year are recorded at their realizable value. Unconditional promises to give that are expected to be collected after one year or more are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is included as contribution revenue.

During 2020, ESGH received an unsolicited, transformational gift of \$7,000,000 from a donor.

Donated Materials and Services - Donated materials and use of facilities are recorded as contributions at fair value when an unconditional commitment is received from the donor.

NOTE A BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributed material and services recognized by ESGH primarily include public service announcements, graphics, printed advertising space, billboards, website hosting and maintenance, and rent.

Program Service Fees and Government Grants - ESGH recognizes program service fee revenue when the services are rendered. Amounts are billed monthly and revenue is recorded at the expected net cash collection based on contractual rates.

Cost-reimbursable federal and state contracts and grants are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts awarded are recognized as revenue when ESGH has incurred expenditures in compliance with specific contract or grant provisions.

Functional Expenses - ESGH records expenses directly to the applicable program or support function as much as possible. Salaries and benefits are charged directly based on individual employee departmental classification. Occupancy expenses are allocated based on square footage. All other expenses which cannot be directly identified with a specific program or support function are allocated based on employee head count percentages.

Income Taxes - ESGH is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. However, ESGH is subject to taxes on unrelated business income. No unrelated business income tax was paid in 2021 and 2020.

ESGH believes that all significant tax positions utilized will more likely than not be sustained upon examination. As of December 31, 2021, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from the fiscal year 2018 forward (with limited exceptions). Tax penalties and interest, if any, would be accrued as incurred and would be classified as general and administrative expense in the statement of activities.

Pending Accounting Standard Not Yet Adopted - In February 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-02, "*Leases (Topic 842)*". Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statements of activities. The new standard is effective for the ESGH for the year beginning January 1, 2022. ESGH is currently evaluating the effect the provisions of ASU 2016-02 will have on the financial statements.

Subsequent Events - ESGH has evaluated subsequent events through June 29, 2022, the date the financial statements were available to be issued. Except for the subsequent repayment of the Paycheck Protection Program note payable as disclosed in Note G, no additional subsequent events have occurred which require adjustment to or disclosure in the financial statements at December 31, 2021.

EASTER SEALS OF GREATER HOUSTON, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE B LIQUIDITY AND AVAILABILITY

ESGH relies on program service revenues and contributions to support operations. To help manage unanticipated liquidity needs, ESGH has a committed line of credit in the amount of \$750,000 which it could draw upon. Additionally, ESGH has an operating Endowment for the Caroline School of \$1,236,575 and \$1,214,999 at December 31, 2021 and 2020, respectively. ESGH may appropriate amounts from the operating Endowment for general expenditures of The Caroline School. There were no funds appropriated from the Endowment for general operating expenditures of the Caroline School during 2021 and 2020.

The following reflects ESGH's financial assets as of the balance sheet date, including amounts not available within one year of the balance sheet date.

	<u>2021</u>	<u>2020</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 3,270,594	\$ 9,981,967
Accounts receivable	2,546,786	2,878,192
Contributions receivable	409,166	990,790
Investments	<u>4,576,723</u>	<u>-</u>
Total financial assets	<u>10,803,269</u>	<u>13,850,949</u>
Less amounts not available to be used within one year:		
Long-term contributions receivable	-	90,000
Caroline School operating endowment	<u>1,236,575</u>	<u>1,214,999</u>
	<u>1,236,575</u>	<u>1,304,999</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 9,566,694</u>	<u>\$ 12,545,950</u>

NOTE C CONTRIBUTIONS RECEIVABLE

The table below sets forth contributions receivable at December 31:

	<u>2021</u>	<u>2020</u>
Receivable in one year or less	\$ 409,166	\$ 900,790
Receivable in one to five years	<u>-</u>	<u>90,000</u>
Total contributions receivable	<u>\$ 409,166</u>	<u>\$ 990,790</u>

NOTE D INVESTMENTS

GAAP provides a framework for measuring fair value using a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value based upon whether the inputs to those valuation techniques are observable or unobservable. This hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical financial instruments and the lowest priority to unobservable inputs. Valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. The financial instrument's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

These inputs are summarized in the three broad levels listed below:

Level 1 - Unadjusted quoted prices for identical financial instruments in active markets that ESGH has the ability to access.

Level 2 - Other significant observable inputs (including quoted prices in active or inactive markets for similar financial instruments), or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the financial instruments.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the financial instruments. The fair value of Level 3 financial instruments is determined using significant management judgment or estimation.

The following is a description of the valuation techniques used for assets measured at fair value.

Equity securities are actively traded securities. Valuation inputs normally include quoted bid price in active markets for identical assets.

The fair value of mutual funds are valued using quotes from independent pricing vendors based on recent trading activity and other relevant information.

There have been no changes in the techniques used during 2021. There were no significant transfers in and/or out of the fair value categories during 2021. The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although ESGH believes its valuation techniques are appropriate and consistent with other market participants, the use of different techniques or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

EASTER SEALS OF GREATER HOUSTON, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE D INVESTMENTS (CONTINUED)

The fair values of financial instruments are categorized as follows as of December 31, 2021:

	2021			Total
	Level 1	Level 2	Level 3	
Equity securities:				
Domestic equity	\$ 1,229,907	\$ -	\$ -	\$ 1,229,907
Foreign equity	471,307	-	-	471,307
Mutual funds:				
Fixed income	-	2,322,294	-	2,322,294
Specific strategy	-	553,215	-	553,215
	<u>\$ 1,701,214</u>	<u>\$ 2,875,509</u>	<u>\$ -</u>	<u>\$ 4,576,723</u>

NOTE E PROPERTY AND EQUIPMENT

Estimated useful lives and cost of property and equipment are as follows:

	Lives	2021	2020
Furniture and equipment	3 - 7 yrs.	\$ 306,391	\$ 306,391
Leasehold improvements	4 - 5 yrs.	<u>74,574</u>	<u>74,574</u>
		380,965	380,965
Less accumulated depreciation		<u>(311,001)</u>	<u>(288,912)</u>
		<u>\$ 69,964</u>	<u>\$ 92,053</u>

NOTE F LINE OF CREDIT

ESGH has a \$750,000 line of credit from a bank which bears interest at prime rate plus 0.5% subject to a floor of 4.25%. Borrowings are limited to 70% of accounts receivable less than sixty days old and are secured by essentially all assets of ESGH. The line of credit matures on June 1, 2022. ESGH is negotiating a renewal of the line of credit with similar terms. There were no outstanding borrowings on the line of credit as of December 31, 2021 and 2020.

EASTER SEALS OF GREATER HOUSTON, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE G NOTE PAYABLE, PAYCHECK PROTECTION PROGRAM

On April 16, 2020, ESGH received a U.S. Small Business Administration Loan (SBA Loan) from a financial institution, pursuant to the Paycheck Protection Program (PPP) established under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), in the amount of \$2,889,500. Under the terms of the PPP, the principal balance of the loan is subject to partial or full forgiveness contingent on compliance with certain criteria.

ESGH elected to treat the PPP loan forgiveness as a conditional contribution in accordance with ASC Topic 958-605, Not-for-Profit Entities – Revenue Recognition. Under this model, a conditional contribution is not recognized until the conditions are substantially met or conditionally waived. ESGH has completed the application for loan forgiveness and determined that it has substantially met the criteria for partial loan forgiveness in the amount of \$2,095,696. The loan forgiveness was recognized as a government grant in the statement of activities during the year ended December 31, 2020. During 2021 ESGH received forgiveness in the amount of \$2,123,644. The additional forgiveness amount was recognized in other income during the year ended December 31, 2021. The unforgiven portion of the SBA Loan, totaling \$765,856 is payable beginning September 2021 at an annual interest rate of 1% per annum and was paid in full subsequent to December 31, 2021.

2022	<u>\$ 383,240</u>
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NOTE H NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes:

	2021	2020
Adult Program	\$ 33,759	\$ -
Bridging Apps	18,653	50,171
Camps and Case Management	95,925	138,560
The Caroline School	30,231	-
Caroline School Operating Endowment	1,236,575	1,214,999
Children's Therapy	11,560	47,671
Disaster Relief	49,877	196,135
High School/High Tech	48,291	106,257
Housing	57,029	85,723
Infant Development	160,026	449,203
Respite Care	26,484	104,836
Special Events to be held in the future	94,090	36,718
Toy Tech	51,681	60,008
Transition	15,556	23,334
Veterans	52,000	162,266
	<u>\$ 1,981,737</u>	<u>\$ 2,675,881</u>

EASTER SEALS OF GREATER HOUSTON, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE H NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

	<u>2021</u>	<u>2020</u>
Adult program	\$ -	\$ 2,500
Bridging Apps	34,395	52,584
Camps and Case Management	120,560	133,392
Children's Therapy	47,671	66,168
Caroline School	-	14,500
Disaster Relief	196,135	100,000
High School/High Tech	94,400	60,148
Housing	83,223	111,304
Infant Development	444,203	527,762
Respite Care	101,836	118,104
Special Events	36,718	47,837
Toy Tech	9,992	19,369
Transition	23,333	-
Veterans	<u>132,266</u>	<u>106,463</u>
	<u>\$ 1,324,732</u>	<u>\$ 1,360,131</u>

NOTE I OPERATING LEASES AND COMMITMENTS

ESGH leases office space and equipment under operating leases through 2027 and utilizes proprietary software under an annual contract. Future payments by fiscal year are as follows:

2022	\$ 645,084
2023	624,688
2024	615,759
2025	616,378
2026	630,452
Thereafter	<u>627,945</u>
	<u>\$ 3,760,306</u>

Total expense under these contracts amounted to \$644,924 and \$703,635 for the years ended December 31, 2021 and 2020, respectively.

NOTE J CAROLINE SCHOOL OPERATING ENDOWMENT

ESGH established an operating endowment for the Caroline School (the School). Earnings from the operating endowment may be used for ordinary operations of the School. The Board of Directors must approve the amount of operating expenditures to be paid from the operating endowment. The principal of the operating endowment may also be used for special projects or unexpected expenses of the School after approval by a majority of the Board of Directors.

Based on the interpretation of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), all net assets of the operating endowment that are not permanently restricted by donors are deemed to be temporarily restricted until appropriated for expenditure. As of December 31, 2021 and 2020, no permanently restricted contributions have been received.

Changes in the operating endowment net assets are as follows:

Endowment net assets, December 31, 2019	\$ 1,132,407
Contributions	82,592
Appropriations	<u>-</u>
Endowment net assets, December 31, 2020	1,214,999
Investment income	21,576
Appropriations	<u>-</u>
Endowment net assets, December 31, 2021	<u>\$ 1,236,575</u>

NOTE K AFFILIATION WITH EASTER SEALS, INC.

ESGH is voluntarily affiliated with Easter Seals, Inc. ESGH paid to Easter Seals, Inc. dues amounting to \$73,914 and \$72,640 during 2021 and 2020, respectively.

NOTE L INSURANCE

ESGH is covered by commercial, professional and automobile liability insurance through October 2022. Coverage limits range from \$1,000,000 maximum for each occurrence up to \$3,000,000 in the aggregate. Workman's compensation and employer's liability insurance is also effective through October 2022 with a \$1,000,000 policy limit.

NOTE M BENEFIT PLAN

ESGH has established a defined contribution plan under Section 403(b) of the Internal Revenue Code of 1986 ("403(b) plan") covering substantially all of its employees who have completed one year of service. Employees of ESGH can annually elect to contribute to the 403(b) plan the maximum amount allowed by the Internal Revenue Code. ESGH's matching policy is to contribute at a rate equal to 100% of the amount the participating employee has contributed, not to exceed 3% of the employee's annual salary. For the years ended December 31, 2021 and 2020, ESGH contributed \$320,625 and \$315,881, respectively to the 403(b) plan.

NOTE N CONTINGENCY

The majority of the government grants are received either directly from or are passed through the Texas Department of Health and Human Services Division of Early Childhood Intervention Services. Amounts received from government and other grants require the fulfillment of certain conditions as set forth in the grant contracts. ESGH intends to fulfill the conditions of all grants, recognizing that failure to fulfill the conditions could result in the return of the funds to grantors. Amounts received or receivable from grantor agencies are subject to audit and adjustment by the grantor agencies. Any disallowed claims, including amounts already collected, could become a liability of ESGH. In management's opinion, disallowed claims, if any, would not have a material adverse effect on ESGH's financial position or results of operations.

SINGLE AUDIT REPORTS

**EASTER SEALS OF GREATER HOUSTON, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AND NON-FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2021**

Federal Grantor/Pass-through Grantor/ Program or Cluster Title and Non-Federal Grantor	Federal Assistance Listing Number	Identifying Number	Federal Expenditures
Federal Awards:			
U.S. Department of Education; Office of Special Education and Rehabilitative Services			
Passed through Texas Health and Human Services Commission Division for Early Childhood Intervention Services			
Special Education-Grants to States	84.027	HHS000640200038	\$ 285,120
Special Education-Grants for Infants and Families	84.181	HHS000640200038	<u>3,017,122</u>
Total U.S. Department of Education			<u>3,302,242</u>
U.S. Department of Health and Human Services; Administration for Children and Families			
Passed through Texas Health and Human Services Commission Division for Early Childhood Intervention Services			
Temporary Assistance for Needy Families	93.558	HHS000640200038	<u>365,311</u>
Total U.S. Department of Health and Human Services			<u>365,311</u>
U.S. Department of Housing and Urban Development; Office of Housing and Counseling			
Housing Counseling Assistance Program	14.169	HC210821006	31,869
U.S. Department of Housing and Urban Development; Office of Community Planning and Development			
Passed through Montgomery County, Texas Home Investment Partnerships Program	14.239	M-20-UC-48-0235	<u>410,653</u>
Total U.S. Department of Housing and Urban Development			<u>442,522</u>
U.S. Department of Agriculture Food and Nutrition Service			
Passed through Texas Health & Human Services Commission, State Administrative Matching Grants Supplemental Nutrition Assistance Program	10.561	HHS000640200038	<u>13,854</u>
Total U.S. Department of Agriculture Food and Nutrition Service			<u>13,854</u>

See accompanying note to schedule of expenditures of federal and non-federal awards.

EASTER SEALS OF GREATER HOUSTON, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AND NON-FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2021

Federal Grantor/Pass-through Grantor/ Program or Cluster Title and Non-Federal Grantor	Federal Assistance Listing Number	Identifying Number	Federal Expenditures
Continued			
U.S. Department of Justice; Office of Juvenile Justice and Delinquency Prevention			
Passed through the Institute for Educational Leadership Juvenile Mentoring Program	16.726	2019-JU-FX-0012	<u>62,744</u>
Total U.S. Department of Justice			<u>62,744</u>
U.S. Department of the Treasury			
Passed through Montgomery County, Texas Emergency Rental Assistance Program	21.023	ERA-0079	<u>49,786</u>
Total U.S. Department of the Treasury			<u>49,786</u>
Total expenditures of federal awards			<u>\$ 4,236,459</u>
Non-Federal Awards:			
Texas Health and Human Services Commission Division for Early Childhood Intervention Services			
Special Education-Grants to States	N/A	HHS000640200038	\$ 2,733,646
Special Education-Grants to States	N/A	HHS000640200038	<u>23,350</u>
Total Division for Early Childhood Intervention Services			<u>2,756,996</u>
Texas Veterans + Family Alliance Grant Program	N/A	HHS000329700010	1,653,566
Texas Veterans + Family Alliance Grant Program	N/A	HHS000742400013	<u>608,462</u>
Total Texas Veterans + Family Alliance Grant Program			<u>2,262,028</u>
Total Texas Health and Human Services Commission			<u>5,019,024</u>
Texas Veterans Commission			
Mental Health Services for Veterans	N/A	GT-VMH20-021	152,014
Mental Health Services for Veterans	N/A	GT-VMH21-021	<u>151,294</u>
Total Mental Health Services for Veterans			<u>303,308</u>
Total Texas Veterans Commission			<u>303,308</u>
Brazos County	N/A	none	<u>35,000</u>
Total Brazos County			<u>35,000</u>
Total expenditures of non-federal awards			<u>\$ 5,357,332</u>

See accompanying note to schedule of expenditures of federal and non-federal awards.

EASTER SEALS OF GREATER HOUSTON, INC.
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AND NON-FEDERAL AWARDS
DECEMBER 31, 2021

NOTE A BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal and non-federal awards includes the federal and non-federal grant activity of Easter Seals of Greater Houston, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards, and the State of Texas Single Audit Circular*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

ESGH has elected not to use the 10% de minimis indirect cost rate allowed under the *Uniform Guidance*.

**EASTER SEALS OF GREATER HOUSTON, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2021**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on the financial statements of Easter Seals of Greater Houston, Inc.
2. No material weaknesses in internal controls over financial reporting were identified.
3. No instances of noncompliance material to the financial statements of Easter Seals of Greater Houston, Inc. were disclosed during the audit.
4. No material weaknesses or significant deficiencies over the internal controls over major programs were identified.
5. The auditor's report issued on compliance for each major federal and non-federal award program for Easter Seals of Greater Houston, Inc. expresses an unmodified opinion.
6. The auditor disclosed no findings relating to major programs that are required to be reported in accordance with 2CFR Section 200.516(a).

- | | <u>Federal
Assistance
Listing Number</u> |
|--|--|
| 7. The programs tested as major programs include: | |
| Federal Awards: | |
| U.S. Department of Education; Office of Special Education and Rehabilitative Services
Passed through Texas Health and Human Services Commission
Division for Early Childhood Intervention Services | |
| Special Education-Grants for Infants and Families | 84.181 |
| Non-Federal Awards: | |
| Texas Health and Human Services Commission | |
| Division for Early Childhood Intervention Services
Special Education-Grants to States | N/A |
| Texas Veterans & Family Alliance Grant Program | N/A |
| 8. The threshold used for distinguishing between Type A and B programs was \$750,000 for both federal and non-federal awards. | |
| 9. Easter Seals of Greater Houston, Inc. qualified as a low-risk auditee. | |

SECTION II - FINDINGS - FINANCIAL STATEMENT AUDIT

None

SECTION III - FEDERAL AND NON-FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Easter Seals of Greater Houston, Inc.
Houston, Texas

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the *State of Texas Single Audit Circular*, the financial statements of Easter Seals of Greater Houston, Inc. (ESGH, a nonprofit organization), which comprise the statement of financial position as of December 31, 2021, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 29, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered ESGH's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ESGH's internal control. Accordingly, we do not express an opinion on the effectiveness of ESGH's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of ESGH's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether ESGH's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of ESGH's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and the *State of Texas Single Audit Circular* in considering ESGH's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in dark red ink that reads "Harper & Pearson Company, P.C." in a cursive script.

HARPER & PEARSON COMPANY, P.C.

Houston, Texas
June 29, 2022

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Board of Directors
Easter Seals of Greater Houston, Inc.
Houston, Texas

Report on Compliance for Each Major Federal and Non-Federal Program***Opinion on Each Major Federal and Non-Federal Program***

We have audited Easter Seals of Greater Houston, Inc.'s (ESGH) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* and the *State of Texas Single Audit Circular* that could have a direct and material effect on each of ESGH's major federal and non-federal programs for the year ended December 31, 2021. ESGH's major federal and non-federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, ESGH complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and non-federal programs for the year ended December 31, 2021.

Basis for Opinion on Each Major Federal and Non-Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the *State of Texas Single Audit Circular*. Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of ESGH and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal and non-federal program. Our audit does not provide a legal determination of ESGH's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to ESGH's federal and non-federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on ESGH's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, the Uniform Guidance, and the *State of Texas Single Audit Circular* will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about ESGH's compliance with the requirements of each major federal and non-federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, the Uniform Guidance, and the *State of Texas Single Audit Circular* we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding ESGH's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of ESGH's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance and the *State of Texas Single Audit Circular*, but not for the purpose of expressing an opinion on the effectiveness of ESGH's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal or non-federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or non-federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal or non-federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance and the *State of Texas Single Audit Circular*. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in dark red ink that reads "Harper & Pearson Company, P.C." in a cursive script.

HARPER & PEARSON COMPANY, P.C.

Houston, Texas
June 29, 2022