

EASTER SEALS OF GREATER HOUSTON, INC.

**FINANCIAL STATEMENTS
AND SINGLE AUDIT REPORTS**

DECEMBER 31, 2023 AND 2022

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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, 2023 and 2022, 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, 2023 and 2022, 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 and *Government 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 May 28, 2024, 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 effectiveness of ESGH's 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
May 28, 2024

EASTER SEALS OF GREATER HOUSTON, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2023 AND 2022

ASSETS	2023	2022
ASSETS		
Cash and cash equivalents - unrestricted	\$ 1,668,678	\$ 2,825,842
Cash restricted for Caroline School	<u>68,769</u>	<u>52,001</u>
Total cash and cash equivalents	1,737,447	2,877,843
Accounts receivable	3,265,110	2,126,203
Contributions receivable	452,055	856,598
Investments	4,072,465	4,306,180
Other assets	96,975	91,622
Right of use assets, net	2,175,448	2,615,740
Property and equipment, net	<u>40,190</u>	<u>53,185</u>
TOTAL ASSETS	<u>\$ 11,839,690</u>	<u>\$ 12,927,371</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 825,500	\$ 1,522,092
Deferred revenue	-	22,376
Operating lease liabilities	2,589,878	3,086,192
Line of credit	<u>750,000</u>	<u>-</u>
TOTAL LIABILITIES	<u>4,165,378</u>	<u>4,630,660</u>
NET ASSETS		
Without donor restrictions	5,942,761	5,986,174
With donor restrictions	<u>1,731,551</u>	<u>2,310,537</u>
TOTAL NET ASSETS	<u>7,674,312</u>	<u>8,296,711</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 11,839,690</u>	<u>\$ 12,927,371</u>

See accompanying notes.

EASTER SEALS OF GREATER HOUSTON, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
REVENUES AND SUPPORT		
Government grants	\$ 11,155,227	\$ 10,294,693
Contributions	1,553,727	1,338,798
In-kind contributions	103,292	93,687
Program service fees/third party reimbursement	11,410,931	9,792,873
Special events	690,126	568,341
Other income (loss)	373,947	(260,368)
	25,287,250	21,828,024
Net Assets Released from Restrictions	1,248,364	685,370
Total Revenues and Support	26,535,614	22,513,394
EXPENSES		
Program Services:		
Infant Development	16,303,311	14,182,834
Respite Care	2,416,942	2,196,272
Veterans	2,443,776	2,164,815
Disaster Relief	288,052	365,528
Adult Program	105,950	59,835
Bridging Apps	653,905	522,101
Camps and Case Management	902,843	815,045
Children's Therapy	762,577	716,630
High School/High Tech	169,612	175,496
Housing	502,372	320,993
The Caroline School	469,089	397,615
Toy Tech	28,865	35,366
Transition	290,672	281,444
Total program services	25,337,966	22,233,974
Management and general	533,389	357,632
Fundraising	707,672	672,702
Total Expenses	26,579,027	23,264,308
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	(43,413)	(750,914)
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	519,002	1,188,572
Investment income (loss)	150,376	(174,402)
Net assets released from restrictions	(1,248,364)	(685,370)
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS	(578,986)	328,800
CHANGE IN NET ASSETS	(622,399)	(422,114)
NET ASSETS, BEGINNING OF YEAR	8,296,711	8,718,825
NET ASSETS, END OF YEAR	\$ 7,674,312	\$ 8,296,711

See accompanying notes.

EASTER SEALS OF GREATER HOUSTON, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2023

	2023							
	Programs					Management and General	Fundraising	TOTAL
	Infant Development	Respite Care	Veterans	Other Programs	Total Programs			
Salaries and benefits	\$ 14,367,779	\$ 389,684	\$ 1,579,013	\$ 2,840,271	\$ 19,176,747	\$ 396,339	\$ 462,661	\$ 20,035,747
Assistance to individuals	35,211	1,888,875	592,605	649,412	3,166,103	-	-	3,166,103
Professional fees	453,174	79,096	185,986	220,112	938,368	45,126	11,878	995,372
Occupancy	363,483	29,486	18,396	202,687	614,052	19,486	19,770	653,308
Mileage reimbursement	297,188	3,667	3,580	24,070	328,505	77	1,159	329,741
Supplies	243,409	4,711	20,686	69,720	338,526	12,655	23,649	374,830
Telephone	143,448	4,429	9,902	29,727	187,506	4,339	5,200	197,045
Direct donor benefits	-	-	-	-	-	-	85,363	85,363
In-kind	30,470	5,000	-	49,472	84,942	-	18,350	103,292
Miscellaneous	85,913	628	230	6,313	93,084	19,046	27,011	139,141
Travel	95,294	1,516	13,453	22,128	132,391	11,079	14,881	158,351
Dues	74,187	2,393	8,156	20,684	105,420	3,987	7,440	116,847
Equipment rental	34,290	1,352	3,173	8,254	47,069	1,934	1,441	50,444
Insurance	53,074	1,883	6,135	11,706	72,798	1,137	2,019	75,954
Printing	4,074	-	1,674	7,489	13,237	597	19,303	33,137
Postage and shipping	21,958	3,863	787	4,792	31,400	(342)	7,547	38,605
Depreciation	359	359	-	7,100	7,818	5,177	-	12,995
Interest	-	-	-	-	-	12,752	-	12,752
Total Expenses	\$ 16,303,311	\$ 2,416,942	\$ 2,443,776	\$ 4,173,937	\$ 25,337,966	\$ 533,389	\$ 707,672	\$ 26,579,027

See accompanying notes.

EASTER SEALS OF GREATER HOUSTON, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022

	2022							
	Programs					Management and General	Fundraising	TOTAL
	Infant Development	Respite Care	Veterans	Other Programs	Total Programs			
Salaries and benefits	\$ 12,555,771	\$ 335,081	\$ 1,436,071	\$ 2,438,138	\$ 16,765,061	\$ 248,743	\$ 431,977	\$ 17,445,781
Assistance to individuals	28,817	1,752,782	554,074	549,307	2,884,980	135	4,098	2,889,213
Professional fees	396,628	54,211	87,741	218,305	756,885	47,533	29,501	833,919
Occupancy	323,854	25,584	16,410	234,000	599,848	14,428	16,084	630,360
Mileage reimbursement	211,576	224	5,272	9,786	226,858	62	1,306	228,226
Supplies	219,354	6,808	15,615	85,495	327,272	12,477	16,704	356,453
Telephone	130,874	3,596	8,300	26,379	169,149	3,805	5,542	178,496
Direct donor benefits	-	-	-	-	-	-	62,017	62,017
In-kind	23,891	5,000	2,500	36,406	67,797	2,510	23,380	93,687
Miscellaneous	77,318	2,391	500	8,366	88,575	2,600	30,285	121,460
Travel	37,406	345	19,897	15,714	73,362	8,598	7,523	89,483
Dues	70,316	2,705	7,142	19,772	99,935	2,487	8,440	110,862
Equipment rental	33,000	1,179	2,720	7,760	44,659	2,074	1,269	48,002
Insurance	51,858	2,006	5,584	14,148	73,596	1,049	2,186	76,831
Printing	10,361	899	1,086	12,520	24,866	2,602	24,887	52,355
Postage and shipping	11,451	3,102	1,903	3,906	20,362	910	7,503	28,775
Depreciation	359	359	-	10,051	10,769	6,010	-	16,779
Interest	-	-	-	-	-	1,609	-	1,609
Total Expenses	\$ 14,182,834	\$ 2,196,272	\$ 2,164,815	\$ 3,690,053	\$ 22,233,974	\$ 357,632	\$ 672,702	\$ 23,264,308

See accompanying notes.

EASTER SEALS OF GREATER HOUSTON, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (622,399)	\$ (422,114)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized (gain) loss on investments	(357,327)	539,039
Depreciation	12,995	16,779
Noncash change in operating leases	(56,022)	(39,053)
Changes in operating assets and liabilities:		
Accounts receivable	(1,138,907)	420,583
Contributions receivable	404,543	(447,432)
Other assets	(5,353)	63,253
Accounts payable and accrued liabilities	(696,592)	880,768
Deferred revenue	<u>(22,376)</u>	<u>(752,838)</u>
 Total adjustments	 <u>(1,859,039)</u>	 <u>681,099</u>
 Net cash (used) provided by operating activities	 <u>(2,481,438)</u>	 <u>258,985</u>
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	3,532,679	5,564,719
Purchase of investments	<u>(2,941,637)</u>	<u>(5,833,215)</u>
 Net cash provided (used) by investing activities	 <u>591,042</u>	 <u>(268,496)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on line of credit	1,250,000	-
Payments on line of credit	(500,000)	-
Payments on note payable, Paycheck Protection Program	<u>-</u>	<u>(383,240)</u>
 Net cash provided (used) by financing activities	 <u>750,000</u>	 <u>(383,240)</u>
 NET DECREASE IN CASH AND CASH EQUIVALENTS	 (1,140,396)	 (392,751)
 CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	 <u>2,877,843</u>	 <u>3,270,594</u>
 CASH AND CASH EQUIVALENTS AT END OF YEAR	 <u>\$ 1,737,447</u>	 <u>\$ 2,877,843</u>
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	<u>\$ 7,052</u>	<u>\$ 1,609</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 \$1,686,000 at December 31, 2023); 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. An allowance for credit losses is established as needed based upon factors surrounding credit risk of specific customers, historical trends, current conditions, and reasonable and supportable forecasts about collectability. Management believes that all receivables are collectible; therefore, no allowance for credit losses has been recorded. If amounts become uncollectible, they will be charged to operations when that determination is made. At December 31, 2023 and 2022, two and three donors accounted for 88% and 81% of contributions receivable, respectively. One governmental agency accounted for 74% and 52% of accounts receivable at December 31, 2023 and 2022, 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 in a brokerage account.

Accounts Receivable - Accounts receivable include amounts due from program service fees. At December 31, 2023 and 2022, 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. At December 31, 2023, contributions receivable due within two to five years totaled \$75,894. All other contributions receivables are due within one year. At December 31, 2023 and 2022, estimated discounts were 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, 2023 and 2022 investments restricted for the Caroline School endowment totaled \$1,143,780 and \$1,010,172, respectively.

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 funds received in advance on 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.

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.

Conditional Contributions - Cost-reimbursable federal and state contracts and other 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. At December 31, 2023, unrecorded conditional contributions totaled \$11,432,031.

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

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.

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. In-kind contributions totaled \$103,292 and \$93,687 for the years ended December 31, 2023 and 2022, respectively, and were utilized in program and support functions.

Program Service Fees - 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.

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 2023 and 2022.

ESGH believes that all significant tax positions utilized will more likely than not be sustained upon examination. As of December 31, 2023, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from the fiscal year 2020 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.

Leases - ESGH determines if an arrangement is a lease at inception. ESGH recognizes lease expense for short-term leases as payments are made. Long-term operating leases are included in right of use assets (ROU assets) and operating lease liabilities.

ROU assets represent ESGH's right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. ESGH uses the implicit rate when readily determinable. As most of the ESGH's leases do not provide an implicit rate, an incremental borrowing rate is used in determining the present value of lease payments based on the information available at the commencement date. ESGH elected the practical expedient to utilize a risk free interest rate (the US Treasury rate) as the incremental borrowing rate. The ROU asset also includes any lease payments made and excludes lease incentives received. ESGH's lease terms may include options to extend or terminate the lease when it is reasonably certain that the option will be exercised. Lease expense is recognized on a straight-line basis over the lease term.

EASTER SEALS OF GREATER HOUSTON, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

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

Accounting Standard Adopted in 2023 - In June 2016, the FASB issued guidance on credit impairment for short-term receivables (ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326)), which, as amended, introduced the recognition of management’s current estimate of credit losses that are expected to occur over the remaining life of a financial asset. ESGH adopted this guidance on January 1, 2023, using the optional transition method of recognizing any cumulative effect of adopting this guidance as an adjustment to the opening balance of net assets. The cumulative impact of the adoption of the new standard was not material to ESGH’s financial statements. Prior periods were not retrospectively adjusted.

Subsequent Events - ESGH has evaluated subsequent events through May 28, 2024, the date the financial statements were available to be issued. Subsequent to December 31, 2023, the Board of Directors voted to renew on similar terms both of the lines of credit discussed in Note E. No other subsequent events have occurred which require adjustment to or disclosure in the financial statements at December 31, 2023.

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 (see Note E). Additionally, ESGH has an Operating Endowment for the Caroline School of \$1,212,549 and \$1,062,173 at December 31, 2023 and 2022, respectively. ESGH may appropriate amounts from the Operating Endowment for general expenditures of The Caroline School. There were no funds appropriated from the Operating Endowment for general operating expenditures of the Caroline School during 2023 and 2022.

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>2023</u>	<u>2022</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 1,737,447	\$ 2,877,843
Accounts receivable	3,265,110	2,126,203
Contributions receivable	452,055	856,598
Investments	<u>4,072,465</u>	<u>4,306,180</u>
Total financial assets	9,527,077	10,166,824
Less amounts not available to be used within one year:		
Long-term contributions receivable	75,894	197,682
Caroline School Operating Endowment	<u>1,212,549</u>	<u>1,062,173</u>
	1,288,443	1,259,855
Financial assets available to meet expenditures over the next twelve months	<u>\$ 8,238,634</u>	<u>\$ 8,906,969</u>

NOTE C 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 government bonds and 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 2023 and 2022. There were no significant transfers in and/or out of the fair value categories during 2023 and 2022. 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, 2023 AND 2022

NOTE C INVESTMENTS (CONTINUED)

The fair values of financial instruments are categorized as follows:

	2023			Total
	Level 1	Level 2	Level 3	
Equity securities:				
Domestic equity	\$ 1,425,420	\$ -	\$ -	\$ 1,425,420
Foreign equity	455,082	-	-	455,082
Government bonds	-	343,291	-	343,291
Mutual funds:				
Fixed income	-	1,122,820	-	1,122,820
Specific strategy	-	725,852	-	725,852
	<u>\$ 1,880,502</u>	<u>\$ 2,191,963</u>	<u>\$ -</u>	<u>\$ 4,072,465</u>

	2022			Total
	Level 1	Level 2	Level 3	
Equity securities:				
Domestic equity	\$ 1,206,631	\$ -	\$ -	\$ 1,206,631
Foreign equity	474,375	-	-	474,375
Government bonds	-	1,490,101	-	1,490,101
Mutual funds:				
Fixed income	-	644,864	-	644,864
Specific strategy	-	490,209	-	490,209
	<u>\$ 1,681,006</u>	<u>\$ 2,625,174</u>	<u>\$ -</u>	<u>\$ 4,306,180</u>

NOTE D PROPERTY AND EQUIPMENT

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

	Lives	2023	2022
Furniture and equipment	3 - 7 yrs.	\$ 306,391	\$ 306,391
Leasehold improvements	4 - 5 yrs.	74,574	74,574
		380,965	380,965
Less accumulated depreciation		(340,775)	(327,780)
		<u>\$ 40,190</u>	<u>\$ 53,185</u>

EASTER SEALS OF GREATER HOUSTON, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

NOTE E LINES 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 4.75% (9.0% at December 31, 2023). 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 July 13, 2024. There was \$750,000 outstanding on the line of credit as of December 31, 2023.

In September 2022, ESGH opened a \$1,000,000 preferred credit line ("PCL") with a bank which bears interest at the Bloomberg Short-Term Bank Yield ("BSBY") Daily Floating Rate plus 1.25%. The PCL is collateralized by an investment account maintained at the same institution. The PCL expires on June 30, 2024. There were no outstanding borrowings on the PCL as of December 31, 2023.

NOTE F LEASES

ESGH leases office space and equipment under operating leases through 2029. Future payments by fiscal year are as follows:

2024	\$ 664,076
2025	665,914
2026	681,207
2027	669,351
2028	21,081
Thereafter	<u>3,514</u>
Total minimum lease payments	2,705,143
Less: Imputed interest	<u>(115,265)</u>
Present value of operating lease liabilities	<u>\$ 2,589,878</u>
Weighted-average remaining lease term (years)	4.0
Weighted-average discount rate	2.1%

Total rent expense amounted to \$703,752 and \$678,362 for the years ended December 31, 2023 and 2022, respectively. The following table provides details regarding the components of operating lease expense for the year ended December 31, 2023:

	2023	2022
Operating lease expense components		
Leases with term greater than 12 months	\$ 593,519	\$ 593,519
Leases with term of 12 months or less	<u>110,233</u>	<u>84,843</u>
Total operating lease expense	<u>\$ 703,752</u>	<u>\$ 678,362</u>

Right of use asset additions are offset by a corresponding increase to operating lease liabilities and do not impact the statement of cash flows at commencement. For the year ended December 31, 2023 operating lease liabilities resulting from right of use assets obtained totaled \$98,309.

EASTER SEALS OF GREATER HOUSTON, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

NOTE G NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2023</u>	<u>2022</u>
Adult Program	\$ 93,049	\$ 64,385
Bridging Apps	82,000	488,561
Camps and Case Management	115,500	219,750
The Caroline School	-	25,384
Caroline School Operating Endowment	1,212,549	1,062,173
Children's Therapy	3,750	3,750
Disaster Relief	16,125	16,129
High School/High Tech	18,550	11,750
Holiday Adoptions	7,073	7,451
Housing	11,250	57,083
Infant Development	57,950	214,698
Respite Care	8,500	8,500
Special Events to be held in the future	77,955	95,632
Toy Tech	8,800	16,791
Transition	10,250	10,250
Veterans	<u>8,250</u>	<u>8,250</u>
	<u>\$ 1,731,551</u>	<u>\$ 2,310,537</u>

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>2023</u>	<u>2022</u>
Adult program	\$ 64,385	\$ 33,759
Bridging Apps	488,561	18,653
Camps and Case Management	219,750	95,925
Children's Therapy	3,750	11,560
The Caroline School	25,384	5,847
Holiday Adoptions	7,451	-
Disaster Relief	16,129	49,877
High School/High Tech	11,750	48,291
Housing	57,083	57,029
Infant Development	214,698	140,909
Respite Care	8,500	26,484
Special Events	95,632	94,090
Toy Tech	16,791	35,390
Transition	10,250	15,556
Veterans	<u>8,250</u>	<u>52,000</u>
	<u>\$ 1,248,364</u>	<u>\$ 685,370</u>

NOTE H 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, 2023 and 2022, no permanently restricted contributions have been received.

Changes in the Operating Endowment net assets are as follows:

Operating Endowment net assets, December 31, 2021	\$ 1,236,575
Investment loss	(174,402)
Appropriations	<u>-</u>
Operating Endowment net assets, December 31, 2022	1,062,173
Investment income	150,376
Appropriations	<u>-</u>
Operating Endowment net assets, December 31, 2023	<u>\$ 1,212,549</u>

NOTE I AFFILIATION WITH EASTER SEALS, INC.

ESGH is voluntarily affiliated with Easter Seals, Inc. ESGH paid to Easter Seals, Inc. dues amounting to \$87,081 and \$91,270 during 2023 and 2022, respectively.

NOTE J INSURANCE

ESGH is covered by commercial, professional and automobile liability insurance through October 2024. 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 2024 with a \$1,000,000 policy limit.

NOTE K 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. Additionally, the 403(b) plan allows for discretionary matching not to exceed 3% of an employee's annual salary. For the years ended December 31, 2023 and 2022, ESGH contributed \$352,562 and \$556,955, respectively to the 403(b) plan.

NOTE L CONTINGENCY

The majority of the government grants are received either directly from or are passed through the Texas Department of Health and Human 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, 2023

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	\$ 353,160
Special Education-Personnel Development to Improve Services and Results for Children with Disabilities	84.325	HHS000640200038	24,654
Special Education-Grants for Infants and Families	84.181	HHS000640200038	<u>3,804,752</u>
Total U.S. Department of Education			<u>4,182,566</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			
Preschool Development Grant	93.434	HHS000640200038	443,358
Temporary Assistance for Needy Families	93.558	HHS000640200038	<u>427,672</u>
Total U.S. Department of Health and Human Services			<u>871,030</u>
U.S. Department of Housing and Urban Development; Office of Housing and Counseling			
Housing Counseling Assistance Program	14.169	HC220421047	17,899
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-19-UC-48-0235	14,890
Passed through Montgomery County, Texas Home Investment Partnerships Program	14.239	M-21-UC-48-0235	313,845
Passed through Montgomery County, Texas Home Investment Partnerships Program	14.239	M-22-UC-48-0235	<u>88,185</u>
Total U.S. Department of Housing and Urban Development			<u>434,819</u>
U.S. Department of Justice; Office of Juvenile Justice and Delinquency Prevention			
Passed through the Institute for Educational Leadership Juvenile Mentoring Program	16.726	15PJDP-21-GG-03596-MENT	<u>35,813</u>
Total U.S. Department of Justice			<u>35,813</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, 2023

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 the Treasury			
Passed through Alliance of Community Assistance Ministries, Inc. Emergency Rental Assistance Program	21.023	HSS2 2022-24	<u>51,327</u>
Total U.S. Department of the Treasury			<u>51,327</u>
Total expenditures of federal awards			<u>\$ 5,575,555</u>
Non-Federal Awards:			
Texas Health and Human Services Commission			
Division for Early Childhood Intervention Services			
Special Education-Grants to States	N/A	HHS000640200038	\$ 3,622,881
Special Education-Grants to States	N/A	HHS000640200038	<u>32,495</u>
Total Division for Early Childhood Intervention Services			<u>3,655,376</u>
Texas Veterans + Family Alliance Grant Program	N/A	HHS000742400013	968,567
Texas Veterans + Family Alliance Grant Program	N/A	HHS001234000006	<u>432,261</u>
Total Texas Veterans + Family Alliance Grant Program			<u>1,400,828</u>
Total Texas Health and Human Services Commission			<u>5,056,204</u>
Texas Veterans Commission			
Mental Health Services for Veterans	N/A	GT-VMH22-021	182,400
Mental Health Services for Veterans	N/A	G-2022-69543	138,200
General Assistance Services for Veterans	N/A	GT-FVA22-058	<u>88,412</u>
Total Texas Veterans Commission			<u>409,012</u>
Texas Workforce Commission			
Child Care Relief Funds	N/A	538-16-0183- 0000000000075	<u>52,414</u>
Total Texas Workforce Commission			<u>52,414</u>
Brazos County	N/A	none	<u>35,000</u>
Total Brazos County			<u>35,000</u>
Total expenditures of non-federal awards			<u>\$ 5,552,630</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, 2022

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, 2023**

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
U.S. Department of Health & Human Services; Administration for Children and Families Passed through Texas Health and Human Services Commission Division for Early Childhood Intervention Services Preschool Development Grant	93.434
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, 2023, 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 May 28, 2024.

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 ink that reads "Harper & Pearson Company, P.C." in a cursive style.

HARPER & PEARSON COMPANY, P.C.

Houston, Texas
May 28, 2024

**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, 2023. 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, 2023.

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
May 28, 2024