

EASTER SEALS OF GREATER HOUSTON, INC.

**FINANCIAL STATEMENTS
AND SINGLE AUDIT REPORTS**

DECEMBER 31, 2024 AND 2023

HARPER | PEARSON

**ONE RIVERWAY DRIVE, SUITE 1900
HOUSTON, TX 77056**

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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, 2024 and 2023, 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, 2024 and 2023, 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 21, 2025, 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.

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

HARPER & PEARSON COMPANY, P.C.

Houston, Texas
May 21, 2025

EASTER SEALS OF GREATER HOUSTON, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2024 AND 2023

ASSETS	2024	2023
ASSETS		
Cash and cash equivalents - unrestricted	\$ 704,282	\$ 1,668,678
Cash restricted for Caroline School	<u>5,553</u>	<u>68,769</u>
Total cash and cash equivalents	709,835	1,737,447
Accounts receivable	2,873,147	3,265,110
Contributions receivable	1,305,111	452,055
Investments	4,888,137	4,072,465
Other assets	39,356	96,975
Right of use assets, net	1,784,517	2,175,448
Property and equipment, net	<u>29,149</u>	<u>40,190</u>
TOTAL ASSETS	<u>\$ 11,629,252</u>	<u>\$ 11,839,690</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 664,658	\$ 825,500
Advanced grants payable	240,000	-
Operating lease liabilities	2,123,675	2,589,878
Line of credit	<u>651,575</u>	<u>750,000</u>
TOTAL LIABILITIES	<u>3,679,908</u>	<u>4,165,378</u>
NET ASSETS		
Without donor restrictions	5,266,856	5,942,761
With donor restrictions	<u>2,682,488</u>	<u>1,731,551</u>
TOTAL NET ASSETS	<u>7,949,344</u>	<u>7,674,312</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 11,629,252</u>	<u>\$ 11,839,690</u>

See accompanying notes.

EASTER SEALS OF GREATER HOUSTON, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023

	<u>2024</u>	<u>2023</u>
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
REVENUES AND SUPPORT		
Government grants	\$ 13,789,214	\$ 11,155,227
Contributions	2,428,933	1,553,727
In-kind contributions	153,910	103,292
Program service fees/third party reimbursement	11,511,142	11,410,931
Special events	573,706	690,126
Investment and other income, net	<u>344,991</u>	<u>373,947</u>
	28,801,896	25,287,250
Net Assets Released from Restrictions	<u>535,559</u>	<u>1,248,364</u>
Total Revenues and Support	<u>29,337,455</u>	<u>26,535,614</u>
EXPENSES		
Program Services:		
Infant Development	18,973,476	16,303,311
Respite Care	2,377,515	2,416,942
Veterans	2,292,791	2,443,776
Disaster Relief	825,257	288,052
Adult Program	35,873	105,950
Bridging Apps	1,068,054	653,905
Camps and Case Management	1,021,186	902,843
Children's Therapy	741,654	762,577
High School/High Tech	168,574	169,612
Housing	595,948	502,372
The Caroline School	457,798	469,089
Toy Tech	7,782	28,865
Transition	<u>293,729</u>	<u>290,672</u>
Total program services	28,859,637	25,337,966
Management and general	449,063	533,389
Fundraising	<u>704,660</u>	<u>707,672</u>
Total Expenses	<u>30,013,360</u>	<u>26,579,027</u>
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>(675,905)</u>	<u>(43,413)</u>
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	1,355,053	519,002
Investment income	131,443	150,376
Net assets released from restrictions	<u>(535,559)</u>	<u>(1,248,364)</u>
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS	<u>950,937</u>	<u>(578,986)</u>
CHANGE IN NET ASSETS	275,032	(622,399)
NET ASSETS, BEGINNING OF YEAR	<u>7,674,312</u>	<u>8,296,711</u>
NET ASSETS, END OF YEAR	<u>\$ 7,949,344</u>	<u>\$ 7,674,312</u>

See accompanying notes.

EASTER SEALS OF GREATER HOUSTON, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2024

	Programs					Management and General	Fundraising	TOTAL
	Infant Development	Respite Care	Veterans	Other Programs	Total Programs			
Salaries and benefits	\$ 16,688,159	\$ 474,166	\$ 1,465,635	\$ 2,807,418	\$ 21,435,378	\$ 286,762	\$ 457,257	\$ 22,179,397
Assistance to individuals	22,061	1,776,583	693,018	1,179,242	3,670,904	-	7,008	3,677,912
Professional fees	524,053	69,430	54,363	541,402	1,189,248	50,444	19,666	1,259,358
Occupancy	398,299	29,314	27,314	191,244	646,171	21,908	21,676	689,755
Mileage reimbursement	353,798	3,416	3,873	37,164	398,251	461	865	399,577
Supplies	249,316	3,997	4,210	190,074	447,597	27,524	7,117	482,238
Telephone	157,808	4,325	10,735	32,282	205,150	2,917	5,398	213,465
Direct donor benefits	-	-	-	-	-	-	99,229	99,229
In-kind	36,470	5,000	-	95,585	137,055	-	16,855	153,910
Miscellaneous	34,490	1,940	4,183	6,217	46,830	(3,334)	25,193	68,689
Travel	62,350	880	12,264	31,047	106,541	17,409	10,297	134,247
Dues	71,257	2,537	6,811	18,770	99,375	8,876	7,282	115,533
Equipment rental	22,231	972	1,799	4,079	29,081	1,610	656	31,347
Insurance	62,629	2,167	4,618	12,652	82,066	2,466	1,911	86,443
Printing	1,770	135	3,203	3,437	8,545	831	20,888	30,264
Postage and shipping	14,616	2,294	765	3,375	21,050	5,847	3,362	30,259
Depreciation	359	359	-	7,100	7,818	3,223	-	11,041
Interest	-	-	-	-	-	22,119	-	22,119
Bad Debt	273,810	-	-	54,767	328,577	-	-	328,577
Total Expenses	<u>\$ 18,973,476</u>	<u>\$ 2,377,515</u>	<u>\$ 2,292,791</u>	<u>\$ 5,215,855</u>	<u>\$ 28,859,637</u>	<u>\$ 449,063</u>	<u>\$ 704,660</u>	<u>\$ 30,013,360</u>

See accompanying notes.

EASTER SEALS OF GREATER HOUSTON, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 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	<u>\$ 16,303,311</u>	<u>\$ 2,416,942</u>	<u>\$ 2,443,776</u>	<u>\$ 4,173,937</u>	<u>\$ 25,337,966</u>	<u>\$ 533,389</u>	<u>\$ 707,672</u>	<u>\$ 26,579,027</u>

See accompanying notes.

EASTER SEALS OF GREATER HOUSTON, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023

	<u>2024</u>	<u>2023</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 275,032	\$ (622,399)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Net realized and unrealized gain on investments	(316,278)	(357,327)
Depreciation	11,041	12,995
Noncash change in operating leases	(75,272)	(56,022)
Changes in operating assets and liabilities:		
Accounts receivable	391,963	(1,138,907)
Contributions receivable	(853,056)	404,543
Other assets	57,619	(5,353)
Accounts payable and accrued liabilities	(160,842)	(696,592)
Advanced grants payable	240,000	-
Deferred revenue	<u>-</u>	<u>(22,376)</u>
Total adjustments	<u>(704,825)</u>	<u>(1,859,039)</u>
Net cash used by operating activities	<u>(429,793)</u>	<u>(2,481,438)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	2,006,957	3,532,679
Purchase of investments	<u>(2,506,351)</u>	<u>(2,941,637)</u>
Net cash (used) provided by investing activities	<u>(499,394)</u>	<u>591,042</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on line of credit	5,841,575	1,250,000
Payments on line of credit	<u>(5,940,000)</u>	<u>(500,000)</u>
Net cash (used) provided by financing activities	<u>(98,425)</u>	<u>750,000</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,027,612)	(1,140,396)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,737,447</u>	<u>2,877,843</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 709,835</u>	<u>\$ 1,737,447</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	<u>\$ 26,244</u>	<u>\$ 7,052</u>

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 \$560,000 at December 31, 2024); 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, 2024 and 2023, one and two donors accounted for 88% and 88% of contributions receivable, respectively. One governmental agency accounted for 60% and 74% of accounts receivable at December 31, 2024 and 2023, 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, 2024 and 2023, all are due within one year.

Contributions Receivable - At December 31, 2024, all contributions receivables are due within one year. At December 31, 2023, \$75,894 of contributions were due beyond one year.

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, 2024 and 2023 investments restricted for the Caroline School endowment totaled \$1,250,086 and \$1,143,780, 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 contributions receivable that are expected to be collected within one year are recorded at their realizable value. Unconditional contributions receivable 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. There are no long-term contributions receivable at December 31, 2024 and estimated discounts on long-term contributions receivable at December 31, 2023 were immaterial.

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, 2024, unrecorded conditional contributions are approximately \$8,700,000.

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 \$153,910 and \$103,292 for the years ended December 31, 2024 and 2023, 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 based on individual department classification and estimated time incurred. 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 2024 and 2023.

ESGH believes that all significant tax positions utilized will more likely than not be sustained upon examination. As of December 31, 2024, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from the fiscal year 2021 forward (with limited exceptions). Tax penalties and interest, if any, would be accrued as incurred and would be classified as management and general 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, 2024 AND 2023

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

Subsequent Events - ESGH has evaluated subsequent events through May 21, 2025, the date the financial statements were available to be issued. Subsequent to December 31, 2024, ESGH made draws on the lines of credit totaling \$1,650,000, of which \$1,176,633 has been repaid. Additionally, 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, 2024.

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 lines of credit in the amount of \$2,000,000 which it could draw upon (see Note E). Additionally, ESGH has an Operating Endowment for the Caroline School of \$1,255,639 and \$1,212,549 at December 31, 2024 and 2023, respectively. ESGH may appropriate amounts from the Operating Endowment for general expenditures of The Caroline School. There were \$88,353 and \$0 funds appropriated from the Endowment for general operating expenditures of the Caroline School at December 31, 2024 and 2023, respectively. Subsequent to December 31, 2024, an additional \$109,988 was appropriated from the Endowment for general operating expenditures of the Caroline School.

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>2024</u>	<u>2023</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 709,835	\$ 1,737,447
Accounts receivable	2,873,147	3,265,110
Contributions receivable	1,305,111	452,055
Investments	<u>4,888,137</u>	<u>4,072,465</u>
Total financial assets	9,776,230	9,527,077
Less amounts not available to be used within one year:		
Long-term contributions receivable	-	75,894
Caroline School Operating Endowment	<u>1,255,639</u>	<u>1,212,549</u>
	<u>1,255,639</u>	<u>1,288,443</u>
Financial assets available to meet expenditures over the next twelve months	<u>\$ 8,520,591</u>	<u>\$ 8,238,634</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 2024 and 2023. There were no significant transfers in and/or out of the fair value categories during 2024 and 2023. 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, 2024 AND 2023

NOTE C INVESTMENTS (CONTINUED)

The fair values of financial instruments are categorized as follows:

	2024			
	Level 1	Level 2	Level 3	Total
Money Market:				
Government Portfolio	\$ 806,694	-	-	806,694
Savings	6,019	-	-	6,019
Equity securities:				
Domestic equity	2,236,661	-	-	2,236,661
Foreign equity	609,724	-	-	609,724
Government bonds	-	-	-	-
Mutual funds:				
Fixed income	-	44,253	-	44,253
Specific strategy	-	1,184,786	-	1,184,786
	<u>\$ 3,659,098</u>	<u>\$ 1,229,039</u>	<u>\$ -</u>	<u>\$ 4,888,137</u>

	2023			
	Level 1	Level 2	Level 3	Total
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>

NOTE D PROPERTY AND EQUIPMENT

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

	Lives	2024	2023
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>(351,816)</u>	<u>(340,775)</u>
		<u>\$ 29,149</u>	<u>\$ 40,190</u>

EASTER SEALS OF GREATER HOUSTON, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

NOTE E **LINES OF CREDIT**

ESGH has a \$1,000,000 line of credit from a bank which bears interest at prime rate plus 0.5% subject to a floor of 4.25% (8% at December 31, 2024). 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, 2025. There was no outstanding balance on this line of credit as of December 31, 2024.

ESGH has 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% (5.81% at December 31, 2024). The PCL is collateralized by an investment account maintained at the same institution with a balance of approximately \$4,888,000 at December 31, 2024. The PCL expires on December 31, 2025. There was \$651,575 in outstanding borrowings on the PCL as of December 31, 2024.

NOTE F **LEASES**

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

2025	\$ 723,957
2026	736,357
2027	702,267
2028	32,061
2029	<u>6,289</u>
Total minimum lease payments	2,200,931
Less: Imputed interest	<u>(77,256)</u>
Present value of operating lease liabilities	<u>\$ 2,123,675</u>
Weighted-average remaining lease term (years)	3.0
Weighted-average discount rate	2.3%

Total rent expense amounted to \$721,102 and \$703,752 for the years ended December 31, 2024 and 2023, respectively. The following table provides details regarding the components of operating lease expense for the year ended December 31, 2024:

	<u>2024</u>	<u>2023</u>
Operating lease expense components		
Leases with term greater than 12 months	\$ 611,733	\$ 593,519
Leases with term of 12 months or less	<u>109,369</u>	<u>110,233</u>
Total operating lease expense	<u>\$ 721,102</u>	<u>\$ 703,752</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, 2024 operating lease liabilities resulting from right of use assets obtained totaled \$170,750.

EASTER SEALS OF GREATER HOUSTON, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

NOTE G NET ASSETS WITH DONOR RESTRICTIONS

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

	2024	2023
Adult Program	\$ 175,563	\$ 93,049
Bridging Apps	47,000	82,000
Camps and Case Management	624,841	115,500
Caroline School Operating Endowment	1,255,639	1,212,549
Children's Therapy	23,750	3,750
Disaster Relief	10,000	16,125
High School/High Tech	37,750	18,550
Holiday Adoptions	6,735	7,073
Housing	77,872	11,250
Infant Development	217,250	57,950
Respite Care	23,500	8,500
Special Events to be held in the future	70,320	77,955
Toy Tech	17,768	8,800
Transition	53,250	10,250
Veterans	41,250	8,250
	<u>\$ 2,682,488</u>	<u>\$ 1,731,551</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:

	2024	2023
Adult program	\$ 22,271	\$ 64,385
Bridging Apps	82,000	488,561
Camps and Case Management	115,500	219,750
Children's Therapy	3,750	3,750
The Caroline School	88,353	25,384
Holiday Adoptions	7,073	7,451
Disaster Relief	16,125	16,129
High School/High Tech	18,550	11,750
Housing	11,250	57,083
Infant Development	57,950	214,698
Respite Care	8,500	8,500
Special Events	77,955	95,632
Toy Tech	7,782	16,791
Transition	10,250	10,250
Veterans	8,250	8,250
	<u>\$ 535,559</u>	<u>\$ 1,248,364</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, 2024 and 2023, no permanently restricted contributions have been received.

Changes in the Operating Endowment net assets are as follows:

Operating Endowment net assets, December 31, 2022	\$ 1,062,173
Investment income	150,376
Appropriations	<u>-</u>
Operating Endowment net assets, December 31, 2023	1,212,549
Investment income	131,443
Appropriations	<u>(88,353)</u>
Operating Endowment net assets, December 31, 2024	<u><u>\$ 1,255,639</u></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 \$86,260 and \$87,081 during 2024 and 2023, respectively.

NOTE J **INSURANCE**

ESGH is covered by commercial, professional and automobile liability insurance through October 2025. 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 2025 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, 2024 and 2023, ESGH expensed \$469,280 and \$352,562, 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, 2024

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	\$ 287,640
Special Education-Grants for Infants and Families	84.181	HHS000640200038	<u>6,569,663</u>
Total U.S. Department of Education			<u>6,857,303</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	62,696
Temporary Assistance for Needy Families	93.558	HHS000640200038	<u>483,028</u>
Total U.S. Department of Health and Human Services			<u>545,724</u>
U.S. Department of Housing and Urban Development; Office of Housing and Counseling			
Housing Counseling Assistance Program	14.169	HC240421029	22,095
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-24-UC-48-0235	223,350
Passed through Montgomery County, Texas Home Investment Partnerships Program	14.239	M-22-UC-48-0235	<u>280,457</u>
Total U.S. Department of Housing and Urban Development			<u>525,902</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>35,827</u>
Total U.S. Department of Justice			<u>35,827</u>
Total expenditures of federal awards			<u>\$ 7,964,756</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, 2024

Federal Grantor/Pass-through Grantor/ Program or Cluster Title and Non-Federal Grantor	Federal Assistance Listing Number	Identifying Number	Federal Expenditures
Non-Federal Awards:			
Texas Health and Human Services Commission			
Division for Early Childhood Intervention Services			
Special Education-Grants to States	N/A	HHS000640200038	\$ 3,387,707
Special Education-Grants to States	N/A	HHS000640200038	<u>15,073</u>
Total Division for Early Childhood Intervention Services			<u>3,402,780</u>
Texas Veterans + Family Alliance Grant Program	N/A	HHS001234000006	<u>1,540,118</u>
Total Texas Veterans + Family Alliance Grant Program			<u>1,540,118</u>
Total Texas Health and Human Services Commission			<u>4,942,898</u>
Texas Veterans Commission			
Mental Health Services for Veterans	N/A	VMH23-C-003	122,400
Mental Health Services for Veterans	N/A	VMH24-C-029	174,000
General Assistance Services for Veterans	N/A	FVA24-F-106	<u>43,052</u>
Total Texas Veterans Commission			<u>339,452</u>
Brazos County	N/A	none	<u>35,000</u>
Total expenditures of non-federal awards			<u>\$ 5,317,350</u>

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

EASTER SEALS OF GREATER HOUSTON, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND NON-FEDERAL AWARDS
DECEMBER 31, 2024

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.

NOTE B FISCAL YEAR FEDERAL EXPENDITURE RECONCILIATION

During 2024, ESGH received advances on certain federal grants. Unexpended advances are not included on the schedule of expenditures of federal awards as follows:

Expenditures of Federal awards, as reported	\$ 7,964,756
Advances	<u>240,000</u>
Total Federal funds received during 2024	<u>\$ 8,204,756</u>

EASTER SEALS OF GREATER HOUSTON, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2024

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).

7. The programs tested as major programs include:

Federal
Assistance
Listing Number

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, 2024, 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 21, 2025.

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) as a basis for designing 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 or significant deficiencies may exist that were not 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 blue ink that reads "Harper & Pearson Company, P.C." in a cursive script.

HARPER & PEARSON COMPANY, P.C.

Houston, Texas
May 21, 2025

**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, 2024. 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, 2024.

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; 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 blue ink that reads "Harper & Pearson Company, P.C." in a cursive script.

HARPER & PEARSON COMPANY, P.C.

Houston, Texas
May 21, 2025