EASTER SEALS OF GREATER HOUSTON, INC.

**FINANCIAL STATEMENTS
AND SINGLE AUDIT REPORTS**

DECEMBER 31, 2025 AND 2024

HARPER | PEARSON

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C O N T E N T S

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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, 2025 and 2024, 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, 2025 and 2024, 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 July 6, 2026, 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.

HARPER & PEARSON COMPANY, P.C.

Houston, Texas
July 6, 2026

ASSETS	**2025**	**2024**
ASSETS		
Cash and cash equivalents - unrestricted	$ 1,766,317	$ 704,282
Cash restricted for Caroline School	5,635	5,553
Total cash and cash equivalents	1,771,952	709,835
Accounts receivable	2,305,165	2,873,147
Contributions receivable	730,573	1,305,111
Investments	4,077,403	4,888,137
Other assets	34,918	39,356
Right of use assets, net	1,195,632	1,784,517
Property and equipment, net	19,893	29,149
Note Receivable, net of discount of $1,759,397	769,753	-
TOTAL ASSETS	$ 10,905,289	$ 11,629,252

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable and accrued liabilities	$ 1,221,392	$ 664,658
Advanced grants payable	601,402	240,000
Deferred revenue	137,254	-
Operating lease liabilities	1,440,843	2,123,675
Line of credit	-	651,575
TOTAL LIABILITIES	3,400,891	3,679,908
NET ASSETS		
Without donor restrictions	4,538,097	5,266,856
With donor restrictions	2,966,301	2,682,488
TOTAL NET ASSETS	7,504,398	7,949,344
TOTAL LIABILITIES AND NET ASSETS	$ 10,905,289	$ 11,629,252

See accompanying notes.

EASTER SEALS OF GREATER HOUSTON, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024

	2025	2024
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
REVENUES AND SUPPORT		
Government grants	$ 14,491,190	$ 13,789,214
Contributions	2,087,797	2,426,452
In-kind contributions	104,955	153,910
Program service fees/third party reimbursement	10,388,012	11,511,142
Special events	564,164	573,706
Investment and other income, net	386,078	344,991
	28,022,196	28,799,415
Net Assets Released from Restrictions	1,206,654	535,559
Total Revenues and Support	29,228,850	29,334,974
EXPENSES		
Program Services:		
Infant Development	19,379,049	18,973,476
Respite Care	1,706,879	2,377,515
Veterans	2,227,531	2,292,791
Disaster Relief	246,192	825,257
Adult Program	107,383	35,873
Bridging Apps	721,280	1,068,054
Camps and Case Management	1,156,136	1,021,186
Children's Therapy	696,820	741,654
High School/High Tech	192,958	168,574
Housing	1,128,901	595,948
The Caroline School	620,204	457,798
Toy Tech	10,962	7,782
Transition	342,238	293,729
Total program services	28,536,533	28,859,637
Management and general	683,724	449,063
Fundraising	737,352	704,660
Total Expenses	29,957,609	30,013,360
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	(728,759)	(678,386)
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	1,330,336	1,357,534
Investment income	160,131	131,443
Net assets released from restrictions	(1,206,654)	(535,559)
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS	283,813	953,418
CHANGE IN NET ASSETS	(444,946)	275,032
NET ASSETS, BEGINNING OF YEAR	7,949,344	7,674,312
NET ASSETS, END OF YEAR	$ 7,504,398	$ 7,949,344

See accompanying notes.

EASTER SEALS OF GREATER HOUSTON, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2025

	Programs							
	Infant Development	Respite Care	Veterans	Other Programs	Total Programs	Management and General	Fundraising	TOTAL
Salaries and benefits	$ 16,821,570	$ 409,848	$ 1,525,596	$ 3,116,283	$ 21,873,297	$ 465,348	$ 439,697	$ 22,778,342
Assistance to individuals	45,457	1,201,785	613,296	1,186,848	3,047,386	-	-	3,047,386
Professional fees	672,891	50,722	22,824	323,088	1,069,525	53,860	38,427	1,161,812
Occupancy	379,957	18,363	13,533	264,541	676,394	13,897	20,304	710,595
Mileage reimbursement	372,270	2,537	2,830	38,825	416,462	262	1,334	418,058
Supplies	163,059	5,739	9,407	138,233	316,438	12,057	26,746	355,241
Telephone	153,484	3,303	10,980	30,826	198,593	3,058	3,604	205,255
Direct donor benefits	-	-	-	-	-	-	103,251	103,251
In-kind	34,670	5,000	-	38,475	78,145	-	26,810	104,955
Miscellaneous	1,221	1	2,609	8,918	12,749	86,677	24,900	124,326
Travel	33,036	2,871	12,086	20,653	68,646	20,070	8,274	96,990
Dues	85,892	2,630	7,817	22,312	118,651	3,308	7,820	129,779
Equipment rental	35,400	597	1,292	3,975	41,264	(4,567)	597	37,294
Insurance	74,777	1,836	3,935	17,846	98,394	656	2,162	101,212
Printing	25,865	-	832	3,294	29,991	842	27,696	58,529
Postage and shipping	24,118	1,288	354	1,857	27,617	401	5,730	33,748
Depreciation	359	359	-	7,100	7,818	1,437	-	9,255
Interest	-	-	-	-	-	26,418	-	26,418
Bad Debt	455,023	-	140	-	455,163	-	-	455,163
Total Expenses	$ 19,379,049	$ 1,706,879	$ 2,227,531	$ 5,223,074	$ 28,536,533	$ 683,724	$ 737,352	$ 29,957,609

See accompanying notes.

	Programs							
	Infant Development	Respite Care	Veterans	Other Programs	Total Programs	Management and General	Fundraising	TOTAL
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	$ 18,973,476	$ 2,377,515	$ 2,292,791	$ 5,215,855	$ 28,859,637	$ 449,063	$ 704,660	$ 30,013,360

See accompanying notes.

	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ (444,946)	$ 275,032
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Net realized and unrealized gain on investments	(428,243)	(316,278)
Depreciation	9,255	11,041
Noncash change in operating leases	(93,946)	(75,272)
Changes in operating assets and liabilities:		
Accounts receivable	567,982	391,963
Contributions receivable	574,538	(853,056)
Note receivable	(769,753)	-
Other assets	4,438	57,619
Accounts payable and accrued liabilities	556,734	(160,842)
Advanced grants payable	361,402	240,000
Deferred revenue	137,254	-
Total adjustments	919,661	(704,825)
Net cash provided (used) by operating activities	474,715	(429,793)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	1,330,776	2,006,957
Purchase of investments	(91,799)	(2,506,351)
Net cash provided (used) by investing activities	1,238,977	(499,394)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on line of credit	3,262,441	5,841,575
Payments on line of credit	(3,914,016)	(5,940,000)
Net cash used by financing activities	(651,575)	(98,425)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,062,117	(1,027,612)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	709,835	1,737,447
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 1,771,952	$ 709,835
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 24,843	$ 26,244

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 $1,584,000 at December 31, 2025); 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, 2025 and 2024, four and one donors accounted for 76% and 88% of contributions receivable, respectively. One governmental agency accounted for 59% and 60% of accounts receivable at December 31, 2025 and 2024, 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, 2025 and 2024, all are due within one year.

Contributions Receivable - At December 31, 2025 and 2024 all contributions receivables are due within one year.

Note Receivable - The note receivable is a time restricted contribution, net of a discount to reflect the present value of the principal payable at maturity. Annual amortization of the discount and interest earned is recorded as contribution revenue without donor restrictions.

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, 2025 and 2024 investments restricted for the Caroline School endowment totaled $1,301,146 and $1,250,086, 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.

Conditional Contributions - Cost-reimbursable federal and state contracts and grants require ESGH to meet specific performance requirements and/or incur allowable expenses before funds are earned. Revenue is recognized only when ESGH has incurred qualifying expenditures in compliance with the applicable contract or grant terms. As of December 31, 2025, ESGH holds one cost-reimbursable agreement valued at approximately $54,000,000, running through August 2030. Across all funding sources, ESGH expects to collect approximately $9,000,000 in unrecorded conditional contributions by December 31, 2026.

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 for the years ended December 31, 2025 and 2024 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.

Revenue concentration - During 2025 and 2024, federal and non-federal revenue amounting to $12,649,437 and $12,585,925, respectively, were passed through or received from the Texas Health and Human Services Commission.

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. There was no unrelated business income during 2025 or 2024.

ESGH believes that all significant tax positions utilized will more likely than not be sustained upon examination. As of December 31, 2025, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from the fiscal year 2022 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.

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

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.

<u>Subsequent Events</u> - ESGH has evaluated subsequent events through July 6, 2026, the date the financial statements were available to be issued.

On March 30, 2026, the Board of Directors voted to exercise the contraction option in their office space lease to surrender up to 3,500 square feet. The effective date of reduced space and revised lease agreement will be October 1, 2026. ESGH will be responsible for all construction costs required to surrender the space.

Additionally, as of the report date, borrowings on the line of credit, net of repayments, amount to $249,844.

No other subsequent events have occurred which require adjustment to or disclosure in the financial statements at December 31, 2025.

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 F). Additionally, ESGH has an Operating Endowment for the Caroline School of $1,306,781 and $1,255,639 at December 31, 2025 and 2024, respectively. ESGH may appropriate amounts from the Operating Endowment for general expenditures of The Caroline School (see Note H). There were $108,988 and $88,353 funds appropriated from the Endowment for general operating expenditures of the Caroline School during December 31, 2025 and 2024, respectively.

NOTE B LIQUIDITY AND AVAILABILITY (CONTINUED)

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.

	2025	2024
Financial assets at year end:		
Cash and cash equivalents	$ 1,771,952	$ 709,835
Accounts receivable	2,305,165	2,873,147
Contributions receivable	730,573	1,305,111
Investments	4,077,403	4,888,137
Total financial assets	8,885,093	9,776,230
Less amounts not available to be used within one year:		
Caroline School Operating Endowment	1,306,781	1,255,639
	1,306,781	1,255,639
Financial assets available to meet expenditures over the next twelve months	$ 7,578,312	$ 8,520,591

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.

NOTE C INVESTMENTS (CONTINUED)

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 2025 and 2024. There were no significant transfers in and/or out of the fair value categories during 2025 and 2024. 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.

The fair values of financial instruments are categorized as follows:

	2025			
	Level 1	Level 2	Level 3	Total
Money Market:				
Government Portfolio	$ 170,213	$ -	$ -	$ 170,213
Savings	4,823	-	-	4,823
Equity securities:				
Domestic equity	2,024,148	-	-	2,024,148
Foreign equity	721,959	-	-	721,959
Mutual funds:				
Fixed income	-	10,057	-	10,057
Specific strategy	-	1,146,203	-	1,146,203
	$ 2,921,143	$ 1,156,260	$ -	$ 4,077,403

	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
Mutual funds:				
Fixed income	-	44,253	-	44,253
Specific strategy	-	1,184,786	-	1,184,786
	$ 3,659,098	$ 1,229,039	$ -	$ 4,888,137

NOTE D NOTE RECEIVABLE

During the year ended December 31, 2025, ESGH was gifted partial ownership in a note receivable. The note has a face value of $2,529,150. Interest is due and payable in equal annual installments at a rate of 4.34%. Principal and any unpaid interest are due on the earlier of December 31, 2053 or upon the liquidation of the underlying company specified in the note agreement. Interest income amounting to $219,530 and amortization of the discount of $31,260 for the year ended December 31, 2025 are included in contributions without donor restrictions.

NOTE E PROPERTY AND EQUIPMENT

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

	Lives	2025	2024
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		(361,072)	(351,816)
		$ 19,893	$ 29,149

NOTE F 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% (7.25% at December 31, 2025). 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, 2026. There was no outstanding balance on this line of credit as of December 31, 2025 and 2024, respectively.

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% (5.12% at December 31, 2025). The PCL is collateralized by an investment account maintained at the same institution with a balance of approximately $4,077,000 at December 31, 2025. The PCL expires on December 31, 2026. There was no outstanding balance on the PCL as of December 31, 2025. At December 31, 2024, the balance outstanding was $651,575.

NOTE G LEASES

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

2026	$ 736,357
2027	702,267
2028	32,061
2029	6,289
Total minimum lease payments	1,476,974
Less: Imputed interest	(36,131)
Present value of operating lease liabilities	$ 1,440,843
Weighted-average remaining lease term (years)	2.0
Weighted-average discount rate	2.3%

Total rent expense amounted to $747,891 and $721,102 and for the years ended December 31, 2025 and 2024, respectively. The following table provides details regarding the components of operating lease expense for the year ended December 31, 2025:

	2025	2024
Operating lease expense components		
Leases with term greater than 12 months	$ 630,010	$ 611,733
Leases with term of 12 months or less	117,881	109,369
Total operating lease expense	$ 747,891	$ 721,102

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, 2025 there were no operating lease liabilities resulting from right of use assets obtained.

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.

NOTE H CAROLINE SCHOOL OPERATING ENDOWMENT (CONTINUED)

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, 2025 and 2024, no permanently restricted contributions have been received.

Changes in the Operating Endowment net assets are as follows:

Operating Endowment net assets, December 31, 2023	$ 1,212,549
Investment income	131,443
Appropriations	(88,353)
Operating Endowment net assets, December 31, 2024	1,255,639
Investment income	160,130
Appropriations	(108,988)
Operating Endowment net assets, December 31, 2025	$ 1,306,781

NOTE I NET ASSETS WITH DONOR RESTRICTIONS

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

	2025	2024
Time Restricted:		
Note receivable	$ 769,753	$ -
Purpose Restricted:		
Adult Program	188,567	175,563
Bridging Apps	11,750	47,000
Camps and Case Management	127,000	624,841
Caroline School Operating Endowment	1,306,781	1,255,639
Children's Therapy	5,000	23,750
Disaster Relief	-	10,000
High School/High Tech	215,075	37,750
Holiday Adoptions	-	6,735
Housing	13,750	77,872
Infant Development	41,750	217,250
Respite Care	3,750	23,500
Special Events to be held in the future	101,316	70,320
Toy Tech	44,858	17,768
Transition	10,750	53,250
Veterans	126,201	41,250
	$ 2,966,301	$ 2,682,488

NOTE I NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

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

	2025	2024
Purpose Restricted:		
Adult program	$ 82,988	$ 22,271
Bridging Apps	35,250	82,000
Camps and Case Management	497,841	115,500
Children's Therapy	18,750	3,750
Caroline School Operating Endowment	108,988	88,353
Holiday Adoptions	6,735	7,073
Disaster Relief	10,000	16,125
High School/High Tech	30,000	18,550
Housing	64,122	11,250
Infant Development	175,500	57,950
Respite Care	19,750	8,500
Special Events	70,320	77,955
Toy Tech	10,910	7,782
Transition	42,500	10,250
Veterans	33,000	8,250
	$ 1,206,654	$ 535,559

NOTE J AFFILIATION WITH EASTER SEALS, INC.

ESGH is voluntarily affiliated with Easter Seals, Inc. ESGH paid to Easter Seals, Inc. dues amounting to $92,984 and $86,260 during 2025 and 2024, respectively.

NOTE K 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 2026 with a $1,000,000 policy limit.

NOTE L 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, 2025 and 2024, ESGH expensed $423,747 and $469,280, respectively to the 403(b) plan.

NOTE M 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

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	HHS000640200012	$ 313,920
Special Education-Grants for Infants and Families	84.181	HHS000640200038	2,757,355
Special Education-Grants for Infants and Families	84.181	HHS000640200012	1,625,775
Total U.S. Department of Education			4,697,050
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	27,558
Preschool Development Grant	93.434	HHS000640200012	25,484
Temporary Assistance for Needy Families	93.558	HHS000640200038	195,957
Temporary Assistance for Needy Families	93.558	HHS000640200012	213,514
Total U.S. Department of Health and Human Services			462,513
U.S. Department of Housing and Urban Development; Office of Housing and Counseling			
Housing Counseling Assistance Program	14.169	HC240421029	25,746
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-18-UC-48-0235	144,968
Home Investment Partnerships Program	14.239	M-22-UC-48-0235	188,944
Home Investment Partnerships Program	14.239	M-23-UC-48-0235	463,133
Home Investment Partnerships Program	14.239	M-24-UC-48-0235	109,330
Total U.S. Department of Housing and Urban Development			932,121
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	49,331
Total U.S. Department of Justice			49,331

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

Federal Grantor/Pass-through Grantor/ Program or Cluster Title and Non-Federal Grantor	Federal Assistance Listing Number	Identifying Number	Federal Expenditures
U.S. Department of the Treasury; American Rescue Plan Act Coronavirus State & Local Fiscal Recovery Funds			
Passed through Children at Risk	21.027	C@R-2025-4	125,793
Total U.S. Department of the Treasury			125,793
Total expenditures of federal awards			$ 6,266,808
Non-Federal Awards:			
Texas Health and Human Services Commission Division for Early Childhood Intervention Services			
Special Education-Grants to States	N/A	HHS000640200038	$ 4,249,174
Special Education-Grants to States	N/A	HHS001462600012	1,846,783
Total Division for Early Childhood Intervention Services			6,095,957
Texas Veterans + Family Alliance Grant Program	N/A	HHS001234000006	1,393,917
Total Texas Veterans + Family Alliance Grant Program			1,393,917
Total Texas Health and Human Services Commission			7,489,874
Texas Veterans Commission			
Mental Health Services for Veterans	N/A	VMH24-C-029	126,000
Mental Health Services for Veterans	N/A	VMH25-C-004	181,400
General Assistance Services for Veterans	N/A	FVA24-F-106	80,946
General Assistance Services for Veterans	N/A	GEN25-F-008	52,210
Total Texas Veterans Commission			440,556
Brazos County	N/A	none	35,000
Total expenditures of non-federal awards			$ 7,965,430

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

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 de minimis indirect cost rate allowed under the Uniform Guidance.

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, however significant deficiencies were reported.

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 over the internal controls over major programs were identified, however a significant deficiency over the internal controls over major programs was reported.

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. Audit findings that are required to be reported in accordance with 2CFR Section 200.516(a) are reported in this Schedule.

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 $1,000,000 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

2025-1 Recording Support and Revenue

Criteria:

Generally accepted accounting principles require unconditional long term pledges to be recorded upon notification of the gift.

Condition:

Certain unconditional contributions to be received in future years were not recorded until the cash was collected.

Cause:

Staff turnover resulted in reduced communication between the development and accounting departments.

Effect:

Income was understated.

Recommendation:

Easter Seals of Greater Houston, Inc. should provide training to ensure communication between development and the accounting departments is sufficient to allow for proper recording of contributions. Further, management should conduct a more robust review of agreements and donor communications, particularly before and after year end, to ensure recording in the appropriate period.

Views of Responsible Officials and Planned Corrective Actions:

Management agrees that all agreements and awards must be sent to Accounting as soon as signed and/or received. This communication has been reinforced. These agreements have been saved into the New Agreements folder in the Accounting Drive. Also, the Accounting Team will request any missing agreements monthly as the bank reconciliations are performed. Management will review at least quarterly the New Agreements folder for completeness against the financials. All these actions are effective January 1, 2026, and will be managed by the Chief Financial Officer.

2025-2 Disclosure of Conditional Grants

Criteria:

Generally accepted accounting principles require disclosure of the amount and nature of conditional grants awarded to the entity.

Condition:

Certain conditional grants were not identified and included in the amount to be disclosed.

Cause:

Signed grants were not obtained/retained appropriately.

Effect:

The disclosure of conditional grants, representing future revenue, was understated.

Recommendation:

Easter Seals of Greater Houston, Inc. should develop a process to ensure copies of all grant agreements are provided to the accounting department so that revenues and disclosures are reported accurately in the annual financial statements.

Views of Responsible Officials and Planned Corrective Actions:

Management agrees that all agreements and awards must be sent to Accounting as soon as signed and/or received. This communication has been reinforced. These agreements have been saved into the New Agreements folder in the Accounting Drive. Also, the Accounting Team will request any missing agreements monthly as the bank reconciliations are performed. Management will review at least quarterly the New Agreements folder for completeness against the financials. All these actions are effective January 1, 2026, and will be managed by the Chief Financial Officer.

2025-3 Beginning Account Balances

Criteria:

Account balances should equal the balance at the end of the prior year plus current year activity.

Condition:

Beginning balances for various statement of financial position accounts did not agree to the ending balances presented in the prior year’s audited financial statements.

Cause:

The accounting software is date sensitive. The accounting year was not locked for editing and thus entries were dated and posted into an incorrect period.

Effect:

While the differences noted were immaterial, current year income and expenses could have been misstated.

Recommendation:

Upon completion of the year end closing process, the accounting period in the general ledger software should be locked to prevent inadvertent posting to the incorrect period.

Views of Responsible Officials and Planned Corrective Actions:

Management will ensure the Accounting period is locked and no changes are made to the prior balance sheet accounts. This action is effective for the 2026 fiscal year and will be managed by the Chief Financial Officer.

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

2025-4 Expense allocations

Criteria:

Allocations for expenses charged to federal and non-federal awards should be representative of the prorata share of the expense over all programs and activities benefited by the expense.

Condition:

Certain expenses are allocated amongst grants and programs based on head count. The calculations for the allocations were not applied consistently or accurately based on identified personnel.

Cause:

The accounting clerk responsible for the calculations used incorrect information. Amounts allocated were reviewed for reasonableness but the detailed calculations were not reviewed.

Effect:

Amounts computed as eligible for reimbursement were understated by a projected immaterial amount.

Recommendation:

The calculations supporting amounts on requests for reimbursements should be reviewed as part of the review of all expenses included on the request.

Views of Responsible Officials and Planned Corrective Actions:

Management has provided a template, which was reviewed and approved by the CFO in April 2026, to the AP Clerk without any roundings of the allocation percentages. Management will review the calculations between January 1 and April 2026 that were used for allocations and will correct any allocations as necessary. Management will ensure the review of expenses include all calculations supporting the expense amounts. All these actions are effective January 1, 2026, and will be managed by the Chief

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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, 2025, 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 July 6, 2026.

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 may exist that were not identified.

We identified deficiencies in internal controls that that we consider to be significant deficiencies which are described in the accompanying schedule of findings and questions costs as follows:

- 2025-1 Recording Support and Revenue
- 2025-2 Disclosure of Conditional Grants
- 2025-3 Beginning Account Balances

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.

Harper & Pearson Company, P.C.

HARPER & PEARSON COMPANY, P.C.

Houston, Texas
July 6, 2026

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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, 2025. 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, 2025.

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 in internal control over compliance may exist that were not identified.

We identified a deficiency in internal control over compliance that that we consider to be a significant deficiency which is described in the accompanying schedule of findings and questions costs as 2025-4.

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.

Harper & Pearson Company, P.C.

HARPER & PEARSON COMPANY, P.C.

Houston, Texas
July 6, 2026