



EDUCATION PARTNERSHIP OF THE PERMIAN BASIN

Financial Statements

December 31, 2022 and 2021

(With Auditors' Report Thereon)

Independent Auditors' Report

The Board of Directors
Education Partnership of the Permian Basin

Opinion

We have audited the accompanying financial statements of Education Partnership of the Permian Basin which comprise the statements of financial position as of December 31, 2022 and 2021 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 Education Partnership of the Permian Basin at December 31, 2022 and 2021 and the results of its operations and its cash flows for the years then ended in conformity 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. 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 Education Partnership of the Permian Basin, 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.

Independent Auditors' Report, continued

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States, 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 Education Partnership of the Permian Basin's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

Independent Auditors' Report, continued

In performing an audit in accordance with generally accepted 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 Education Partnership of the Permian Basin'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 Education Partnership of the Permian Basin'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.

C. Grant Martin

Midland, Texas
August 18, 2023

EDUCATION PARTNERSHIP OF THE PERMIAN BASIN

Statements of Financial Position
December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<u>Assets</u>		
Cash and equivalents	\$ 1,325,406	372,792
Prepays and other current assets	1,236	21,236
Operating lease right-of-use asset, net	<u>19,702</u>	<u>-</u>
Total assets	\$ <u>1,346,344</u>	<u>394,028</u>
<u>Liabilities and Net Assets</u>		
Accounts payable	\$ 17,714	85,764
Operating lease liability	<u>19,702</u>	<u>-</u>
Total liabilities	<u>37,416</u>	<u>85,764</u>
Net assets:		
Without donor restrictions:		
Undesignated	<u>1,308,928</u>	<u>308,264</u>
	<u>1,308,928</u>	<u>308,264</u>
With donor restrictions:	<u>-</u>	<u>-</u>
Total net assets	<u>1,308,928</u>	<u>308,264</u>
Total liabilities and net assets	\$ <u>1,346,344</u>	<u>394,028</u>

See accompanying notes to financial statements

EDUCATION PARTNERSHIP OF THE PERMIAN BASIN

Statements of Activities
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Changes in net assets without donor restrictions:		
Revenue and support:		
Contributions	\$ 1,530,739	334,320
In-kind contributions	193,607	208,998
Other income	<u>-</u>	<u>101</u>
Total support and revenues before net assets released from restriction	1,724,346	543,419
Net assets released from restriction:		
Satisfaction as to purpose Total revenue and support	<u>-</u> <u>1,724,346</u>	<u>-</u> <u>543,419</u>
Expenses:		
Program services	659,878	389,624
Management and general	<u>95,115</u>	<u>53,006</u>
Total expenses	<u>754,993</u>	<u>442,630</u>
Increase in net assets before assets transferred from Educate Midland	969,353	100,789
Assets transferred from Educate Midland	<u>31,311</u>	<u>97,469</u>
Increase in net assets	1,000,664	198,258
Net assets without donor restrictions:		
Beginning of period	<u>308,264</u>	<u>110,006</u>
End of period	\$ <u>1,308,928</u>	<u>308,264</u>

See accompanying notes to financial statements

EDUCATION PARTNERSHIP OF THE PERMIAN BASIN

Statements of Functional Expenses
Years Ended December 31, 2022 and 2021

	<u>2022</u>			<u>2021</u>		
	<u>Program Services</u>	<u>Management And General</u>	<u>Totals</u>	<u>Program Services</u>	<u>Management And General</u>	<u>Totals</u>
<u>Personnel costs:</u>						
Salaries and wages	\$ 264,975	38,996	303,971	144,060	36,988	181,048
Payroll taxes	19,812	2,813	22,625	10,803	2,750	13,553
Benefits	<u>42,431</u>	<u>7,882</u>	<u>50,313</u>	<u>17,182</u>	<u>3,512</u>	<u>20,694</u>
Total personnel costs	<u>327,218</u>	<u>49,691</u>	<u>376,909</u>	<u>172,045</u>	<u>43,250</u>	<u>215,295</u>
<u>Operating costs:</u>						
Contigo education	92,797	-	92,797	38,393	-	38,393
Power bags research project	85,267	-	85,267	27,559	-	27,559
Strategic plan	46,094	-	46,094	27,371	-	27,371
Texas impact network	62,862	-	62,862	94,925	-	94,925
Childcare landscape	29,857	-	29,857	-	-	-
Other initiative costs	5,539	-	5,539	-	-	-
Professional fees	-	17,451	17,451	-	1,125	1,125
Rent	10,244	1,556	11,800	28,768	7,232	36,000
Office expenses	-	14,789	14,789	-	-	-
Insurance	-	2,260	2,260	-	888	888
Other expenses	-	<u>9,368</u>	<u>9,368</u>	<u>563</u>	<u>511</u>	<u>1,074</u>
Total operating costs	<u>332,660</u>	<u>45,424</u>	<u>378,084</u>	<u>217,579</u>	<u>9,756</u>	<u>227,335</u>
Total expenses	\$ <u>659,878</u>	<u>95,115</u>	<u>754,993</u>	<u>389,624</u>	<u>53,006</u>	<u>442,630</u>

See accompanying notes to financial statements

EDUCATION PARTNERSHIP OF THE PERMIAN BASIN

Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Change in net assets	\$ 969,353	100,789
(Increase) decrease in accounts receivable	-	2,694
(Increase) decrease in prepaids and other current assets	20,000	(21,236)
Increase (decrease) in accounts payable	(<u>68,050</u>)	<u>73,276</u>
Net cash provided by operating activities	<u>921,303</u>	<u>155,523</u>
Cash flows from investing activities:		
Assets transferred from Educate Midland	<u>31,311</u>	<u>97,469</u>
Net cash provided by investing activities	<u>31,311</u>	<u>97,469</u>
Cash flows from financing activities:	<u>-</u>	<u>-</u>
Net increase in cash	952,614	252,992
Cash and equivalents, beginning of period	<u>372,792</u>	<u>119,800</u>
Cash and equivalents, end of period	\$ <u>1,325,406</u>	<u>372,792</u>
<u>Non-cash Investing and Financing activities:</u>		
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ <u>19,702</u>	<u>-</u>

See accompanying notes to financial statement

EDUCATION PARTNERSHIP OF THE PERMIAN BASIN

Notes to Financial Statements

December 31, 2022 and 2021

(1) Summary of Significant Accounting Policies

Organization

Education Partnership of the Permian Basin, (the Organization) is a non-profit organization that is focused on supporting and improving the quality of education throughout the Permian Basin.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis. Revenues are recognized when earned or contributed and expenses are recognized when incurred.

Net Assets

The financial statements report net assets and changes in net assets in two classes that are based upon the existence or absence of restrictions on use that are placed by donors, as follows:

Net assets without donor restrictions:

- * Net assets without donor restrictions are resources representing the portion of expendable funds that is available for support of operations.

Net assets with donor restrictions:

- * Net assets with donor restrictions represents resources received for use for designated purposes or for use in future periods.

EDUCATION PARTNERSHIP OF THE PERMIAN BASIN

Notes to Financial Statements

December 31, 2022 and 2021

(1) Summary of Significant Accounting Policies, continued

Income Taxes

The Organization is a charitable organization as defined under Section 501(c)(3) of the Internal Revenue Code and qualifies for the charitable contribution deduction under IRC Sections 170(b)(1)(A)(vi) and (viii). As such, it is exempt from Federal income taxes on all income except income earned from unrelated business activities. There was no unrelated business income during the years ended December 31, 2022 and 2021. The Organization believes it is no longer subject to income tax examinations for years prior to 2019.

The Organization adheres to accounting standards for uncertain income tax positions, which would require additional disclosure. This applies to positions taken or expected to be taken in a tax return. The Organization does not believe its financial statements include any uncertain tax positions.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

EDUCATION PARTNERSHIP OF THE PERMIAN BASIN

Notes to Financial Statements

December 31, 2022 and 2021

(1) **Summary of Significant Accounting Policies, continued**

Revenue and Revenue Recognition

Contributions and grants are recognized when a donor makes a promise to give to the Organization that is, in substance, unconditional and non-reciprocal. Conditional promises to give, those with a measurable performance or other barrier and a right of return are not recognized until the conditions on which they depend have been met. The Organization had no conditional promises to give at December 31, 2022 and 2021. The Organization records special events revenue equal to the fair value of direct benefits to donors, and contributions income for the excess received when the event takes place.

The Organization reports gifts of cash or other assets, received with donor stipulations that limit the use of the donated gift, as support without donor restriction if the donor restrictions are satisfied within the same fiscal year the gift is received. If the donor restrictions are not fully satisfied by December 31 of the year in which the gift is received, the entire value of the gift is recorded as net assets with donor restriction and only that portion expended for its intended purpose or satisfying a time restriction is reclassified to net assets without donor restriction and reported in the statement of activities as net assets released from restrictions.

The Organization reports in-kind gifts as support without donor restriction unless explicit donor stipulations specify how the donated assets must be used. Gifts of long lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long lived assets are reported as donor restricted support. Absent explicit donor stipulations about how long those long lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service or the gifts of cash are expended for the purpose intended.

EDUCATION PARTNERSHIP OF THE PERMIAN BASIN

Notes to Financial Statements

December 31, 2022 and 2021

(1) **Summary of Significant Accounting Policies, continued**

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers demand deposits, money market accounts and other highly liquid financial instruments available for current use with an original maturity of six months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash equivalents, except for account balances donor restricted or board designated for capital improvements or future operations, which are classified as such, since use of such funds is donor restricted or board designated and not available for the Organization's use in current operations.

Donated Services

Many individuals volunteer their time and perform a variety of tasks that assist the Organization. The value of non professional volunteer services donated to the Organization is not clearly measurable and, accordingly, is not included as revenues and expenses in the accompanying financial statements. Donated professional computer, legal and accounting fees are recognized in the financial statements in accordance with U.S. generally accepted accounting principles when incurred.

EDUCATION PARTNERSHIP OF THE PERMIAN BASIN

Notes to Financial Statements

December 31, 2022 and 2021

(1) Summary of Significant Accounting Policies, continued

Change in Accounting Principle

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which requires lessees to recognize leases on the balance sheet and disclose key information about leasing arrangements. The new standard established a right-of-use (ROU) model that requires a lessee to recognize a ROU asset and lease liability on the statement of financial position for most leases with a term longer than 12 months. Leases are classified as finance or operating, with classification affecting the pattern and classification of the expense recognition in the statement of activities. The effective date for the Organization for this standard is for annual reporting periods beginning after December 15, 2021. We have adopted the provisions of this standard as of January 1, 2022, using the transition method that allowed us to initially apply Topic 842 as of January 1, 2022 and recognize a cumulative-effect adjustment to the opening balance of net assets in the period of adoption, if material.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958) Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* to increase transparency for contributed nonfinancial assets through enhancements to presentation and disclosure. ASU 2020-07 requires contributed nonfinancial assets, also known as gifts-in-kind, to be presented in a separate line item in the statement of activities (apart from contributions of cash and other financial assets) and requires expanded disclosures regarding the nature and utilization of contributed nonfinancial assets as well as descriptions of any donor restrictions and the valuation methodology and inputs used to determine fair value. ASU 2020-07 is effective for annual reporting periods beginning after June 15, 2021. We have adopted these provisions, including the required disclosures, with no significant effect on the accompanying financial statements.

EDUCATION PARTNERSHIP OF THE PERMIAN BASIN

Notes to Financial Statements

December 31, 2022 and 2021

(2) Information Regarding Liquidity and Availability

The Organization strives to maintain liquid financial assets sufficient to cover 90 days of general expenditures. Financial assets in excess of daily cash requirements are invested in certificates of deposit and money market funds.

The following table reflects the Organization's financial assets as of December 31, 2022, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of contractual restrictions or internal board designations, if any. Amounts not available include any board-designated funds for future use. In the event the need arises to utilize any board-designated funds for liquidity purposes, the reserves could be drawn upon through board resolution. Amounts not available to meet general expenditures within one year also may include net assets with donor restrictions. There were no net assets with board designations or donor restrictions at December 31, 2022.

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ <u>1,325,406</u>	<u>372,792</u>
Total financial assets	1,325,406	372,792
Donor restricted net assets	-	-
Board-designated reserves	<u>-</u>	<u>-</u>
Financial assets available to meet cash needs for general expenditures within one year	\$ <u><u>1,325,406</u></u>	<u><u>372,792</u></u>

EDUCATION PARTNERSHIP OF THE PERMIAN BASIN

Notes to Financial Statements

December 31, 2022 and 2021

(3) Contingencies and Concentration

The Organization maintains its cash balances at a financial institution that is insured by the Federal Deposit Insurance Corporation for balances up to \$250,000. The Organization had deposits aggregating \$1,091,150 in excess of insured amounts at December 31, 2022.

In 2022, the Organization had contributions from one donor representing approximately 64% of total contribution revenue. A decrease in or loss of contributions from this donor could have a significant effect on operations and cash flows.

The Organization does not record an estimate for accrued vacation earned by employees because accurate information is not available. Management believes the effect of such an accrual would not be material to the financial position or results of operations for the years ended December 31, 2022 and 2021.

(4) Leases

The Organization determines if an arrangement is or contains a lease at inception. Leases are included in right-of-use (ROU) assets and lease liabilities in the statement of financial position. ROU assets and lease liabilities reflect the present value of the future minimum lease payments over the lease term. Operating lease expense is recognized on a straight-line basis over the lease term. The Organization does not report ROU assets and lease liabilities for its short-term leases (leases with a term of 12 months or less). Instead, the lease payments of those leases are reported as lease expense on a straight-line basis over the lease term.

EDUCATION PARTNERSHIP OF THE PERMIAN BASIN

Notes to Financial Statements

December 31, 2022 and 2021

(4) Leases, continued

Upon adoption of ASU No. 2016-02, *Leases*, the Organization elected not to restate the comparative period (2021). It also elected not to reassess at adoption (a) expired or existing contracts to determine whether they are or contain a lease, (b) the lease classification of any existing leases, or (c) initial direct costs for existing leases. As a result of implementing ASU No. 2016-02, the Organization recognized a right-of-use asset of \$28,224 and lease liability of \$27,424 in its statement of financial position as of February 1, 2022, the date of the lease inception.

The Organization evaluated current contracts to determine which met the criteria of a lease. The right-of-use (ROU) asset represents the Organization's right to use office space for the lease term, and the lease liability represents the Organization's obligation to make lease payments arising from this lease. The ROU asset and lease liability, which arise from an operating lease, were calculated based on the present value of future lease payments over the lease term. The Organization uses the discount rate implicit in the lease. If the implicit rate is not readily determinable from the lease, we elect to use a risk free rate as allowed in the standard. The risk free rate is determined by using the U.S. Treasury yield for a Treasury maturity consistent with the lease term. The weighted-average discount rate applied to calculate the lease liability as of December 31, 2022 was 1.39%.

For the year ended December 31, 2022, total operating lease cost was \$8,800. As of December 31, 2022, the weighted-average remaining lease term for the Organization's operating lease was approximately 2 years.

EDUCATION PARTNERSHIP OF THE PERMIAN BASIN

Notes to Financial Statements

December 31, 2022 and 2021

(4) Leases, continued

Cash paid for operating leases for the year ended December 31, 2022, was \$8,800. There were no noncash investing and financing transactions related to leasing other than the entry described above at lease inception.

Future maturities of lease liabilities are presented in the following table, for the years ending December 31:

2023	\$ 9,600
2024	9,600
2025	<u>800</u>
Total lease payments	20,000
Less present value discount	(<u>298</u>)
Total lease liability	\$ <u>19,702</u>

(5) Functionalized Expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include rent, which is allocated on a utilization basis, as well as salaries and wages, benefits, payroll taxes, and other, which are allocated on the basis of estimates of time and effort.

EDUCATION PARTNERSHIP OF THE PERMIAN BASIN

Notes to Financial Statements

December 31, 2022 and 2021

(6) In-Kind Contributions

The Organization recognized in-kind contributions within revenue including contributed personnel costs and rent. The in-kind contributions did not have donor imposed restrictions. Personnel costs were contributed for the services of the Organization's Executive Director and rent was contributed for the office space used by the Executive Director. The Organization valued the in-kind contribution of personnel costs at the rates actually paid to the Executive Director during each year and the in-kind contribution of rent at the fair market rental value of the space used during each year. Various other in-kind donations were received during each year including supplies and minor equipment, which were not valued and management considers not material to these financial statements.

For the years ended December 31, 2022 and 2021, in-kind contributions recognized within the Statements of Activities included:

	<u>2022</u>	<u>2021</u>
Salaries	\$ 147,822	147,951
Payroll taxes	11,255	10,999
Benefits	31,530	14,048
Rent	<u>3,000</u>	<u>36,000</u>
	<u>\$ 193,607</u>	<u>208,998</u>

EDUCATION PARTNERSHIP OF THE PERMIAN BASIN

Notes to Financial Statements

December 31, 2022 and 2021

(7) Assets Transferred From Educate Midland

During 2021, the Organization agreed to assume the programs operated by Educate Midland, a similar not-for-profit organization operating in Midland Texas, upon the dissolution of Educate Midland. As part of this agreement Educate Midland was to transfer its remaining cash balance to the Organization for use in operating the programs. The first transfer of cash aggregating \$97,469 was received by the Organization during 2021. The final transfer of cash aggregating \$31,311 was received in March 2022.

(8) Subsequent Events

Subsequent events have been evaluated by management through August 18, 2023, which is the date the financial statements were available to be issued. No subsequent events were identified that required adjustment to or disclosure within the financial statements.



August 18, 2023

The Board of Directors
Education Partnership of the Permian Basin

In planning and performing our audit of the financial statements of Education Partnership of the Permian Basin as of and for the year ended December 31, 2022, in accordance with auditing standards generally accepted in the United States, we considered Education Partnership of the Permian Basin's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal controls.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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 the entity's financial statements will not be prevented or detected and corrected on a timely basis. We did not identify any deficiencies in the Organization's internal control that we consider to be material weaknesses.

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. We consider the following deficiencies in the Organization's internal control to be significant deficiencies.

Review and Approval of Disbursements

During our test work on annual disbursements, we noted there is not consistent documentation of review and approval for all disbursements. For approximately 21% of disbursements we selected for testing, we found no documentation on the invoice of review and approval of the disbursement. This is an improvement over what was noted during the previous year audit and we recommend the Organization continue to focus on further improvement in this area. The Organization should strengthen its policy that all disbursements are made only upon review and approval of the transaction, which may be occurring but is not documented. This review and approval should be documented on the supporting invoice or receipt as evidence that the review and approval was performed. We further recommend that the account coding for each transaction be documented on the supporting invoice as well to support how the transaction is coded in the general ledger. This comment is repeated from the previous year.

Unrecorded Liabilities

We noted that liabilities had not been recorded at December 31, 2022 for the cost of certain consulting and support services incurred during 2022 aggregating \$17,714. Not recording all liabilities as they come due could result in significantly misstating the Organization's financial position.

Once the Organization receives an invoice for goods or services, the invoice should be recorded in the proper period in accounts payable to accurately reflect the Organization's obligations. This comment is repeated from the previous year.

Board of Directors
August 18, 2023
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The size of Education Partnership of the Permian Basin's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties. This situation dictates the Board of Directors remain involved in the financial affairs of Education Partnership of the Permian Basin to provide oversight and independent review functions.

This communication is intended solely for the information and use of management, the Board of Directors, and others within the Organization, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



C. Marc Martin, CPA

CMM:vm