

HUMAN OPTIONS, INC.
FINANCIAL STATEMENTS
WITH REPORT ON AUDIT
BY INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS
JUNE 30, 2008 AND 2007

HUMAN OPTIONS, INC.

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June 30, 2008 and 2007

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October 1, 2008

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Human Options, Inc.
Irvine, California

We have audited the accompanying statements of financial position of Human Options, Inc. (a nonprofit organization) as of June 30, 2008 and 2007, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the management of Human Options, Inc. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Human Options, Inc. as of June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 1, 2008, on our consideration of Human Options, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Diehl, Evans and Company, LLP

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HUMAN OPTIONS, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
CURRENT ASSETS:		
Cash (Note 3A)	\$ 1,114,630	\$ 1,123,516
Governmental grants receivable (Note 6)	344,575	301,733
Prepaid expenses	35,651	22,532
	<u>1,494,856</u>	<u>1,447,781</u>
LAND, BUILDINGS, PROPERTY AND EQUIPMENT (NOTES 2B AND 5)	<u>4,629,628</u>	<u>4,355,579</u>
INVESTMENTS (NOTE 3B)	<u>1,462,660</u>	<u>1,587,647</u>
RESTRICTED ASSETS:		
Pledges receivable (Notes 2D, 4 and 12)	1,217,181	1,592,342
Investments (Notes 3B and 12)	548,000	548,000
Charitable Remainder Trust (Note 9)	1,100,000	1,110,000
	<u>2,865,181</u>	<u>3,250,342</u>
TOTAL ASSETS	<u>\$ 10,452,325</u>	<u>\$ 10,641,349</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accrued expenses	\$ 364,210	\$ 192,431
Security deposits	5,906	5,582
Deferred revenue (Note 8)	-	95,433
	<u>370,116</u>	<u>293,446</u>
TOTAL CURRENT LIABILITIES	<u>370,116</u>	<u>293,446</u>
NET ASSETS:		
Unrestricted:		
Designated (Note 10)	4,629,628	4,405,579
Undesignated	2,450,400	2,661,012
Temporarily restricted (Note 11)	1,665,181	2,004,312
Permanently restricted (Note 12)	1,337,000	1,277,000
	<u>10,082,209</u>	<u>10,347,903</u>
TOTAL NET ASSETS	<u>10,082,209</u>	<u>10,347,903</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 10,452,325</u>	<u>\$ 10,641,349</u>

See independent auditors' report and notes to financial statements.

HUMAN OPTIONS, INC.

STATEMENT OF ACTIVITIES

For the year ended June 30, 2008

REVENUES AND SUPPORT:	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
PRIVATE SUPPORT:				
Individuals	\$ 414,826	\$ 104,600	\$ -	\$ 519,426
Clubs/Churches/Support groups	30,197	-	-	30,197
Corporate donations	82,039	-	-	82,039
United Way	116,811	-	-	116,811
Foundations and awards	382,331	131,000	60,000	573,331
Benefit events	719,255	-	-	719,255
Change in value of Charitable Remainder Trust (Note 9)	-	(10,000)	-	(10,000)
TOTAL PRIVATE SUPPORT	<u>1,745,459</u>	<u>225,600</u>	<u>60,000</u>	<u>2,031,059</u>
GOVERNMENTAL SUPPORT (NOTE 6):				
HUD grants	496,464	-	-	496,464
CalWorks grants	244,957	-	-	244,957
FACT grants	328,232	-	-	328,232
Office of Emergency Services grant	200,071	-	-	200,071
Battered Women Shelter grant	221,329	-	-	221,329
Presley grant	192,379	-	-	192,379
CDBG grants	202,050	-	-	202,050
California Endowment grant	95,433	-	-	95,433
Other grants	12,000	-	-	12,000
TOTAL GOVERNMENTAL SUPPORT	<u>1,992,915</u>	<u>-</u>	<u>-</u>	<u>1,992,915</u>
OTHER REVENUES, NET:				
Donated assets/services	62,345	-	-	62,345
Thrift shop	202,315	-	-	202,315
Client fees	121,151	-	-	121,151
Investment loss, net (Notes 7 and 12)	(105,972)	-	-	(105,972)
Rental income	24,504	-	-	24,504
Court ordered fines	58,585	-	-	58,585
Other income	9,070	-	-	9,070
TOTAL OTHER REVENUES, NET	<u>371,998</u>	<u>-</u>	<u>-</u>	<u>371,998</u>
TOTAL REVENUES AND SUPPORT	<u>4,110,372</u>	<u>225,600</u>	<u>60,000</u>	<u>4,395,972</u>
EXPENSES:				
Residential	2,170,026	-	-	2,170,026
Thrift Shop	193,622	-	-	193,622
Community Education	222,669	-	-	222,669
Center for Children and Families	1,208,695	-	-	1,208,695
Management and general	451,490	-	-	451,490
Fund raising	415,164	-	-	415,164
TOTAL EXPENSES	<u>4,661,666</u>	<u>-</u>	<u>-</u>	<u>4,661,666</u>
NET ASSETS RELEASED FROM RESTRICTIONS (NOTE 11)	<u>564,731</u>	<u>(564,731)</u>	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS	13,437	(339,131)	60,000	(265,694)
NET ASSETS AT BEGINNING OF YEAR	<u>7,066,591</u>	<u>2,004,312</u>	<u>1,277,000</u>	<u>10,347,903</u>
NET ASSETS AT END OF YEAR	<u>\$ 7,080,028</u>	<u>\$ 1,665,181</u>	<u>\$ 1,337,000</u>	<u>\$ 10,082,209</u>

See independent auditors' report and notes to financial statements.

HUMAN OPTIONS, INC.

STATEMENT OF ACTIVITIES

For the year ended June 30, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
REVENUES AND SUPPORT:				
PRIVATE SUPPORT:				
Individuals	\$ 338,960	\$ 66,950	\$ -	\$ 405,910
Clubs/Churches/Support groups	49,069	-	-	49,069
Corporate donations	70,548	380,442	-	450,990
United Way	115,364	-	-	115,364
Foundations and awards	234,212	351,000	1,004,000	1,589,212
Benefit events	1,110,031	-	-	1,110,031
Change in value of Charitable Remainder Trust (Note 9)	-	70,000	-	70,000
TOTAL PRIVATE SUPPORT	1,918,184	868,392	1,004,000	3,790,576
GOVERNMENTAL SUPPORT (NOTE 6):				
HUD grants	236,263	-	-	236,263
CalWorks grants	202,629	-	-	202,629
FACT grants	246,395	-	-	246,395
Office of Emergency Services grant	204,194	-	-	204,194
Battered Women Shelter grant	221,330	-	-	221,330
Presley grant	165,660	-	-	165,660
CDBG grants	188,081	-	-	188,081
California Endowment grant	107,069	-	-	107,069
Other grants	15,500	-	-	15,500
TOTAL GOVERNMENTAL SUPPORT	1,587,121	-	-	1,587,121
OTHER REVENUES:				
Donated assets/services	155,382	-	-	155,382
Thrift shop	272,590	-	-	272,590
Client fees	121,386	-	-	121,386
Investment income, net (Notes 7 and 12)	57,955	-	-	57,955
Rental income	16,419	-	-	16,419
Court ordered fines	79,452	-	-	79,452
TOTAL OTHER REVENUES	703,184	-	-	703,184
TOTAL REVENUES AND SUPPORT	4,208,489	868,392	1,004,000	6,080,881
EXPENSES:				
Residential	1,968,649	-	-	1,968,649
Thrift Shop	224,136	-	-	224,136
Community Education	198,605	-	-	198,605
Center for Children and Families	1,108,286	-	-	1,108,286
Management and general	501,992	-	-	501,992
Fund raising	338,967	-	-	338,967
TOTAL EXPENSES	4,340,635	-	-	4,340,635
NET ASSETS RELEASED FROM RESTRICTIONS (NOTE 11)	173,764	(173,764)	-	-
CHANGE IN NET ASSETS	41,618	694,628	1,004,000	1,740,246
NET ASSETS AT BEGINNING OF YEAR	7,024,973	1,309,684	273,000	8,607,657
NET ASSETS AT END OF YEAR	\$ 7,066,591	\$ 2,004,312	\$ 1,277,000	\$ 10,347,903

See independent auditors' report and notes to financial statements.

HUMAN OPTIONS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2008

	Program Services			
	Residential	Thrift Shop	Community Education	Center for Children and Families
Payroll and related	\$ 1,374,830	\$ 118,632	\$ 168,478	\$ 987,470
Consulting	24,735	-	-	47,702
Rent (Note 14)	13,525	55,287	3,568	51,578
Insurance	13,557	1,962	1,913	10,485
Client Assistance	258,662	-	-	1,401
Food and household supplies	26,369	-	-	-
Telephone	14,985	860	2,802	13,315
Repairs and maintenance	156,497	5,091	8,781	36,941
Auditing and bookkeeping	-	-	-	-
Printing and publication	1,394	88	24,989	1,244
Utilities	45,150	2,982	5,000	6,854
Postage and freight	856	6	1,173	551
Meetings, conferences and training	12,591	295	532	7,582
Office supplies	14,597	3,047	2,373	12,121
Staff mileage	7,635	629	2,328	9,068
Donated and emergency client support	60,762	-	-	3,764
Dues and subscriptions	2,123	120	-	560
Shelter programs	5,260	-	-	2,223
Bank charges	-	4,623	-	1,749
Child care	10,374	-	-	3,970
Children's program supplies	6,596	-	-	3,022
Miscellaneous	154	-	-	-
Depreciation (Note 2B)	119,374	-	732	7,095
TOTAL EXPENSES	\$ 2,170,026	\$ 193,622	\$ 222,669	\$ 1,208,695

See independent auditors' report and notes to financial statements.

<u>Supporting Services</u>		
<u>Management and General</u>	<u>Fund Raising</u>	<u>Totals</u>
\$ 322,033	\$ 301,061	\$ 3,272,504
13,940	-	86,377
6,016	3,913	133,887
7,381	2,803	38,101
-	-	260,063
-	-	26,369
7,044	3,491	42,497
15,658	10,344	233,312
20,976	-	20,976
973	5,773	34,461
7,715	4,764	72,465
2,796	3,748	9,130
3,520	8,500	33,020
6,619	4,010	42,767
1,360	1,193	22,213
-	53,335	117,861
565	463	3,831
-	-	7,483
1,431	11,713	19,516
-	-	14,344
-	-	9,618
-	53	207
33,463	-	160,664
<u>\$ 451,490</u>	<u>\$ 415,164</u>	<u>\$ 4,661,666</u>

HUMAN OPTIONS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2007

	Program Services			
	Residential	Thrift Shop	Community Education	Center for Children and Families
Payroll and related	\$ 1,239,056	\$ 94,427	\$ 141,983	\$ 896,338
Consulting	33,296	-	-	47,555
Rent (Note 14)	5,978	49,732	3,306	47,681
Insurance	9,888	3,408	1,707	9,258
Client Assistance	126,558	-	-	2,195
Food and household supplies	41,040	-	-	1,023
Telephone	22,342	-	58	6,347
Repairs and maintenance	145,312	7,961	11,872	42,942
Auditing and bookkeeping	-	-	-	-
Printing and publication	2,018	69	24,267	1,004
Utilities	50,622	2,363	4,309	6,224
Postage and freight	1,305	-	582	1,112
Meetings, conferences and training	9,895	412	5,370	10,801
Office supplies	9,995	2,777	2,752	14,707
Staff mileage	7,649	901	1,649	8,490
Donated and emergency client support	132,324	59,402	-	1,341
Dues and subscriptions	224	120	-	455
Shelter programs	6,653	-	-	2,981
Bank charges	4,087	2,564	-	1,260
Child care	9,534	-	-	-
Children's program supplies	5,227	-	18	557
Depreciation (Note 2B)	105,646	-	732	6,015
TOTAL EXPENSES	\$ 1,968,649	\$ 224,136	\$ 198,605	\$ 1,108,286

See independent auditors' report and notes to financial statements.

<u>Supporting Services</u>		
<u>Management and General</u>	<u>Fund Raising</u>	<u>Totals</u>
\$ 301,883	\$ 254,923	\$ 2,928,610
9,610	8,658	99,119
6,442	4,078	117,217
1,873	1,398	27,532
-	-	128,753
-	-	42,063
3,349	9	32,105
18,314	11,589	237,990
26,139	-	26,139
4,526	8,118	40,002
2,706	4,364	70,588
2,866	5,017	10,882
11,770	18,428	56,676
6,974	5,248	42,453
784	787	20,260
34,915	-	227,982
7,448	2,180	10,427
-	-	9,634
10,397	14,170	32,478
-	-	9,534
-	-	5,802
51,996	-	164,389
<u>\$ 501,992</u>	<u>\$ 338,967</u>	<u>\$ 4,340,635</u>

HUMAN OPTIONS, INC.

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (265,694)	\$ 1,740,246
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized (gains) and losses on investments	175,003	(31,912)
Depreciation expense	160,664	164,389
(Increase) decrease in grants receivable	(42,842)	17,644
Decrease in other receivables	-	16,429
(Increase) decrease in pledges receivable	375,161	(1,369,942)
Decrease in prepaid expenses	(13,119)	(3,432)
(Increase) decrease in value of Charitable Remainder Trust	10,000	(70,000)
Increase in accrued expenses	171,779	20,593
Increase in security deposits	324	712
Decrease in deferred revenue	(95,433)	(107,070)
TOTAL ADJUSTMENTS	<u>741,537</u>	<u>(1,362,589)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>475,843</u>	<u>377,657</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchases of property and equipment	<u>(434,713)</u>	<u>(33,380)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(434,713)</u>	<u>(33,380)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(1,740,425)	(760,678)
Proceeds from sales of securities	<u>1,690,409</u>	<u>454,131</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(50,016)</u>	<u>(306,547)</u>
NET (DECREASE) INCREASE IN CASH	(8,886)	37,730
CASH AT BEGINNING OF YEAR	<u>1,123,516</u>	<u>1,085,786</u>
CASH AT END OF YEAR (NOTE 3A)	<u>\$ 1,114,630</u>	<u>\$ 1,123,516</u>

See independent auditors' report and notes to financial statements.

HUMAN OPTIONS, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008 and 2007

1. BACKGROUND:

Human Options, Inc. is a California nonprofit corporation organized and incorporated on May 27, 1980. The Organization was formed for the purpose of establishing and operating a comprehensive rehabilitation program in Orange County, California, for women and children subjected to domestic violence. The operations of the Organization are managed by an Executive Director and overseen by a Board of Directors.

A. Organization Activities:

The Organization's activities, which are in accordance with its primary purpose as described above, have been classified as follows:

Residential (Emergency Shelter) - On October 18, 1982, the Organization opened the Battered Women's Shelter of Orange County to provide a safe environment for battered women and their children. The Emergency Shelter offers 30-45 day emergency care, counseling, shelter, food and a 24 hour hotline.

In 1994, the Organization began a capital campaign to build a new shelter. A unique collaboration led by Human Options, Inc., the City of Irvine, Home Aid, the Irvine Company and Western Digital built a state-of-the-art shelter in Irvine. The shelter, completed in May of 1996, expanded the bed space from 18 to 40 clients and added a 90-day transitional program.

Residential (Second Step) - In April 1992, the Organization purchased property for the Second Step Transitional Housing Program. A short-term capital campaign and a HUD grant provided the initial funding for the apartment building. The debt was paid off in 1996 from the Shelter capital campaign. Second Step provides low cost apartment rentals for 12 to 18 months and offers children's programs and vocational, individual and family counseling for 14 families.

Residential (Third Step) - In 1998, the Navy granted the Organization six (6) units at the Tustin Military Base. In August 2008, after redevelopment of the base, Human Options was granted six (6) condominiums from Lyon Homes. All six units were completely furnished by donations. These units are an extended transitional housing program providing low-cost condo rental for up to three (3) years with case management and counseling for six (6) families.

Center for Children and Families - The Center for Children and Families includes 5 programs: the Community Resource Center located in Costa Mesa; the Outreach programs located in Costa Mesa, Santa Ana, Mission Viejo, and Tustin; the Safe Options for Seniors program based in the administrative office in Irvine; the Batterers Intervention Program located in the administrative office in Irvine, and the Parent Child Intervention Program located throughout the agency.

See independent auditors' report.

HUMAN OPTIONS, INC.

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2008 and 2007

1. BACKGROUND (CONTINUED):

A. Organization Activities (Continued):

Center for Children and Families (Continued) - These programs provide services for adult and child victims of domestic violence, as well as perpetrators of domestic violence. Walk-ins and referrals are accepted. Services include, but are not limited to, legal advocacy, individual, family and children's counseling, case management, personal empowerment programs, senior advocacy, and a 52-week mandated batterer's intervention training.

Community Education - A community education program sponsored by the Organization educates the public regarding domestic violence. The main programs are "Hands Are Not For Hitting" for elementary school children, "Love is Not Supposed to Hurt" a date abuse education for teens, and "Jason's Story" geared for high school athletics programs. These programs serve over 22,000 youth each year.

Thrift Shop - A thrift shop, "Classy Seconds", operates in Costa Mesa to augment operating funds and provide clothing for clients.

General - In fiscal year 2002, a grant of \$1,000,000 was received from the City of Irvine to purchase a building for the administrative office and to start the Center for Children and Families.

B. Human Options, Inc. has qualified for tax-exempt status under Internal Revenue Code Section 501(c)(3); accordingly, no provision for income taxes has been made.

2. SIGNIFICANT ACCOUNTING POLICIES:

A. The financial statements of Human Options, Inc. have been prepared on the accrual basis of accounting. Grant and program revenues earned, but not yet received, are recorded as receivables, and grant and program funds received before the revenue recognition criteria have been met are reported as deferred revenues. Grant expenditures are recorded when the liability is incurred.

The accounts of the Organization have been classified for financial statement purposes as follows:

Unrestricted Fund - The Unrestricted Fund is the general operating fund of the Organization. All receipts not temporarily or permanently restricted by the donor are accounted for in this fund. Expenses of this fund include management and program expenses.

See independent auditors' report.

HUMAN OPTIONS, INC.

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2008 and 2007

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Temporarily Restricted Funds - The Organization accounts for contributions of cash and other assets in the Temporarily Restricted Fund if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Funds - The Organization accounts for contributions of cash and other assets with donor imposed restrictions that stipulate that the principal be maintained permanently as Permanently Restricted Net Assets.

- B. All property is carried at cost or, if donated, at the fair value at date of donation. Depreciation on furniture, equipment and leasehold improvements is provided on the straight-line method over an estimated useful life of three to five years. Depreciation on the Emergency Shelter, Second Step apartment building, condominiums and administrative building is provided on the straight-line method over an estimated useful life of thirty years. Expenditures of \$1,000 or more for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.
- C. The Organization sponsors special fundraising events that generate revenues for its programs.
- D. Pledges receivable are recorded when the promise to give becomes unconditional and there is sufficient oral or written evidence of the promise.
- E. Investments are carried at fair value.
- F. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.
- G. Certain prior year amounts in these financial statements were reclassified to conform to the current year presentation. Functional expenses for the Community Resource Center and Counseling Center are now included in expenses for the Center for Children and Families.

See independent auditors' report.

HUMAN OPTIONS, INC.

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2008 and 2007

3. CASH AND INVESTMENTS - CONCENTRATION OF CREDIT RISK:

A. Cash at June 30, 2008 and 2007 consisted of the following:

	<u>2008</u>	<u>2007</u>
Cash in bank	\$ 730,868	\$ 874,656
Money market funds	383,412	248,703
Petty cash	350	157
Total cash	<u>\$ 1,114,630</u>	<u>\$ 1,123,516</u>

Cash on deposit at June 30, 2008 and 2007, exceeded federally insured limits of \$100,000 by \$567,905 and \$686,109, respectively.

B. Cost and market values of investments as of June 30, 2008 and 2007 are as follows:

	<u>2008</u>		
	<u>Cost</u>	<u>Market</u>	<u>Unrealized Gain/(Loss)</u>
Endowment deposits with Orange			
County Community Foundation	\$ 583,135	\$ 566,613	\$ (16,522)
Mutual Funds	1,100,018	940,621	(159,397)
Hedge Fund	160,000	163,042	3,042
Equity securities	362,346	340,384	(21,962)
Total	<u>\$ 2,205,499</u>	<u>\$ 2,010,660</u>	<u>\$ (194,839)</u>
	<u>2007</u>		
	<u>Cost</u>	<u>Market</u>	<u>Unrealized Gain/(Loss)</u>
Endowment deposits with Orange			
County Community Foundation	\$ 565,979	\$ 613,283	\$ 47,304
US Treasury Notes	24,955	24,840	(115)
US Government bonds	99,960	98,870	(1,090)
Debt securities	25,000	22,616	(2,384)
Equity securities	1,260,670	1,359,388	98,718
Mortgage-backed securities	16,785	16,650	(135)
Total	<u>\$ 1,993,349</u>	<u>\$ 2,135,647</u>	<u>\$ 142,298</u>

At June 30, 2008 and 2007, investments of \$548,000 are reported as permanently restricted, as directed by donors (See Note 12).

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HUMAN OPTIONS, INC.

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2008 and 2007

4. PLEDGES RECEIVABLE:

The Organization had pledges receivable of \$1,217,181 and \$1,592,342 as of June 30, 2008 and 2007, respectively.

Pledges at June 30, 2008, are to be received over the next three years, as follows: 2009 - \$552,800; 2010 - \$116,700; 2011 - \$547,681. Amounts to be received over multiple years are discounted to the estimated present value using a discount rate of 3.5% per annum. As of June 30, 2008, \$789,000 of endowment pledges is permanently restricted by the donor (See Note 12). The remaining pledge amount of \$428,181 is temporarily restricted. Management believes that all pledges are collectible.

5. LAND, BUILDINGS, PROPERTY AND EQUIPMENT:

Land, buildings, property and equipment as of June 30, 2008 and 2007 consisted of the following:

	<u>2008</u>	<u>2007</u>
Land	\$ 1,917,767	\$ 1,917,767
Building and improvements	3,960,914	3,533,871
Furniture and fixtures	363,825	363,825
Computer equipment	<u>239,306</u>	<u>231,636</u>
Total	6,481,812	6,047,099
Less: accumulated depreciation	<u>(1,852,184)</u>	<u>(1,691,520)</u>
	<u>\$ 4,629,628</u>	<u>\$ 4,355,579</u>

6. GOVERNMENTAL SUPPORT:

The Organization receives support from various governmental agencies. The funds are used for the acquisition and operation of transitional and emergency housing, child care services, and counseling services for victims of domestic abuse and their children. Funds are generally received on a reimbursement basis. Unreimbursed expenses are reported as governmental grants receivable in the Statements of Financial Position. Periodic audits may be performed by Grantors, and certain costs may be disallowed as not being reimbursable expenditures under the terms of the contracts. Such audits could result in amounts billed under the contracts not being paid, or amounts already paid subject to reimbursement to the Grantors. The Organization's management believes disallowances, if any, will be immaterial.

Revenues from governmental support for the years ended June 30, 2008 and 2007, and the related unreimbursed expenses at each fiscal year-end, were as follows:

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HUMAN OPTIONS, INC.

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2008 and 2007

6. GOVERNMENTAL SUPPORT (CONTINUED):

Grantor	2008	
	Revenues	Unreimbursed Expenses
US Dept of Housing & Urban Development:		
Direct Program	\$ 158,676	\$ 38,055
Passed - through the County of Orange and Fullerton		
Interfaith Emergency Services, Inc.	28,126	4,431
Passed - through Serving People in Need (SPIN)	309,662	92,423
Community Development Block Grant, passed - through the		
County of Orange and the cities of Santa Ana,		
Costa Mesa, Newport Beach and Mission Viejo	202,050	34,758
US Department of Health & Human Services:		
Passed - through CalWorks and		
Arbor Education & Training, LLC	244,957	30,468
Passed - through the Children's Bureau, Orange Children		
& Parents Together and Orange County Social Services	328,232	21,955
California Governor's Office of Emergency Services	200,071	44,407
State of California Battered Women's Shelter Grant	221,329	55,333
State of California Presley Grant	192,379	16,429
California Endowment	95,433	-
Other Grants	12,000	6,316
Totals	<u>\$ 1,992,915</u>	<u>\$ 344,575</u>

Grantor	2007	
	Revenues	Unreimbursed Expenses
US Dept of Housing & Urban Development:		
Passed - through the County of Orange	\$ 220,692	\$ 86,004
Passed - through the County of Orange and Fullerton		
Interfaith Emergency Services, Inc.	15,571	10,793
US Department of Health & Human Services:		
Passed - through CalWorks	202,629	24,490
Passed - through the Children's Bureau, Orange Children		
& Parents Together & Orange County Social Services	246,395	43,461
California Governor's Office of Emergency Services	204,194	30,351
State of California Battered Women's Shelter Grant	221,330	55,332
State of California Presley Grant	165,660	7,490
Community Development Block Grant, passed - through the		
County of Orange and the cities of Santa Ana,		
Costa Mesa, Newport Beach and Irvine	188,081	35,832
California Endowment	107,069	-
Other Grants	15,500	7,980
Totals	<u>\$ 1,587,121</u>	<u>\$ 301,733</u>

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HUMAN OPTIONS, INC.

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2008 and 2007

7. INVESTMENT INCOME:

Investment income for the years ended June 30, 2008 and 2007 is comprised of the following:

	<u>2008</u>	<u>2007</u>
Interest	\$ 21,031	\$ 24,527
Dividends	62,445	19,138
Net realized capital gains	56,688	31,590
Net unrealized gains (losses)	<u>(231,580)</u>	<u>322</u>
Gross investment income (loss)	(91,416)	75,577
Less: Investment management fees	<u>(14,556)</u>	<u>(17,622)</u>
Net investment income (loss)	<u>\$ (105,972)</u>	<u>\$ 57,955</u>

8. DEFERRED REVENUE:

The grant from the California Endowment is paid in advance. Grant funds received before qualifying expenses are incurred are not considered earned revenue. The net unearned amount is reported as deferred revenue. Deferred revenue at June 30, 2008 and 2007 was \$0 and \$95,433, respectively.

9. CHARITABLE REMAINDER TRUST:

The Organization is a beneficiary of a Charitable Remainder Trust (Trust). Under the terms of the Trust, Human Options, Inc. is to receive 50% of the lesser of the annual income of the Trust or 5% of the annual value of the Trust. In addition, Human Options, Inc. is to receive the principal balance of the Trust upon the death of the other income beneficiary.

The estimated present value of the beneficial interest in the Trust as of June 30, 2008, is stated at \$1,100,000; \$300,000 for the future income to be received, and \$800,000 for the Trust remainder to be received. The estimated present value is calculated using a discount rate of 4.0% per annum.

10. DESIGNATED NET ASSETS:

As of June 30, 2007, the Board designated net assets to fund a research project in the amount of \$50,000. In addition, the Board has chosen to classify the net book value of fixed assets of \$4,629,628 at June 30, 2008, and \$4,355,579 at June 30, 2007, as designated unrestricted net assets. This designation is made because the assets are not available to be spent on future operations, though they are being used in current specific programs. The total amount designated is \$4,629,628 at June 30, 2008, and \$4,405,579 at June 30, 2007.

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HUMAN OPTIONS, INC.

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2008 and 2007

11. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	<u>2008</u>	<u>2007</u>
Purpose restrictions fulfilled:		
Expenses for Children's Programs	\$ 25,020	\$ 1,139
Scholarships	12,500	-
Other	<u>5,950</u>	<u>37,125</u>
	43,470	38,264
Time restrictions fulfilled:		
Collection of pledges receivable	<u>521,261</u>	<u>135,500</u>
Total released from restrictions	<u>\$ 564,731</u>	<u>\$ 173,764</u>

Net assets are temporarily restricted at year-end due to the following purpose or time restrictions:

	<u>2008</u>	<u>2007</u>
Charitable Remainder Trust (Note 9)	\$ 1,100,000	\$ 1,110,000
Pledges receivable	428,181	863,342
Challenge Grant	110,000	-
Other	<u>27,000</u>	<u>30,970</u>
	<u>\$ 1,665,181</u>	<u>\$ 2,004,312</u>

12. PERMANENTLY RESTRICTED NET ASSETS:

The Organization has received cash donations of \$548,000 and pledges from donors of \$789,000 with the stipulation that the principal remain unused and that the earnings be unrestricted. These items are reported as permanently restricted net assets. The cash donations were deposited with the Orange County Community Foundation as an Endowment Fund. Earnings, including unrealized gains, are also held by the Foundation and are reported as unrestricted assets.

13. RETIREMENT PLAN:

The Organization maintains a 401(k) plan covering substantially all regular employees. Under the Plan, the Organization may, at its discretion, make matching contributions to a maximum of fifty percent of all employee contributions, not to exceed six percent of employee compensation, as defined by the Plan. Employer contributions for the years ended June 30, 2008 and 2007 were \$51,442 and \$31,488, respectively.

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HUMAN OPTIONS, INC.

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2008 and 2007

14. OPERATING LEASES:

The Community Resource Center is subject to an operating lease. The lease requires monthly rent at \$3,165, with scheduled annual increases through August 31, 2009.

The Thrift Shop facility, Classy Seconds, is subject to an operating lease. The lease requires rent at \$4,750, with scheduled annual increases through April 30, 2009. At that time, there is an option to renew the lease.

Three copiers are currently being leased at a cost of \$1,061 per month.

Future minimum payments required under the above leases as of June 30, 2008, are as follows:

Year Ending June 30,	
2009	\$ 99,798
2010	19,382
2011	11,031
2012	<u>418</u>
Total	<u>\$ 130,629</u>

See independent auditors' report.