

HUMAN OPTIONS, INC.

FINANCIAL STATEMENTS

JUNE 30, 2019

PASADENA
234 E Colorado Blvd
Suite M150
Pasadena, CA 91101
p: 626.403.6801

A Trusted Nonprofit Partner

Main Fax: 626.403.6866

www.npocpas.com

OAKLAND
1901 Harrison Street
Suite 1150
Oakland, CA 94612
p: 510.379.1182

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Human Options, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Human Options, Inc. (a nonprofit organization), which comprise the Statement of Financial Position as of June 30, 2019, and the related Statements of Activities, Functional Expenses, and Cash Flows for the year then ended, and the related notes to the financial statements.

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 of America; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT

continued

Other Matter

Report on Summarized Comparative Information

We have previously audited Human Options, Inc.'s 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 12, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2019, on our consideration of Human Options, Inc.'s internal control over financial reporting and on 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 Human Options, Inc.'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 Human Options, Inc.'s internal control over financial reporting and compliance.

Harrington Group

Pasadena, California
October 31, 2019

HUMAN OPTIONS, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2019

With comparative totals at June 30, 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents (Note 2)	\$ 638,688	\$ 481,859
Governmental grants receivable	402,874	666,309
Other receivables	-	2,446
Prepaid expenses	146,316	110,352
TOTAL CURRENT ASSETS	<u>1,187,878</u>	<u>1,260,966</u>
PROPERTY AND EQUIPMENT, NET (Note 4)	<u>3,551,462</u>	<u>3,674,586</u>
INVESTMENTS (Note 5)	<u>1,055,740</u>	<u>1,450,328</u>
WITH DONOR RESTRICTION ASSETS		
Pledges receivable (Note 6)	273,294	481,675
Beneficial interest in assets held by a community foundation (Note 7)	2,998,954	2,777,204
Beneficial interest in charitable remainder trust (Note 8)	1,609,000	1,426,000
TOTAL WITH DONOR RESTRICTION ASSETS	<u>4,881,248</u>	<u>4,684,879</u>
TOTAL ASSETS	<u>\$ 10,676,328</u>	<u>\$ 11,070,759</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 209,338	\$ 148,588
Security deposits	11,218	7,438
Accrued liabilities (Note 9)	295,708	244,522
TOTAL CURRENT LIABILITIES	<u>516,264</u>	<u>400,548</u>
NET ASSETS		
Without donor restrictions - Designated (Note 2)	3,551,462	3,674,586
Without donor restrictions - Undesignated	1,479,726	2,028,435
With donor restrictions		
Time or purpose restrictions (Note 11)	2,603,232	2,441,546
Perpetual in nature (Note 12)	2,525,644	2,525,644
TOTAL NET ASSETS	<u>10,160,064</u>	<u>10,670,211</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 10,676,328</u>	<u>\$ 11,070,759</u>

The accompanying notes are an integral part of these financial statements.

HUMAN OPTIONS, INC.

STATEMENT OF ACTIVITIES

For the year ended June 30, 2019

With comparative totals for the year ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	2019	2018
REVENUE AND SUPPORT				
Private support				
Individuals	\$ 621,212	\$ 183,450	\$ 804,662	\$ 830,033
Special events, net of direct expenses of \$186,255	584,163		584,163	441,026
Foundations and awards	553,419		553,419	1,417,572
Change in value of charitable remainder trust (Note 8)		183,000	183,000	(53,000)
Bridge to the Future grant	10,967		10,967	850
Clubs/churches/support groups	1,000		1,000	1,300
Corporate donations			-	48
Total private support	<u>1,770,761</u>	<u>366,450</u>	<u>2,137,211</u>	<u>2,637,829</u>
Governmental support				
California Emergency Management Agency grants	1,032,413		1,032,413	815,098
FACT grants	918,417		918,417	968,648
OVW grants	303,156		303,156	115,664
Presley grant	140,330		140,330	182,828
CalWORKs grants	118,596		118,596	72,021
Other grants	74,379		74,379	-
CGC grant	73,489		73,489	32,953
CDBG grants	25,685		25,685	13,722
Total governmental support	<u>2,686,465</u>	<u>-</u>	<u>2,686,465</u>	<u>2,200,934</u>
Other revenues, net				
Investments gain, net of fees of \$4,748	148,324	12,395	160,719	203,754
Program income	54,443		54,443	45,923
Court ordered fines	36,969		36,969	46,601
Other income	27,726		27,726	8,422
Client fees	14,286		14,286	33,647
Total other revenues, net	<u>281,748</u>	<u>12,395</u>	<u>294,143</u>	<u>338,347</u>
NET ASSETS RELEASED FROM RESTRICTIONS OF TIME OR PURPOSE	<u>217,159</u>	<u>(217,159)</u>	<u>-</u>	<u>-</u>
TOTAL REVENUE AND SUPPORT	<u>4,956,133</u>	<u>161,686</u>	<u>5,117,819</u>	<u>5,177,110</u>
EXPENSES				
Residential	1,974,005		1,974,005	1,852,359
Community education	278,121		278,121	449,683
Center for children and families	2,426,053		2,426,053	2,242,606
Management and general	392,190		392,190	578,240
Fundraising	557,597		557,597	513,459
TOTAL EXPENSES	<u>5,627,966</u>	<u>-</u>	<u>5,627,966</u>	<u>5,636,347</u>
CHANGE IN NET ASSETS	(671,833)	161,686	(510,147)	(459,237)
NET ASSETS, BEGINNING OF YEAR	<u>5,703,021</u>	<u>4,967,190</u>	<u>10,670,211</u>	<u>11,129,448</u>
NET ASSETS, END OF YEAR	<u>\$ 5,031,188</u>	<u>\$ 5,128,876</u>	<u>\$ 10,160,064</u>	<u>\$ 10,670,211</u>

The accompanying notes are an integral part of these financial statements.

HUMAN OPTIONS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2019

With comparative totals for the year ended June 30, 2018

	Program Services			Supporting Services		Total Expenses	
	Residential	Community Education	Center for Children and Families	Management and General	Fundraising	2019	2018
Salaries	\$ 971,434	\$ 191,817	\$ 1,217,798	\$ 142,274	\$ 252,581	\$ 2,775,904	\$ 2,851,924
Payroll taxes and workers' compensation insurance	92,473	19,043	112,934	19,759	25,249	269,458	276,667
Employee benefits	76,021	8,226	93,104	9,791	17,310	204,452	185,038
Total personnel costs	1,139,928	219,086	1,423,836	171,824	295,140	3,249,814	3,313,629
Program subcontractors	217,929	7,250	567,204			792,383	409,426
Depreciation	130,080	3,717	10,408	57,600		201,805	194,766
Occupancy costs	47,312	1,635	120,960	4,562	3,202	177,671	169,971
Consulting	47,716	9,369	14,922	17,188	46,373	135,568	286,497
IT and software	38,342	3,958	40,139	5,305	21,938	109,682	106,556
Repairs and maintenance	84,378	1,953	14,194	1,799	4,639	106,963	196,789
Temporary help					99,459	99,459	113,192
Program supplies	29,132	7,996	23,905	1,126	29,911	92,070	82,956
Utilities	58,575	1,656	12,073	4,276	2,764	79,344	79,682
Telephone	20,151	3,492	32,681	7,054	7,894	71,272	77,620
Client assistance	23,566	32	46,064	100		69,762	140,532
Auditing and bookkeeping	19,033	3,180	25,839	8,182	5,474	61,708	18,499
Marketing	34			42,981	16,181	59,196	69,197
Staff mileage	19,054	4,516	23,042	2,649	1,096	50,357	48,008
Meetings, conferences, and training	10,770	2,917	15,418	8,232	5,561	42,898	72,910
Equipment leasing	17,390	702	19,305	1,652	1,175	40,224	27,422
Printing and publication	3,758	1,193	4,694	21,988	5,018	36,651	16,184
Insurance	10,758	1,774	15,567	4,573	3,506	36,178	32,053
Office supplies	10,390	1,731	10,808	1,819	2,773	27,521	49,722
Food and household supplies	20,249		101			20,350	17,732
Dues and subscriptions	4	1,753	883	11,302	2,787	16,729	15,586
Bad debt	16,168					16,168	60,227
Bank charges			345	10,233	1,227	11,805	17,861
Security	7,521		742	323		8,586	-
Postage and freight	1,767	211	2,923	1,190	1,472	7,563	6,060
Miscellaneous expense				6,232	7	6,239	13,270
TOTAL 2019 FUNCTIONAL EXPENSES	\$ 1,974,005	\$ 278,121	\$ 2,426,053	\$ 392,190	\$ 557,597	\$ 5,627,966	
TOTAL 2018 FUNCTIONAL EXPENSES	\$ 1,852,359	\$ 449,683	\$ 2,242,606	\$ 578,240	\$ 513,459		\$ 5,636,347

The accompanying notes are an integral part of these financial statements.

HUMAN OPTIONS, INC.

STATEMENT OF CASH FLOWS

For the year ended June 30, 2019

With comparative totals for the year ended June 30, 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (510,147)	\$ (459,237)
Adjustments to reconcile changes in net assets to net cash (used) by operating activities:		
Investment (gain)	(14,924)	(23,106)
Depreciation expense	201,805	194,767
(Increase) decrease in operating assets:		
Governmental grants receivable	263,435	(185,729)
Pledges receivable	208,381	389,940
Other receivables	2,446	95
Prepaid expenses	(35,964)	31,862
Charitable remainder trust	(183,000)	53,000
Community foundation assets	(221,750)	(131,399)
Increase (decrease) in operating liabilities:		
Accounts payable	60,750	124,393
Security deposits	3,780	(6,305)
Accrued liabilities	51,186	368
Deferred revenue	-	(151,672)
NET CASH (USED) BY OPERATING ACTIVITIES	(174,002)	(163,023)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(78,681)	(177,400)
Purchases of investments	(425,849)	(167,980)
Proceeds from sales of investments	835,361	100,999
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	330,831	(244,381)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	156,829	(407,404)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	481,859	889,263
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 638,688	\$ 481,859

The accompanying notes are an integral part of these financial statements.

HUMAN OPTIONS, INC.

NOTES TO FINANCIAL STATEMENTS

1. Organization

Human Options, Inc. (“the Organization”) was incorporated May 27, 1980 as a California nonprofit corporation. The Organization was formed for the purpose of establishing and operating a comprehensive social service program in Orange County, California, for victims of domestic violence. The operations of the Organization are managed by the Chief Executive Officer and are overseen by a Board of Directors.

The Organization’s activities during the years ended June 30, 2019 and 2018, which are in accordance with its primary purpose as described above, have been classified as follows:

Residential Services:

Human Options Residential Services offer a continuum of care which encompasses the 24-hour Crisis Hotline, 45-day Emergency Shelter (with on-site 90-day Family Healing Center), and Transitional Housing programs, Second Step (3-6-month program) and Third Step (transitional housing program). Our clients are adult and child victims of domestic violence of all ages, ethnicities, orientations and come from throughout Orange County. They are considered homeless as they are fleeing abuse in their home, typically have had severe trauma experiences, usually have minimal income, and are striving to achieve safety and emotional and financial self-sufficiency. The Residential Services offer clients physical safety at undisclosed locations, a welcoming and supportive environment, and a place to heal and reclaim their lives.

Emergency Shelter - In 1982, the Organization opened the Battered Women’s Shelter of Orange County to provide a safe haven for abused women and their children. The Emergency Shelter offers 30-45 day emergency care, case management, counseling (group/family/individual), shelter, legal advocacy, food/clothing and a 24-hour hotline. The stay may be extended up to 60 days based upon objective criteria.

In 1994, the Organization began a capital campaign to build a new shelter. A unique collaboration led by the Organization, the City of Irvine, Home Aid, the Irvine Company and Western Digital Corp. 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 up to 90-day transitional program (Family Healing) for up to 5 families in need of additional support and safe haven prior to transitioning from the emergency shelter’s confidential and secure setting.

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. Second Step provides housing for up to 6 months, offers counseling and case management, legal advocacy, parenting and life skills education as well as assistance with securing permanent housing for up to 14 families at a time. In fiscal year 2018-2019, the Organization received funds from Cal OES XH to offer support for families transitioning to permanent housing. Follow-up services are offered to program graduates for a 6-month period after completing the Second Step program. Eligible transitional housing families receive short-term housing assistance, necessary supportive services and funds to move from (Second Step) to safe, sustainable, permanent housing.

continued

HUMAN OPTIONS, INC.

NOTES TO FINANCIAL STATEMENTS

1. **Organization**, continued

Third Step - In 1998, the U.S. Navy granted the Organization rights to six units at the now closed Tustin Military Base. In August 2008, after redevelopment of the base, the Organization was granted six condominiums from Lyon Homes. All six units were completely furnished by donations. These units are used for transitional housing services, and are provided at low-cost program fees for up to one year, with case management and counseling as needed for six low income families.

Community Education: A community education program sponsored by the Organization offers domestic violence prevention education for grades 6-12, college students, community groups, health care providers, faith groups, human resources managers, law enforcement, and social service agencies. Community educators engage young adults and emphasize healthy relationships, awareness of teen dating violence and character development.

In 2016, the Teen Ambassador Program was launched and partners with several Orange County high schools and youth organizations. The program is expected to increase teen ambassadors' knowledge, confidence, and skills related to teaching their peers about teen dating violence (and connecting them to help as needed). Through their service learning projects, ambassadors are expected to raise awareness of teen dating violence in their peer communities.

In 2016 the Organization received 3 year funding for The Coordinated Domestic Violence Response Coalition (The Collaborative), a partnership with The City of Santa Ana, specifically the Santa Ana Police Department (SAPD). The goals of The Collaborative are to strengthen victims' access to support and services through the domestic violence response team and promote best practices/policies for responding to the crimes of domestic violence.

Center for Children and Families:

The Center for Children and Families ("CCF") and its satellite locations at five Family Resource Centers throughout Orange County, provide a safety net and support services to individuals who are not ready to enter a residential program but are trying to break the cycle of violence. The CCF includes three programs: the CCF located in Costa Mesa; the Family Resource Center programs located in Santa Ana (2), Lake Forest, CHEC, San Juan Capistrano, and Newport Beach; and a specialized Safe Options for Seniors program based in the administrative office in Irvine and the Anaheim Family Justice Center.

All CCF locations accept walk-ins. Services include low to no cost individual and family counseling for adults and children, support groups for both adults and children, Safe Dates (a curriculum for at-risk teens), parenting education, a Personal Empowerment Program, legal advocacy, and a specialized Safe Options for Seniors program. In 2002, a grant of \$900,000 was received from the City of Irvine to purchase a building for the administrative office.

Management and General: The Organization incurs general and administrative costs associated with its daily operations.

HUMAN OPTIONS, INC.

NOTES TO FINANCIAL STATEMENTS

1. **Organization**, continued

Fundraising: The Organization incurs costs associated with annual fundraising events and ongoing fundraising activities.

2. **Summary of Significant Accounting Policies**

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements is as follows:

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Without Donor Restrictions – Undesignated. These generally result from revenue generated by receiving without donor restrictions contributions, providing services, and receiving interest from investments less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

Without Donor Restrictions – Designated. These are the net book value of property and equipment that the Board of Directors have established as being designated for use in specific programs. For purposes of complying with net asset accounting, they are included in net assets without donor restrictions at June 30, 2019.

With Donor Restrictions. Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. The Organization has \$5,128,876 in net assets with donor restrictions at June 30, 2019.

Cash and Cash Equivalents

The Organization has defined cash and cash equivalents as cash in banks and money market funds in a securities institution.

continued

HUMAN OPTIONS, INC.

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Governmental Grants Receivable

Governmental grants receivable are receivables from governmental agencies. Therefore, no allowance for doubtful accounts has been provided.

Investments

The Organization values its investments at fair value. Unrealized gains or losses (including investments bought, sold, and held during the year) are reflected in the Statement of Activities as gain or (loss) on investments. Short-term highly liquid money market deposits that are not used for operations are treated as investments.

Fair Value Measurements

Generally accepted accounting principles provide guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the inputs used with each level:

Level 1 inputs - quoted prices in active markets for identical assets

Level 2 inputs - quoted prices in active or inactive markets for the same or similar assets

Level 3 inputs - estimates using the best information available when there is little or no market

The Organization is required to measure certain investments and pledge contributions at fair value. The specific techniques used to measure fair value for these financial statement elements are described in the notes below that relate to each element.

Property and Equipment

Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. Maintenance and repair costs are charged to expense as incurred. Property and equipment are capitalized if the cost of an asset is greater than or equal to one thousand dollars and the useful life is greater than one year.

Concentration of Credit Risks

The Organization places its temporary cash investments with high-credit, quality financial institutions. At times, such investments may be in excess of the Federal Deposit Insurance Corporation insurance limit. The Organization has not incurred losses related to these investments.

The primary receivable balance outstanding at June 30, 2019 consists of government contract receivables due from county, state, and federal granting agencies. Concentration of credit risks with respect to trade receivables are limited, as the majority of the Organization's receivables consist of fees earned from contract programs granted by governmental agencies.

Approximately 42% of the Organization's total revenue and support is derived from private support and 52% from governmental support.

continued

HUMAN OPTIONS, INC.

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Donated Materials and Services

Contributions of donated non-cash assets are measured on a non-recurring basis and recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are valued on a non-recurring basis and recorded at fair value in the period received. For the year ended June 30, 2019, the Organization did not receive any donations which satisfy the criteria for recognition.

Income Taxes

The Organization is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d.

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by the Organization in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. The Organization's returns are subject to examination by federal and state taxing authorities, generally for three and four years, respectively, after they are filed.

Functional Allocation of Expenses

Costs of providing the Organization's programs and other activities have been presented in the Statement of Functional Expenses. Such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit. The Organization uses direct cost to allocate indirect costs.

Use of Estimates

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 reported amounts of assets, liabilities, revenues, and expenses as of the date and for the period presented. Actual results could differ from those estimates.

HUMAN OPTIONS, INC.

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncement

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now titled "without donor restrictions" and "with donor restrictions", (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed-in-service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The ASU is effective for fiscal years beginning after December 15, 2017. The provisions of the ASU must be applied on a retrospective basis for all years presented although certain optional practical expedients are available for the periods prior to adoption. The Organization's financial statements for year-ended June 30, 2019 are presented in accordance with ASU 2016-14.

Comparative Totals

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2018, from which the summarized information was derived.

Reclassification

Certain accounts from the June 30, 2018 financial statements have been reclassified for comparative purposes to conform to the June 30, 2019 presentation.

Subsequent Events

Management has evaluated subsequent events through October 31, 2019, the date which the financial statements were available for issue. No events or transactions have occurred during this period that appear to require recognition or disclosure in the financial statements.

HUMAN OPTIONS, INC.

NOTES TO FINANCIAL STATEMENTS

3. Liquidity and Availability of Resources

The Organization receives approximately 50% of annual revenue through donations, a portion of which has donor restrictions, 40% from governmental grant revenue, and the remaining 10% from investment income and other revenue sources.

As a part of the Organizations' liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. The Organization manages its cash available to meet general expenditures following three guiding principles:

- Operating within a prudent range of financial soundness and stability,
- Maintaining adequate liquid assets, and
- Maintaining sufficient reserves to provide reasonable assurance that program commitments that support mission fulfillment will continue to be met, ensuring the sustainability of the Organization.

The table below presents financial assets available for expenditures within one year at June 30, 2019:

Financial assets at year end:	
Cash and cash equivalents	\$ 638,688
Government grants receivable	402,874
Other receivables	-
Investments	1,055,740
Pledges receivable	273,294
Beneficial interest in community foundation	2,998,954
Beneficial interest in charitable remainder trust	<u>1,609,000</u>
Total financial assets	<u>6,978,550</u>
Less amounts not available to be used within one year:	
Pledges receivable – due after one year	137,610
Beneficial interest in community foundation	2,998,954
Beneficial interest in charitable remainder trust	<u>1,609,000</u>
Financial assets not available to be used within one year	<u>4,745,564</u>
Financial assets available to meet general expenditures within one year	<u>\$2,232,986</u>

The Organization's endowment is included in the beneficial interest in the community foundation. There is a temporarily restricted portion of the endowment as well as a permanently restricted portion. The Organization intends to withdraw and release approximately \$110,000 in the fiscal year ended June 30, 2020 from the temporarily restricted portion to be used to meet cash needs for general expenditures.

The Organization will also continue with its two major fundraisers (Fall Event and Serious Fun) as well as an ongoing giving drive through the Annual Campaign. All of these funds will be used to meet cash needs for general expenditures.

continued

HUMAN OPTIONS, INC.

NOTES TO FINANCIAL STATEMENTS

4. Property and Equipment

Property and equipment at June 30, 2019 consist of the following:

Buildings	\$ 3,478,353
Land	2,836,026
Furniture and equipment	<u>928,122</u>
	7,242,501
Less: accumulated depreciation	<u>(3,691,039)</u>
	<u>\$ 3,551,462</u>

Depreciation expense for the year ended June 30, 2019 was \$201,805.

5. Investments

Investments at June 30, 2019 consist of the following:

Mutual funds - bonds	\$ 428,315
Mutual funds - equities	297,545
Real estate ETF	<u>329,880</u>
	<u>\$1,055,740</u>

6. Pledges Receivable

Unconditional promises to give (pledges receivable) are recorded as support when pledged unless designated otherwise. Pledges receivable that are expected to be collected in future years are measured on a non-recurring basis at the date of the pledge and recorded at the present value of their estimated future cash flows. An allowance for uncollectible pledges of 1% has been recorded as of June 30, 2019. A present value discount rate of 1.25% was used. Pledges receivable at June 30, 2019, are expected to be collected as follows:

Within one year	\$135,684
One to five years	<u>165,078</u>
Pledge receivable, gross	300,762
Less: unamortized discount on pledges receivable	(5,709)
allowance for uncollectible pledges	<u>(21,759)</u>
Pledge receivable, net	<u>\$273,294</u>

continued

HUMAN OPTIONS, INC.

NOTES TO FINANCIAL STATEMENTS

7. Beneficial Interest in Assets Held by a Community Foundation

The Organization has a beneficial interest in assets held by the Orange County Community Foundation (“OCCF”), a 501(c)(3) Foundation that accepts various assets from donors in order to hold and invest such permanently restricted funds in perpetuity. Investment income, which is unrestricted as to use, is available to be distributed by the OCCF to the Organization. OCCF invests in fixed income funds, marketable equity securities, mutual fund equities, real estate and real estate partnerships, and alternative investments. OCCF’s investment policy is to maximize return with a minimal amount of risk. Since such assets are pooled, the specific financial instruments contained in the Organization’s endowment balance are unspecified.

The Organization has interpreted the California Uniform Prudent Management of Institutional Funds Act as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. Therefore, the original value of all gifts donated to the endowment is classified as permanently restricted net assets. Cumulative earnings, gains, and losses of the endowment fund are classified as unrestricted net assets if they are net losses. If there is a cumulative net gain, that amount is classified as temporarily restricted net assets until it is appropriated for expenditure.

Activity in the endowment account held by OCCF for the year ended June 30, 2019, was as follows:

Beginning of year	\$2,777,204
Additions	209,355
Distributions	(100,000)
Interest and dividends	19,116
Investment gain	121,300
Fees	<u>(28,021)</u>
End of year	<u>\$2,998,954</u>

8. Beneficial Interest in Charitable Remainder Trust

The Organization is one of two income beneficiaries of a Charitable Remainder Trust (“Trust”), the corpus of which is not controlled by the Organization. Under the terms of the Trust, the Organization is to receive annual payments equal to 50% of the lesser of the annual income of the Trust, or 5% of the annual value of the Trust. For the year ended June 30, 2019, the Organization received \$15,638. In addition, the Organization is to receive the principal balance of the Trust upon the death of the other income beneficiary. Annual changes in the present value of the underlying assets are recorded in the accompanying Statements of Activities.

The estimated present value of the beneficial interest in the Trust as of June 30, 2019, is \$1,609,000; \$182,000 for the future income to be received, and \$1,427,000 for the Trust remainder to be received. Benefits to be received were discounted using a rate of 2.06% per annum, resulting in a total discount of \$186,565.

HUMAN OPTIONS, INC.

NOTES TO FINANCIAL STATEMENTS

9. Accrued Liabilities

Accrued liabilities at June 30, 2019 consist of the following:

Accrued vacation	\$137,736
Accrued payroll	117,856
Other accrued liabilities	<u>40,116</u>
	<u>\$295,708</u>

10. Commitments and Contingencies

Obligations Under Operating Leases

The Organization leases facilities and equipment under operating leases with various terms. Future minimum payments, by year end and in the aggregate, under these leases with initial or remaining terms of one year or more, consist of the following:

<u>Year ending June 30,</u>	
2020	\$129,656
2021	123,030
2022	<u>70,917</u>
	<u>\$323,603</u>

Rent expense under operating leases for the year ended June 30, 2019 was \$217,893.

Contracts

The Organization grants and contracts are subject to inspection and audit by the appropriate governmental funding agency. The purpose is to determine whether program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously-funded program costs. The ultimate liability, if any, which may result from these governmental audits cannot be reasonably estimated and, accordingly, the Organization has no allowance for the possible disallowance of program costs on its financial statements.

11. Net Assets With Donor Restrictions – Time or Purpose

Net assets with time or purpose restrictions at June 30, 2019, consist of the following:

Beneficial interest in charitable remainder trust	\$1,609,000
Unappropriated endowment earnings	600,938
Other	<u>393,294</u>
	<u>\$2,603,232</u>

During the year ended June 30, 2019, net assets amounting to \$183,046 were released from restrictions of time and \$34,113 were released from restrictions of purpose.

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HUMAN OPTIONS, INC.

NOTES TO FINANCIAL STATEMENTS

12. Net Assets with Donor Restriction – Perpetual in Nature

Endowment funds are Board designated net assets and net assets with donor restrictions resulting from contributions which the donor has stipulated that the principal is to be kept intact in perpetuity and only the income therefrom may be expended for unrestricted purposes. At June 30, 2019, net assets with donor restrictions – perpetual in nature at June 30, 2019 were \$2,525,644.

Generally accepted accounting principles provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (“UPMIFA”). Generally accepted accounting principles also requires additional disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the Organization is subject to UPMIFA.

The Organization classifies as permanently restricted net assets, (a) the original value of the gifts to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization.

Endowment net assets composition by type of fund as of June 30, 2019:

Perpetual in nature	\$2,525,644
Unappropriated endowment earnings	<u>600,938</u>
Total	<u>\$3,126,582</u>

Activity in the endowment net assets for the year ended June 30, 2019, was as follows:

Beginning of year	\$3,114,187
Distributions	(100,000)
Earnings	140,416
Expenses	<u>(28,021)</u>
End of year	<u>\$3,126,582</u>

continued

HUMAN OPTIONS, INC.

NOTES TO FINANCIAL STATEMENTS

13. Fair Value Measurements

The table below presents the balances of assets measured at fair value at June 30, 2019 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds				
Bonds	\$ 428,315	\$ -	\$ -	\$ 428,315
Equities	297,545			297,545
Real estate EFT	329,880			329,880
Pooled investment funds			2,998,954	2,998,954
Total funds	<u>\$1,055,740</u>	<u>\$ -</u>	<u>\$2,998,954</u>	<u>\$4,054,694</u>

The fair value of the mutual funds and real estate EFT has been measured on a recurring basis using quoted prices for identical assets in active markets (Level 1 inputs).

The fair value of pooled investment funds is determined by professional investment managers using a collective investment strategy (Level 3 inputs), (see Note 7).

The table below presents the transactions measured at fair value on a non-recurring basis during the year ended June 30, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Pledge contributions – new	<u>\$ -</u>	<u>\$ -</u>	<u>\$183,450</u>	<u>\$183,450</u>

The fair value of pledged contributions is measured on a non-recurring basis based on the value provided by the donor at the date of pledge (Level 3 inputs).