HUMAN COALITION

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2018

Human Coalition
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December 31, 2018

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Human Coalition

Report on the Financial Statements

We have audited the accompanying financial statements of Human Coalition (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities and changes in net assets, 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 from 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 Coalition as of December 31, 2018, 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.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report August 23, 2019, on our consideration of Human Coalition'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 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 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 Coalition's internal control over financial reporting and compliance.

Salmon Sims Thomas

Salmon Sims Thomas & Associates
A Professional Limited Liability Company

August 23, 2019

Human Coalition
Statement of Financial Position
December 31, 2018

ASSETS

Current Assets	
Cash	$ 1,611,906
Unconditional promises to give	1,736,813
Grants receivable	1,008,857
Inventory	46,095
Investments	59,153
Prepaid expenses	147,106
Total Current Assets	4,609,930
Fixed Assets	
Mobile units	723,520
Furniture and equipment	411,623
Computers and technological equipment	152,296
Leasehold improvements	73,371
Video content	60,950
	1,421,760
Less: accumulated depreciation and amortization	(670,699)
Net Fixed Assets	751,061
Intangible Assets	
Web and software properties	136,793
Intellectual properties	24,000
	160,793
Less: accumulated amortization	(160,793)
Net Intangible Assets	-
Other Assets	
Deferred rent asset	2,088
Security deposits	40,379
Total Other Assets	42,467
TOTAL ASSETS	$ 5,403,458

Human Coalition
Statement of Financial Position (Continued)
December 31, 2018

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts payable and accrued expenses	$	390,003
Accrued payroll and benefits		212,085
Deferred rent liability - current		12,976
Lines of credit - current portion		400,000
Total Current Liabilities		1,015,064
Long-term Liabilities		
Deferred rent liability - long-term		12,394
Lines of credit - net of current portion		300,000
Total Long-term Liabilities		312,394
Total Liabilities		1,327,458
Net Assets		
Net assets without donor restrictions		3,926,000
Net assets with donor restrictions		150,000
Total Net Assets		4,076,000
TOTAL LIABILITIES AND NET ASSETS	$	5,403,458

The accompanying notes are an integral part of this financial statement.

Human Coalition
Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2018

Revenues and Support	Without Donor Restrictions	With Donor Restrictions	Total
Contributions	$ 8,161,324	$ -	$ 8,161,324
Government grants	2,786,804	-	2,786,804
Service fees	264,359	-	264,359
Product sales (net of cost of goods sold of $2,450)	4,390	-	4,390
Investment return	(3,096)	-	(3,096)
Other	22,558	-	22,558
	11,236,339	-	11,236,339
Net assets released from restrictions	310,562	(310,562)	-
Total Revenues and Support	11,546,901	(310,562)	11,236,339
Expenses			
Program services	8,549,022	-	8,549,022
Management and general	1,919,596	-	1,919,596
Fundraising	1,429,286	-	1,429,286
Total Expenses	11,897,904	-	11,897,904
Change in Net Assets From Operating Activities	(351,003)	(310,562)	(661,565)
Nonoperating Revenues			
Inherent contributions	1,137,667	-	1,137,667
Change in Net Assets	786,664	(310,562)	476,102
Net Assets, beginning of year	3,139,336	460,562	3,599,898
Net Assets, end of year	$ 3,926,000	$ 150,000	$ 4,076,000

The accompanying notes are an integral part of this financial statement.

Human Coalition
Statement of Functional Expenses
For the Year Ended December 31, 2018

	Program Services	Management and General	Fundraising	Total Expenses
Payroll and related expenses	$ 4,630,796	$ 734,165	$ 989,228	$ 6,354,189
Depreciation	46,042	206,398	-	252,440
Amortization	5,591	10,190	-	15,781
Occupancy	599,907	242,630	17,813	860,350
Marketing and related expenses	1,885,643	7,500	7,144	1,900,287
Mobile unit expenses	38,034	-	104	38,138
Information technology	310,464	206,242	20,051	536,757
Client and clinic services	219,176	1,126	2,421	222,723
Office expenses	117,714	24,667	9,851	152,232
Event expenses	7,927	3,849	159,764	171,540
Professional fees and services	444,398	301,189	99,458	845,045
Professional development	15,021	22,402	1,434	38,857
Bank and merchant fees	383	69,370	1,628	71,381
Registrations and compliance	2,223	1,367	4,250	7,840
Subscriptions and dues	12,829	4,983	1,227	19,039
Travel	152,900	26,128	80,572	259,600
Meetings	41,065	11,622	34,341	87,028
Insurance	3,305	29,218	-	32,523
Property tax	7,558	-	-	7,558
Charitable contributions	4,247	3,700	-	7,947
Other expenses	1,120	790	-	1,910
Interest expense	2,679	12,060	-	14,739
	$ 8,549,022	$ 1,919,596	$1,429,286	$11,897,904

The accompanying notes are an integral part of this financial statement.

Human Coalition
Statement of Cash Flows
For the Year Ended December 31, 2018

Cash Flows From Operating Activities	
Change in Net Assets	$ 476,102
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	252,440
Amortization	15,781
Dividends and distributions reinvested	(803)
Unrealized losses on investments	3,926
Noncash contributions of securities	(32,081)
Noncash contribution of mobile units	(75,000)
Noncash contributions of security deposits	(27,518)
(Increase)/Decrease in assets:	
Unconditional promises to give	(203,813)
Grants receivable	(510,454)
Inventory	10,762
Prepaid expense	(75,073)
Deferred rent	(2,088)
Increase in liabilities:	
Accounts payable and accrued expenses	267,965
Accrued payroll and benefits	84,808
Deferred rent	25,370
Net Cash Provided by Operating Activities	210,324
Cash Used by Investing Activities	
Purchases of fixed and intangible assets	(386,012)
Cash Provided by Financing Activities	
Draws on line of credit	500,000
Net Change in Cash	324,312
Cash, beginning of year	1,287,594
Cash, end of year	$ 1,611,906
Interest paid during the year	$ 14,739

The accompanying notes are an integral part of this financial statement.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The summary of significant accounting policies of the Organization is presented to assist in understanding the financial statements. The financial statements and notes are representations of the Organization's management, who is responsible for the fairness and objectivity embodied in the financial statements. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Organization - Human Coalition (Organization) is organized as a 501(c)(3) Texas nonprofit corporation with facilities, including mobile units, in Texas, Ohio, Pennsylvania, North Carolina, and Georgia. The Organization works online and offline to reach women and men who have concerns and needs related to unexpected pregnancy. The Organization comes alongside them in their time of crisis and also connects them with organizations which are staffed and trained to provide ongoing support. Human Coalition has developed a network of innovative women's care clinics employing best practices and technology in order to provide services and tangible support to women and families.

The Organization is the sole member of Human Coalition of Georgia, LLC (HC Georgia), a Georgia limited liability company. HC Georgia is a disregarded entity for federal tax and reporting purposes. Forming HC Georgia enabled the Organization to meet state regulatory requirements, thus allowing the Organization to operate within the state of Georgia. All operations of HC Georgia are recorded in the Organization's books and records. In addition, HC Georgia has no separate governing board from that of the Organization. Therefore the accompanying financial statements are not reported on a combined or consolidated basis.

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

> Net Assets without Donor Restrictions - Net assets not subject to donor-imposed stipulations.
>
> Net Assets with Donor Restrictions - Net assets subject to donor-imposed stipulations.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Expirations of net assets with donor restrictions (*i.e.*, the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. Contributions of assets other than cash are recorded at their estimated fair value on the date of donation.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates - Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. Significant estimates used in preparing these financial statements include those assumed in recording depreciation, functional allocation of expenses, and the realizable value of grants receivable. It is at least reasonably possible that the significant estimates used will change within the next year. Actual results could vary from estimates.

Cash - The Organization places its cash, which, at times, may exceed federally insured limits, with high-credit quality institutions. The Organization has not experienced any losses on such accounts.

Unconditional Promises to Give - Contributions are recognized when a donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as an increase in net assets with donor restrictions. When a restriction expires or is satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Unconditional promises to give that are due more than one year beyond the statement of financial position date are discounted to a net present value using an estimated discount factor for risk-free borrowing.

Contributions receivable are considered past due when payments are not made under the terms of the contribution agreement. There were no past due contributions receivable at December 31, 2018 and no provision was made for uncollectible receivables as of that date. Contributions receivable are considered uncollectible and written off to uncollectible pledges when the donor withdraws the contribution commitment or fails to provide a reasonable revised schedule of contributions.

Grants Receivable - Grants receivable consists of amounts billed to the state for program expenditures incurred as of year-end for reimbursement. The Organization deems all receivables collectible hence there is no estimated allowance for doubtful accounts.

Inventory – Inventory is stated at the lower of cost or market and includes items such as books, shirts, brochures, and other such programmatic and marketing materials.

Property and Equipment - Property and equipment are stated at cost when purchased or fair market value on the date of donation, less accumulated depreciation. Major expenditures and those that substantially increase useful lives are capitalized. Maintenance, repairs, and replacements, which do not improve or extend the lives of the respective assets, are charged to operations when incurred. When property and equipment are sold or otherwise disposed of, the asset and related accumulated depreciation is removed, and any gain or loss is included in operations.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment (Continued) - Depreciation is calculated using the straight-line method based on estimated useful lives as follows:

Mobile units	5 years
Furniture and equipment	5 years
Computers and technological equipment	5 years
Leasehold improvements	5 years

Donated Services, Materials and Facilities – Donations of noncash contributions are recorded at their estimated fair value on the date of donation. Donated services are recognized as contributions in accordance with GAAP, if the services (a) create or enhance nonfinancial assets or (b) require and are provided by individuals with specialized skills and if not provided by donation would typically need to be purchased.

Deferred Rent - The Organization has entered into an operating lease agreement containing provisions for future rent increases and periods of reduced rent payments. In accordance with GAAP, the Organization records monthly rent expense equal to the total of the payments due over the lease term, divided by the number of months of the lease term. The difference between rent expense recorded and the amount paid is credited or charged to deferred rent.

Income Taxes – The Organization is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (IRC) of 1986, as amended, as an organization described in Section 501(c)(3) of the IRC. The Organization has been classified as an organization that is not a private foundation under IRC Section 509(a)(2), and as such, contributions to the Organization qualify for deductions as charitable contributions. However, income generated from activities unrelated to the Organization's exempt purpose is subject to tax under IRC Section 511.

Accounting for Uncertainty in Income Taxes - Management has concluded that any tax positions that would not meet the more-likely-than-not criterion of Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) Topic 740-10, *Accounting for Income Taxes*, would be immaterial to the financial statements taken as a whole. Accordingly, the accompanying financial statements do not include any provision for uncertain tax positions, and no related interest or penalties have been recorded in the statement of activities or accrued in the statement of financial position. Information returns of the entity are generally open to examination by the relevant taxing authorities for a period of three years from the date the returns are filed.

Investments - Investments are carried at fair value; realized and unrealized gains and losses are reflected in the statement of activities. Gains and losses on sales transactions are based on the weighted average cost of the investments sold. The aggregate amount of unrealized fair value appreciation (depreciation) during the year is recorded as an unrealized gain (loss) applicable to the various net asset categories.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements - FASB ASC 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides the fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodology used for assets measured at fair value. There has been no change in the methodology used at December 31, 2018.

Equities: Valued at the closing price reported in an active market in which the fund is traded.

The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Recent Accounting Pronouncements - In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, as an update to ASC 958, Not-for-Profit Entities. This update makes several improvements to current reporting requirements that address complexities in the use of the previously required three classes of net assets and enhance required disclosures related to donor restrictions of net assets. The updated guidance results in a change in the classes of net assets reported on the face of the statement of financial position from three classes (unrestricted, temporarily restricted, and permanently restricted) to two classes (net assets without donor restrictions and net assets with donor restrictions).

The update also requires all not-for-profit entities to report expenses by function and by natural classification, either on the face of the financial statements or in the footnotes. Additional qualitative information about the methods used to allocate costs is also required to be disclosed. The update also requires all not-for-profit entities to disclose quantitative information that communicates the availability of the Organization's financial assets at the statement of financial position date to meet cash needs for general expenditures within one year as well as qualitative information on how the Organization manages its liquid resources available to meet cash needs for general expenditures within one year of the statement of financial position date.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements (Continued) - The updated guidance is effective for annual periods beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. Early adoption is permitted. The new guidance should be applied on a retrospective basis. The Organization adopted this update in fiscal year 2018. No other material impact is expected.

In November 2016, the FASB issued ASU 2016-18, *Restricted Cash*, as an update to ASC 230, Statement of Cash Flows. This update requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The updated guidance will be effective for annual periods beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The Organization will be adopting this update in fiscal year 2018. The new guidance will be applied on a retrospective basis. The updated guidance will result in a change in the statement of cash flow to include restricted cash and restricted cash equivalents. The Organization will adopt this update in 2019. No other material impact is expected.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, Revenue Recognition. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The statement is effective for annual periods beginning after December 15, 2018. The Organization is in the process of evaluating the potential impact of ASU 2014-09 on its financial statements and it has not yet determined the method by which the standard will be adopted in 2019.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The new standard requires lessees to recognize a right-of-use (ROU) asset and a related lease liability for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities and changes in net assets. Currently, leases are classified as either capital or operating, with only capital leases recognized on the statement of financial position. The new standard is effective for private entities for annual periods beginning after December 15, 2019. The Organization is currently assessing the impact on its statement of position but expects that the guidance will not result in significant changes to the results of operations.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements (Continued) - In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made,* as an update to ASC 958, Not-for-Profit Entities and to ASU 2014-09. The guidance provides a framework for evaluating whether grants should be accounted for as exchange transactions or as nonexchange transactions. For nonexchange transactions, the new guidance clarifies the contribution accounting model's guidance regarding whether arrangements are conditional or unconditional. The ASU applies to all entities that make or receive contributions but is primarily related to grants. The statement is effective for annual periods beginning after December 15, 2018. The Organization is currently assessing the impact on its statement of position but expects that the guidance will not result in significant changes to the results of operations.

Date of Management's Review - Subsequent events have been evaluated for potential recognition or disclosure through August 23, 2019 which is the date the financial statements were available to be issued.

NOTE 2: INVESTMENTS

Investments at December 31, 2018 consisted of the following:

Stocks	$ 59,153

Investment return for the year ended December 31, 2018, is summarized as follows:

Dividends and interest	$ 830
Unrealized loss	(3,926)
	$ (3,096)

NOTE 3: FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31, 2018 as follows:

	Fair Value	Quoted Prices in Active markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Stocks	$ 59,153	$ 59,153	$ -	$ -

NOTE 4: RETIREMENT PLAN

The Organization offers a retirement plan for its staff. In general, an employee who has attained at least 21 years of age and completed three months of service is eligible to participate in the plan. The Organization may make discretionary contributions to the plan. The Organization elected to make no matching contributions for the year ended December 31, 2018.

NOTE 5: LEASE COMMITMENTS

The Organization leases office space under noncancelable operating lease agreements expiring on various dates through May 31, 2024. Rent expense under these operating leases was approximately $700,000 for the year ended December 31, 2018.

Required minimum lease payments under the lease agreements are approximately as follows for the years ending December 31,

2019	$ 725,498
2020	214,485
2021	113,704
2022	59,876
2024	58,164
2024 and thereafter	12,705

NOTE 6: NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at December 31, 2018 are restricted as to time in that they are for use in the next fiscal year. Net assets are released from donor restrictions when the time period lapses. Net assets with donor restrictions related to time were $150,000 as of December 31, 2018. Net assets released from donor restrictions for the year ended December 31, 2018 were $310,562.

NOTE 7: LIQUIDITY AND AVAILABILITY OF RESOURCES

The Organization is substantially supported by contributions and government grants. The Organization's liquidity management includes a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Organization's financial assets at December 31, 2018 were:

Cash	$ 1,611,906
Investments	59,153
Unconditional promises to give	1,736,813
Grants receivable	1,008,857
Financial assets available within one year to meet cash needs for general expenditures within one year	$ 4,416,729

NOTE 8: COMPENSATED ABSENCES

Employees of the Organization are entitled to paid vacation, sick days, and, personal days off depending on job classification, length of service, and other factors. The Organization's policy is to recognize the costs of compensated absences when actually paid to employees.

NOTE 9: INHERENT CONTRIBUTIONS

During the year ended December 31, 2018, the Organization acquired three pregnancy resource centers. The approximate fair values of assets and liabilities at the dates of acquisition are as follows:

Cash	$ 976,280
Mobile units	75,000
Unconditional promises to give	157,991
Prepaid expenses	7,355
Security deposits	19,815
Accounts payable	(68,894)
Payroll and related liabilities	(29,880)
Total inherent contributions	$ 1,137,667

NOTE 10: LINES OF CREDIT

On August 2, 2018, the Organization obtained a $300,000 line of credit with a maturity date of February 3, 2024 with a variable rate of interest. The interest rate at December 31, 2018 was 6.3156% The outstanding balance on this line of credit at December 31, 2018 was $300,000.

On August 9, 2018, the Organization obtained a $1,500,000 line of credit with a maturity date of July 1, 2019 with a variable rate of interest. The interest rate at December 31, 2018 was 6.436%. The outstanding balance on this line of credit at December 31, 2018 was $400,000.

Interest expense was $14,739 for the year ended December 31, 2018.

NOTE 11: ALLOCATION METHODOLOGY OF FUNCTIONAL EXPENSES

Direct costs associated with programs, management and general, and fundraising expenses are recorded in their respective functions. Indirect costs attributable to the various functions benefitted are allocated. The indirect costs so allocated include depreciation and amortization, occupancy expenses of the home office, certain technology and telecommunication expenses, and particular payroll and related expenses. All such expenses are allocated using a hybrid methodology of regulatory allowances based on the approved budget from governmental funding agencies to particular programs, square footage usage, and time studies.

NOTE 12: CONCENTRATIONS

For the year ended December 31, 2018, approximately 24% of total revenues and support consisted of government grants and approximately 12% of total revenues and support were from one donor. Any changes in such funding levels could significantly affect the Organization.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Human Coalition

We have audited, in accordance with the 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, the financial statements of Human Coalition (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 23, 2019.

Internal Control over Financial Reporting
In planning and performing our audit of the financial statements, we considered Human Coalition's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Human Coalition's internal control. Accordingly, we do not express an opinion on the effectiveness of Human Coalition's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2018-001 through 2018-004 that we consider to be material weaknesses.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether Human Coalition's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Human Coalition's Response to Findings
Human Coalition's response to the findings identified in our audit is described in the accompanying schedule of findings and questions costs. Human Coalition's responses were not subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on them.

Purpose of this Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Salmon Sims Thomas

Salmon Sims Thomas & Associates
A Professional Limited Liability Company
August 23, 2019

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
of Human Coalition

Report on Compliance for Each Major Federal Program

We have audited Human Coalition's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Human Coalition's major federal programs for the year ended December 31, 2018. Human Coalition's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Human Coalition's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Human Coalition's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Human Coalition's compliance.

Opinion on Each Major Federal Program

In our opinion, Human Coalition complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2018.

Report on Internal Control Over Compliance

Management of Human Coalition is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Human Coalition's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Human Coalition's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Salmon Sims Thomas

Salmon Sims Thomas & Associates
A Professional Limited Liability Company

August 23, 2019

Human Coalition
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2018

FEDERAL AGENCY	CFDA NO.	PASS-THROUGH ENTITY IDENTIFYING NUMBER	AMOUNT
U.S. Department of Health and Human Services			
Temporary Assistance for Needy Families			
Pass-through programs from:			
Texas Health and Human Services Commission			
Alternatives to Abortion Grant Program			
Contract HHS000050200001	93.558		$ 2,843,373
TOTAL EXPENDITURES			$ 2,843,373

NOTE 1: BASIS OF ACCOUNTING
The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

NOTE 2: INDIRECT COSTS
Expenditures reported on the Schedule are recognized following, as applicable, either the cost principles in OMB Circular A-122, Cost Principles for Non-Profit Organizations, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Human Coalition has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance as all indirect costs allowed to be charged are determined by the program budget approved by the state of Texas.

NOTE 3: COMMINGLED AMOUNTS
For the 2018-2019 biennium, the Alternatives to Abortion Grant Program was appropriated $18,300,000 and authorized to expend an additional $20,000,000. The Texas Health and Human Services Commission has identified $3,000,000 of this award will be funded with funds under Temporary Assistance for Needy Families (TANF). For the year ended December 31, 2018, the state of Texas was unable to provide the amount of TANF funds provided to Human Coalition under its contract. Therefore, under Generally Accepted Accounting Principles, Human Coalition has reported the total expenditures under the contract in the accompanying schedule of expenditures of federal awards.

Human Coalition
Summary of Auditors' Results
For the Year Ended December 31, 2018

1. We have issued an unmodified opinion on the financial statements of Human Coalition as of and for the year ended December 31, 2018.

2. Material weaknesses relating to the audit of the financial statements were reported.

3. The results of the financial statement audit disclosed no instances of noncompliance which were considered material to the financial statements.

4. We issued an unmodified opinion in our report on compliance for major programs for the year ended December 31, 2018.

5. No significant deficiencies relating to the audit of internal control over major federal award programs were found.

6. There were no audit findings that are required to be reported in accordance with 2CFR 200.515(a).

7. The program tested as a major program for the year ended December 31, 2018 is as follows:

U.S. Department of Health and Human Services	
Passed through Texas Health and Human Services Commission	93.558

8. The threshold used for distinguishing between type A and B programs was $750,000.

9. Human Coalition did not qualify as a low-risk auditee.

FINDINGS – FINANCIAL STATEMENT AUDIT

Finding 2018-001 Failure to Correctly Record Investment Activity

Criteria:	Activity amounts for the month and month end balances per the investment statements should reconcile to amounts recorded in the general ledger.
Condition:	The Organization does not have adequate procedures in place for the reconciliation and review of the monthly investment activity reflected in the investment statements to activity recorded in the general ledger.
Cause:	The Organization did not provide adequate training to the accounting staff in charge of recording investment activity nor proper procedures for assigning responsibility for the receipt and recording of investment activity and balances.
Effect:	The Organization misstated assets (investments) and donations (gifts of securities) and related unrealized losses on the investments.
Recommendation:	The Organization should provide training to the accounting staff to enable the staff to perform their duties proficiently and accurately. Additionally, a member of management or a board member should review the reconciliations for assurance that the investment statement balances reconcile to the general ledger balances on a monthly basis. The staff assigned to reconciling and recording investment activity should have access to all investment statements received or, alternatively, electronic access to view the monthly statements online, but not to authorize transactions.
Corrective Action:	The Organization will ensure proper recording of donations received in the form of securities. Staff will be properly trained to understand the current investment policy and a monthly reconciliation will be performed to account for such activity

FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

Finding 2018-002 Failure to Correctly Record Inherent Contributions

Criteria:	The acquisition of a pregnancy resource center should be recorded as an inherent contribution at the point the assets and liabilities are transferred.
Condition:	The Organization acquired three pregnancy resource centers during the year ended December 31, 2018. The journal entries to record the acquisitions were incorrect. The three original acquisition entries had to be reversed and the acquisitions were re-recorded using corrected amounts and classifications in accordance with GAAP.
Cause:	The Organization did not provide adequate training to the accounting staff in charge of recording the acquisitions nor proper procedures for oversight and review of such transactions recorded in the general ledger.
Effect:	The Organization misstated pledges receivable, fixed assets, and inherent contributions.
Recommendation:	The Organization should provide training to the accounting staff to enable the staff to perform their duties proficiently and accurately. Additionally, a member of management or a board member should review such material and infrequent transactions for accuracy. The staff assigned to recording such activity should have access to all documentation relating to the acquisitions, including, but not limited to, items such as assumption of leases and bank statements.
Corrective Action:	The Organization will ensure the accounting staff is trained to properly record transactions related to inherent contributions. Oversight and review will be performed and completed for such transactions.

FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)
Finding 2018-003 Failure to Maintain Sufficient Supporting Documentation

Criteria:	Documentation to support transactions, account balances, and financial statement disclosures should be maintained.
Condition:	The Organization did not maintain a complete and accessible set of records to support valuations of future commitments and in-kind donations. The Organization did not segregate long-term from short-term debt, was unable to provide certain loan documents to compare with terms confirmed with the bank, was unable to easily provide complete lease documents (several lease agreements provided were amendments that referred to the original lease agreements), and was unable to provide support for the original valuation of the in-kind portion of the inherent contributions (mobile units).
Cause:	A lack of oversight and review of records to support amounts recorded in the general ledger.
Effect:	The Organization misclassified long-term and short-term debt, was unable to disclose exact terms of the debt agreements, was unable to disclose the complete terms of future commitments, and materially misstated inherent contributions and fixed assets.
Recommendation:	The Organization should initiate policies and procedures for assurance that an appropriate staff member in accounting, such as a Controller, is copied on all agreements that may have an effect on the financial statements and disclosures.
Corrective Action:	The Organization will maintain a complete set of documents to support financial transactions. The Organization will initiate policies and procedures that the Director of Accounting Operations is copied on all agreements that have a financial effect.

FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

Finding 2018-004 Failure to Regularly Reconcile and Review Subledger Totals in Relation to Trial Balance Totals

Criteria: Subledger totals should agree and/or reconcile with totals per the trial balance and the subledgers in relation to the trial balance as a whole should be reasonable given the facts and circumstances.

Condition: The Organization reported cost of goods sold in excess of product sales by approximately $13,000. The Organization recorded a material loss of approximately $160,000 and misstated accumulated depreciation in a similar amount. The Organization recorded accumulated amortization in excess of intangible assets by approximately $40,000. Accounts payable and expenses were each understated by approximately $29,000. Donations per Salesforce did not reconcile with contributions per the trial balance.

Cause: The Organization neither routinely reviewed and reconciled each subledger to the trial balance nor reviewed the subledgers in relation to the trial balance for reasonableness.

Effect: Various subledgers did not agree or reconcile to the balances reflected in the trial balance and certain subledgers amounts were not reasonable in relation to the trial balance as a whole given the facts and circumstances.

Recommendation: The Organization should initiate policies and procedures to provide for a staff member, such as a Controller, to regularly review the subledgers and reconcile them to the trial balance, while ensuring that the subledgers and trial balance, in relation to each other, are reasonable given the facts and circumstances.

Corrective Action: The Organization will routinely review and reconcile each subledger to the trial balance for reasonableness and accuracy.

FINDINGS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

Human Coalition
Schedule of Prior Year Findings and Questioned Costs
For the Year Ended December 31, 2018

Human Coalition was audited for the year ended December 31, 2017 by other auditors. There were no audit findings requiring corrective action.