

**HOI, INC.
FINANCIAL STATEMENTS WITH
INDEPENDENT ACCOUNTANTS'
AUDIT REPORT THEREON
FOR THE YEARS ENDED
DECEMBER 31, 2012 AND 2011**

**HOI, INC.
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DECEMBER 31, 2012 AND 2011**

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INDEPENDENT ACCOUNTANTS' AUDIT REPORT

To the Board of Directors
HOI, INC.
Atlanta, Georgia

We have audited the accompanying financial statements of HOI, INC. (a non-profit organization), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activity and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

The Organization's 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 auditor's 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 HOI, INC. as of December 31, 2012 and 2011, and the results of its activity and changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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HOI, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2012 AND 2011

<u>ASSETS</u>	2012	2011
CURRENT ASSETS		
Cash (Note 1)	\$ 513,098	\$ 233,340
Inventories (Note 1)	118,709	121,831
Prepaid Expenses	3,916	4,151
TOTAL CURRENT ASSETS	635,723	359,322
CONSTRUCTION IN PROGRESS - NEW STAFF DORMITORY	-	55,279
PROPERTY AND EQUIPMENT, at Cost, Net of Accumulated Depreciation Thereon of \$702,855 in 2012 and \$648,353 in 2011 (Notes 1 and 2)	636,155	604,488
SECURITY DEPOSIT	4,727	-
TOTAL ASSETS	\$ 1,276,605	\$ 1,019,089
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Trade Accounts Payable	\$ 13,089	\$ 14,037
Accrued Liabilities Payable	4,014	2,965
TOTAL CURRENT LIABILITIES	17,103	17,002
COMMITMENTS AND CONTINGENCIES (Notes 3, 5, and 8)	12,612	12,612
NET ASSETS		
Unrestricted (Note 1)	937,098	845,980
Temporarily Restricted (Notes 1 and 4)	309,792	143,495
TOTAL NET ASSETS	1,246,890	989,475
TOTAL LIABILITIES AND NET ASSETS	\$ 1,276,605	\$ 1,019,089

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

HOI, INC.
STATEMENTS OF ACTIVITY AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
CHANGES IN UNRESTRICTED NET ASSETS		
Support and Revenue		
Contributions and Support (Notes 1 and 6)	\$ 302,616	\$ 265,947
In Kind Revenue (Note 7)	110,970	40,390
Medical and Agricultural Revenue in Honduras	59,289	55,090
Interest Income	840	142
Other Income	35	1,135
Subtotal	473,750	362,704
Net Assets Released From Restrictions (Notes 1 and 4)	1,113,272	1,028,556
TOTAL UNRESTRICTED SUPPORT AND REVENUE	1,587,022	1,391,260
PROGRAM AND SUPPORT EXPENSES		
Honduras Ranch	820,993	700,319
Short Term Mission Groups	240,507	287,915
Salaries and Payroll Taxes	147,360	155,680
Administrative	101,618	47,993
Fundraising	68,916	75,184
Insurance	61,560	56,914
Depreciation (Note 1)	36,697	42,081
Travel	18,253	8,277
TOTAL PROGRAM AND SUPPORT EXPENSES	1,495,904	1,374,363
INCREASE IN UNRESTRICTED NET ASSETS	91,118	16,897
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions and Support (Notes 1 and 6)	1,279,019	984,130
Interest Income	550	1,095
Net Assets Released - Restrictions Satisfied by Payment (Notes 1 and 4)	(1,113,272)	(1,028,556)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	166,297	(43,331)
INCREASE (DECREASE) IN NET ASSETS	257,415	(26,434)
NET ASSETS AT BEGINNING OF YEAR (AS PREVIOUSLY REPORTED)	989,475	1,028,521
ADJUSTMENT FOR CONTINGENT SEVERANCE PAYABLE (Note 8)	-	(12,612)
NET ASSETS AT BEGINNING OF YEAR (AS RESTATED)	989,475	1,015,909
NET ASSETS AT END OF YEAR	\$ 1,246,890	\$ 989,475

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

HOI, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2012

EXPENSES	TOTAL PROGRAM ACTIVITIES	GENERAL AND ADMINISTRATIVE	FUNDRAISING	TOTAL SUPPORT ACTIVITIES	2012 TOTAL EXPENSES
Honduras Ranch	\$ 820,993	\$ -	-	-	\$ 820,993
Short Term Mission Groups	240,507	-	-	-	240,507
Salaries	102,195	37,581	32,781	70,362	172,557
Insurance	56,408	5,152	-	5,152	61,560
Professional Fees	31,299	26,158	-	26,158	57,457
Computer and Website	-	1,047	21,751	22,798	22,798
Travel	6,258	11,995	-	11,995	18,253
Miscellaneous	-	11,963	-	11,963	11,963
Facility Rent (Note 3)	-	11,802	-	11,802	11,802
Telephone	-	9,959	-	9,959	9,959
Payroll Taxes	5,545	2,039	1,779	3,818	9,363
Advertising (Note 1)	-	-	6,448	6,448	6,448
Events	-	-	6,157	6,157	6,157
Equipment Rental and Maintenance (Note 3)	-	-	-	-	3,555
Supplies	2,096	3,555	-	-	2,096
Bank and Credit Card Fees	-	1,662	-	1,662	1,662
Conferences and Meetings	969	-	-	-	969
Postage and Shipping	888	-	-	-	888
Printing and Publications	150	-	-	-	150
Dues and Subscriptions	70	-	-	-	70
TOTAL EXPENSES BEFORE DEPRECIATION	1,267,378	122,913	68,916	191,829	1,459,207
Depreciation (Note 1)	36,629	68	-	68	36,697
TOTAL EXPENSES	\$ 1,304,007	\$ 122,981	\$ 68,916	\$ 191,897	\$ 1,495,904

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

HOI, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2011

EXPENSES	TOTAL PROGRAM ACTIVITIES	GENERAL AND ADMINISTRATIVE	FUNDRAISING	TOTAL SUPPORT ACTIVITIES	2011 TOTAL EXPENSES
Honduras Ranch	\$ 700,319	\$ -	-	-	\$ 700,319
Short Term Mission Groups	287,915	-	-	-	287,915
Salaries	84,600	61,683	52,084	113,767	198,367
Insurance	47,585	9,329	-	9,329	56,914
Professional Fees	-	25,649	-	25,649	25,649
Books	-	-	15,453	15,453	15,453
Payroll Taxes	3,443	5,953	-	5,953	9,396
Travel	-	8,277	-	8,277	8,277
Facility Rent (Note 3)	-	6,000	-	6,000	6,000
Telephone	-	4,839	-	4,839	4,839
Events	-	-	4,101	4,101	4,101
Training	-	2,090	-	2,090	2,090
Miscellaneous	-	1,406	682	2,088	2,088
Equipment Rental and Maintenance (Note 3)	-	673	1,270	1,943	1,943
Bank and Credit Card Fees	-	1,637	-	1,637	1,637
Computer and Website	-	1,587	-	1,587	1,587
Supplies	1,329	-	139	139	1,468
Printing and Publications	1,185	-	204	204	1,389
Advertising (Note 1)	-	-	1,200	1,200	1,200
Postage and Shipping	673	-	51	51	724
Conferences and Meetings	721	-	-	-	721
Dues and Subscriptions	205	-	-	-	205
TOTAL EXPENSES BEFORE DEPRECIATION	1,127,975	129,123	75,184	204,307	1,332,282
Depreciation (Note 1)	42,032	49	-	49	42,081
TOTAL EXPENSES	\$ 1,170,007	\$ 129,172	\$ 75,184	\$ 204,356	\$ 1,374,363

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

HOI, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
INCREASE (DECREASE) IN CASH

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Contributions and Support	\$ 1,753,319	\$ 1,232,539
Cash Paid to Suppliers	(1,287,919)	(1,084,983)
Cash Paid to Employees	(172,557)	(132,764)
NET CASH PROVIDED BY OPERATING ACTIVITIES	292,843	14,792
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash Paid for Construction in Progress	-	(11,561)
Cash Paid for Property and Equipment	(13,085)	(3,730)
NET CASH (USED IN) INVESTING ACTIVITIES	(13,085)	(15,291)
NET INCREASE (DECREASE) IN CASH	279,758	(499)
CASH AT BEGINNING OF YEAR	233,340	233,839
CASH AT END OF YEAR	\$ 513,098	\$ 233,340
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (Decrease) in Net Assets	\$ 257,415	\$ (26,434)
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	36,697	42,081
Loss on Disposal of Property and Equipment	-	1,231
Changes in Assets and Liabilities:		
(Increase) Decrease in Inventories	3,122	(8,527)
(Increase) Decrease in Prepaid Expenses	235	(3,853)
(Increase) in Security Deposit	(4,727)	-
Increase (Decrease) in Trade Accounts Payable	(948)	9,630
Increase in Accrued Liabilities Payable	1,049	664
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 292,843	\$ 14,792

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

HOI, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 1 OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Operations – HOI, INC. is a Georgia non profit Corporation that seeks to improve the lives of the citizens in the Agalta Valley of Central Honduras. Its mission is to transform lives through faith and works. Rancho El Paraiso is the focal point of the operations in Honduras. In addition to a working ranch, HOI operates four medical clinics, a seminary, three private schools for students from kindergarten through 12th grade, an agricultural school, and a consignment store.

HOI sends short term missionary groups from the United States of America to assist the ranch in promoting the spiritual, physical, educational, and economic development of the citizens of Honduras. These groups receive food and lodging at Rancho El Paraiso and work in villages neighboring the ranch. In 2012, HOI researched expanding the scope of its ministry beyond the borders of Honduras. As a result of this research, HOI has partnered with another organization in Nicaragua and has begun sending groups into Nicaragua in 2013.

Financial Statement Presentation - HOI reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted Net Assets – Represents resources that have not been designated to any other fund and over which the HOI has discretionary control to use for current operations.

Temporarily Restricted Net Assets – Represents resources that have been restricted expendable only for the purposes specified by the donor.

Contributions – Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Time and purpose restricted contributions are required to be reported as temporarily restricted support and are then reclassified to unrestricted net assets upon expiration of the time or purpose restriction. In addition, a donor's promise to give is to be reported as revenue when the pledge is made.

HOI receives donated services from a variety of unpaid volunteers assisting HOI with the administration of its programs. No amounts have been recorded in the financial statements for those services since they do not meet the criteria for recognition under generally accepted accounting principles. HOI estimates that volunteer service totaled 30,424 hours in 2012 and 31,384 hours in 2011.

Cash and Cash Equivalents – For purposes of the statement of cash flows, HOI considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Periodically, HOI has cash balances in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC).

Inventories – Inventories consist of HOI promotional books totaling \$36,108 and \$40,205 at December 31, 2012 and 2011, respectively, and cattle and other livestock at Rancho El Paraiso totaling \$82,601 and \$81,626 at December 31, 2012 and 2011, respectively. The books are valued at cost, and the livestock are valued at average sales price less disposal costs.

HOI, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 1 OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment – Property and equipment are stated at cost. Major replacements and additions are capitalized while maintenance and repairs are expensed as incurred. Depreciation is computed on a straight line basis over the estimated useful life of the related asset. For the year ended December 31, 2012 and 2011, depreciation expense totaled \$36,697 and \$42,081, respectively.

Foreign Currency – HOI records its financial statements in United States dollars. Therefore, the recording of a foreign currency translation adjustment is not considered necessary. The dollar to lempira exchange rate has been very stable from the reporting period to the date of fieldwork.

Income Tax Status – HOI, Inc. is a qualified, nonprofit entity under Section 501(c)(3) of the Internal Revenue Code. Accordingly, it is exempt from federal and state income taxes, but it is required to maintain proper accounting records in order to maintain their status as a nonprofit organization. HOI evaluates all significant tax positions as required by generally accepted accounting principles in the United States. As of December 31, 2012, HOI does not believe it has taken any tax positions that would require the recording of any additional tax liability nor does it believe that there are any unrealized tax benefits that would either increase or decrease within the next twelve months.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates.

Allocation of Expenses - The costs of providing the various programs and supporting activities of the organization have been summarized on a functional basis in the statement of activity and changes in net assets. Accordingly, certain costs have been allocated among the program and supporting activities.

Advertising - HOI expenses all advertising and promotional costs when incurred. Advertising and promotional expense totaled \$6,448 and \$1,200 for the years ended December 31, 2012 and 2011, respectively.

NOTE 2 PROPERTY AND EQUIPMENT

	DEPRECIABLE LIVES	2012	2011
Land		\$ 270,258	\$ 270,258
Buildings and Improvements	31-39 Years	601,276	536,303
Vehicles	5 Years	257,993	240,493
Equipment	5-7 Years	188,843	185,147
Furniture and Fixtures	7-10 Years	20,640	20,640
TOTAL		\$ 1,339,010	1,252,841
Less: Accumulated Depreciation Thereon		(702,855)	(648,353)
NET PROPERTY AND EQUIPMENT		\$ 636,155	\$ 604,488

HOI, INC.
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2012 AND 2011

NOTE 3 COMMITMENTS

HOI occupied its office facility, located in Georgia, on a month to month basis through June 2012. In July 2012, HOI moved its Atlanta offices to a new facility and signed an operating lease through September 2015. Facility lease expense totaled \$11,802 and \$6,000 for the years ended December 31, 2012 and 2011, respectively. HOI also rents office equipment under an operating lease through August 2015. Equipment lease expense totaled \$1,254 and \$-0- for the years ended December 31, 2012 and 2011, respectively. Future minimal rental payments for leases as of December 31, 2012 are as follows:

<u>Year</u>	
2013	\$ 31,535
2014	33,576
2015	<u>25,434</u>
TOTAL	<u>\$ 90,545</u>

NOTE 4 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2012</u>	<u>2011</u>
Honduras Ranch Operations	\$ 226,924	\$ 60,457
Short Term Mission Groups	<u>82,868</u>	<u>83,038</u>
TOTAL TEMPORARILY RESTRICTED NET ASSETS	<u>\$ 309,792</u>	<u>\$ 143,495</u>

Net Assets were released from donor restrictions by incurring expenses satisfying the restricted purposes for the following programs and purposes:

	<u>2012</u>	<u>2011</u>
Honduras Ranch Operations	\$ 400,234	\$ 418,820
Short Term Mission Groups	<u>713,038</u>	<u>609,736</u>
NET ASSETS RELEASED FROM RESTRICTIONS	<u>\$ 1,113,272</u>	<u>\$ 1,028,556</u>

NOTE 5 FOREIGN OPERATIONS

HOI is subject to certain risks unique to an organization which conducts operations in a foreign country like Honduras. HOI has not insured any of its buildings or equipment which are located in Honduras. HOI currently is in good favor with both the local and national governments of Honduras, but the risk of a hostile government takeover is always a possibility.

NOTE 6 GRANT

In 2011, HOI received word that an anonymous donor would give \$1 million to HOI if they raised \$1 million of matching pledges. HOI successfully raised \$1 million in non-binding pledges by April 2012 to meet the conditions of the grant. The grant funds are to be received in four annual installments of \$250,000 each, with the first installment having been received in 2012.

HOI, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 7 IN KIND DONATIONS

For the years ended December 31, 2012 and 2011, HOI received in kind donations from its short term missionary groups for the benefit of the Honduran Ranch and clinics. These items included prescriptions, over the counter medicines, veterinary supplies, and school supplies. In kind donations totaled \$110,970 and \$40,390, respectively, for the years ended December 31, 2012 and 2011.

NOTE 8 CONTINGENT SEVERANCE LIABILITY

In 2012, HOI became aware that Honduran law requires severance be paid to all terminated employees. HOI has calculated a contingent severance liability for its Ranch employees according to the government's required formula which is based on several employment factors including job category, wage rate, and years of service. Based on historical data, HOI estimates the contingent severance liability to be \$12,612 for the years ended December 31, 2012 and 2011. A prior period adjustment was made to the 2011 financial statements for the contingent severance liability.

Although an unlikely scenario, if HOI were to have closed the Ranch and terminated all employees at December 31, 2012 and 2011, management estimates that the required severance payout would have been approximately \$292,000.

NOTE 9 SUBSEQUENT EVENTS

HOI has evaluated all subsequent events through November 13, 2013, the date the financial statements were issued.