

**HOI, INC.  
FINANCIAL STATEMENTS WITH  
INDEPENDENT ACCOUNTANTS'  
AUDIT REPORT THEREON  
FOR THE YEARS ENDED  
DECEMBER 31, 2013 AND 2012**

**HOI, INC.  
INDEX TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012**

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## INDEPENDENT ACCOUNTANTS' AUDIT REPORT

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

We have audited the accompanying consolidated financial statements of HOI, INC. (a non-profit organization) and subsidiary, which comprise the consolidated statement of financial position as of December 31, 2013, and the related consolidated statements of activity and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements. We have also audited the accompanying financial statements of HOI, INC., which comprise the statement of financial position as of December 31, 2012, and the related statements of activity 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

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.

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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 2013 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of HOI, INC. and subsidiary, as of December 31, 2013, and the results of its activity and changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Also in our opinion, the 2012 financial statements referred to above present fairly, in all material respects, the financial position of HOI, INC., as of December 31, 2012, and the results of its activity and changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Robins, Eskew, Smith & Jordan, P.C.*  
Robins, Eskew, Smith & Jordan, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS

October 13, 2014  
Atlanta, Georgia

HOI, INC.  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2013 AND 2012**

ASSETS

	<b>CONSOLIDATED</b>	
	<u>2013</u>	<u>2012</u>
<b>CURRENT ASSETS</b>		
Cash (Note 1)	\$ 704,319	\$ 513,098
Inventories (Note 1)	142,275	118,709
Prepaid Expenses	4,302	3,916
<b>TOTAL CURRENT ASSETS</b>	<u>850,896</u>	<u>635,723</u>
 <b>PROPERTY AND EQUIPMENT, at Cost, Net of Accumulated Depreciation Thereon of \$722,011 in 2013 and \$702,855 in 2012 (Notes 1, 2, and 6)</b>	 2,296,015	 636,155
 <b>SECURITY DEPOSIT</b>	 <u>4,727</u>	 <u>4,727</u>
 <b>TOTAL ASSETS</b>	 <u><u>\$ 3,151,638</u></u>	 <u><u>\$ 1,276,605</u></u>

LIABILITIES AND NET ASSETS

<b>CURRENT LIABILITIES</b>		
Trade Accounts Payable	\$ 14,000	\$ 13,089
Accrued Liabilities Payable	5,186	4,014
<b>TOTAL CURRENT LIABILITIES</b>	<u>19,186</u>	<u>17,103</u>
 <b>COMMITMENTS AND CONTINGENCIES (Notes 3, 5, and 8)</b>	 <u>13,290</u>	 <u>12,612</u>
 <b>NET ASSETS</b>		
Unrestricted, Controlling (Notes 1 and 9)	2,089,255	937,098
Unrestricted, Noncontrolling (Notes 1 and 9)	720,000	-
Temporarily Restricted (Notes 1, 4, and 9)	309,907	309,792
<b>TOTAL NET ASSETS</b>	<u>3,119,162</u>	<u>1,246,890</u>
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	 <u><u>\$ 3,151,638</u></u>	 <u><u>\$ 1,276,605</u></u>

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, 2013 AND 2012**

	CONSOLIDATED	
	2013	2012
<b>CHANGES IN UNRESTRICTED NET ASSETS</b>		
<b>Support and Revenue</b>		
Equity Contribution in Subsidiary (Notes 1 and 6)	\$ 1,600,000	\$ -
Contributions and Support (Notes 1 and 6)	781,300	302,616
In Kind Revenue (Note 7)	157,301	110,970
Medical and Agricultural Revenue in Honduras	52,433	59,289
Interest Income	1,931	840
Other Income	193	35
Subtotal	<u>2,593,158</u>	<u>473,750</u>
Net Assets Released from Restrictions (Notes 1 and 4)	<u>1,017,840</u>	<u>1,113,272</u>
<b>TOTAL UNRESTRICTED SUPPORT AND REVENUE</b>	<u>3,610,998</u>	<u>1,587,022</u>
<b>PROGRAM AND SUPPORT EXPENSES</b>		
Honduras Ranch	959,053	820,993
Short Term Mission Groups	330,479	240,507
Salaries and Payroll Taxes	152,937	147,360
Administrative	107,017	101,618
Fundraising	79,629	68,916
Insurance	52,767	61,560
Depreciation (Note 1)	38,155	36,697
Travel	18,804	18,253
<b>TOTAL PROGRAM AND SUPPORT EXPENSES</b>	<u>1,738,841</u>	<u>1,495,904</u>
<b>INCREASE IN UNRESTRICTED NET ASSETS</b>	<u>1,872,157</u>	<u>91,118</u>
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</b>		
Contributions and Support (Notes 1 and 6)	1,017,955	1,279,019
Interest Income	-	550
Net Assets Released - Restrictions Satisfied by Payment (Notes 1 and 4)	<u>(1,017,840)</u>	<u>(1,113,272)</u>
<b>INCREASE IN TEMPORARILY RESTRICTED NET ASSETS</b>	<u>115</u>	<u>166,297</u>
<b>INCREASE IN NET ASSETS</b>		
Consolidated (Note 9)	1,872,272	257,415
Attributable to the Noncontrolling Interest (Notes 1 and 9)	<u>720,000</u>	<u>-</u>
<b>INCREASE IN NET ASSETS ATTRIBUTABLE TO HOI, INC. (Note 9)</b>	<u>1,152,272</u>	<u>257,415</u>
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<u>1,246,890</u>	<u>989,475</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 2,399,162</u>	<u>\$ 1,246,890</u>

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

HOI, INC.  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

	TOTAL PROGRAM ACTIVITIES	GENERAL AND ADMINISTRATIVE	FUNDRAISING	TOTAL SUPPORT ACTIVITIES	2013 TOTAL CONSOLIDATED EXPENSES
<b>EXPENSES</b>					
Honduras Ranch	\$ 959,053	-	-	-	\$ 959,053
Short Term Mission Groups	330,479	-	-	-	330,479
Salaries	104,592	40,215	35,055	75,270	179,862
Professional Fees	-	56,630	-	56,630	56,630
Insurance	47,108	5,659	-	5,659	52,767
Facility Rent (Note 3)	-	27,379	-	27,379	27,379
Travel	6,258	12,546	-	12,546	18,804
Events	-	-	17,471	17,471	17,471
Advertising (Note 1)	-	-	16,980	16,980	16,980
Payroll Taxes	5,940	2,190	1,968	4,158	10,098
Telephone	-	6,381	-	6,381	6,381
Miscellaneous	-	2,793	3,502	6,295	6,295
Equipment Rental and Maintenance (Note 3)	-	4,720	-	4,720	4,720
Supplies	4,119	-	-	-	4,119
Bank and Credit Card Fees	-	3,236	-	3,236	3,236
Computer and Website	-	1,345	1,824	3,169	3,169
Postage and Shipping	1,167	-	-	-	1,167
Printing and Publications	1,136	-	-	-	1,136
Conferences and Meetings	870	-	-	-	870
Dues and Subscriptions	70	-	-	-	70
<b>TOTAL EXPENSES BEFORE DEPRECIATION</b>	<b>1,460,792</b>	<b>163,094</b>	<b>76,800</b>	<b>239,894</b>	<b>1,700,686</b>
Depreciation (Note 1)	35,176	150	2,829	2,979	38,155
<b>TOTAL EXPENSES</b>	<b>\$ 1,495,968</b>	<b>\$ 163,244</b>	<b>\$ 79,629</b>	<b>\$ 242,873</b>	<b>\$ 1,738,841</b>

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

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

	TOTAL PROGRAM ACTIVITIES	GENERAL AND ADMINISTRATIVE	FUNDRAISING	TOTAL SUPPORT ACTIVITIES	2012 TOTAL EXPENSES
<b>EXPENSES</b>					
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	-	3,555	3,555
Supplies	2,096	-	-	-	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
<b>TOTAL EXPENSES BEFORE DEPRECIATION</b>	<b>1,267,378</b>	<b>122,913</b>	<b>68,916</b>	<b>191,829</b>	<b>1,459,207</b>
Depreciation (Note 1)	36,629	68	-	68	36,697
<b>TOTAL EXPENSES</b>	<b>\$ 1,304,007</b>	<b>\$ 122,981</b>	<b>\$ 68,916</b>	<b>\$ 191,897</b>	<b>\$ 1,495,904</b>

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



HOI, INC.  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**  
**INCREASE IN CASH**

	CONSOLIDATED	
	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Contributions and Support	\$ 2,011,113	\$ 1,753,319
Cash Paid to Suppliers	(1,532,595)	(1,287,919)
Cash Paid to Employees	(189,960)	(172,557)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>288,558</b>	<b>292,843</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Cash Paid for Property and Equipment	(97,337)	(13,085)
<b>NET CASH (USED IN) INVESTING ACTIVITIES</b>	<b>(97,337)</b>	<b>(13,085)</b>
<b>NET INCREASE IN CASH</b>	<b>191,221</b>	<b>279,758</b>
<b>CASH AT BEGINNING OF YEAR</b>	<b>513,098</b>	<b>233,340</b>
<b>CASH AT END OF YEAR</b>	<b>\$ 704,319</b>	<b>\$ 513,098</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase in Net Assets	\$ 1,872,272	\$ 257,415
<b>Adjustments to Reconcile Increase in Net Assets</b> <b>to Net Cash Provided by Operating Activities:</b>		
Depreciation	38,155	36,697
Equity Contribution in Subsidiary	(1,600,000)	-
<b>Changes in Assets and Liabilities:</b>		
(Increase) Decrease in Inventories	(23,566)	3,122
(Increase) Decrease in Prepaid Expenses	(386)	235
(Increase) in Security Deposit	-	(4,727)
Increase (Decrease) in Trade Accounts Payable	911	(948)
Increase in Accrued Liabilities Payable	1,172	1,049
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 288,558</b>	<b>\$ 292,843</b>

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

HOI, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012

NOTE 1 OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Operations** - HOI, INC. (HOI) is a Georgia non profit Corporation that seeks to improve the lives of the citizens of Central America. Its mission is to transform lives through faith and works. Historically, Rancho El Paraiso has been the focal point of the operations. In addition to a working ranch, HOI operates four medical clinics, a seminary, three private schools for students from kindergarten through 12<sup>th</sup> grade, and a consignment store.

HOI sends teams from the United States of America to promote the spiritual, physical, educational, and economic development of the citizens of Central America. These groups receive food and lodging in country and work in the neighboring villages they serve. In 2012, HOI researched expanding the scope of its ministry beyond the borders of Honduras. As a result of this research and the needs on the ground, HOI began sending groups into Nicaragua in 2013.

**Principles of Consolidation** – In 2013, HOI acquired the subsidiary Caballitos de Mar S.A. by donation (see footnote 6). As a result, consolidated financial statements are presented in 2013 and include the following entities: HOI, Inc. (the Parent) and its subsidiary, Caballitos de Mar S.A. (a Honduran for profit corporation), which owns real estate in Honduras. There exists a non-controlling interest at December 31, 2013, of less than 50% in Caballitos de Mar S.A. Intercompany balance sheet and income statement items have been eliminated in the consolidation.

Control over a subsidiary exists when the parent possesses the power to direct the activities that most significantly impact the subsidiary's economic performance. The power to direct those activities arises either through the parent owning a majority voting interest in the subsidiary, or, alternatively, through legal or contractual rights or obligations of the parent whose terms implicitly or explicitly convey the power.

**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.

**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 \$32,606 and \$36,108 at December 31, 2013 and 2012, respectively, and cattle and other livestock at Rancho El Paraiso totaling \$109,669 and \$82,601 at December 31, 2013 and 2012, 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, 2013 AND 2012

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

**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 38,182 hours in 2013 and 30,424 hours in 2012.

**Property and Equipment** - Property and equipment are stated at cost if purchased. If donated, property and equipment are recorded at their estimated fair value at the date of donation. 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, 2013 and 2012, depreciation expense totaled \$38,155 and \$36,697, 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 of America. As of December 31, 2013, 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 statements 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 \$16,980 and \$6,448 for the years ended December 31, 2013 and 2012, respectively.

HOI, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012

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

**Reclassifications** – Certain 2012 amounts have been reclassified to conform to the 2013 presentation. These reclassifications have no effect on net income.

**NOTE 2 PROPERTY AND EQUIPMENT**

	DEPRECIABLE LIVES	<u>2013</u>	<u>2012</u>
Land		\$ 1,870,258	\$ 270,258
Buildings and Improvements	31-39 Years	601,276	601,276
Vehicles	5 Years	294,886	257,993
Equipment	5-7 Years	205,213	188,843
Website	5 Years	24,017	-
Furniture and Fixtures	7-10 Years	<u>22,376</u>	<u>20,640</u>
<b>TOTAL</b>		<b>\$ 3,018,026</b>	<b>1,339,010</b>
Less: Accumulated Depreciation Thereon		<u>(722,011)</u>	<u>(702,855)</u>
<b>NET PROPERTY AND EQUIPMENT</b>		<b><u>\$ 2,296,015</u></b>	<b><u>\$ 636,155</u></b>

**NOTE 3 COMMITMENTS**

In July 2012, HOI moved its Atlanta offices to a new facility and signed an operating lease through September 2015. Facility lease expense totaled \$27,379 and \$11,802 for the years ended December 31, 2013 and 2012, respectively. HOI also rents office equipment under an operating lease through August 2015. Equipment lease expense totaled \$4,326 and \$1,254 for the years ended December 31, 2013 and 2012, respectively. Future minimal rental payments for leases as of December 31, 2013 are as follows:

<u>Year</u>	
2014	\$ 33,576
2015	<u>25,435</u>
<b>TOTAL</b>	<b><u>\$ 59,011</u></b>

**NOTE 4 TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes:

	<u>2013</u>	<u>2012</u>
Honduras Ranch Operations	\$ 243,430	\$ 226,924
Short Term Mission Groups	<u>66,477</u>	<u>82,868</u>
<b>TOTAL TEMPORARILY RESTRICTED NET ASSETS</b>	<b><u>\$ 309,907</u></b>	<b><u>\$ 309,792</u></b>

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

	<u>2013</u>	<u>2012</u>
Honduras Ranch Operations	\$ 312,934	\$ 400,234
Short Term Mission Groups	<u>704,906</u>	<u>713,038</u>
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>	<b><u>\$ 1,017,840</u></b>	<b><u>\$ 1,113,272</u></b>

**HOI, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013 AND 2012**

**NOTE 5 FOREIGN OPERATIONS**

HOI is subject to certain risks unique to an organization which conducts operations in foreign countries like Honduras and Nicaragua. 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 CONTRIBUTIONS**

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 two installments having been received in 2012 and 2013, respectively.

In 2013, HOI received a gift of land through ownership in a Honduran corporation. HOI received 55% of the stock of the corporation in 2013, with a written promise to receive the remaining 45% of the stock no later than June 2018. If the donor dies before June 2018, HOI will receive the remaining 45% of the stock on the date of the donor's death. HOI recorded the donation at an appraised fair market value of \$1,600,000. HOI received full control and use of the land in 2013, but the donation instrument requires HOI to retain ownership of the land through 2016.

**NOTE 7 IN KIND DONATIONS**

For the years ended December 31, 2013 and 2012, 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 \$157,301 and \$110,970, respectively, for the years ended December 31, 2013 and 2012.

**NOTE 8 CONTINGENT SEVERANCE LIABILITY**

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 \$13,290 and \$12,612 for the years ended December 31, 2013 and 2012.

Although an unlikely scenario, if HOI were to have closed the Ranch and terminated all employees at December 31, 2013 and 2012, management estimates that the required severance payout would have been approximately \$348,000 and \$327,000, respectively.

HOI, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012

**NOTE 9 NONCONTROLLING INTEREST**

A reconciliation at December 31, 2013 and 2012 of the carrying amount of total net assets, net assets attributable to HOI, and net assets attributable to the noncontrolling interest is as follows:

	<u>TOTAL NET ASSETS</u>	<u>HOI, INC. AND SUBSIDIARY NET ASSETS</u>	<u>NONCONTROLLING INTEREST</u>
Beginning Balance, 12/31/11	\$ 989,475	\$ 989,475	\$ -
2012 Increase in Net Assets	<u>257,415</u>	<u>257,415</u>	<u>-</u>
Ending Balance, 12/31/12	1,246,890	1,246,890	-
2013 Increase in Net Assets	<u>1,872,272</u>	<u>1,152,272</u>	<u>720,000</u>
Ending Balance, 12/31/13	<u>\$ 3,119,162</u>	<u>\$ 2,399,162</u>	<u>\$ 720,000</u>

**NOTE 10 SUBSEQUENT EVENTS**

HOI has evaluated all subsequent events through October 13, 2014, the date the financial statements were issued.