

**AUDITED FINANCIAL STATEMENTS
AND
ADDITIONAL INFORMATION**

**HOPEHEALTH, INC.
Florence, South Carolina**

December 31, 2012

CONTENTS

Audited Financial Statements

Independent Auditors' Report	Page 3
Statements of Financial Position	5
Statements of Activities	6
Statement of Functional Expenses--Year Ended December 31, 2012.....	8
Statement of Functional Expenses--Year Ended December 31, 2011.....	10
Statements of Cash Flows.....	12
Notes to Financial Statements	13

OMB Circular A-133 Compliance

Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133.....	19
Schedule of Expenditures of Federal Awards.....	21
Schedule of Findings and Questioned Costs	22
Summary Schedule of Prior Audit Findings	23
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	24

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CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
HopeHealth, Inc.
Florence, South Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of HopeHealth, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities, 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

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 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 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 HopeHealth, Inc. (a nonprofit organization), as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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 Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* 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 dated September 26, 2013, on our consideration of HopeHealth, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 the 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 HopeHealth, Inc.'s internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Burch, Oxxen, Seale Co., CPAs, PA". The signature is written in black ink and is positioned above the printed name of the firm.

Florence, South Carolina

September 26, 2013

Hope Health, Inc.

Statements of Financial Position

		December 31,	
		2012	2011
ASSETS			
CURRENT ASSETS			
Cash		\$ 382,667	\$ 776,525
Receivables			
Grants--Note B		1,206,860	663,898
Patients, net of allowance of \$628,397 and \$339,208 in 2012 and 2011, respectively		772,491	835,164
Other programs		794,071	489,875
Inventory		64,671	59,263
Prepaid expenses		67,844	47,893
	TOTAL CURRENT ASSETS	<u>3,288,604</u>	<u>2,872,618</u>
PROPERTY AND EQUIPMENT--Notes C and I		<u>3,599,440</u>	<u>3,457,499</u>
	TOTAL ASSETS	<u>\$ 6,888,044</u>	<u>\$ 6,330,117</u>
LIABILITIES			
CURRENT LIABILITIES			
Account payable and accrued expenses		\$ 1,419,935	\$ 876,399
Current maturities of long-term debt--Note I		174,100	160,900
	TOTAL CURRENT LIABILITIES	<u>1,594,035</u>	<u>1,037,299</u>
LONG-TERM DEBT--less current maturities--Note I		<u>2,119,011</u>	<u>2,323,407</u>
NET ASSETS			
Unrestricted		<u>3,174,998</u>	<u>2,969,411</u>
	TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,888,044</u>	<u>\$ 6,330,117</u>

See notes to financial statements.

Hope Health, Inc.

Statements of Activities

	Year Ended December 31,	
	2012	2011
Unrestricted Net Assets		
Unrestricted support and revenue:		
Contributions	\$ 110,089	\$ 93,561
Wellness income	315,358	423,939
Medical practice income	15,762,416	12,313,144
Uninsured income allocation	219,789	106,250
Rental/management fees	34,300	37,892
Interest income	<u>31</u>	<u>68</u>
TOTAL UNRESTRICTED REVENUES AND GAINS	16,441,983	12,974,854
Net assets released from restrictions		
Restrictions satisfied by payments	<u>4,607,766</u>	<u>3,857,622</u>
TOTAL UNRESTRICTED SUPPORT AND RECLASSIFICATION	<u>21,049,749</u>	<u>16,832,476</u>
Expenses:		
Program services:		
Ryan White Part B and C	2,218,551	2,242,520
HOPWA	268,658	262,205
HOPWA support	39,342	48,113
Prevention	127,754	47,036
CHC	16,950,006	11,970,352
Client Assistance	391,326	447,348
Innovations	386,148	471,403
Supporting services:		
Management and general	402,008	455,510
Fundraising	<u>60,369</u>	<u>66,632</u>
TOTAL EXPENSES	<u>20,844,162</u>	<u>16,011,119</u>
INCREASE IN UNRESTRICTED NET ASSETS	<u>205,587</u>	<u>821,357</u>
Temporarily Restricted Net Assets		
Contributions		
Ryan White Part B Grant	1,778,347	1,208,655
CDC Prevention Grant	77,330	51,006
HOPWA Grant	484,396	339,026
Ryan White Part C Grant	765,935	843,740
MAI Grant	57,984	62,390
CHC Grant	957,575	1,016,014
Health Insurance Reimbursement Program	57,137	-
AIDS Benefit Foundation	3,000	3,000

Hope Health, Inc.

Statements of Activities--Continued

	Year Ended December 31,	
	2012	2011
Temporarily Restricted Net Assets--Continued		
Expanded and Intergated HIV Testing Clinical	-	31,160
S.C. Wisewoman	-	7,750
Preventative Health Services	-	1,872
Women of Color	-	138
CCAP	30,000	30,000
SAMSHA	372,771	247,510
Breast and Cervical Cancer Project	22,740	15,361
Breast and Cervical Cancer Screening	197	-
Best Chance Network	354	-
Net assets released from restrictions		
Restrictions satisfied by payments	<u>(4,607,766)</u>	<u>(3,857,622)</u>
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	<u>-</u>	<u>-</u>
INCREASE IN NET ASSETS	205,587	821,357
Beginning net assets	<u>2,969,411</u>	<u>2,148,054</u>
ENDING NET ASSETS	<u>\$ 3,174,998</u>	<u>\$ 2,969,411</u>

See notes to financial statements.

Hope Health, Inc.
Statement of Functional Expenses
Year Ended December 31, 2012

	Program Services			
	<u>Ryan White Part B and C</u>	<u>HOPWA</u>	<u>HOPWA Support</u>	<u>Prevention</u>
Compensation and related expenses				
Salaries and wages	\$ 830,150	\$ 189,962	\$ -	\$ 69,125
Payroll taxes	90,395	14,877	-	4,464
Employee benefits	157,630	40,619	-	13,819
	<u>1,078,175</u>	<u>245,458</u>	-	<u>87,408</u>
Patient transportation	15,805	7,601	-	-
Counseling	33,935	3,033	-	20,821
Pharmacy	-	-	-	-
Support groups	-	-	-	-
Laboratory	213,418	-	-	-
Radiology	5,022	-	-	-
Medical supplies	24,528	-	-	-
Dental care	34,724	-	-	-
Health education	17,802	-	-	3,778
Miscellaneous medical expense	71,963	-	-	5,863
Physician	299,469	-	-	-
Financial assistance	10,174	-	-	-
Bad Debt Expense	-	-	-	-
Training	12,865	-	-	496
Management fees	-	-	-	-
Travel and mileage	18,713	914	-	2,694
Advertising & marketing	1,147	-	-	-
Accounting and legal	-	-	-	-
Insurance	-	-	-	-
Office expense	5,199	4,557	-	1,269
Postage	5,475	621	-	250
Telephone	145	2,271	-	1,898
Housing assistance	-	-	39,342	-
Utilities	4,484	1,174	-	478
Rent expense	192,338	2,528	-	2,554
Maintenance	175,888	1	-	245
Dues and subscriptions	(3,856)	-	-	-
Miscellaneous	1,138	500	-	-
Interest	-	-	-	-
Depreciation	-	-	-	-
TOTAL FUNCTIONAL EXPENSES	<u>\$ 2,218,551</u>	<u>\$ 268,658</u>	<u>\$ 39,342</u>	<u>\$ 127,754</u>

Program Services			Supporting Services		
<u>CHC</u>	<u>Client Assistance</u>	<u>Innovations</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
\$ 4,601,075	\$ 153,102	\$ 191,252	\$ 124,639	\$ 14,032	\$ 6,173,337
332,817	14,234	21,978	9,826	1,091	489,682
956,112	27,853	26,076	17,257	-	1,239,366
<u>5,890,004</u>	<u>195,189</u>	<u>239,306</u>	<u>151,722</u>	<u>15,123</u>	<u>7,902,385</u>
34,306	368	-	-	-	58,080
48,728	-	-	-	-	106,517
5,927,556	-	-	-	-	5,927,556
80	-	-	-	-	80
213,538	-	-	-	-	426,956
24,646	-	-	-	-	29,668
-	-	-	-	-	24,528
15,826	-	-	-	-	50,550
12,600	6,612	-	-	147	40,939
170,724	61,206	-	-	-	309,756
180,549	59,960	-	-	-	539,978
19,990	477	-	-	1,310	31,951
749,032	-	-	-	-	749,032
58,253	590	1,088	-	-	73,292
2,641,518	-	23,006	-	-	2,664,524
90,259	13,272	-	1,474	398	127,724
105,946	31,651	4,230	-	2,251	145,225
3,642	-	83	21,162	-	24,887
-	-	11,383	63,716	-	75,099
202,693	16,110	9,992	8,608	35	248,463
21,565	1,596	-	3,493	-	33,000
43,919	-	4,104	7,625	-	59,962
31	-	-	-	-	39,373
54,467	75	3,909	3,170	-	67,757
15,105	-	78,818	64	4,545	295,952
92,236	1,337	180	344	875	271,106
45,651	-	300	-	-	42,095
60,735	2,883	9,749	-	35,685	110,690
134,223	-	-	-	-	134,223
92,184	-	-	140,630	-	232,814
<u>\$ 16,950,006</u>	<u>\$ 391,326</u>	<u>\$ 386,148</u>	<u>\$ 402,008</u>	<u>\$ 60,369</u>	<u>\$ 20,844,162</u>

See notes to financial statements.

<u>Program Services</u>			<u>Supporting Services</u>		
<u>CHC</u>	<u>Client Assistance</u>	<u>Innovations</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
\$ 2,618,722	\$ 173,974	\$ 239,023	\$ 114,285	\$ 4,701	\$ 4,419,735
210,480	19,030	15,383	9,861	1,138	382,213
609,748	37,747	41,631	18,333	12,600	916,596
<u>3,438,950</u>	<u>230,751</u>	<u>296,037</u>	<u>142,479</u>	<u>18,439</u>	<u>5,718,544</u>
3,473	-	-	-	-	38,044
28,543	93	-	-	-	70,613
4,934,643	-	-	-	-	4,934,643
51	-	-	-	-	4,867
162,323	4,952	-	-	-	317,694
29,688	400	-	-	-	53,514
88,721	16,544	-	-	769	176,005
400	-	-	-	-	20,403
19,747	7,956	-	-	-	32,659
92,236	-	-	-	-	109,056
135,167	88,360	-	-	-	484,510
225,580	-	-	-	1,750	227,330
35,350	21,115	927	1,396	-	61,625
1,764,222	55,500	-	-	-	1,893,885
10,457	2,449	-	2,053	1,684	44,514
157,881	6,372	5,141	-	1,530	173,777
12,409	-	100	14,700	-	27,209
-	-	9,281	59,684	-	68,965
271,852	349	20,605	11,842	1,602	391,628
2,818	1,711	-	3,639	-	16,141
87,908	-	4,363	8,284	8,965	127,435
-	-	-	-	-	48,113
37,658	-	4,188	9,435	2,129	66,710
82,654	3,517	84,932	36,491	2,710	275,251
113,827	949	18,766	6,151	2,043	176,430
44,075	1,470	9,390	-	185	55,120
41,378	2,794	17,673	15,427	24,826	102,098
81,917	-	-	-	-	81,917
66,424	2,066	-	143,929	-	212,419
<u>\$ 11,970,352</u>	<u>\$ 447,348</u>	<u>\$ 471,403</u>	<u>\$ 455,510</u>	<u>\$ 66,632</u>	<u>\$ 16,011,119</u>

See notes to financial statements.

Hope Health, Inc.

Statements of Cash Flows

	Year Ended December 31,	
	2012	2011
CASH FLOW FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 205,587	\$ 821,357
Adjustments to reconcile increase in net assets to cash provided (used) by operating activities:		
Depreciation	232,814	212,419
(Increase) decrease in grants receivable	(542,962)	287,800
(Increase) decrease in patients receivable	62,673	(540,453)
(Increase) decrease in other programs receivable	(304,196)	325,451
(Increase) decrease in inventory	(5,408)	16,343
Increase in prepaid expenses	(19,951)	(6,490)
Increase (decrease) in accounts payable and accrued expenses	<u>543,536</u>	<u>(347,741)</u>
	NET CASH PROVIDED BY OPERATING ACTIVITIES	NET CASH PROVIDED BY OPERATING ACTIVITIES
	<u>172,093</u>	<u>768,686</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	<u>(374,755)</u>	<u>(489,318)</u>
	NET CASH USED BY INVESTING ACTIVITIES	NET CASH USED BY INVESTING ACTIVITIES
	<u>(374,755)</u>	<u>(489,318)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term debt	-	321,549
Payments on long-term debt	<u>(191,196)</u>	<u>(134,617)</u>
	NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES
	<u>(191,196)</u>	<u>186,932</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(393,858)	466,300
Beginning cash and cash equivalents	<u>776,525</u>	<u>310,225</u>
ENDING CASH AND CASH EQUIVALENTS	\$ <u>382,667</u>	\$ <u>776,525</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid	<u>\$ 134,223</u>	<u>\$ 81,917</u>

See notes to financial statements.

HopeHealth, Inc.

Notes to Financial Statements

December 31, 2012 and 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

HopeHealth, Inc. (the Organization) is a Federally Qualified Health Center providing comprehensive primary and preventative healthcare to the Florence area. The mission of HopeHealth is to increase access to healthcare to improve the health status of the underserved and vulnerable populations in the community. HopeHealth has become one of the leading public health providers in the Pee Dee, Edisto and Lower Savannah regions providing a comprehensive range of health and human service resources to provide the very best patient care, prevention and support services. One of the leading programs of the organization is providing practical and emotional support to persons with AIDS and HIV infection through specialty healthcare, education, prevention services and advocacy.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting with accounting principles generally accepted in the United States of America.

Cash and Cash Equivalents

Cash consists of demand deposits with local financial institutions. The balance of interest bearing accounts at the financial institutions is insured by the Federal Deposit Insurance Corporation up to \$250,000 and non-interest bearing accounts have unlimited insurance. At December 31, 2012 and 2011, the Organization's uninsured balances totaled \$59,785 and \$177,875, respectively.

Inventories

Inventories are valued at the lower of cost (first in, first out method) or market and consist of prescription drugs.

Property and Equipment

Property and equipment are capitalized at cost when acquired and depreciated over their useful lives under the straight-line method of depreciation.

Revenue

The Organization receives a majority of its funding from the sale of prescription drugs in an on-site pharmacy operating under the 430(b) Public Health Service Act. The Organization receives funding from the South Carolina Department of Health and Environmental Control as a pass-through entity. The Organization is a sub-recipient of federal grants including the Ryan White/CARE and Housing Opportunities for Persons with AIDS (HOPWA) Grants. The Organization also receives direct funding from the U.S. Department of Health and Human Services for the Community Health Center grant and the Ryan White Title III Early Intervention services grant.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Financial Statement Presentation

The Organization is required to report 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. In addition, the Organization is required to present a statement of cash flows.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending upon the existence or nature of any donor restrictions.

HopeHealth, Inc.
Notes to Financial Statements - - Continued
December 31, 2012 and 2011

NOTE B - GRANTS RECEIVABLE

Grants receivable represents funding requests that were made during the year that had not been remitted to the Organization by December 31. Grants receivable consist of the following:

	December 31,	
	2012	2011
Ryan White	\$ 154,426	\$ 458,218
HOPWA	168,923	158,510
MAI	10,205	10,151
CHC	792,447	-
Prevention	71,098	11,081
ADAP	-	13,773
SAMSHA	<u>9,761</u>	<u>12,165</u>
	<u>\$ 1,206,860</u>	<u>\$ 663,898</u>

NOTE C - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	December 31,	
	2012	2011
Land	\$ 435,561	\$ 403,209
Building	2,768,568	2,554,051
Leasehold improvements	27,554	-
Equipment	1,194,440	1,094,108
Accumulated depreciation	<u>(826,683)</u>	<u>(593,869)</u>
	<u>\$ 3,599,440</u>	<u>\$ 3,457,499</u>

NOTE D - RISK MANAGEMENT

The Organization is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Organization maintains insurance coverage for each of these risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Organization. Settled claims have not exceeded this coverage in any of the past three fiscal years.

NOTE E - CONCENTRATIONS

The Organization received more than 22% of its revenues from federal agencies either through direct programs or pass-through grants from the South Carolina Department of Health and Environmental Control.

HopeHealth, Inc.

Notes to Financial Statements - - Continued

December 31, 2012 and 2011

NOTE F - OPERATING LEASES

The Organization leases equipment and office space under several operating leases. Lease payments for 2012 and 2011 were \$295,592 and \$275,251, respectively. Approximate minimum future rental payments required under these leases are as follows:

2013	\$ 342,423
2014	342,423
2015	342,423
2016	323,463
2017	<u>296,919</u>
	<u>\$ 1,647,651</u>

NOTE G - PHYSICIAN CONTRACT

The Organization contracted with physicians to provide services to its clients. The contract stipulates that the physicians will be paid on an hourly basis. The contract is renegotiated on an annual basis.

NOTE H - EMPLOYEE BENEFIT PLAN

The Organization has implemented a safe harbor 401(k) salary deferral plan covering substantially all employees. Under the plan, the Organization contributes three percent of each eligible employee's salary. Plan expenses incurred by the Organization were \$216,315 and \$162,487 for the year ended December 31, 2012 and 2011, respectively.

NOTE I - LONG-TERM DEBT

	December 31,	
	2012	2011
An installment note due to a financial institution for the addition to a building. The monthly payments are \$3,252, including interest computed at an annual rate of 6.75%. The final payment is scheduled for October 2015. The note is collateralized by the building addition, which has an approximate carrying value of \$575,200 and \$590,500 at December 31, 2012 and 2011, respectively.	\$ 229,555	\$ 256,383
Bond payable for the purchase of land and building. The revenue bond was issued through the South Carolina Jobs-Economic Development Authority. The bond bears interest at 4.51% and is payable monthly through June 1, 2028. The bond is collateralized by all land, building equipment, leases, rents, and profits.	1,489,553	1,553,041
An installment note due to a financial institution for the purchase of a building. The monthly payments are \$3,104, including interest computed at an annual rate of 6.75%. The final payment is scheduled for July 2015. The note is collateralized by the building, which has an approximate carrying value of \$470,000 and \$485,000 at December 31, 2012 and 2011, respectively.	387,631	400,286

HopeHealth, Inc.
Notes to Financial Statements - - Continued
December 31, 2012 and 2011

NOTE I - LONG-TERM DEBT - - Continued

	December 31,	
	2012	2011
An installment note due to a financial institution for computer software. The monthly payments are \$1,500, including interest computed at an annual rate of 6.0%. The final payment is scheduled for April 2020. The note is collateralized by computer software an approximate carrying value of \$73,100 and \$105,800 at December 31, 2012 and 2011, respectively.	94,042	117,454
Capital lease for the purchase of computer equipment. The monthly payments are \$1,753, including interest computed at an annual rate of 7.7%. The final payment is scheduled for June 2014. The lease is collateralized by the computer equipment, which has an approximate carrying value of \$40,300 and \$50,600 at December 31, 2012 and 2011, respectively.	24,637	45,677
Capital lease for the purchase of telephone system. The monthly payments are \$941, including interest computed at an annual rate of 2.66%. The final payment is scheduled for February 2015. The lease is collateralized by the telephone system, which has an approximate carrying value of \$20,300 and \$25,900 at December 31, 2012 and 2011, respectively.	8,075	23,902
Capital lease for the purchase of computer equipment. The monthly payments are \$1,216, including interest computed at an annual rate of 6.9%. The final payment is scheduled for November 2016. The lease is collateralized by the computer equipment, which has an approximate carrying value of \$48,100 and \$60,400 at December 31, 2012 and 2011, respectively.	46,812	60,184
Capital lease for the purchase of computer equipment. The monthly payments are \$1,582, including interest computed at an annual rate of 18.31%. The final payment is scheduled for December 2013. The lease is collateralized by the computer equipment, which has an approximate carrying value of \$26,200 and \$34,869 at December 31, 2012 and 2011, respectively.	<u>12,806</u> 2,293,111	<u>27,380</u> 2,484,307
Less current maturities	<u>174,100</u> <u>\$ 2,119,011</u>	<u>160,900</u> <u>\$ 2,323,407</u>

HopeHealth, Inc.
Notes to Financial Statements - - Continued
December 31, 2012 and 2011

NOTE I - LONG-TERM DEBT - - Continued

The estimated annual requirements to amortize all debt outstanding as of December 31, 2012, including interest estimated at \$582,530 is as follows:

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 174,100	\$ 80,424	\$ 254,524
2014	155,200	69,817	225,017
2015	621,500	116,111	737,611
2016	104,700	60,049	164,749
2017	96,200	55,176	151,376
Thereafter	<u>1,141,411</u>	<u>200,953</u>	<u>1,342,364</u>
	<u>\$ 2,293,111</u>	<u>\$ 582,530</u>	<u>\$ 2,875,641</u>

NOTE J - INCOME TAXES

Uncertain Tax Position

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. The Organization does not have any income it considers to be subject to tax on unrelated business income. The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

NOTE K - SUBSEQUENT EVENTS

Subsequent events have been evaluated through the date their financial statements were available to be issued September 30, 2013.

OMB'S CIRCULAR A-133--COMPLIANCE

BURCH, OXNER, SEALE CO.
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A PROFESSIONAL CORPORATION

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
OMB CIRCULAR A-133**

To the Board of Directors
HopeHealth, Inc.
Florence, South Carolina

Report on Compliance for Each Major Federal Program

We have audited HopeHealth, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of HopeHealth, Inc.'s major federal programs for the year ended December 31, 2012. HopeHealth, Inc.'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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of HopeHealth, Inc.'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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 HopeHealth, Inc.'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 HopeHealth, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, HopeHealth, Inc. 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, 2012.

Report on Internal Control Over Compliance

Management of HopeHealth, Inc. 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 HopeHealth, Inc.'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 OMB Circular A-133, 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 HopeHealth, Inc.'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.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of HopeHealth, Inc., which comprise the statement of financial position as of and for the year ended December 31, 2012, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements. We issued our report thereon dated September 26, 2013, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A133, and is not a required part of the basic 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 basic 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purposes.

Burch, Oxner, Seale Co., CPAs, PA

Florence, South Carolina

September 26, 2013

HopeHealth, Inc.
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2012

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity's Identifying Number</u>	<u>Federal Expenditure</u>
<u>U.S. Department of Housing and Urban Development:</u>			
Pass-through S.C. Department of Health and Environmental Control - Housing Opportunities for Persons with AIDS	14.241	PH-8-383	\$ <u>362,645</u>
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			<u>362,645</u>
<u>U.S. Department of Health and Human Services:</u>			
Direct Program:			
Ryan White Title III	93.918	3H76HA00789B0	765,935
Community Health Centers	93.224	90CCU423935	<u>957,575</u>
SUBTOTAL			<u>1,723,510</u>
Pass-through S.C. Department of Health and Environmental Control			
Ryan White/CARE	93.917	37156	1,778,347
Minority AIDS Initiative	93.917	-	<u>55,299</u>
SUBTOTAL			<u>1,833,646</u>
AIDS Prevention and Risk Reduction	93.940	-	102,745
Breast and Cervical Cancer Project	93.744	-	197
Breast and Cervical Cancer Project	93.283	-	22,740
Capacity Building Initiative for Substance Abuse	93.243	1U795P018045-01	<u>372,771</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>2,332,099</u>
TOTAL FEDERAL AWARDS			<u>\$ 4,418,254</u>

NOTE A - BASIS PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of HopeHealth, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

HopeHealth, Inc.

Schedule of Findings and Questioned Costs

Year Ended December 31, 2012

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of HopeHealth, Inc., Florence, South Carolina.
2. No significant deficiencies relating to the audit of the financial statements are reported in the Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.
3. No instances of noncompliance material to the basic financial statements of HopeHealth, Inc. were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Report on Compliance for each Major Program and on Internal Control over Compliance Required by OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs expresses an unqualified opinion.
6. No audit findings relative to the major federal award programs for HopeHealth, Inc. are reported in this Schedule.
7. The programs tested as major programs include:

U.S. Department of Health and Human Services - Ryan White/Care - CFDA Number 93.917 and Ryan White Title III – CFDA Number 93.918.
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. HopeHealth, Inc. was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

None

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

See report on schedule of federal awards.

HopeHealth, Inc.
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2012

In accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, the following is the status of known material findings and recommendations from prior year audits:

None

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**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
HopeHealth, Inc.
Florence, South Carolina

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 HopeHealth, Inc., which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, 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 September 26, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered HopeHealth, Inc.'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 HopeHealth, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of HopeHealth, Inc.'s internal control over financial reporting.

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 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. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether HopeHealth, Inc.'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*.

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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Burch, Oxner, Seale Co., CPAs, PA

Florence, South Carolina