

HOPE FAMILY HEALTH SERVICES, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2011

HOPE FAMILY HEALTH SERVICES, INC.

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Independent Auditor's Report

To the Board of Directors of
Hope Family Health Services, Inc.
Westmoreland, Tennessee

I have audited the accompanying statement of financial position of Hope Family Health Services, Inc. (a nonprofit Clinic) as of December 31, 2011, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Clinic's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted the audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As explained in Note 5 to the financial statements, the Clinic miscoded certain procedures resulting in overcharging the insurance agencies used by many of the Clinic's patients. The Clinic has yet to determine the extent of these excess charges and the subsequent repayment to these insurance agencies. In our opinion, accounting principles generally accepted in the United States of America require that such contingent liabilities be recorded. It was not practicable to determine the effects of the unrecorded contingent liability on the financial statements.

In my opinion, except for the effects of not recording the contingent liabilities as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Hope Family Health Services, Inc., as of December 31, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the Clinic will continue as a going concern. As discussed in Note 6 to the financial statements, the Clinic has suffered a reduction in revenues and increased costs as a higher percentage of the Clinic's patients are uninsured due to the declining economy. These factors raise substantial doubt about the Clinic's ability to continue as a going concern. Management's plans regarding these matters are described in Note 6. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

John R Poole, CPA

March 31, 2012

HOPE FAMILY HEALTH SERVICES, INC.

Statement of Financial Position

December 31, 2011

Assets

Current assets:

Cash - checking accounts	\$	80,041
Accounts receivable, net of allowance		38,248
Total current assets		<u>118,289</u>

Property and equipment at cost:

Furniture and equipment		88,387
Computer software		5,995
Less: accumulated depreciation		(76,552)
Net property and equipment		<u>17,830</u>

Utility deposits

710

Total assets \$ 136,829

Liabilities and Net Assets

Current liabilities:

Accounts payable	\$	58,542
Line of credit		8,623
Note payable - officers		10,000
Deferred grant revenues		48,500
Accrued liabilities - billing repayments		290,993
Total current liabilities		<u>416,658</u>

Net Assets:

Unrestricted		<u>(279,829)</u>
Total net assets		<u>(279,829)</u>

Total liabilities and net assets \$ 136,829

HOPE FAMILY HEALTH SERVICES, INC.

Statement of Activities

For the year ended December 31, 2011

Support and Revenue	
Service revenue	\$ 342,305
Contributions	54,070
Grants	219,289
Total support and revenue	<u>615,664</u>
Expenses:	
Recording of overbilling payments	60,000
Clinic services	550,546
Management and general	32,822
Total expenses	<u>643,368</u>
Increase (decrease) in net assets	<u>(27,704)</u>
Beginning of year net assets	(252,125)
End of year net assets	\$ <u><u>(279,829)</u></u>

HOPE FAMILY HEALTH SERVICES, INC.

Statement of Functional Expenses

For the year ended December 31, 2011

	<u>Clinic Services</u>	<u>Management and Development</u>	<u>Total Program Expenses</u>
Salaries and wages	316,723	14,357	331,080
Payroll taxes	27,196	1,098	28,294
Assistance for individuals	5,112	-	5,112
Occupancy	39,305	-	39,305
Telephone	7,039	-	7,039
Medical supplies	34,877	-	34,877
Advertising	6,712	-	6,712
Office expenses	13,471	3,368	16,839
Professional services	50,988	10,025	61,013
Insurance	8,027	1,562	9,589
Licenses and dues	3,680	-	3,680
Software	8,095	-	8,095
Depreciation	17,778	-	17,778
Interest	8,874	1,733	10,607
Miscellaneous	2,669	679	3,348
Total expenses	<u>550,546</u>	<u>32,822</u>	<u>583,368</u>

The accompanying notes are an integral part of these statements.

HOPE FAMILY HEALTH SERVICES, INC.

Statement of Cash Flows

For the year ended December 31, 2011

Cash flows from operating activities:	
Service revenue	\$ 349,654
Contributions and grants received	273,359
Cash paid for:	
Salaries and related expenses	359,374
Program and support services	(908,333)
Net cash provided by operating activities	<u>74,054</u>
Cash flows used by investing and financing activities	
Proceeds from line of credit	<u>3,218</u>
Net cash flows used by investing and financing activities	<u>3,218</u>
Net increase in cash and cash equivalents	<u>77,272</u>
Cash and cash equivalents at beginning of year	2,769
Cash and cash equivalents at end of year	\$ <u><u>80,041</u></u>
Reconciliation of Decrease in Net Assets to Net Cash Provided by Operating Activities	
Increase (decrease) in net assets	\$ (27,704)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:	
Depreciation	17,778
Changes in assets (increase) decrease:	
Accounts receivable	7,349
Changes in liabilities increase (decrease)	
Bank overdraft	(16,919)
Accounts payable	36,908
Accrued expenses	8,142
Deferred revenues	48,500
Net cash provided by operating activities	\$ <u><u>74,054</u></u>

HOPE FAMILY HEALTH SERVICES, INC.

Notes to the Financial Statements December 31, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Hope Family Health Services, Inc. (also known as Hope Clinic) is a non-profit Clinic in Westmoreland, Tennessee. The Clinic's mission is to provide complete primary health care to individuals from all socio-economic backgrounds in the surrounding communities, but with an emphasis on serving the medically uninsured and indigent population.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles and recommendations of the American Institute of Certified Public Accountants in its industry audit and accounting guide, Not-for-Profit Organizations.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Standards (SAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SAS No. 117, the Clinic is required to report information regarding its financial position and activities according to the three classes of net assets. In addition, the Clinic is required to present a statement of cash flows. As permitted by the statement, the Clinic has discontinued its use of fund accounting.

Contributions

In accordance with SAS 116, *Accounting for Contributions Received and Contributions Made*, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

Promises to Give

Contributions are recognized when the donor makes a promise to give to the Clinic that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

HOPE FAMILY HEALTH SERVICES, INC.

Notes to the Financial Statements December 31, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Donated Services

Hope Family Health Services, Inc. receives many hours of donated time from various citizens. It is impractical to estimate a value for these services, as such no such value has been placed on these services in the Clinic's financial statements.

Donor -Imposed Restrictions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted for future periods or donor-restricted for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a donor- stipulated time restriction is accomplished, then the restricted net assets are reclassified to unrestricted net assets. If a restriction is fulfilled in the same time period in which the contribution is received, the contribution is reported as unrestricted.

Depreciation

Depreciation is provided for over the estimated useful lives of the assets. Assets are depreciated using the straight-line method of depreciation.

Promises to Give/Pledges

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. Conditional promises to give are not included as support until such time as the conditions are substantially met.

Functional Allocation of Expenses

The costs of providing the Clinic's program and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs may have been allocated among the programs and supporting services.

Income Taxes

The Clinic is a not-for-profit Clinic that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Clinic considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

HOPE FAMILY HEALTH SERVICES, INC.

Notes to the Financial Statements December 31, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Deferred Revenue

Deferred revenue is recorded when a potential revenue does not meet the criteria for recognition in the current period. In subsequent periods, when this criteria is met, revenue is recognized.

Estimates

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

2. FIXED ASSETS

A summary of fixed asset activity is noted below:

	Balance <u>01/01/11</u>	<u>Addition</u>	<u>Retirement</u>	Balance <u>12/31/11</u>
Computer software	5,995	-	-	5,995
Furniture and equipment	<u>88,387</u>	<u>-</u>	<u>-</u>	<u>88,387</u>
Total	94,382	-	-	94,382
Less: Accumulated depreciation	(58,774)			(76,552)
Net fixed assets	\$ <u>35,608</u>			<u>17,830</u>

Depreciation expense for the year ended December 31, 2011 was \$17,778.

3. OPERATING LEASE

The Clinic leases office space. During the year ended December 31, 2011 the Clinic's rent expense was \$27,300.

HOPE FAMILY HEALTH SERVICES, INC.

Notes to the Financial Statements December 31, 2011

4. LINE OF CREDIT AND NOTE PAYABLE OFFICER

The Clinic has a \$10,000 line of credit, there was a \$8,623 balance on this line of credit at December 31, 2011.

During the year the Clinic borrowed \$10,000 from a member of the Board. This amount was repaid in January 2012.

5. INSURANCE CONTRACTS

Amounts received from the various insurance agencies are subject to audit and adjustment by these agencies. Any disallowed claims including amounts already collected, could become a liability of the Clinic.

In a prior year, the Clinic discovered it had miscoded certain procedures in its billings to insurance agencies. These miscodings of procedures resulted in overpayments by the insurance agencies to the Clinic. The Clinic cannot estimate the total amount of reimbursements that will be due to these insurance agencies, but believe that it will be material to the financial statements. During the year the Clinic recorded an additional reserve of \$60,000. The Clinic believes the final settlement could be larger than the amount recorded.

6. DECREASE IN NET ASSETS AND SUBSEQUENT EVENT

For the year ending December 31, 2011, the Clinic's net assets declined by (\$27,704) for a total deficit of (\$279,829), as the Clinic saw lower revenues and higher operating costs as a greater percentage of its patients are uninsured or underinsured due to a declining economy. Subsequent to yearend the Clinic received notice from HRSA that the official designation will change from Rural Health Clinic to Federally Qualified Health Center. This new designation will mean the Clinic will be receiving federal grant funds and the Clinic's insurance reimbursement will increase. Management believes this factor will lead to a significant increase in the Clinic's financial position.