

HEALING HANDS INTERNATIONAL, INC.

**FINANCIAL STATEMENTS –
MODIFIED CASH BASIS AND
INDEPENDENT AUDITOR'S REPORT**

December 31, 2008 and 2007

HEALING HANDS INTERNATIONAL, INC.

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Healing Hands International, Inc.
Nashville, Tennessee

We have audited the statements of assets, liabilities and net assets-modified cash basis of Healing Hands International, Inc. (a nonprofit organization) as of December 31, 2008 and 2007, and the related statements of revenues, expenses and changes in net assets-modified cash basis and functional expenses-modified cash basis for the years then ended. These financial statements are the responsibility of the Organization's management. 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 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. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1, these financial statements are prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and net assets of Healing Hands International, Inc. as of December 31, 2008 and 2007, and its revenues, expenses and changes in net assets for the years then ended on the basis of accounting described in Note 1.

As discussed in Note 6, the Organization restated approximately \$66,000 of net assets to unrestricted from restricted based on clarification of donor contributions.

Frasier, Dean & Howard, PLLC

April 23, 2009

HEALING HANDS INTERNATIONAL, INC.
STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS -
MODIFIED CASH BASIS
December 31, 2008 and 2007

	Assets	
	2008	2007 (as restated)
Current assets:		
Cash	\$ 898,102	\$ 810,151
Advances	500	750
Total current assets	898,602	810,901
Property and equipment:		
Land	180,896	180,896
Building	543,610	543,610
Building improvements	301,282	301,282
	1,025,788	1,025,788
Less: accumulated depreciation	(147,681)	(121,372)
Net property and equipment	878,107	904,416
Total assets	<u>\$ 1,776,709</u>	<u>\$ 1,715,317</u>
Liabilities and Net Assets		
Current liabilities:		
Current portion of long-term debt	\$ 64,510	\$ 645,069
Total current liabilities	64,510	645,069
Long-term debt	565,428	-
Total liabilities	629,938	645,069
Net assets:		
Net assets - unrestricted	743,615	702,203
Net assets - restricted for foreign missions	403,156	368,045
Total net assets	1,146,771	1,070,248
Total liabilities and net assets	<u>\$ 1,776,709</u>	<u>\$ 1,715,317</u>

See accompanying notes.

HEALING HANDS INTERNATIONAL, INC.
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -
MODIFIED CASH BASIS
Years Ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Public support and revenue:		
Contributions:		
Churches	\$ 451,495	\$ 320,798
Individuals	1,152,777	945,232
Foundations and other grants	113,466	342,909
Businesses	<u>7,116</u>	<u>19,147</u>
Total contributions	1,724,854	1,628,086
Proceeds from sale of donated items and other	7,248	8,500
Interest income	<u>17,262</u>	<u>28,357</u>
Total public support and revenue	<u>1,749,364</u>	<u>1,664,943</u>
Expenses:		
Program services	1,310,850	1,407,087
Management and general	180,794	171,885
Fundraising	<u>181,197</u>	<u>63,756</u>
Total expenses	<u>1,672,841</u>	<u>1,642,728</u>
Public support and revenue in excess of expenses	76,523	22,215
Net assets, beginning of year	<u>1,070,248</u>	<u>1,048,033</u>
Net assets, end of year	<u><u>\$ 1,146,771</u></u>	<u><u>\$ 1,070,248</u></u>

See accompanying notes.

HEALING HANDS INTERNATIONAL, INC.
STATEMENT OF FUNCTIONAL EXPENSES - MODIFIED CASH BASIS
Year Ended December 31, 2008

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
Medical, food, and other relief	\$ 519,799	\$ -	\$ -	\$ 519,799
Salaries and benefits	308,125	115,837	45,099	469,061
Packaging and freight	154,294	-	-	154,294
Postage and printing	54,720	15,724	33,536	103,980
Contract labor	-	-	72,000	72,000
Other travel	57,539	-	8,581	66,120
Travel - missions	50,111	-	-	50,111
Interest	27,199	10,225	-	37,424
Professional fees	24,628	9,259	-	33,887
Depreciation	19,121	7,188	-	26,309
Insurance	16,730	6,290	-	23,020
Office equipment and supplies	11,310	5,033	2,078	18,421
Utilities	13,018	4,894	-	17,912
Warehouse equipment and supplies	15,720	-	-	15,720
Telephone	10,223	1,886	1,519	13,628
Storage	11,910	-	-	11,910
Campaign and public relations	-	-	11,771	11,771
Miscellaneous	6,466	2,490	156	9,112
Bank fees	5,235	1,968	766	7,969
Advertising	-	-	5,691	5,691
Transportation	4,702	-	-	4,702
Totals	<u>\$ 1,310,850</u>	<u>\$ 180,794</u>	<u>\$ 181,197</u>	<u>\$ 1,672,841</u>

See accompanying notes.

HEALING HANDS INTERNATIONAL, INC.
STATEMENT OF FUNCTIONAL EXPENSES - MODIFIED CASH BASIS
Year Ended December 31, 2007

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
Medical, food, and other relief	\$ 730,459	\$ -	\$ -	\$ 730,459
Salaries and benefits	297,457	115,268	-	412,725
Packaging and freight	95,616	4,248	-	99,864
Postage and printing	40,935	1,706	33,175	75,816
Other travel	57,518	3,895	-	61,413
Interest	36,635	-	-	36,635
Travel - missions	34,666	-	-	34,666
Depreciation	26,309	-	-	26,309
Insurance	22,890	-	-	22,890
Office equipment and supplies	-	21,838	-	21,838
Professional fees	-	18,127	-	18,127
Campaign and public relations	1,878	-	15,730	17,608
Advertising	2,453	-	14,851	17,304
Utilities	14,604	-	-	14,604
Telephone	6,880	4,591	-	11,471
Bank fees	11,217	-	-	11,217
Warehouse equipment and supplies	9,954	-	-	9,954
Miscellaneous	7,624	2,212	-	9,836
Storage	7,985	-	-	7,985
Transportation	2,007	-	-	2,007
Totals	<u>\$ 1,407,087</u>	<u>\$ 171,885</u>	<u>\$ 63,756</u>	<u>\$ 1,642,728</u>

See accompanying notes.

HEALING HANDS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Healing Hands International, Inc. (the “Organization”) is a not-for-profit Christian relief agency incorporated in 1993 to serve missionaries and mission organizations internationally. As part of its humanitarian relief efforts, the Organization has distributed food, medical/agricultural/educational supplies and equipment, and medicine to over fifty countries worldwide. In order to accomplish its mission, the Organization campaigns to raise the awareness of overseas medical needs among Christians in the United States. The Organization, headquartered in Nashville, Tennessee, receives contributions from churches, individuals, foundations and businesses. Significant accounting policies used in the preparation of the Organization’s financial statements are as follows:

Accounting Method

The Organization prepares its financial statements on the modified cash basis of accounting. Under this method, revenue is recognized when received rather than when earned, and expenses are recognized when paid rather than when the related obligation is incurred.

Property and Equipment

Property and equipment is recorded at cost and is depreciated over the estimated useful lives of the related assets using the straight-line method. Estimated useful lives for the various classes of assets are as follows:

Building	40 years
Building improvements	7 - 40 years

Expenditures for maintenance and repairs are expensed when incurred. Expenditures for renewals or betterments are capitalized.

Inventory

The Organization’s inventory of purchased or donated medical supplies and equipment used in its program efforts is not included in the accompanying modified cash basis statements of assets, liabilities and net assets. Purchased medical supplies and equipment are included as an expense.

Noncash Donations

In addition to various supplies, the Organization receives substantial support from volunteers who donate their time to accomplish the Organization’s purpose. The value of such time is not included in the accompanying modified cash basis financial statements.

HEALING HANDS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2008 and 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Organization is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code and is not a private foundation. Accordingly, no provision for income taxes has been made in the financial statements.

Estimates

The preparation of financial statements in conformity with the basis of accounting described above requires the Organization's management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 – CASH

Cash consists of the following at December 31:

	<u>2008</u>	<u>2007</u>
SunTrust Bank – Nashville, TN		
Interest bearing checking (2%)	\$ 496,148	\$ 810,151
Money market (3.3%)	<u>401,954</u>	<u>-</u>
	<u>\$ 898,102</u>	<u>\$ 810,151</u>

NOTE 3 – LONG-TERM DEBT

Long-term debt is comprised of the following:

	<u>2008</u>	<u>2007</u>
Note payable to bank, interest at 5.94% per annum, secured by building, requiring monthly principal and interest payments of \$5,376 with a final payment of remaining principal and interest due August 2011	\$ 629,938	\$ 645,069
Less amount currently due	<u>(64,510)</u>	<u>(645,069)</u>
Long-term portion	<u>\$ 565,428</u>	<u>\$ -</u>

HEALING HANDS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2008 and 2007

NOTE 3 – LONG-TERM DEBT (Continued)

Scheduled principal payments on long-term debt are as follows:

Year Ending <u>December 31:</u>	
2008	\$ 64,510
2010	64,510
2011	<u>500,918</u>
	<u>\$ 629,938</u>

NOTE 4 – CONCENTRATIONS

The Organization receives a substantial amount of its support from individuals, churches and foundations, including \$200,000, or approximately 12% of total contributions, from one individual. A significant reduction in the level of contributions, if this were to occur, could have an adverse impact on the Organization's programs and services.

The Organization maintains cash and cash equivalents in excess of federally insured limits. Credit risk is managed by maintaining all deposits with high quality financial institutions.

NOTE 5 – CAPITAL CAMPAIGN

During 2007, the Organization began a capital campaign to help raise money for building expenses, program expenses and general operating support. The campaign will continue through 2009.

NOTE 6 – RESTATEMENT

Certain restricted net assets at December 31, 2007 were determined to be unrestricted during 2008 based on clarification of donor contributions. Accordingly, approximately \$66,000 previously recorded as restricted net assets at December 31, 2007 have been reclassified to unrestricted net assets in the accompanying financial statements.