

HEALING HANDS INTERNATIONAL, INC.

FINANCIAL STATEMENTS

December 31, 2014

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 accompanying financial statements of Healing Hands International, Inc. (a nonprofit organization), which comprise the statement of assets, liabilities and net assets – modified cash basis as of December 31, 2014, and the related statements of revenues, expenses and changes in net assets – modified cash basis and functional expenses – modified cash basis for the year 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 the modified cash basis of accounting as described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 audit. We conducted our audit 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 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 assets, liabilities, and net assets of Healing Hands International, Inc. as of December 31, 2014, and its revenues, expenses and changes in net assets for the year then ended in accordance with the basis of accounting as described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Frasier, Dean + Howard, PLLC

April 23, 2015

HEALING HANDS INTERNATIONAL, INC.
STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS -
MODIFIED CASH BASIS
December 31, 2014

Assets

Current assets:	
Cash	\$ 1,369,213
Certificate of deposit	361,230
Prepaid expense	11,274
Advances and loans to employees	<u>10,585</u>
Total current assets	<u>1,752,302</u>
Property and equipment:	
Land	180,896
Building	543,610
Land and building improvements	328,554
Software	20,676
Vehicles	<u>17,852</u>
	1,091,588
Less: accumulated depreciation	<u>(310,679)</u>
Net property and equipment	<u>780,909</u>
Total assets	<u><u>\$ 2,533,211</u></u>

Net Assets

Net assets:	
Net assets - unrestricted	\$ 2,289,098
Net assets - restricted for foreign mission efforts	<u>244,113</u>
Total net assets	<u><u>\$ 2,533,211</u></u>

See accompanying notes.

HEALING HANDS INTERNATIONAL, INC.
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -
MODIFIED CASH BASIS
Year Ended December 31, 2014

Public support and revenue:	
Contributions	\$ 3,046,451
In-kind donations	<u>821,945</u>
Total contributions	3,868,396
Other income	15,723
Interest income	<u>3,133</u>
Total public support and revenue	<u>3,887,252</u>
Expenses:	
Program services	3,939,721
Management and general	275,219
Fundraising	<u>186,726</u>
Total expenses	<u>4,401,666</u>
Excess of expenses over public support and revenue	(514,414)
Net assets, beginning of year	<u>3,047,625</u>
Net assets, end of year	<u><u>\$ 2,533,211</u></u>

See accompanying notes.

HEALING HANDS INTERNATIONAL, INC.
STATEMENT OF FUNCTIONAL EXPENSES - MODIFIED CASH BASIS
Year Ended December 31, 2014

		<u>Supporting Services</u>		
	<u>Program</u>	<u>Management</u>	<u>Fundraising</u>	<u>Total</u>
	<u>Services</u>	<u>and General</u>		
Medical, food, and other relief	\$ 2,247,852	\$ -	\$ -	\$ 2,247,852
Salaries and benefits	884,914	200,956	149,972	1,235,842
Packaging and freight	232,445	-	-	232,445
Other travel	180,749	-	15,363	196,112
Travel - missions	142,821	-	-	142,821
Postage and printing	63,717	6,211	21,391	91,319
Depreciation	41,409	9,540	-	50,949
Rent	40,310	-	-	40,310
Office equipment and supplies	8,295	29,175	-	37,470
Insurance	24,383	5,617	-	30,000
Warehouse equipment and supplies	27,506	-	-	27,506
Utilities	-	17,680	-	17,680
Bank / credit card fees	14,328	3,301	-	17,629
Telephone	13,362	-	-	13,362
Professional fees	7,774	1,791	-	9,565
Storage	5,740	-	-	5,740
Interest	4,116	948	-	5,064
Totals	<u>\$ 3,939,721</u>	<u>\$ 275,219</u>	<u>\$ 186,726</u>	<u>\$ 4,401,666</u>

See accompanying notes.

HEALING HANDS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

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 addition, the Organization drills clean water wells and provides agriculture training in third world countries. In order to accomplish its mission, the Organization campaigns to raise awareness 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. Modifications to the cash basis of accounting result from management’s decision to record property and equipment and related depreciation, prepaid expenses and advances to employees in the accompanying statement of assets, liabilities and net assets – modified cash basis. In addition, certain in-kind donations are recorded in the accompanying statement of revenues, expenses and changes in net assets – modified cash basis.

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. Expenditures for maintenance and repairs are expensed when incurred. Expenditures for renewals or betterments are capitalized. Estimated useful lives for the various classes of assets are as follows:

Building	40 years
Building improvements	5 - 40 years
Vehicles	5 years
Software	5 years

HEALING HANDS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory

The Organization's inventory of purchased or donated medical supplies and equipment used in its program efforts is generally not included in the accompanying modified cash basis statement of assets, liabilities and net assets. Purchased medical supplies and equipment are included as an expense in the statement of revenues, expenses and changes in net assets - modified cash basis.

In-Kind Donations

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 unless the criteria for recognition of such volunteer effort under accounting and reporting standards prescribed for not-for-profit organizations has been satisfied. The Organization receives other in-kind donations of equipment and supplies, for which the value is not readily determinable. The value of such donations is generally not included in the accompanying modified cash basis financial statements.

During 2014, the Organization received in-kind donations valued at \$821,945. The Organization chose to record these contributions as the values were readily determinable and specified by the donors. In-kind donations are generally utilized in the year received. In-kind revenue and in-kind expense in the amount of \$821,945 is recorded in the accompanying statement of revenues, expenses, and changes in net assets - modified cash basis in medical, food, and other relief.

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.

The Organization follows Financial Accounting Standards Board Accounting Standards Codification guidance clarifying the accounting for uncertainty in income taxes recognized in an entity's financial statements. This guidance prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The Organization has no tax penalties or interest reported in the accompanying financial statements. Tax years that remain open for examination include years ended December 31, 2011 through December 31, 2014.

HEALING HANDS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The Organization evaluated subsequent events through April 23, 2015 when these financial statements were available to be issued. Management is not aware of any significant events that occurred subsequent to the statement of assets, liabilities and net assets -modified cash basis date but prior to the filing of this report that would have a material impact on the financial statements.

NOTE 2 – CASH

Cash consists of the following at December 31, 2014:

SunTrust Bank – Nashville, TN:	
Money market	\$ 1,005,682
Interest bearing checking	267,675
Business checking	70,883
Chase Bank – Ft. Worth, TX	19,858
Scotia – Haiti	3,361
Petty cash	<u>1,754</u>
	<u><u>\$ 1,369,213</u></u>

NOTE 3 – CERTIFICATE OF DEPOSIT

The Organization maintains a certificate of deposit with a balance of \$361,230 at December 31, 2014. Interest on the certificate of deposit accrues at a rate of 0.4% and matures on May 21, 2015. The certificate of deposit served as collateral for the long-term debt disclosed in Note 4. The certificate of deposit is not classified as a cash equivalent due to an original maturity greater than 90 days.

HEALING HANDS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2014

NOTE 4 – LONG-TERM DEBT

The Organization refinanced \$304,378 of long term debt effective March 27, 2012 to extend the maturity of the loan through March 28, 2015. Under the new terms of the loan, interest was charged at 2.85% per annum. The note evidencing the agreement was secured by the Organization's certificate of deposit, and required monthly principal and interest payments of \$5,455. The loan was paid off in 2014.

NOTE 5 – CONCENTRATIONS

The Organization receives a substantial amount of its support from individuals, churches and foundations. 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. The Organization has not experienced any losses in such accounts. In management's opinion, risk related to such concentrations is minimal.

NOTE 6 – LEASES

During 2014, the Organization rented office and outreach space in Texas and Haiti respectively that was subject to non-cancellable operating leases. Total rent expense for the year ended December 31, 2014 was \$40,310. Future minimum lease payments under non-cancelable operating leases at December 31, 2014 are as follows:

2015	\$ 83,480
2016	85,400
2017	78,320
2018	53,240
2019	<u>31,710</u>
	<u>\$ 332,150</u>

NOTE 7 – RESTRICTED NET ASSETS

The Organization may receive contributions from donors that are restricted for foreign missions or particular purposes. When received, the Organization records these donations as restricted net assets. When the funds are spent for the donor's intended purpose, the restricted net assets are reclassified to unrestricted net assets and released from restriction. Net asset activity for the year ended December 31, 2014 is summarized in the following schedule.

HEALING HANDS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2014

NOTE 7 – RESTRICTED NET ASSETS (Continued)

	12/31/2013 Restricted Net Assets	Contributions	Released from Restriction		12/31/2014 Restricted Net Assets
			Direct Costs	Indirect Costs	
Agriculture	\$ -	\$ 178,110	\$ (178,110)	\$ -	\$ -
Disaster relief	325,661	619,028	(856,437)	(88,911)	(659)
Education	4,553	124,612	(126,802)	(2,363)	-
Empowering women	(30)	137,583	(119,822)	(9,606)	8,125
Water development	269,255	850,049	(867,344)	(15,313)	236,647
Total	<u>\$ 599,439</u>	<u>\$ 1,909,382</u>	<u>\$ (2,148,515)</u>	<u>\$ (116,193)</u>	<u>\$ 244,113</u>

NOTE 8 – RELATED PARTY TRANSACTIONS

The Organization received in-kind salary donations of approximately \$275,000 from two of its officers. Such amount is included in both in-kind donations and program services in the accompanying statement of revenues, expenses and changes in net assets.