

**HEALING HANDS INTERNATIONAL, INC.**

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

**December 31, 2006 and 2005**

**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, 2006 and 2005, 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 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, 2006 and 2005, and its revenues, expenses and changes in net assets for the years then ended on the basis of accounting described in Note 1.

*Frasier, Dean & Howard, PLLC*

June 25, 2007

**HEALING HANDS INTERNATIONAL, INC.**  
**STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS -**  
**MODIFIED CASH BASIS**  
**December 31, 2006 and 2005**

	Assets	2006	2005
Current assets:			
Cash		\$ 790,300	\$ 1,614,529
Advances		750	750
		<u>791,050</u>	<u>1,615,279</u>
Total current assets			
Property and equipment:			
Land		180,896	180,896
Building		543,610	543,610
Building improvements		301,282	301,282
		<u>1,025,788</u>	<u>1,025,788</u>
Less: accumulated depreciation		<u>(95,063)</u>	<u>(68,754)</u>
		<u>930,725</u>	<u>957,034</u>
Net property and equipment			
		<u>\$ 1,721,775</u>	<u>\$ 2,572,313</u>
Total assets			
		<u>\$ 1,721,775</u>	<u>\$ 2,572,313</u>
<b>Liabilities and Net Assets</b>			
Current liabilities:			
Current portion of long-term debt		\$ 27,021	\$ 25,700
Long-term debt		<u>646,721</u>	<u>673,188</u>
		<u>673,742</u>	<u>698,888</u>
Total liabilities			
Net assets:			
Net assets - unrestricted		811,266	676,487
Net assets - restricted for foreign missions		236,767	1,196,938
		<u>1,048,033</u>	<u>1,873,425</u>
Total net assets			
		<u>\$ 1,721,775</u>	<u>\$ 2,572,313</u>
Total liabilities and net assets			
		<u>\$ 1,721,775</u>	<u>\$ 2,572,313</u>

See accompanying notes.

**HEALING HANDS INTERNATIONAL, INC.**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -**  
**MODIFIED CASH BASIS**  
**Years Ended December 31, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
Public support and revenue:		
Contributions:		
Churches	\$ 493,330	\$1,947,514
Individuals	646,542	1,222,804
Foundations and other grants	194,432	290,066
Government grants of surplus property	51,556	287,033
Businesses	<u>4,335</u>	<u>135,193</u>
Total contributions	1,390,195	3,882,610
Proceeds from sale of donated items and other	38,430	12,935
Interest income	<u>53,017</u>	<u>10,792</u>
Total public support and revenue	<u>1,481,642</u>	<u>3,906,337</u>
Expenses:		
Program services	2,084,420	2,598,868
Management and general	154,244	183,589
Fundraising	<u>68,370</u>	<u>503</u>
Total expenses	<u>2,307,034</u>	<u>2,782,960</u>
Public support and revenue in excess (deficient) of expenses	(825,392)	1,123,377
Net assets, beginning of year	<u>1,873,425</u>	<u>750,048</u>
Net assets, end of year	<u><u>\$1,048,033</u></u>	<u><u>\$1,873,425</u></u>

See accompanying notes.

**HEALING HANDS INTERNATIONAL, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES - MODIFIED CASH BASIS**  
**Year ended December 31, 2006**

		<u>Supporting Services</u>		
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Medical, food, and other relief	\$ 1,214,722	\$ -	\$ -	\$ 1,214,722
Salaries and benefits	274,632	85,317	-	359,949
Packaging and freight	110,929	5,872	-	116,801
Travel - missions	109,833	3,500	-	113,333
Miscellaneous	73,035	29,214	-	102,249
Postage and printing	75,515	1,970	-	77,485
Other travel	14,756	8,840	49,003	72,599
Distribution of surplus property	51,556	-	-	51,556
Interest	35,138	-	-	35,138
Depreciation	26,309	-	-	26,309
Insurance	25,773	-	-	25,773
Campaign and public relations	-	-	18,331	18,331
Utilities	17,611	-	-	17,611
Warehouse equipment and supplies	15,852	-	-	15,852
Office equipment and supplies	-	14,324	-	14,324
Telephone	7,082	5,207	-	12,289
Professional fees	10,340	-	-	10,340
Bank fees	7,424	-	-	7,424
Transportation	7,000	-	-	7,000
Storage	6,913	-	-	6,913
Advertising	-	-	1,036	1,036
	<u>-</u>	<u>-</u>	<u>1,036</u>	<u>1,036</u>
Totals	<u>\$ 2,084,420</u>	<u>\$ 154,244</u>	<u>\$ 68,370</u>	<u>\$ 2,307,034</u>

See accompanying notes.

**HEALING HANDS INTERNATIONAL, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES - MODIFIED CASH BASIS**  
**Year ended December 31, 2005**

		<u>Supporting Services</u>		
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Medical, food, and other relief	\$ 1,375,944	\$ -	\$ -	\$ 1,375,944
Salaries and benefits	322,895	72,612	-	395,507
Distribution of surplus property	287,033	-	-	287,033
Packaging and freight	141,337	686	-	142,023
Travel - missions	137,359	-	-	137,359
Other travel	70,421	48,665	-	119,086
Postage and printing	76,899	3,962	-	80,861
Interest	36,387	-	-	36,387
Depreciation	30,831	-	-	30,831
Telephone	22,584	7,440	-	30,024
Utilities	26,015	-	-	26,015
Office equipment and supplies	-	24,666	-	24,666
Insurance	21,836	-	-	21,836
Miscellaneous	14,514	5,749	-	20,263
Professional fees	-	16,735	-	16,735
Warehouse equipment and supplies	8,253	-	-	8,253
Transportation	8,225	-	-	8,225
Bank fees	8,031	-	-	8,031
Storage	6,015	-	-	6,015
Contract labor	4,289	-	-	4,289
Advertising	-	3,074	-	3,074
Campaign and public relations	-	-	503	503
Totals	<u>\$ 2,598,868</u>	<u>\$ 183,589</u>	<u>\$ 503</u>	<u>\$ 2,782,960</u>

See accompanying notes.

**HEALING HANDS INTERNATIONAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2006 and 2005**

**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, as well as from United States government surplus property. 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

**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 statement of assets, liabilities and net assets. Purchased medical supplies and equipment and donated government surplus inventory distributable is 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 Organization also received donated space from which it conducted its Abilene, Texas operations for 2005 and for a portion of 2006. The value of such time and rent-free space is not included in the accompanying modified cash basis financial statements.



**HEALING HANDS INTERNATIONAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2006 and 2005**

**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>2006</u>	<u>2005</u>
SunTrust Bank – Nashville, TN		
Money Market (5.4%)	\$ 790,300	\$ 1,554,994
State National Bank – Abilene, TX		
Operating	<u>-</u>	<u>59,535</u>
	<u>\$ 790,300</u>	<u>\$ 1,614,529</u>

**NOTE 3 – LONG-TERM DEBT**

Long-term debt is comprised of the following:

	<u>2006</u>	<u>2005</u>
Note payable to bank, interest at 5.025% per annum, secured by building, requiring monthly principal and interest payments of \$5,024 with a final payment of all remaining principal and interest due June 2008	\$ 673,742	\$ 698,888
Less amount currently due	<u>(27,021)</u>	<u>(25,700)</u>
Long-term portion	<u>\$ 646,721</u>	<u>\$ 673,188</u>

**HEALING HANDS INTERNATIONAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2006 and 2005**

**NOTE 3 – LONG-TERM DEBT (Continued)**

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

2007	\$ 27,021
2008	<u>646,721</u>
	<u>\$ 673,742</u>

**NOTE 4 – CONCENTRATIONS**

The Organization receives a substantial amount of its support from individuals, churches, foundations and government grants. 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.

The Organization received \$51,556 and \$287,033 of surplus property under the United States Agency for International Development ("USAID") Limited Excess Property Program for distribution to various countries during 2006 and 2005, respectively.

**NOTE 5 – CAPITAL CAMPAIGN**

During 2000, the Organization began a capital campaign, which is ongoing at December 31, 2006. The purpose of the capital campaign is to raise amounts necessary to pay the Organization's building debt.

**NOTE 6 – IN-KIND RENT**

During 2001, the Organization's Abilene affiliate received donated warehouse space for the Organization's Texas branch. The monthly rent for this space is estimated to be \$19,300. Accordingly, the in-kind value of this rent is \$115,800 and \$231,600 for 2006 and 2005, respectively. Such amount has not been included in the accompanying modified cash basis financial statements.

**NOTE 7 – AFFILIATE**

As of July 2006, the Organization and its Abilene, Texas division mutually consented for the Abilene division to form its own nonprofit organization. The division will no longer be included in the operations of the Organization effective as of that date.