PARTNERS FOR HEALING, INC.
FINANCIAL STATMENTS

DECEMBER 31, 2004

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PARTNERS FOR HEALING, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2004

ASSETS		
Cash and cash equivalents	$	81,773
Certificates of deposits		159,281
Unconditional promises to give		61,600
Grants receivable		10,050
Property and equipment, net of accumulated depreciation		176,091
TOTAL ASSETS	$	488,795

LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$	1,012
Accrued liabilities		5,611
Note payable		65,700
TOTAL LIABILITIES		72,323
NET ASSETS		
Unrestricted		320,837
Temporarily restricted		63,200
Permanently restricted		32,435
TOTAL NET ASSETS		416,472
TOTAL LIABILITIES AND NET ASSETS	$	488,795

The accompanying notes are an integral part of these financial statements.

PARTNERS FOR HEALING, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2004

CASH FLOWS FROM OPERATING ACTIVITIES	
Increase in net assets	$ 193,830
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
(Increase) decrease in grants receivable	7,450
Increase (decrease) in accounts payable	936
Increase (decrease) in accrued liabilities	2,896
Depreciation and amortization	4,516
(Increase) decrease in promises to give	(61,600)
Total adjustments	(45,802)
Net cash provided(used) by operating activities	148,028
CASH FLOW FROM INVESTING ACTIVITIES	
Cash payments for certificates of deposit	(96,390)
Cash payments for the purchase of property	(172,599)
Net cash provided (used) by investing activities	(268,989)
CASH FLOW FROM FINANCING ACTIVITIES:	
Proceeds from issuance of notes payable	115,000
Principal payments on notes payable	(49,300)
Net cash provided (used) by financing activities	65,700
NET INCREASE(DECREASE) IN CASH AND EQUIVALENTS	(55,261)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	137,034
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 81,773

Noncash capital -	
Donated equipment	$ 5,600

The accompanying notes are an integral part of these financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Partners for Healing, Inc. began operations in November 2001. The Organization provides free health care service, dental care, eye care, podiatry care and general education programs including social services and counseling to working uninsured individuals living in Coffee County. The Organization is primarily supported by direct solicitations to local citizens, area businesses, and local churches. The Organization also receives grants from the State of Tennessee, foundations, corporations and other organizations.

Basis of Accounting
The accompanying financial statements have been prepared on the accrual basis of accounting with generally accounting principles.

Financial Statement Presentation

The Organization has adopted Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit". Under SFAS No. 117, 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 support depending on the existence or nature of any donor restrictions.

Promises to Give

Unconditional promises to give are recognized as revenues in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

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.

Property and Equipment
Purchased property and equipment are capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line depreciation method.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES(continued)

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

Cash & Cash Equivalents
Cash includes petty cash and amounts in demand deposits. Cash in excess of current requirements, is invested in interest–bearing accounts such as certificates of deposits. For purposes of the statements of cash flows, the Board considers cash and investments with a maturity of three months or less to be cash equivalents.

NOTE 2 – CASH AND CASH IN CERTIFICATES OF DEPOSIT

The Organization's cash in checking and certificates of deposits totaled $241,054. The total balance in certificates of deposits was $159,281, all of which are secured by FDIC insurance.

NOTE 3 – GRANTS RECEIVABLE

Grants receivable as of December 31, 2004 totaled $10,050 from the State of Tennessee Department of Health.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and Equipment at December 31, 2004 consist of the following:

Land	$ 30,000
Building	139,497
Equipment	21,348
	190,845
Less: accumulated depreciation	(14,754)
	$ 176,091

Depreciation expense was $4,516 for the year ended December 31, 2004. Restricted funds were used for the purchase of property, totaling $51,800.

The organization's land and building are collateral for notes payable. See Note 9.

NOTE 5 – USE ~~OF~~ DONATED FACILITIES

The organizations operating facilities for the first seven months of 2004 were provided rent free. There was no lease agreement. A co-owner of the building is one of the Organization's directors. The estimated lease value of the facilities was $8,400 for the seven months of 2004.

NOTE 6 – RELATED PARTY ACTIVITIES

As stated in Note 5, the Organization received rent-free use of its former building facilities for the first seven months of 2004 which is co-owned by one of its directors.

NOTE 7 - DONATED SERVICES AND EQUIPMENT

One of the Organization's primary sources of medical care and administrative support is in the form of volunteered services. The fair value of these services received in 2004 has been estimated to be $51,320, and included in Volunteer Labor Services and in Salaries and Labor Costs-Program services in the Statement of Activities for the year ended December 31, 2004. Additionally, the Organization received an estimated $5,600 in donated medical and office property for 2004.

NOTE 8 – CONCENTRATION OF RISKS

The Organization has as one of its primary funding sources, a grant from the Tennessee Department of Health. The Organization could be severely affected if policies in determining grant amounts for organizations such as Partners for Healing are altered through legislation.

NOTE 9 – NOTE PAYABLE

As of December 31, 2004, the organization had a $65,700 note payable to bank. The note payable has an interest rate of 4.25% and matures on April 10, 2005. The note is secured by the organization's real estate. Interest expense totaled $2,818 for the year ended December 31, 2004.

NOTE 10 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at December 31, 2004:

Specific medical supplies and patient assistance	$ 1,600
Building Loan debt retirement	61,600
Total temporarily restricted net assets	$ 63,200

NOTE 11 – PERMANENTLY RESTRICTED NET ASSETS

Net assets were permanently restricted for the following purposes at December 31, 2004:

Endowment Funds for operating the clinic	$ 32,435

INTERNAL CONTROL AND COMPLIANCE SECTION

NOTE 12 – GRANTS/CONTRACT FUNDING

Summary of Grants/Contracts Funding:

The organization received funding through the following grants and contracts for the year ended December 31, 2004.

Funding Source	Accounts Receivable	Receipts	Expenditures	Accounts Receivable
Tennessee Department of Health	$17,500	$51,450	$ 44,000	$ 10,050
Combined Federal Campaign	-	1,341	1,341	-
AT&T	-	1,500	1,500	-
Walmart Foundation	-	1,500	1,500	-
US Bank	-	4,000	4,000	-
Community Foundation of Middle Tennessee	-	2,500	2,500	-
	$17,500	$62,291	$ 54,841	$ 10,050

NOTE 13 - FUNDRAISING EXPENSES AND REVENUES

The Organization held several fundraising activities, to earn additional funds and increase public awareness of the organization. Fundraising revenues of $30,252 are included in the total revenues and support section of the Statement of Activities. Fundraising expenses of $10,335 are included in the supporting services section of the Statement of Activities.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

June 15, 2005

To the Board of Directors
Partners for Healing, Inc.
Tullahoma, Tennessee

We have audited the financial statements of Partners for Healing, Inc. (a nonprofit organization) as of and for the year ended December 31, 2004, and have issued our report thereon dated June 15, 2005. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the organization's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We noted no matters involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect Partners for Healing, Inc.'s ability to record, process, summarize, and report financial data consistent with assertions of management in the financial statements.

Compliance

As part of obtaining reasonable assurance about whether Partners for Healing, Inc.'s financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 out tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and , accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

This report is intended for the information of the Board of Directors, management and government regulatory agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Householder, Artman and Associates, P.C.