

HEALING HANDS INTERNATIONAL, INC.

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

December 31, 2010 and 2009

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, 2010 and 2009, 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.

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, 2010 and 2009, 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

April 29, 2011

HEALING HANDS INTERNATIONAL, INC.
STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS -
MODIFIED CASH BASIS
December 31, 2010 and 2009

	Assets	
	2010	2009
Current assets:		
Cash	\$ 2,498,617	\$ 963,049
Prepaid rent	3,713	-
Advances and loans to employees	10,765	2,325
Total current assets	2,513,095	965,374
Property and equipment:		
Land	180,896	180,896
Building	543,610	543,610
Building improvements	320,251	298,760
Vehicles	8,200	-
	1,052,957	1,023,266
Less: accumulated depreciation	(192,168)	(165,851)
Net property and equipment	860,789	857,415
Total assets	\$ 3,373,884	\$ 1,822,789
Liabilities and Net Assets		
Current liabilities:		
Current portion of long-term debt	\$ 365,374	\$ 29,730
Total current liabilities	365,374	29,730
Long-term debt	-	572,883
Total liabilities	365,374	602,613
Net assets:		
Net assets - unrestricted	969,541	673,135
Net assets - restricted for foreign missions	2,038,969	547,041
Total net assets	3,008,510	1,220,176
Total liabilities and net assets	\$ 3,373,884	\$ 1,822,789

See accompanying notes.

HEALING HANDS INTERNATIONAL, INC.
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -
MODIFIED CASH BASIS
Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Public support and revenue:		
Contributions:		
Churches	\$ 2,646,246	\$ 400,735
Individuals	1,374,576	872,729
Organizations	409,274	224,997
Contributions	<u>4,430,096</u>	<u>1,498,461</u>
Other contributions:		
In-kind donations	558,576	450,559
Rapha International	<u>145,915</u>	<u>-</u>
Total contributions	5,134,587	1,949,020
Proceeds from sale of donated items and other	12,051	17,121
Interest income	<u>12,175</u>	<u>5,808</u>
Total public support and revenue	<u>5,158,813</u>	<u>1,971,949</u>
Expenses:		
Program services	2,996,946	1,566,260
Management and general	224,269	181,520
Fundraising	<u>149,264</u>	<u>150,764</u>
Total expenses	<u>3,370,479</u>	<u>1,898,544</u>
Public support and revenue in excess of expenses	1,788,334	73,405
Net assets, beginning of year	<u>1,220,176</u>	<u>1,146,771</u>
Net assets, end of year	<u><u>\$ 3,008,510</u></u>	<u><u>\$ 1,220,176</u></u>

See accompanying notes.

HEALING HANDS INTERNATIONAL, INC.
STATEMENT OF FUNCTIONAL EXPENSES - MODIFIED CASH BASIS
Year Ended December 31, 2010

	<u>Program Services</u>	<u>Supporting Services</u>		<u>Total</u>
		<u>Management and General</u>	<u>Fundraising</u>	
Medical, food, and other relief (including in-kind expenses of \$558,576)	\$ 1,890,096	\$ -	\$ -	\$ 1,890,096
Salaries and benefits	448,424	127,800	48,375	624,599
Packaging and freight	205,898	-	-	205,898
Postage and printing	36,566	6,941	27,386	70,893
Contract labor	-	-	72,000	72,000
Rent	24,525	-	-	24,525
Other travel	63,460	12,060	1,503	77,023
Travel - missions	172,562	-	-	172,562
Interest	20,726	6,545	-	27,271
Professional fees	8,235	2,601	-	10,836
Depreciation	20,001	6,316	-	26,317
Warehouse equipment and supplies	36,112	-	-	36,112
Utilities	-	16,939	-	16,939
Advertising	11,188	-	-	11,188
Telephone	13,566	2,244	-	15,810
Storage	6,712	-	-	6,712
Miscellaneous	-	1,282	-	1,282
Bank fees	9,616	3,036	-	12,652
Office equipment and supplies	6,399	31,286	-	37,685
Insurance	22,860	7,219	-	30,079
Totals	\$ 2,996,946	\$ 224,269	\$ 149,264	\$ 3,370,479

See accompanying notes.

HEALING HANDS INTERNATIONAL, INC.
STATEMENT OF FUNCTIONAL EXPENSES - MODIFIED CASH BASIS
Year Ended December 31, 2009

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
Salaries and benefits	\$ 338,230	\$ 98,237	\$ 44,500	\$ 480,967
Medical, food, and other relief (including in-kind expenses of \$450,559)	798,588	-	-	798,588
Packaging and freight	182,167	-	-	182,167
Contract labor	-	-	72,000	72,000
Travel - missions	66,467	-	-	66,467
Other travel	37,100	-	7,431	44,531
Postage and printing	18,792	6,846	12,477	38,115
Interest	26,150	11,035	-	37,185
Office equipment and supplies	5,772	23,860	-	29,632
Depreciation	18,501	7,808	-	26,309
Warehouse equipment and supplies	22,574	-	-	22,574
Insurance	14,131	5,964	-	20,095
Utilities	-	15,637	-	15,637
Campaign and public relations	-	-	14,356	14,356
Telephone	8,936	3,101	-	12,037
Storage	11,465	-	-	11,465
Professional fees	7,285	3,075	-	10,360
Bank fees	5,670	2,392	-	8,062
Advertising	4,432	-	-	4,432
Miscellaneous	-	3,565	-	3,565
Totals	\$ 1,566,260	\$ 181,520	\$ 150,764	\$ 1,898,544

See accompanying notes.

HEALING HANDS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

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.

Effective June 1, 2010, the Organization acquired 100% of Rapha International, an organization with a similar mission based in Ft. Worth, Texas.

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, notes payable, prepaid expenses and advances to employees in the accompanying statements of assets, liabilities and net assets – modified cash basis. In addition, certain in-kind donations are recorded in the accompanying statements of revenues, expenses and changes in net assets – modified cash basis.

Accounting Standards Codification

The Financial Accounting Standards Board Accounting Standards Codification (“FASB ASC”) became the sole authoritative source of generally accepted accounting principles in the United States of America for periods ending after September 15, 2009. The FASB ASC incorporates all authoritative literature previously issued by a standard setter. Adoption of the FASB ASC had no effect on the Organization’s financial condition or results from operations.

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

HEALING HANDS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2010 and 2009

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 statements of assets, liabilities and net assets. Purchased medical supplies and equipment are included as an expense in the statements 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. 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 2010 and 2009, the Organization received an in-kind contribution valued at approximately \$559,000 and \$450,000, respectively. The Organization chose to record these contributions as the value was readily determinable and specified by the donor. In-kind revenue and in-kind expense in the amount of approximately \$559,000 is recorded in the accompanying 2010 statement of revenue, expenses, and changes in net assets-modified cash basis. In-kind revenue and in-kind expense in the amount of approximately \$450,000 is recorded in the accompanying 2009 statement of revenue, expenses, and changes in net assets-modified cash basis.

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.

On January 1, 2009, the Organization adopted FASB ASC 740-10-25 paragraphs 5 through 17, "Income Taxes" ("FASB ASC 740"). The guidance clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements. This interpretation 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. FASB ASC 740 must be applied to all existing tax positions upon initial adoption. 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, 2007 through December 31, 2010. Adoption of this pronouncement had no impact on the Organization's accompanying modified cash basis financial statements.

HEALING HANDS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2010 and 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Business Combinations

In accordance with FASB ASC guidance for mergers and acquisitions of not-for-profit entities, the Organization has accounted for the acquisition with Rapha International (“Rapha”) using the acquisition method. Accordingly, cash assets acquired have been recorded as a contribution to the Organization.

Subsequent Events

The Organization evaluated subsequent events through April 29, 2011, when these financial statements were available to be issued. Except for the item discussed in Note 3, 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:

	<u>2010</u>	<u>2009</u>
SunTrust Bank – Nashville, TN		
Interest bearing checking	\$ 242,236	\$ 330,950
Money market	2,161,625	632,099
Scotia Bank – Haiti	3,854	-
Woodhaven Bank – Ft. Worth	62,941	-
Edward Jones Money Market – Ft. Worth	<u>27,961</u>	<u>-</u>
	<u>\$ 2,498,617</u>	<u>\$ 963,049</u>

HEALING HANDS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2010 and 2009

NOTE 3 – LONG-TERM DEBT

Long-term debt is comprised of the following:

	2010	2009
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	\$ 365,374	\$ 602,613
Less amount currently due	(365,374)	(29,730)
Long-term portion	\$ -	\$ 572,883

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

Year Ending <u>December 31:</u> 2011	<u>\$ 365,374</u>
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Subsequent to December 31, 2010 and effective March 28, 2011, the loan was refinanced to extend the maturity of the loan through March 28, 2012. Under the new terms of the loan, interest is charged at 2.60% per annum, secured by certificates of deposit, and requires monthly principal and interest payments of \$5,337.

NOTE 4 – CONCENTRATIONS

The Organization receives a substantial amount of its support from individuals, churches and foundations, including \$100,000, or approximately 5% of total contributions from one individual for the year ended December 31, 2009. 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 – LEASES

At December 31, 2010, the Organization rents office space that is subject to an operating lease. This lease expires in 2013. Total rent expense for the year ended December 31, 2010 was \$24,525.

HEALING HANDS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2010 and 2009

NOTE 5 – LEASES (Continued)

Future minimum lease payments are as follows:

Year Ending December 31:	
2011	\$ 44,550
2012	44,550
2013	<u>25,988</u>
Total	<u>\$ 115,088</u>

NOTE 6 – 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 years ended December 31, 2010 and 2009 is summarized in the schedules on the following pages.

	12/31/2009		Release from Restriction			12/31/2010	
	Restricted Net Assets	Contributions	Direct Costs	Indirect Costs	Transfers	Restricted Net Assets	
Ag program	\$ -	\$ 39,121	\$ (39,121)	\$ -	\$ -	\$ -	
Bob Brackett	2,985	-	-	-	-	2,985	
Cuba	101,232	-	-	-	-	101,232	
Disaster emergency	-	5,484	(5,484)	-	-	-	
Ethiopia water rig	-	-	-	-	-	-	
Ethiopia water program	52,061	53,066	(72,290)	(11,328)	-	21,509	
Water well program	124,183	248,835	(77,441)	(7,444)	-	288,133	
Haiti	-	2,769,249	(1,134,131)	(175,158)	-	1,459,960	
Lazarus	1,937	2,324	(4,249)	-	(12)	-	
Projects	(20,978)	123,778	(122,306)	-	-	(19,506)	
Project MAGI	28,127	-	-	-	(28,127)	-	
Roger Michael	5,941	2,400	(4,000)	-	-	4,341	
Romanian clinic	9,762	-	-	-	-	9,762	
Steger	16,371	5,000	(42)	-	-	21,329	
Sudan	200,935	79,710	(184,163)	-	-	96,482	
Walk4Water	23,885	45,506	(14,255)	(1,538)	-	53,598	
Women of Hope	-	13,172	(16,078)	(582)	-	(3,488)	
Worth a Million	-	1,200	-	-	-	1,200	
Zambia	600	4,000	(3,168)	-	-	1,432	
Total	<u>\$ 547,041</u>	<u>\$ 3,392,845</u>	<u>\$ (1,676,728)</u>	<u>\$ (196,050)</u>	<u>\$ (28,139)</u>	<u>\$ 2,038,969</u>	

HEALING HANDS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2010 and 2009

NOTE 6 – RESTRICTED NET ASSETS (Continued)

	12/31/2009		Release from		12/31/2010
	Restricted	Contributions	Restriction	Transfers	Restricted
	Net Assets				Net Assets
Ag program	\$ -	\$ 25,659	\$ (25,659)	\$ -	\$ -
Bob Brackett	26,985	-	(24,000)	-	2,985
Cuba	101,132	100	-	-	101,232
Disaster emergency	-	470,850	(470,850)	-	-
Ethiopia food	7,590	-	-	(7,590)	-
Ethiopia water rig	54,158	-	(54,158)	-	-
Ethiopia water program	52,061	-	-	-	52,061
Water well program	105,860	65,866	(47,543)	-	124,183
Lazarus	-	5,290	(3,353)	-	1,937
Malawi - Ramsey	3,200	-	-	(3,200)	-
Projects	-	123,153	(144,131)	-	(20,978)
Project MAGI	-	84,905	(56,778)	-	28,127
Roger Michael	5,291	3,650	(3,000)	-	5,941
Romanian clinic	9,762	-	-	-	9,762
School supplies	2,252	-	(2,252)	-	-
Steger	954	17,000	(1,583)	-	16,371
Sudan	205,417	60,435	(64,917)	-	200,935
Walk4Water	10,205	24,563	(10,883)	-	23,885
Women of Hope	-	2,580	(2,580)	-	-
Zambia	-	1,600	(1,000)	-	600
	<u>\$ 584,867</u>	<u>\$ 885,651</u>	<u>\$ (912,687)</u>	<u>\$ (10,790)</u>	<u>\$ 547,041</u>
Total	<u>\$ 584,867</u>	<u>\$ 885,651</u>	<u>\$ (912,687)</u>	<u>\$ (10,790)</u>	<u>\$ 547,041</u>