

HEALING HANDS INTERNATIONAL, INC.

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

December 31, 2012

HEALING HANDS INTERNATIONAL, INC.

TABLE OF CONTENTS

Independent Auditor's Report.....2 – 3

Financial Statements – Modified Cash Basis:

 Statement of Assets, Liabilities and Net Assets4

 Statement of Revenues, Expenses and Changes in Net Assets5

 Statement of Functional Expenses.....6

Notes to Financial Statements.....7 – 11



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, 2012, and the related statement 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 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, 2012, and its revenues, expenses and changes in net assets for the year then ended in accordance with the modified cash 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

May 1, 2013

HEALING HANDS INTERNATIONAL, INC.
STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS -
MODIFIED CASH BASIS
December 31, 2012

Assets

Current assets:	
Cash	\$ 1,892,340
Prepaid insurance	11,774
Advances and loans to employees	5,119
	<hr/>
Total current assets	1,909,233
	<hr/>
Certificate of deposit	358,410
	<hr/>
Property and equipment:	
Land	180,896
Building	543,610
Land and building improvements	354,416
Software	20,676
Vehicles	17,852
	<hr/>
	1,117,450
	<hr/>
Less: accumulated depreciation	(248,856)
	<hr/>
Net property and equipment	868,594
	<hr/>
Total assets	<u>\$ 3,136,237</u>

Liabilities and Net Assets

Current liabilities:	
Current portion of long-term debt	\$ 58,778
	<hr/>
Total current liabilities	58,778
	<hr/>
Long-term debt, net of current portion	202,741
	<hr/>
Total liabilities	261,519
	<hr/>
Net assets:	
Net assets - unrestricted	2,274,500
Net assets - restricted for foreign missions	600,218
	<hr/>
Total net assets	2,874,718
	<hr/>
Total liabilities and net assets	<u>\$ 3,136,237</u>

See accompanying notes.

HEALING HANDS INTERNATIONAL, INC.
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -
MODIFIED CASH BASIS
Year Ended December 31, 2012

Public support and revenue:	
Contributions:	
Individuals	\$ 1,295,996
Churches	630,339
Organizations	<u>609,568</u>
	2,535,903
Other contributions:	
In-kind donations	<u>770,087</u>
Total contributions	3,305,990
Proceeds from sale of donated items and other	10,800
Interest income	<u>7,103</u>
Total public support and revenue	<u>3,323,893</u>
Expenses:	
Program services	3,264,350
Management and general	274,054
Fundraising	<u>171,567</u>
Total expenses	<u>3,709,971</u>
Excess of expenses over public support and revenue	(386,078)
Net assets, beginning of year	<u>3,260,796</u>
Net assets, end of year	<u><u>\$ 2,874,718</u></u>

See accompanying notes.

HEALING HANDS INTERNATIONAL, INC.
STATEMENT OF FUNCTIONAL EXPENSES - MODIFIED CASH BASIS
Year Ended December 31, 2012

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
Medical, food, and other relief	\$ 1,785,652	\$ -	\$ -	\$ 1,785,652
Salaries and benefits	659,410	185,688	142,397	987,495
Travel - missions	275,421	-	-	275,421
Packaging and freight	233,811	-	-	233,811
Other travel	78,347	7,829	13,601	99,777
Postage and printing	46,101	11,209	15,569	72,879
Office equipment and supplies	11,376	32,796	-	44,172
Rent	42,900	-	-	42,900
Depreciation	22,499	6,973	-	29,472
Conference	25,589	-	-	25,589
Warehouse equipment and supplies	24,446	-	-	24,446
Insurance	13,701	4,246	-	17,947
Utilities	-	17,935	-	17,935
Telephone	14,208	1,368	-	15,576
Bank fees	7,686	2,382	-	10,068
Interest	6,360	1,972	-	8,332
Professional fees	5,344	1,656	-	7,000
Storage	6,910	-	-	6,910
Advertising	4,589	-	-	4,589
Totals	<u>\$ 3,264,350</u>	<u>\$ 274,054</u>	<u>\$ 171,567</u>	<u>\$ 3,709,971</u>

See accompanying notes.

HEALING HANDS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

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.

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 and related depreciation, 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.

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, 2012

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 unless the criteria for recognition of such volunteer effort under accounting and reporting standards prescribed for not-for-profit organization 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 2012, the Organization received in-kind contributions valued at approximately \$770,087. The Organization chose to record these contributions as the values were readily determinable and specified by the donors. In-kind revenue and in-kind expense in the amount of approximately \$770,087 is recorded in the accompanying 2012 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.

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 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. 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, 2009 through December 31, 2012.

HEALING HANDS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 May 1, 2013, 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:

SunTrust Bank – Nashville, TN	
Money market	\$ 1,401,471
Interest bearing checking	396,629
Business checking	51,604
Chase Bank – Ft. Worth, TX	31,266
Scotia – Haiti	9,611
Woodhaven Bank – Ft. Worth, TX	<u>1,759</u>
	<u>\$ 1,892,340</u>

NOTE 3 – CERTIFICATE OF DEPOSIT

The Organization maintains a certificate of deposit with a balance of \$358,410 at December 31, 2012. Interest on the certificate of deposit accrues at a rate of 0.4% and matures on May 21, 2015. The certificate of deposit serves 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 day maturity.

HEALING HANDS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2012

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 is charged at 2.85% per annum, secured by the Organization’s certificate of deposit, and requires monthly principal and interest payments of \$5,455. The current portion of long-term debt in the accompanying statement of financial position is based on this refinance agreement.

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

Year Ending <u>December 31:</u>	
2013	\$ 58,778
2014	60,476
2015	<u>142,265</u>
	<u>\$ 261,519</u>

NOTE 5 – CONCENTRATIONS

The Organization receives a substantial amount of its support from individuals, churches and foundations, including approximately 13% of total contributions from one donor for the year ended December 31, 2012. 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 retained to such concentrations is minimal.

NOTE 6 – LEASES

At December 31, 2012, 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, 2012 was \$42,900.

Future minimum lease payments are as follows:

2013	\$ <u>25,988</u>
Total	<u>\$ 25,988</u>

HEALING HANDS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2012

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, 2012 is summarized in the below schedule.

	12/31/2011		Release from Restriction		12/31/2012
	Restricted Net Assets	Contributions	Direct Costs	Indirect Costs	Restricted Net Assets
Agriculture	\$ -	\$ 78,545	\$ (78,545)	\$ -	\$ -
Disaster relief	947,800	324,805	(990,834)	(201,952)	79,819
Education	-	38,723	(58)	-	38,665
Empowering women	(25,279)	129,864	(116,925)	(18,372)	(30,712)
Water development	541,630	478,680	(413,047)	(94,817)	512,446
Total	<u>\$ 1,464,151</u>	<u>\$ 1,050,617</u>	<u>\$ (1,599,409)</u>	<u>\$ (315,141)</u>	<u>\$ 600,218</u>