

MENDING HEARTS, INC.
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2023 AND 2022

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**Mending Hearts, Inc.
2023 Board of Directors**

Officers

Kim James, Board Chair

Abby Sparks, Board Vice Chair

Rachel Gerring, Treasurer

Kristina Kalb, Secretary

At-Large Members

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INDEPENDENT AUDITOR’S REPORT

To the Board of Directors of
Mending Hearts, Inc.
Nashville, Tennessee

REPORT ON THE FINANCIAL STATEMENTS

OPINION

We have audited the accompanying financial statements of Mending Hearts, Inc., (a Tennessee nonprofit organization) (“Mending Hearts”) which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mending Hearts, Inc. as of June 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

BASIS FOR OPINION

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (“GAAS”) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Mending Hearts, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OTHER MATTER

The financial statements of Mending Hearts, as of and for the year ended June 30, 2022, were audited by other auditors, whose report, dated November 3, 2022, expressed an unmodified opinion on those statements.

RESPONSIBILITIES OF MANAGEMENT FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Mending Hearts' ability to continue as a going concern for one year after the date that the financial statements are issued.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Mending Hearts' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Mending Hearts' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2024, on our consideration of Mending Hearts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Mending Hearts' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mending Hearts' internal control over financial reporting and compliance.

Kraft CPAs PLLC

Nashville, Tennessee
March 28, 2024

MENDING HEARTS, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 1,083,409	\$ 913,916
Accounts and grants receivable	460,343	169,087
Prepaid expenses	23,313	-
Security deposits	1,000	1,000
Operating leases, right-of-use assets	358,245	-
Property and equipment, net	<u>5,076,386</u>	<u>4,446,721</u>
 TOTAL ASSETS	 <u>\$ 7,002,696</u>	 <u>\$ 5,530,724</u>
<u>LIABILITIES AND NET ASSETS</u>		
Accounts payable	\$ 161,296	\$ 34,411
Accrued expenses	144,413	48,623
Payroll liabilities	725	896
Deferred revenue	-	46,591
Notes payable, net	364,842	382,550
Operating lease liabilities	<u>358,660</u>	<u>-</u>
 TOTAL LIABILITIES	 <u>1,029,936</u>	 <u>513,071</u>
 NET ASSETS		
Net assets without donor restrictions	5,870,902	4,872,509
Net assets with donor restrictions	<u>101,858</u>	<u>145,144</u>
 TOTAL NET ASSETS	 <u>5,972,760</u>	 <u>5,017,653</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 7,002,696</u>	 <u>\$ 5,530,724</u>

See accompanying notes to financial statements.

MENDING HEARTS, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND OTHER SUPPORT						
Grants	\$ 2,229,040	\$ -	\$ 2,229,040	\$ 1,360,354	\$ 142,644	\$ 1,502,998
Contracted services	1,564,709	-	1,564,709	1,291,537	-	1,291,537
Special events, net of direct costs of \$0 and \$11,586, respectively	118,507	-	118,507	68,064	-	68,064
Resident services	690,273	-	690,273	625,719	-	625,719
Contributions	120,631	-	120,631	118,805	-	118,805
In-kind contribution	29,735	-	29,735	-	-	-
Paycheck Protection loan forgiveness	-	-	-	202,076	-	202,076
Interest income	6,076	-	6,076	466	-	466
Net assets released from restriction	43,286	(43,286)	-	-	-	-
TOTAL REVENUES AND OTHER SUPPORT	4,802,257	(43,286)	4,758,971	3,667,021	142,644	3,809,665
EXPENSES						
Program services	2,989,582	-	2,989,582	2,538,592	-	2,538,592
Management and general	610,166	-	610,166	525,568	-	525,568
Fundraising	204,116	-	204,116	156,425	-	156,425
TOTAL EXPENSES	3,803,864	-	3,803,864	3,220,585	-	3,220,585
CHANGE IN NET ASSETS	998,393	(43,286)	955,107	446,436	142,644	589,080
NET ASSETS - BEGINNING OF YEAR	4,872,509	145,144	5,017,653	4,426,073	2,500	4,428,573
NET ASSETS - END OF YEAR	\$ 5,870,902	\$ 101,858	\$ 5,972,760	\$ 4,872,509	\$ 145,144	\$ 5,017,653

See accompanying notes to financial statements.

MENDING HEARTS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2023

	Program Services			Management and General	Fundraising	Total
	Resident Services	Housing Services	Total			
Salaries	\$ 1,135,527	\$ 31,611	\$ 1,167,138	\$ 331,767	\$ 143,968	\$ 1,642,873
Contract services	650,908	-	650,908	42,156	5,528	698,592
Resident services	270,360	-	270,360	-	-	270,360
Repairs and maintenance	-	160,641	160,641	15,462	-	176,103
Depreciation	-	149,289	149,289	30,890	-	180,179
Payroll taxes	84,545	2,492	87,037	17,780	10,286	115,103
Utilities	17,587	71,089	88,676	18,565	-	107,241
Lease expense	-	95,215	95,215	-	-	95,215
Employee benefits	38,917	-	38,917	38,917	9,446	87,280
Insurance	26,691	25,011	51,702	31,034	-	82,736
Software	49,048	-	49,048	14,343	5,560	68,951
Supplies	49,633	-	49,633	-	5,513	55,146
Staff development	32,779	-	32,779	10,926	-	43,705
Transportation	21,690	-	21,690	13,110	-	34,800
Food and beverage	21,598	-	21,598	10,389	-	31,987
Office expenses	7,142	-	7,142	19,595	2,446	29,183
Interest	-	23,420	23,420	-	-	23,420
Advertising	-	-	-	6,590	6,591	13,181
Dues, licenses and fees	9,818	-	9,818	2,995	205	13,018
Special events	-	-	-	-	12,562	12,562
Bank fees	3,524	-	3,524	1,032	2,011	6,567
Charitable contributions	2,040	-	2,040	3,151	-	5,191
Equipment rental and maintenance	3,381	-	3,381	1,127	-	4,508
Background checks	3,036	-	3,036	337	-	3,373
Personal property taxes	-	2,105	2,105	-	-	2,105
Property taxes	-	485	485	-	-	485
TOTAL EXPENSES	\$ 2,428,224	\$ 561,358	\$ 2,989,582	\$ 610,166	\$ 204,116	\$ 3,803,864

See accompanying notes to financial statements.

MENDING HEARTS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2022

	Program Services			Management and General	Fundraising	Total
	Resident Services	Housing Services	Total			
Salaries	\$ 954,172	\$ 44,658	\$ 998,830	\$ 249,771	\$ 136,046	\$ 1,384,647
Contract services	559,792	-	559,792	-	-	559,792
Resident services	194,862	-	194,862	-	-	194,862
Depreciation	-	147,120	147,120	21,034	-	168,154
Repairs and maintenance	-	137,307	137,307	30,419	-	167,726
Employee benefits	65,851	-	65,851	49,330	-	115,181
Utilities	17,147	75,036	92,183	17,122	-	109,305
Payroll taxes	68,813	3,372	72,185	23,340	5,872	101,397
Insurance	23,050	19,123	42,173	51,101	-	93,274
Lease expense	-	92,700	92,700	-	-	92,700
Software	49,180	-	49,180	18,392	-	67,572
Office expenses	19,352	-	19,352	13,569	14,507	47,428
Interest	-	22,204	22,204	-	-	22,204
Food and beverage	4,501	-	4,501	11,532	-	16,033
Accounting	-	-	-	15,570	-	15,570
Staff development	11,100	-	11,100	3,697	-	14,797
Advertising	-	-	-	14,118	-	14,118
Transportation	11,493	-	11,493	1,000	-	12,493
Bank fees	2,075	3,291	5,366	1,086	-	6,452
Equipment rental and maintenance	3,366	-	3,366	1,123	-	4,489
Vehicle expenses	4,089	-	4,089	-	-	4,089
Charitable contributions	-	-	-	3,070	-	3,070
Property taxes	-	2,115	2,115	294	-	2,409
Supplies	2,341	-	2,341	-	-	2,341
Personal property taxes	-	482	482	-	-	482
TOTAL EXPENSES	\$ 1,991,184	\$ 547,408	\$ 2,538,592	\$ 525,568	\$ 156,425	\$ 3,220,585

See accompanying notes to financial statements.

MENDING HEARTS, INC.

STATEMENTS OF CASH FLOWS

JUNE 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 955,107	\$ 589,080
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	180,179	168,154
Donated property and equipment	(29,735)	-
Amortization of discount on notes payable	6,981	8,599
Paycheck Protection Program loan forgiveness	-	(202,076)
Realized and unrealized gains on investments	-	(351)
Increase (decrease) in:		
Accounts and grants receivable	(291,256)	(19,610)
Prepaid expenses	(23,313)	-
Security deposit	-	750
Operating leases, right-of-use assets	83,836	-
Increase (decrease) in:		
Accounts payable	67,606	(77,116)
Accrued expenses	95,790	12,637
Payroll liabilities	(171)	(5,381)
Deferred revenue	(46,591)	46,591
Operating lease liabilities	(83,421)	-
TOTAL ADJUSTMENTS	<u>(40,095)</u>	<u>(67,803)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>915,012</u>	<u>521,277</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sale of investments	-	351
Purchases of property and equipment	(720,830)	(107,527)
NET CASH USED IN INVESTING ACTIVITIES	<u>(720,830)</u>	<u>(107,176)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal repayment of notes payable	(24,689)	(27,402)
NET CASH USED IN FINANCING ACTIVITIES	<u>(24,689)</u>	<u>(27,402)</u>
NET INCREASE IN CASH	169,493	386,699
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>913,916</u>	<u>527,217</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,083,409</u>	<u>\$ 913,916</u>

See accompanying notes to financial statements.

MENDING HEARTS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

NOTE 1 - NATURE OF ORGANIZATION

Mending Hearts, Inc. (“Mending Hearts”) was incorporated under the laws of the State of Tennessee as a nonprofit organization in 2004. Mending Hearts’ mission is to assist women in Tennessee seeking to overcome drug addiction by providing transitional shelter, food, clothing, counseling and other necessities. Mending Hearts’ primary sources of revenue are grants and contract agreements from various sources, charitable contributions and proceeds from residents and insurance organizations.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of Mending Hearts have been prepared in accordance with generally accepted accounting principles (“GAAP”), which require Mending Hearts to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions - Net assets that are not subject to donor-imposed restrictions, and may be expended for any purpose in performing the primary objectives of Mending Hearts. These net assets may be used at the discretion of Mending Hearts’ management and Board of Directors.

Net assets with donor restrictions - Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature and will be met by specific actions of Mending Hearts or by the passage of time. Other donor restrictions may be perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Revenues and Support

Contributions are recognized when cash, securities, other assets or unconditional promises to give or notification of a beneficial interest are received. A contribution is conditional if an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor’s obligation to transfer assets exists. The presence of both a barrier and a right of return or right of release indicates that a recipient is not entitled to the contribution until it has overcome the barrier(s) in the agreement. Conditional promises to give are not recognized until the barrier(s) in the agreement are overcome.

MENDING HEARTS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenues and Support (Continued)

Mending Hearts receives grant revenue from various federal, state and local agencies. Grant revenue is recognized in the period a liability is incurred for eligible expenditures under the terms of the grant. Grants received in advance of the expenditure are recorded as deferred revenue.

Mending Hearts reports gifts of equipment, materials or facilities (in-kind contributions) at their fair value in the period received as unrestricted support unless explicit donor restrictions specify how the assets must be used. Gifts of long-lived assets with explicit restrictions as to how the assets are to be used or funds restricted for the acquisition of long-lived assets are reported as restricted support. Expirations of donor restrictions are recognized when the donated or acquired long-lived assets are placed in service.

Special event revenues are generated from sponsorships, ticket sales and donations for events held during the year and revenues are recognized when events occur, which is the completion of Mending Hearts' performance obligations. Special event revenue received prior to the fiscal year end to which they are held are reported as deferred revenue.

Mending Hearts has agreements with third-party payors that provide payments for services provided at discounted rates. Performance obligations are determined based on the natures of the services provided. Mending Hearts recognizes revenue and the related accounts receivable at the point in time the services have been provided. Program fee revenues are reported at the amount that reflects the consideration to which Mending Hearts expects to be entitled to in exchange for providing services. Mending Hearts also receives revenue from residents of their facilities in the form of rent, which is recognized at the time of receipt of the funds.

Donated Services

A substantial number of volunteers have donated significant amounts of their time to Mending Hearts' program services and fundraising activities; however, no amounts have been shown in the accompanying financial statements for donated services by volunteers since there is no objective basis by which to measure the value of such services. Donated services that require specialized skills and would be purchased if not provided by the donor are recognized as support and expenses based on the estimated fair value of the services received.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, cash in various bank accounts, and all highly liquid investments with an original maturity of three months or less when purchased.

MENDING HEARTS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Property and equipment are reported at cost. Donated equipment is recorded as a contribution at estimated fair value determined as of the date of receipt. Mending Hearts' policy is to capitalize purchases with a cost of \$2,500 or more and an expected useful life greater than one year. Depreciation is recorded using the straight-line method over the assets' estimated useful lives, except for leasehold improvements, which are depreciated over the shorter of their estimated useful lives or the respective lease term. When depreciable assets are sold, the cost and related accumulated depreciation are removed from the accounts, and any gain or loss is recognized.

Leases

Mending Hearts made an accounting policy election available under Topic 842 not to recognize right-of-use ("ROU") assets and lease liabilities for leases with a term of 12 months or less. For all other leases, ROU assets and lease liabilities are measured based on the present value of future lease payments over the lease term at the commencement date of the lease (or July 1, 2022, for existing leases upon the adoption of Topic 842). The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives. To determine the present value of lease payments, the Organization used the discount rate implicit in the lease agreement, if readily determinable. For leases in which the rate implicit in the lease agreement is not readily determinable, the Organization made an accounting policy election available to non-public companies to utilize a risk-free borrowing rate, which is aligned with the lease term at the lease commencement date (or remaining term for leases existing upon the adoption of Topic 842).

Future lease payments may include fixed rent escalation clauses or payments that depend on an index, which is initially measured using the index or rate at lease commencement. Subsequent changes of an index and other periodic market-rate adjustments to base rent are recorded in variable lease expense in the period incurred.

Residual value guarantees or payments for terminating the lease are included in the lease payments only when it is probable they will be incurred.

MENDING HEARTS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allocation of Functional Expenses

Expenses that can be directly attributed to a particular function are charged to that function. Certain costs have been allocated among more than one activity based on objectively evaluated financial and nonfinancial data or reasonable subjective methods determined by management. The expenses that are allocated include salaries; payroll taxes; employee benefits; insurance; software; staff development; food and beverage; dues, licenses and fees; bank fees; equipment rental and maintenance; and background checks, which are allocated on the basis of estimates of time and effort, and depreciation expense, which is allocated based on approximate square footage.

Income Tax Status

Mending Hearts qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and files U.S. Federal Form 990 for organizations exempt from income tax.

Management performs an evaluation of all income tax positions taken or expected to be taken in the course of preparing Mending Hearts' income tax returns to determine whether the income tax positions meet a "more likely than not" standard of being sustained under examination by the applicable taxing authorities. Management has performed its evaluation of all income tax positions taken on all open income tax returns and has determined that there were no positions taken that do not meet the "more likely than not" standard. Accordingly, there are no provisions for income taxes, penalties or interest receivable or payable relating to uncertain income tax positions in the accompanying financial statements.

Estimates

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

Events Occurring after Reporting Date

Mending Hearts has evaluated events and transactions that occurred between June 30, 2023 and March 28, 2024, the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

MENDING HEARTS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLE

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Codification (“ASC”) Topic 842, *Leases*, to increase transparency and comparability among organizations related to their leasing arrangements. The update requires lessees to recognize most leases on their statements of financial position as a ROU asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Topic 842 also requires additional disclosure of key quantitative and qualitative information for leasing arrangements. Similar to the previous lease guidance, the update retains a distinction between finance leases (similar to capital leases in Topic 840, *Leases*) and operating leases, with classification affecting the pattern of expense recognition in the statements of activities. Mending Hearts adopted Topic 842 on July 1, 2022, using the optional transition method to the modified retrospective approach, which eliminates the requirement to restate the prior-period financial statements. Under this transition provision, Mending Hearts has applied Topic 842 to reporting periods beginning on July 1, 2022, while prior periods continue to be reported and disclosed in accordance with Mending Hearts’ historical accounting treatment under ASC Topic 840, *Leases*.

Mending Hearts elected the “package of practical expedients” under the transition guidance within Topic 842, in which they do not reassess (1) the historical lease classification, (2) whether any existing contracts at transition are or contain leases, or (3) the initial direct costs for any existing leases.

Mending Hearts has not elected to adopt the “hindsight” practical expedient, and therefore will measure the ROU asset and lease liability using the remaining portion of the lease term upon adoption of ASC 842 on July 1, 2022.

Mending Hearts determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) Mending Hearts obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. Mending Hearts also considers whether its service arrangements include the right to control the use of an asset.

Adoption of Topic 842 resulted in the recording of additional ROU assets and lease liabilities related to the Mending Hearts’ operating leases of approximately \$442,000 at July 1, 2022. The adoption of the new lease standard did not materially impact the change in net assets or cash flows and did not result in a cumulative-effect adjustment to the opening balance of net assets.

MENDING HEARTS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

NOTE 4 - LIQUIDITY AND AVAILABILITY

The following reflects Mending Hearts' financial assets, reduced by amounts not available for general use within one year of the statement of financial position date because of donor-imposed time or purpose restrictions, as of June 30:

	<u>2023</u>	<u>2022</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 1,083,409	\$ 913,916
Accounts and grants receivable	<u>358,878</u>	<u>169,087</u>
Total financial assets	1,442,287	1,083,003
Less amounts not available to be used within one year:		
Restricted by donor with time or purpose restrictions	<u>(101,858)</u>	<u>(145,144)</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 1,340,429</u>	<u>\$ 937,859</u>

NOTE 5 - CONCENTRATIONS OF CREDIT RISK

Mending Hearts maintains cash accounts at financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to statutory limits. Mending Hearts' cash balances may, at times, exceed statutory limits. Mending Hearts has not experienced any losses in such accounts and management considers this to be a normal business risk.

MENDING HEARTS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2023</u>	<u>2022</u>
Building and improvements	\$ 4,275,111	\$ 4,275,111
Land	639,347	639,347
Vehicles	214,008	184,274
Leasehold improvements	59,962	53,612
Furniture and equipment	6,900	6,900
Construction in progress	<u>854,101</u>	<u>80,341</u>
	6,049,429	5,239,585
Less: accumulated depreciation	<u>(973,043)</u>	<u>(792,864)</u>
	<u>\$ 5,076,386</u>	<u>\$ 4,446,721</u>

Mending Hearts has four assets that have a restricted purpose. Three housing properties must be used for low income and homeless individuals. One vehicle must be used for transporting individuals to and from their places of employment.

As of June 30, 2023, commitments to complete construction in progress of a new residential facility are approximately \$256,000, and construction is expected to be completed during the year ending June 30, 2024.

NOTE 7 - LEASES

Mending Hearts leases various facilities and residential properties to carry out its program objectives. The leases have initial terms ranging from 2 to 5 years. For leases containing termination options, where the rights to terminate are held by either Mending Hearts, the lessor or both parties, the option to terminate the lease is included in the lease terms when it is reasonably certain that the Mending Hearts will exercise the option. Operating lease cost is recognized on a straight-line basis over the lease terms.

The components of lease expense are as follows for the year ended June 30, 2023:

Operating lease cost	<u>\$ 95,215</u>
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MENDING HEARTS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

NOTE 7 - LEASES (CONTINUED)

Additional information related to leases is as follows as of June 30, 2023:

Operating leases:

Current maturity of operating leases	\$ 95,400
Operating lease liabilities, non-current	<u>263,260</u>
Total operating lease liabilities	<u>\$ 358,660</u>

Weighted-average remaining lease term:

Operating leases	4.33 years
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Weighted-average discount rate:

Operating leases	2.87%
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Future undiscounted cash flows and a reconciliation to the operating lease liabilities recognized on the statements of financial position are as follows as of June 30, 2023:

Years ending June 30:

2024	\$ 95,400
2025	95,400
2026	81,000
2027	54,600
2028	<u>54,600</u>
Total lease payments	381,000
Less imputed interest	<u>(22,340)</u>
Total present value of lease liabilities	<u>\$ 358,660</u>

Future minimum lease commitments, as determined under Topic 840, for all non-cancelable leases are as follows as of June 30, 2022:

Years ending June 30:

2023	\$ 94,800
2024	95,400
2025	95,400
2026	95,400
2027	<u>95,400</u>
Total minimum lease payments	<u>\$ 476,400</u>

MENDING HEARTS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

NOTE 8 - NOTES PAYABLE

On March 13, 2014, Mending Hearts entered into a loan agreement with a financial institution for the purchase of real estate. The loan, originally scheduled to mature in March 2019, was amended on March 13, 2019, to extend the maturity date to March 13, 2024, at which time all outstanding principal and interest was due. On March 28, 2024, the loan was amended again under similar terms to extend the maturity date to March 28, 2029. The loan is payable in monthly principal and interest payments of \$1,676, with interest at a variable rate of prime minus 4.00% (4.25% at June 30, 2023). The note is discounted at an imputed interest rate of 4.875%. The loan is secured by real estate with a carrying value of \$2,273,907 at June 30, 2023. The outstanding balance on the note was \$126,105 and \$142,447 at June 30, 2023 and 2022, respectively.

On April 10, 2015, Mending Hearts entered into a loan agreement with a financial institution for the purchase of real estate. The loan was originally scheduled to mature in April 2020, but was amended on April 10, 2020, to mature on April 10, 2025, at which time all outstanding principal and interest is due. The loan is payable in monthly principal and interest payments of \$427, with interest at a variable rate of prime minus 4.00% (4.25% at June 30, 2023). The note is discounted at an imputed interest rate of 4.875%. The loan is secured by real estate with a carrying value of \$180,852 at June 30, 2023. The outstanding balance on the note was \$37,994 and \$41,999 at June 30, 2023 and 2022, respectively.

On December 4, 2018, Mending Hearts entered into a loan agreement with a financial institution for the purchase of real estate. The loan is payable in monthly principal and interest payments of \$833, with interest at a fixed rate of 5.50%. The note was scheduled to mature on December 24, 2023, at which time all outstanding principal and interest was due. On January 22, 2024, the loan agreement was amended to extend the maturity date to April 22, 2024. The loan is secured by real estate with a carrying value of \$125,357 at June 30, 2023. The outstanding balance on the note was \$109,737 and \$114,079 at June 30, 2023 and 2022, respectively.

On April 21, 2021, Mending Hearts entered into a loan agreement with a financial institution for the purchase of real estate. The loan was payable in interest-only payments, with interest at a fixed rate of 8.50%. The loan was originally scheduled to mature on January 20, 2024, at which time all outstanding principal and interest was due. On January 22, 2024, the loan agreement was amended to extend the maturity date to April 22, 2024. The loan is secured by real estate with a carrying value of \$147,536 at June 30, 2023. The outstanding balance on the note was \$123,000 at both June 30, 2023 and 2022, respectively.

The unamortized discount on below-market rate notes payable was \$31,994 and \$38,975 at June 30, 2023 and 2022, respectively. Amortization of the discounts on below-market rate notes payable is reported in the statements of activities as interest expense.

MENDING HEARTS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

NOTE 8 - NOTES PAYABLE (CONTINUED)

Future principal payments under notes payable are as follows:

Years ending June 30:

2024	\$ 365,174
2025	<u>31,662</u>
	<u>\$ 396,836</u>

NOTE 9 - LINE OF CREDIT

Mending Hearts maintains a line of credit with a financial institution allowing maximum borrowings of \$100,000, and maturing on August 2, 2031. No amounts were outstanding at June 30, 2023 or 2022. The line of credit requires monthly interest payments at a variable interest rate of prime plus 1.00% (9.25% at June 30, 2023). For the years ended June 30, 2023 and 2022, total interest incurred was zero.

NOTE 10 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following at June 30:

	<u>2023</u>	<u>2022</u>
Construction of residential housing	\$ 101,858	\$ 142,644
Other	<u>-</u>	<u>2,500</u>
	<u>\$ 101,858</u>	<u>\$ 145,144</u>

NOTE 11 - IN-KIND CONTRIBUTION

During the year ending June 30, 2023, Mending Hearts was the recipient of a donated Ford F-150 truck valued at \$29,735, based on its fair value for similar vehicles. The truck is included in property and equipment and is being utilized in Mending Hearts' daily operations.

MENDING HEARTS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

NOTE 12 - SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

	<u>2023</u>	<u>2022</u>
CASH PAID FOR:		
Operating cash flow - payments on operating leases	\$ 94,800	\$ -
Interest	\$ 16,439	\$ 22,204
NON-CASH TRANSACTIONS:		
ROU assets obtained in exchange for operating lease liabilities	\$ 442,081	\$ -
Construction in process included in accounts payable	\$ 59,729	\$ -