

**MENDING HEARTS, INC.  
FINANCIAL STATEMENTS  
JUNE 30, 2017**

**(With Independent Auditor's Report Thereon)**

## **INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Mending Hearts, Inc  
Nashville, Tennessee

### **Report on the Financial Statements**

I have audited the accompanying financial statements of Mending Hearts, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses and cash flows for the twelve month period 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 accounting principles generally accepted in the United States of America; this includes 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**

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Opinion**

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mending Hearts, Inc. as of June 30, 2017, and the changes in its net assets and its cash flows for the twelve month period then ended in accordance with accounting principles generally accepted in the United States of America.

Franklin, Tennessee  
March 6, 2018

**MENDING HEARTS, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2017**

**ASSETS**

CURRENT ASSETS

Cash and cash equivalents	\$ 109,363
Contracts receivable	<u>32,426</u>

Total Current Assets	<u>141,789</u>
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PROPERTY AND EQUIPMENT

Building	1,812,312
Improvements to property	53,612
Construction	238,143
Furniture and equipment	15,907
Vehicles	<u>89,286</u>

	2,209,259
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Less accumulated depreciation	<u>225,201</u>
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Total Property and Equipment	<u>1,984,058</u>
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OTHER ASSETS

1,055

Total Assets	<u><u>\$ 2,126,902</u></u>
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**LIABILITIES AND NET DEFICIT**

CURRENT LIABILITIES

Notes payable	\$ 31,308
Line of credit	60,758
Accrued expense	119,328
Accounts payable	<u>21,014</u>

Total Current Liabilities	232,408
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Long term portion of notes payable	<u>346,051</u>
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Total liabilities	<u>578,459</u>
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NET ASSETS

Unrestricted	1,510,524
Temporarily restricted	<u>37,919</u>

Total Net Assets	<u>1,548,443</u>
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Total Liabilities and Net Assets	<u><u>\$ 2,126,902</u></u>
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See notes to financial statements.

**MENDING HEARTS, INC.**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2017**

Changes in unrestricted net assets:	
Support and revenue	
Grants	\$ 540,077
Contributions	286,760
Fundraising	125,868
Contract services and insurance	687,874
Private Pay	84,791
Interest	-
	<hr/>
Total support and revenue	1,725,369
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Expenses:	
Program services	900,595
Management and general	443,189
Fundraising	72,781
Total expenses	<hr/> 1,416,565
Increase in unrestricted net assets	<hr/> 308,805
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Changes in temporarily restricted net assets	
Contributions	-
Net assets released from temporary restrictions	-
	<hr/>
Increase in temporarily restricted net assets	<hr/> -
	<hr/>
Total increase in net assets before loss	308,805
Loss on sale of investments	87,398
Total increase in net assets	<hr/> 221,406
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Net assets, beginning of year before prior period adjustment	1,393,131
Prior period adjustment	(66,094)
Net assets, end of year	<hr/> \$ 1,548,443
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See notes to financial statements.

**MENDING HEARTS, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSE**  
**FOR THE YEAR ENDED JUNE 30, 2017**

	<b>Program Services</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Total</b>
Payroll	\$ 310,540	268,998	50,000	629,539
Payroll tax	23,379	24,845		48,225
Conferences	387	129		517
Building rental	70,436	23,479		93,915
Equipment rental		15,616		15,616
Repairs and maintenance	17,775	19,513		37,288
Data software		18,776		18,776
Utilities	102,147	21,238		123,385
Bank charges	157	1,412		1,569
Office supplies and expense	7,314	7,314		14,626
Tax, license and permits	19,729	2,192		21,920
Insurance	71,257	12,575		83,831
Depreciation	76,529	8,503		85,032
Interest	9,640	3,213		12,854
Advertising	4,070	-		4,070
Dues and subscriptions	1,250	1,250		2,500
Professional fees	155,105	12,007		167,112
Drug screening	2,487	276		2,763
Food	4,267	-		4,267
Gifts and awards	573	64		636
Residents transportation	9,775	-		9,775
Resident clothing	2,307	-		2,307
Resident medical	9,838	-		9,838
Miscellaneous	-	157		157
Meals and entertainment	1,633	1,633		3,266
Fundraising	-	-	22,781	22,781
	<u>\$ 900,595</u>	<u>443,189</u>	<u>72,781</u>	<u>1,416,565</u>

See notes to financial statements.

**MENDING HEARTS, INC.**  
**STATEMENT OF CASH FLOW**  
**FOR THE YEAR ENDED JUNE 30, 2017**

Cash Flows From Operating Activities	
Increase (decrease) in net assets	\$ 308,805
Adjustments to reconcile increase (decrease) in net assets to cash provided (used) by operating activities:	
Depreciation	85,032
(Increase) decrease in contract receivable	(27,352)
(Increase) decrease in other assets	845
Increase (decrease) in accounts payable	20,938
Increase (decrease) in other accrued liabilities	<u>54,898</u>
Total adjustments	<u>134,361</u>
Net Cash Provided (Used) by Operating Activities	<u>443,166</u>
Cash Flows From Investing Activities	
Cash provided by disposal of fixed assets	<u>50,602</u>
Net Cash Provided by Investing Activities	<u>50,602</u>
Cash Flows From Financing Activities	
Net borrowing (payments) notes payable bank	<u>(399,899)</u>
Net Cash Provided (Used) by Financing Activities	<u>(399,899)</u>
Increase (decrease) in cash	93,869
Cash, beginning of year	<u>15,494</u>
Cash, end of year	<u><u>\$ 109,363</u></u>
Supplemental disclosures:	
Cash paid for interest	<u><u>\$ 12,854</u></u>

See notes to financial statements.

## MENDING HEARTS, INC.

### NOTES TO FINANCIAL STATEMENTS

#### 1. ORGANIZATION AND NATURE OF BUSINESS

Mending Hearts, Inc., a Tennessee not-for-profit corporation (the “Organization”), was organized to assist women in Tennessee seeking to overcome drug addiction by providing transitional shelter, food, clothing, counseling and other necessities. The Organization’s primary sources of revenue are grants and contract agreements from various, charitable contributions and fees charged to residents.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Basis of Presentation

The financial statements of Mending Hearts, Inc. have been prepared on the accrual basis of accounting. The financial statements reflect unrestricted, temporarily restricted, and permanently restricted net assets and activities. Net assets of the two restricted classes are created only by donor-imposed restrictions on their use. All other net assets, including board-designated amounts are reported as part of the unrestricted class. The Organization had no permanently restricted net assets at June 30, 2017.

##### Concentration of Credit Risk

Amounts held in financial institutions occasionally are in excess of the Federal Deposit Insurance Corporation limits. The Organization deposits its cash with high quality financial institutions and management believes the Organization is not exposed to significant credit risk on these amounts.

##### Use of 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.

##### Promises to Give

Unconditional promises to give are recognized as revenues in the period in which the promises are made. Conditional promises to give are recognized when the conditions on which they depend are substantially met. The Organization recognized no unconditional promises to give in 2017. Promises to give are recorded at their net realizable value and are expected to be collected in less than one year.

##### Property and Equipment

Property and equipment are reported at cost. Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Property and equipment are depreciated principally using the straight-line method over their estimated useful lives.

## MENDING HEARTS, INC.

### NOTES TO FINANCIAL STATEMENTS

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Long-lived Assets

The Organization periodically reviews the values assigned to long-lived assets to determine if any impairments are other than temporary. Management believes that the long-lived assets in the accompanying statements of financial position are appropriately valued.

##### Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of any donor stipulations that limit the use of the donated assets either on a temporary or permanent basis. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. If a restriction is fulfilled in the same period in which the contribution is received, the Organization reports the support as unrestricted. Contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

##### Functional Expense Allocation

The costs of providing various program and supporting services have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

##### Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been included in the accompanying financial statements. The Organization, obtained its determination letter dated November 2004 in which the Internal Revenue Service stated that it was in compliance with the applicable requirements of Internal Revenue Code Section 501 (c) 3. The Organization has had no significant modifications of its programs since receiving the determination letter. Management believes that the Organization is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code and is exempt from federal income tax under IRC Section 501 (a).

##### Cash and Cash Equivalents:

The Organization considers all highly liquid investments and certificates of deposits with original maturities of three months or less, to be cash equivalents.



MENDING HEARTS, INC.

NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributed Services

During the year ended June 30, 2017, the value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization at the program facilities, but these services do not meet the criteria for recognition as contributed services.

3. LINE OF CREDIT AND NOTES PAYABLE

The Organization has a line of credit arrangement with a bank with a facility of \$100,000. Borrowings under the line bear interest at a rate of the prime rate as established by the lender plus one percent, which was 5.5% at June 30, 2017, and are secured by all assets of the Organization.

The balance at June 30, 2017 was \$60,758 due and payable on demand.

Notes payable to Pinnacle Bank in the original amount of \$301,715 is due March 13, 2019. Interest is payable at a variable rate based on the Wall Street Journal prime rate initially 4.0% and payments of \$1,676 are due monthly with a final payment of \$202,820. Notes payable to Pinnacle Bank in the original principle amount of \$76,800 is due April 10, 2020. Interest is payable at a variable rate based on the Wall Street Journal prime rate initially 4.0% and payments of \$427 are due monthly with a final payment of \$51,626. Notes payable to Pinnacle Bank in the original principle amount of \$80,000 is due May 26, 2021. Interest is payable at a fixed rate of 4.25% and payments of \$604 are due monthly with a final payment of \$59,428. Notes are secured by real property at 930, 932 42<sup>nd</sup> Ave N and 4101, 4103, 4105 Albion Street.

Future maturities:

2018	\$31,308
2019	289,950
2020	59,602
2021	57,257

4. OPERATING LEASE COMMITMENT

The Organization has entered into several cancelable leases for residential housing and administrative office space. Lease expense for 2017 was \$93,915.

5. SUBSEQUENT EVENT

Management has evaluated events and transactions subsequent to the statement of financial position date through the date of the auditor's report, (the date the financial statements were available to be issued), for potential recognition or disclosure in the financial statements. Management has not identified any items requiring disclosure.

**MENDING HEARTS, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**6. UNCERTAIN TAX POSITIONS**

**The Corporation follows the accounting guidance for uncertainty in income taxes using the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740, Income Taxes. Using that guidance, tax positions initially need to be recognized in the financial statements when it is more-likely-than-not the position will be sustained upon examination by tax authorities. Such tax positions initially and subsequently need to be measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the tax authority assuming full knowledge of the position and relevant facts. The adoption of FAB ASC 740 did not have a material impact on the Corporation's financial statements. Corporation management has concluded that there are no significant uncertain tax positions requiring disclosure, and there are no material amounts of unrecognized tax benefits. The Corporation's evaluation was performed for tax years that remain subject to examination by major tax jurisdictions as of June 30, 2017.**

**7. PRIOR PERIOD ADJUSTMENT**

**A prior period adjustment of \$60,094 was made to record an adjustment of general ledger fixed assets to the detail subsidiary ledger which was verified to actual assets.**