MENDING HEARTS, INC.

FINANCIAL STATEMENTS
AND REPORTING REQUIRED UNDER
THE FEDERAL UNIFORM GUIDANCE

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

MENDING HEARTS, INC.

CONTENTS

MARCUM
ACCOUNTANTS ▲ ADVISORS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Mending Hearts, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Mending Hearts, Inc. (a nonprofit organization) which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses, and cash flows 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 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.

Auditors' 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 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 auditors' 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.

MARCUMGROUP
MEMBER

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Opinion

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, 2020, 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.

Prior Year Financial Statements

The financial statements as of and for the year ended June 30, 2019, were audited by CPA Consulting Group, PLLC, whose practice was merged with Marcum LLP on November 1, 2019 and whose report dated December 12, 2019, expressed an unmodified opinion on those financial statements.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 15, 2021, on our consideration of Mending Hearts, Inc.'s 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 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 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, Inc.'s internal control over financial reporting and compliance.

Marcum LLP

Nashville, TN
April 15, 2021

MENDING HEARTS, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2020 AND 2019

	2020	2019
Assets		
Current Assets		
Cash and cash equivalents	$ 230,572	$ 179,842
Accounts and grants receivable	222,775	68,402
Investments	83	132
Total Current Assets	453,430	248,376
Property and Equipment, Net	4,145,436	3,398,968
Other Assets		
Security deposits	2,305	1,055
Total Other Assets	2,305	1,055
Total Assets	$ 4,601,171	$ 3,648,399

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

MENDING HEARTS, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2020 AND 2019

	2020	2019
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 63,509	$ 77,020
Accrued expenses	29,904	55,224
Payroll liabilities	1,840	65,740
Loan from related party	--	2,350
Current portion of notes payable	87,515	82,012
Deposits	--	600
Total Current Liabilities	182,768	282,946
Long-Term Debt		
Line of credit	--	45,933
Notes payable, net of current portion and discount	475,190	304,340
Total Long-Term Liabilities	475,190	350,273
Total Liabilities	657,958	633,219
Net Assets		
Net assets without donor restrictions	3,940,713	2,954,980
Net assets with donor restrictions	2,500	60,200
Total Net Assets	3,943,213	3,015,180
Total Liabilities and Net Assets	$ 4,601,171	$ 3,648,399

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

MENDING HEARTS, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Other Support						
Grants	$ 1,697,955	$ 2,500	$ 1,700,455	$ 1,671,410	$ 60,200	$ 1,731,610
Contracted services	1,092,318	--	1,092,318	731,308	--	731,308
Special events, net of direct costs of $20,946 and $24,467, respectively	44,359	--	44,359	193,126	--	193,126
Resident services	349,804	--	349,804	191,676	--	191,676
Contributions	84,888	--	84,888	49,036	--	49,036
Realized and unrealized gain (loss)	(1,165)	--	(1,165)	(1,129)	--	(1,129)
Assets released from restriction	60,200	(60,200)	--	99,226	(99,226)	--
Total Revenue and Other Support	3,328,359	(57,700)	3,270,659	2,934,653	(39,026)	2,895,627
Expenses						
Program services	1,449,026	--	1,449,026	1,006,513	--	1,006,513
Management and general	836,302	--	836,302	674,051	--	674,051
Fundraising	57,298	--	57,298	54,080	--	54,080
Total Expenses	2,342,626	--	2,342,626	1,734,644	--	1,734,644
Change in Net Assets	985,733	(57,700)	928,033	1,200,009	(39,026)	1,160,983
Net Assets at Beginning of Year	2,954,980	60,200	3,015,180	1,754,971	99,226	1,854,197
Net Assets at End of Year	$ 3,940,713	$ 2,500	$ 3,943,213	$ 2,954,980	$ 60,200	$ 3,015,180

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

MENDING HEARTS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2020

	Resident Services	Housing Services	Total Program Services	Management and General	Fundraising	Total Management and Fundraising	Total Expenses
Payroll expenses	$ 586,937	$ --	$ 586,937	$ 478,751	$ 53,825	$ 532,576	$ 1,119,513
Contract services	409,278	--	409,278	500	--	500	409,778
Program expenses	200,804	--	200,804	--	--	--	200,804
Depreciation	--	--	--	137,087	--	137,087	137,087
Utilities	--	87,523	87,523	20,433	--	20,433	107,956
Rent	--	86,675	86,675	--	--	--	86,675
Insurance	--	--	--	65,327	--	65,327	65,327
Software	--	--	--	53,853	--	53,853	53,853
Professional fees	--	--	--	38,268	--	38,268	38,268
Repairs and maintenance	--	23,661	23,661	3,386	--	3,386	27,047
Interest	--	19,717	19,717	--	--	--	19,717
Office expenses	7,258	--	7,258	4,666	3,473	8,139	15,397
Dues, licenses, and fees	--	--	--	11,018	--	11,018	11,018
Supplies	8,975	--	8,975	--	--	--	8,975
Vehicle expenses	8,145	--	8,145	--	--	--	8,145
Penalties and fines	--	--	--	8,144	--	8,144	8,144
Transportation	7,413	--	7,413	160	--	160	7,573
Equipment rental and maintenance	--	--	--	7,230	--	7,230	7,230
Food and beverage	1,597	--	1,597	4,347	--	4,347	5,944
Miscellaneous expenses	--	1,043	1,043	3,132	--	3,132	4,175
Total	$ 1,230,407	$ 218,619	$ 1,449,026	$ 836,302	$ 57,298	$ 893,600	$ 2,342,626

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

MENDING HEARTS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2019

	Resident Services	Housing Services	Total Program Services	Management and General	Fundraising	Total Management and Fundraising	Total Expenses
Payroll expenses	$ 364,079	$ 30,363	$ 394,442	$ 392,124	$ 54,080	$ 446,204	$ 840,646
Contract services	280,295	--	280,295	350	--	350	280,645
Depreciation	--	--	--	100,642	--	100,642	100,642
Utilities	--	88,165	88,165	6,725	--	6,725	94,890
Rent	--	87,400	87,400	4,525	--	4,525	91,925
Insurance	--	--	--	75,638	--	75,638	75,638
Program expenses	40,688	25,722	66,410	2,790	--	2,790	69,200
Penalties and fines	--	--	--	33,360	--	33,360	33,360
Interest	--	30,344	30,344	--	--	--	30,344
Software	--	--	--	26,807	--	26,807	26,807
Repairs and maintenance	--	25,932	25,932	--	--	--	25,932
Office supplies	17,173	--	17,173	6,375	--	6,375	23,548
Equipment rental and maintenance	--	--	--	15,442	--	15,442	15,442
Vehicle expenses	8,355	--	8,355	--	--	--	8,355
Transportation	7,060	--	7,060	265	--	265	7,325
Miscellaneous expenses	--	--	--	6,616	--	6,616	6,616
Food and beverage	937	--	937	1,330	--	1,330	2,267
Professional fees	--	--	--	930	--	930	930
Supplies	--	--	--	132	--	132	132
Total	$ 718,587	$ 287,926	$ 1,006,513	$ 674,051	$ 54,080	$ 728,131	$ 1,734,644

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

MENDING HEARTS, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
Cash Flows From Operating Activities		
Change in net assets	$ 928,033	$ 1,160,983
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	137,087	100,642
Change in value of discount	7,194	(15,908)
Realized and unrealized gains on investments	(1,165)	(132)
Penalties paid	--	(34,013)
Changes in operating assets and liabilities:		
Accounts and grants receivable	(154,373)	26,550
Security deposit	(1,250)	--
Accounts payable	(13,511)	(67,123)
Accrued expenses	(25,320)	24,145
Payroll liabilites	(63,900)	(39,402)
Deposits	(600)	--
Net Cash Provided by Operating Activities	812,195	1,155,742
Cash Flows From Investing Activities		
Proceeds from the sale of investments	1,214	--
Construction in progress	(816,196)	(7,700)
Purchases of property and equipment	(14,267)	(1,161,151)
Net Cash Used in Investing Activities	(829,249)	(1,168,851)
Cash Flows From Financing Activities		
Repayment of loan from related party	(2,350)	--
Net payments on line of credit	(45,933)	(98,543)
Proceeds from notes payable	200,135	172,218
Principal repayment of notes payable	(84,068)	(26,329)
Net Cash Provided by Financing Activities	67,784	47,346

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

MENDING HEARTS, INC.

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
Net Increase in Cash and Cash Equivalents	50,730	34,237
Cash and Cash Equivalents - Beginning	179,842	145,605
Cash and Cash Equivalents - Ending	$ 230,572	$ 179,842
Supplemental Disclosures of Cash Flow Information		
Interest paid	$ 19,717	$ 14,437
Non-cash investing and financing activities:		
Purchase of property, plant, and equipment financed through notes payable	$ 53,092	$ --

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF ORGANIZATION

Mending Hearts, Inc. (the "Organization") was incorporated under the laws of the State of Tennessee as a nonprofit organization in 2004. The Organization's mission is 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 sources, charitable contributions, and proceeds from residents and insurance organizations.

BASIS OF PRESENTATION

In accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) guidelines, the Organization reports information regarding its financial position and activities according to two classes of net assets based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

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 the Organization. These net assets may be used at the discretion of the Organization’s 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 the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. The Organization did not have any net assets with donor restrictions that are required to be held in perpetuity at June 30, 2020 and 2019.

CASH AND CASH EQUIVALENTS

The Organization considers all highly liquid demand deposits to be cash. Additionally, cash also includes other kinds of accounts which have the general characteristics of demand deposits in that the customer may deposit additional funds at any time and also effectively may withdraw funds at any time without prior notice or penalty of costs.

ACCOUNTS AND GRANTS RECEIVABLE

Accounts and grants receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through adjustments to valuation allowances based on its assessment of the current status of individual receivables. No allowance for doubtful accounts has been established as the Organization believes all receivables are fully collectible.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVENUE RECOGNITION - GRANTS AND CONTRIBUTIONS

The Organization receives a portion of its support from various grants and contributions. Revenue from unconditional grants and contributions is recognized as revenue when a pledge to give is made. Revenue from restricted grants and contributions is recognized as revenue when the restriction of the grant or contributions, either an event occurring or the passage of time, has been met. In management's opinion, all grants receivable are fully collectible. In accordance with FASB ASC guidelines, contributions and grants are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as increases to net assets with donor restrictions. When a restriction is fulfilled (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets are reclassified to net assets without donor restrictions and are reported in the statements of activities as net assets released from restrictions.

REVENUE RECOGNITION - FEDERAL AND STATE GRANTS AND CONTRACTS

Unconditional grants from the Federal Government and State of Tennessee designated for use in specific activities are recognized in the period when expenditures have been incurred in compliance with the specific grantor's requirements. Grant revenues from State and Federal agencies that are nonreciprocal are treated like contributions. Unconditional grants and contracts awarded for the acquisition of long-lived assets are reported as increases in net assets without donor restrictions, in the absence of donor stipulations to the contrary, during the fiscal year in which the assets are acquired. Cash received in excess of revenue recognized is recorded as refundable advances (when available). Certain grants and contracts require the Organization to provide certain services during specified periods. If such services are not provided during the periods, the governmental entities are not obligated to expend the funds allocated under the grants and contracts.

Revenue is recognized over the period of the grant or contract and based upon actual expenses incurred for prepayment and other reimbursement under the terms of the grants or contracts. Any unexpended and unexpired amounts are recorded as deferred revenue and unexpended grant funds. Such grant and contract revenues are treated as net assets without donor restrictions for financial statement presentation because the grant and contact requirements are satisfied in the year in which the revenue is recognized.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVENUE RECOGNITION – CONTRACTED AND RESIDENT SERVICES REVENUES

The Organization 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. The Organization 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 the Organization expects to be entitled to in exchange for providing services. The Organization also receives revenue from residents of their facilities in the form of rent, which is recognized at the time of receipt of the funds.

PROPERTY AND EQUIPMENT

Property, plant and equipment are capitalized at cost when purchased, or fair value at date of donation if contributed, less accumulated depreciation. Expenditures for repairs and maintenance are charged to expense as incurred and additions and improvements that significantly extend the lives of assets are capitalized. Furniture, equipment, buildings, and building improvements are depreciated over estimated useful lives of 5 – 39 years using a straight-line method. Leasehold improvements are depreciated over the shorter of the lease term or useful life. Construction in progress relates to the construction of buildings or improvements to buildings that are not yet completed and therefore not placed into service.

IMPAIRMENT OF LONG-LIVED ASSETS

FASB ASC 360-10-35, *Accounting for the Impairment or Disposal of Long-Lived Assets*, requires the Organization to review long-lived assets, such as property and equipment or intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. There were no impairment losses recognized during the year ended June 30, 2020 and 2019.

NOTE PAYABLE DISCOUNT

The Organization has certain notes payable that have below market interest rates. See Note 5 for further detail on interest rates. The Organization imputed $10,095 and $2,495 in interest during the years ended June 30, 2020 and 2019, respectively, related to these notes which was applied to the discount of notes payable. At June 30, 2020 and 2019 the note payable discount totaled $59,100 and $65,044 respectively.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. While most costs have been directly assigned to a functional category, certain costs have been allocated among program services and supporting services benefited. Such allocations are determined by management on an equitable basis. Expenses that are allocated consist primarily of salaries and wages expense which is allocated based on time and effort.

USE OF 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.

INCOME TAXES

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

The Organization follows FASB ASC guidance related to unrecognized tax benefits. The guidance clarifies the accounting for uncertainty in income taxes recognized in an Organization's financial statements. This guidance 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 50% likely of being realized upon ultimate settlement. There are currently no examinations pending or in progress. The Organization has no tax penalties or interest reported in the accompanying financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NEW ACCOUNTING PRONOUNCEMENTS

In June 2018, the FASB issued Accounting Standards Update (“ASU”) 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. This ASU provides additional guidance to be used to determine whether a contribution is conditional and when a transaction should be accounted for as a contribution versus an exchange transaction. The Organization adopted ASU 2018-08 as of July 1, 2019, and has applied the amendments of this standard on a modified prospective basis and elected to apply the standard only to agreements that were entered into after the effective date. This standard did not result in a material change to the financial statements or the timing of revenue recognition for the Organization’s contributions.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606), which requires an entity to recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The Organization adopted ASU 2014-09 as of July 1, 2019, and has applied the amendments of this standard using a modified retrospective approach. This adoption of this standard did not result in a material change to the financial statements or the timing of revenue recognition for the Organization.

In January 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842), which requires that a lessee recognize the assets and liabilities that arise from operating leases. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. As amended by ASU 2020-05, ASU 2016-02 is now effective for financial statements issued for annual periods beginning after December 15, 2021. Management is currently evaluating the impact ASU 2016-02 will have on the Organization’s financial statements.

SUBSEQUENT EVENTS

The Organization evaluated subsequent events through April 15, 2021, when these financial statements were available to be issued. Management is not aware of any other significant events that occurred subsequent to the statements of financial position date but prior to the filing of this report that would have a material impact on the financial statements.

NOTE 2 - CONCENTRATION OF CREDIT RISK

The Organization maintains its cash balances at three banks. The balances are insured by the Federal Deposit Insurance Corporation up to $250,000 at each institution. Cash in bank deposit accounts may, at times during the year, exceed federally insured limits. At June 30, 2020 and 2019, respectively, the Organization had no amounts in excess of FDIC insured limits.

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	2020	2019
Buildings and improvements	$ 3,288,403	$ 3,275,026
Land	316,444	316,444
Vehicles	144,601	94,088
Leasehold imporovements	53,612	53,612
Furniture and equipment	19,376	15,907
Construction in progress	876,396	60,200
Total property and equipment	4,698,832	3,815,277
Less: Accumulated depreciation	(553,396)	(416,309)
Property and Equipment, Net	$ 4,145,436	$ 3,398,968

The Organization 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.

Construction in progress totaling $876,396 and $60,200 at June 30, 2020 and 2019, respectively, represent ongoing construction related to new facilities and renovations to the Organization’s residential treatment center.

Depreciation expense totaled $137,087 and $100,642 for the years ended June 30, 2020 and 2019, respectively.

NOTE 4 - OPERATING LEASES

The Organization leases various facilities and residential properties to carry out its program objectives. The lease agreements require monthly payments ranging from $1,200 to $4,550, with expiration dates between October 31, 2021 and September 30, 2022. Rent expense totaled $86,675 and $91,925 for the years ended June 30, 2020 and 2019, respectively.

Future rental payments under operating leases are as follows for the years ending June 30:

For the Year Ending June 30,	Amount
2021	$ 47,525
2022	16,500
2023	4,200
	$ 68,225

NOTE 5 - NOTES PAYABLE

Notes payable consist of the following at June 30:

	2020	2019
Note payable to a financial institution for purchase of real estate, payable in monthly principal and interest payments of $604. Interest is charged at a rate of 4.25%. All unpaid principal and interest are due May 2021. The note is secured by real estate.	$ 62,379	$ 66,831
Note payable to a financial institution for purchase of real estate, payable in monthly principal and interest payments of $1,676. Interest is charged at a rate of 1.5%. All unpaid principal and interest are due March 2024. The note is secured by real estate.	182,676	201,279
Note payable to a financial institution for purchase of real estate, payable in monthly principal and interest payments of $883. Interest is charged at a rate of 5.5%. All unpaid principal and interest are due December 2023. The note is secured by real estate.	122,071	125,728

NOTE 5 - NOTES PAYABLE (CONTINUED)

	2020	2019
Note payable to a financial institution for purchase of real estate, payable in monthly principal and interest payments of $427. Interest is charged at a rate of 0.0%. All unpaid principal is due April 2025. The note is secured by real estate.	52,239	56,503
Note payable to a financial institution under the Paycheck Protection Program. Subject to potential forgiveness, as described below, the note matures April 2022 and would require monthly payments of principal and interest of $11,263 beginning in November 2020. Interest is charged at a rate of 1.0%.	200,135	--
Total Notes Payable	619,500	450,341
Less: Current portion	(87,515)	(82,012)
Notes Payable, Net of Current Portion	531,985	368,329
Less: Discount	(56,795)	(63,989)
Notes Payable, Net of Current Portion and Discount	$ 475,190	$ 304,340

On April 17, 2020, the Organization received a loan (the "PPP Loan") from Pinnacle Bank ("Pinnacle") in the amount of $200,135 under the Paycheck Protection Program established by the Coronavirus Aid, Relief and Economic Security Act. Subject to potential forgiveness, as described below, the PPP Loan matures in two years on April 17, 2022, bears interest at a rate of 1.0% per year and is evidenced by a promissory note dated April 17, 2020 (the "Note"). Monthly payments of principal and interest are deferred until Pinnacle receives either approval or rejection of loan forgiveness from the U.S. Small Business Administration ("SBA") ("deferment period"). Interest will continue to accrue during this deferment period.

NOTE 5 - NOTES PAYABLE (CONTINUED)

The PPP loan is unsecured and federally guaranteed. The Note contains customary events of default relating to, among other things, failure to make payments of principal and interest and breaches of representations and warranties. The Organization may prepay the PPP Loan at any time prior to maturity with no penalty. All or a portion of the PPP Loan may be eligible to be forgiven by the SBA and the lender upon application by the Organization, provided that the Organization shall have used the loan proceeds for eligible purposes, including the payment of payroll, benefits, rent, mortgage interest and utilities, during the 24-week period beginning on the date of funding of the loan (the “covered period”). Not more than 40% of the amount forgiven may be for non-payroll costs. The Organization has submitted for forgiveness of the PPP Loan. Consistent with the requirements of the PPP for loan forgiveness, the Organization used the loan proceeds solely for payment of payroll and otherwise in a manner which it believes satisfy the requirements for loan forgiveness. However, no assurance can be given that any application for loan forgiveness that the Organization may submit will be approved, in whole or in part.

Future principal payments under notes payable as of June 30, 2020 are as follows:

For the Year Ending June 30,	Amount
2021	$ 87,515
2022	227,206
2023	27,576
2024	245,748
2025	31,455
	$ 619,500

NOTE 6 - LINE OF CREDIT

The Organization maintains a line of credit with a financial institution, allowing maximum borrowings of $100,000. Interest on outstanding borrowings is computed as one percentage point over a lender bank-determined index (4.25% and 6.25% at June 30, 2020 and 2019, respectively). The outstanding principal balance due under the line credit was $0 and $45,933 as of June 30, 2020 and 2019, respectively, and the line matures on May 26, 2021.

NOTE 7 - LOAN FROM RELATED PARTY

During the year ended June 30, 2019, the Organization's president loaned the Organization $31,375 to cover expenses in the short term. The outstanding balance due at June 30, 2019 was $2,350, which was paid in full during the year ended June 30, 2020. No related party notes payable remained at June 30, 2020.

NOTE 8 - LIQUIDITY OF ORGANIZATION

The Organization has a goal to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Organization considers general expenditures to be all expenditures related to its ongoing activities of achieving its mission.

The following table represents the Organization's financial assets as of June 30, 2020 and 2019, reduced by amounts not available for general expenditure within one year:

	2020	2019
Financial Assets		
Cash and cash equivalents	$ 230,572	$ 179,842
Accounts and grants receivable	222,775	68,402
Investments	83	132
Total Financial Assets	453,430	248,376
Less: Amounts not available to be used for general expenditures within one year:		
Net assets with donor restrictions	(2,500)	(60,200)
Financial Assets Available to Meet General Obligations within One Year	$ 450,930	$ 188,176

NOTE 9 - NET ASSETS WITH DONOR RESTRICTIONS

All of the Organization's net assets with donor restrictions are restricted for use within specific programs and totaled $2,500 and $60,200 at June 30, 2020 and 2019, respectively.

NOTE 10 - RISKS AND UNCERTAINTIES

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic which continues to spread throughout the United States of America and the World. The Organization is monitoring the outbreak of COVID-19 and the related business and travel restrictions and changes to behavior intended to reduce its spread, in addition to the impact on its employees. Due to the rapid development and fluidity of this situation, the magnitude and duration of the pandemic and its impact on the Organization's liquidity is uncertain as of the date of this report. While there could ultimately be a material impact on operations and liquidity of the Organization, at the time of issuance, the impact could not be determined.

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

To the Board of Directors of
Mending Hearts, Inc.

We have audited, in accordance with the 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, the financial statements of Mending Hearts, Inc. (the "Organization") which comprise the statement of financial position as of June 30, 2020 and the related statements of activities, functional expenses and cash flows for the year then ended and the related notes to the financial statements and have issued our report thereon dated April 15, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization’s internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

Marcum LLP

Nashville, TN
April 15, 2021

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE AS REQUIRED BY UNIFORM GUIDANCE

To the Board of Directors of
Mending Hearts, Inc.

Report on Compliance for Each Major Federal Program

We have audited Mending Hearts, Inc.'s (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2020. The Organization's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibilities

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States and audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

MARCUMGROUP
MEMBER

Marcum LLP ▪ 401 Commerce Street ▪ Suite 1250 ▪ Nashville, Tennessee 37219 ▪ Phone 615.245.4000 ▪ Fax 615.245.4001 ▪ www.marcumllp.com

Opinion on Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2020.

Report on Internal Control over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2020-001 that we consider to be a significant deficiency.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Marcum LLP

Nashville, TN
April 15, 2021

MENDING HEARTS, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2020

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Grant/ Contract Number	Passed Through to Subrecipients	Federal Expenditures
Federal Awards				
U.S. Department of Health and Human Services				
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	1H79TI082707-01	$ --	$ 34,000
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	6H79TI081374-02	--	639,919
			--	673,919
Pass-Through Program from:				
State of Tenessee Department of Mental Health and Substance Abuse Services				
Opiod STR	93.788	093CFB-NSP-22	--	429,340
Total U.S. Department of Health and Human Services			--	1,103,259
U.S. Department of Transportation				
Pass-Through Program from:				
Nashville Metropolitan Transit Authority	20.507	TN-2019-024-00	--	61,380
Total U.S. Department of Transportation			--	61,380
Total Expenditures of Federal Awards			$ --	$ 1,164,639

MENDING HEARTS, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2020

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Mending Hearts, Inc. (the "Organization") under programs of the federal government for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Organization.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 - INDIRECT COST RATE

The Organization did not elect to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance; however, no indirect costs were allocated to the awards during the year ended June 30, 2020.

MENDING HEARTS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2020

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued on whether the financial statements audited were prepared in accordance with GAAP:	*Unmodified Opinion*
Internal control over financial reporting:	
• Material weakness(es) identified?	_____ Yes __X__ No
• Significant deficiency(ies) identified?	_____ Yes __X__ None Reported
Noncompliance material to financial statements noted?	_____ Yes __X__ No

Federal Awards

Internal control over major federal program:	
• Material weakness(es) identified?	_____ Yes __X__ No
• Significant deficiency(ies) identified?	__X__ Yes _____ None Reported
Type of auditors' report issued on compliance for major federal program:	*Unmodified Opinion*
Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a)?	_____ Yes __X__ No

Identification of major federal program:

Name of Federal Program	CFDA Number
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243

Dollar Threshold Used to Distinguish between Type A and Type B Programs	$750,000
Auditee qualified as low-risk auditee?	_____ Yes __X__ No

II. FINANCIAL STATEMENT FINDINGS

No current year findings are reported relating to the financial statements.

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Item #2020-001
Substance Abuse and Mental Health Services Projects of Regional and National Significance
CFDA No. 93.243

Criteria
Mending Hearts, Inc. (the "Organization") currently has no process whereby drawdown requests and underlying calculations are reviewed prior to submission.

Condition and Context
The monthly drawdown requests and underlying calculations submitted for reimbursement under the federal grant were not reviewed by an independent party prior to submission.

Questioned Cost
None

Cause
The Organization's management was unaware that an independent review of the drawdown requests submitted was necessary.

Effect
The Organization submitted drawdown requests that were not reviewed by third party other than the preparer prior to submission.

Recommendation
We recommend the Organization's management implement procedures whereby requests made in accordance with grant terms are reviewed by an independent party prior to submission to help ensure intentional or unintentional errors do not occur.

Views of Responsible Officials and Planned Corrective Actions
The Organization agrees with the finding and the recommended procedures will be implemented.

IV. PRIOR YEAR FINDINGS

No prior year findings were reported relating to the financial statements. In addition, no findings or questioned costs were reported relating to federal awards programs.

Mending Hearts | RESTORING WOMEN. RECLAIMING LIVES.

April 15, 2021

Management's Corrective Action Plan

Mending Heats, Inc. respectfully submits the following corrective action plan for the year ended June 30, 2020.

Item #2020-001
Substance Abuse and Mental Health Services Projects of Regional and National Significance
CFDA No. 93.243

Criteria
Mending Hearts, Inc. (the "Organization") currently has no process whereby drawdown requests and underlying calculations are reviewed prior to submission.

Condition and Context
The monthly drawdown requests and underlying calculations submitted for reimbursement under the federal grant were not reviewed by an independent party prior to submission.

Questioned Cost
None

Cause
The Organization's management was unaware that an independent review of the drawdown requests submitted was necessary.

Effect
The Organization submitted drawdown requests that were not reviewed by someone other than the preparer prior to submission.

Auditor's Recommendation
We recommend the Organization's management implement procedures whereby requests made in accordance with grant terms are reviewed by an independent party prior to submission to help ensure intentional or unintentional errors do not occur.

Management's Response
The Organization agrees with the finding and the recommended procedures will be implemented.

Persons Responsible
Katrina Frierson, President & CEO
Tracie Henson, Chief Operating Officer

Completion Date
April 30, 2021