

MENDING HEARTS, INC.

**INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS**

JUNE 30, 2011

MENDING HEARTS, INC.

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INDEPENDENT AUDITOR'S REPORT

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

I have audited the accompanying statement of financial position of Mending Hearts Inc. (a Tennessee not-for-profit organization) as of June 30, 2011, and the related statements of activities, cash flows, and functional expenses for the year then ended. These financial statements are the responsibility of the organization's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my 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, 2011, and the changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Maurice Danner, CPA P.C.

December 18, 2011
Antioch, Tennessee

Member of American Institute of Certified Public Accountants

MENDING HEARTS, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2011

Assets

Cash	\$ 5,881
Contracts Receivable	31,860
Furniture, Equipment and Vehicles, net	6,282
Other Assets	<u>33,600</u>
Total Assets	<u><u>\$ 77,623</u></u>

Liabilities and Net Assets

Accounts Payable	908
Payroll Liabilities	9,585
Accrued Expenses	12,200
Line of Credit	18,150
Loan payable	<u>20,000</u>
Total Liabilities	<u>60,843</u>

Net Assets

Unrestricted	<u>16,780</u>
Total Net Assets	<u>16,780</u>

Total Liabilities and Net Assets	<u><u>\$ 77,623</u></u>
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The accompanying notes are an integral part of these financial statements.

MENDING HEARTS, INC.
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2011

Unrestricted

Revenues and Other Support

Grants and Contracts	\$ 483,780
Resident Fees	134,758
Contributions	<u>50,117</u>
Total Revenues and Other Support	<u>668,655</u>

Expenses

Program Services	432,297
Management and General	237,828
Fundraising	<u>4,302</u>
Total Expenses	<u>674,427</u>

Change in Net Assets (5,772)

Net Assets at beginning of year 22,552

Net Assets at end of year \$ 16,780

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

MENDING HEARTS, INC.
STATEMENT OF CASH FLOWS
JUNE 30, 2011

Cash Flows From Operating Activities

Increase (Decrease) in net assets	\$ (5,772)
Adjustments to reconcile increase in net assets to net cash flows provided by operating activities:	
Contracts Receivable	(31,860)
Visa Payable	974
Payroll Liabilities	<u>9,825</u>

Net Cash provided (used) by Operating Activities (26,833)

Investing Activities

Appliances	3,013
Furniture	96
Vehicles	(1,855)
Accumulated Depreciation	2,419
Building Deposit	<u>(5,800)</u>
Net Cash Used by Investing Activities	<u>(2,127)</u>

Financing Activities

Loans Payable	19,784
Opening Balance Equity	<u>(6,333)</u>
Net Cash Provided by Financing Activities	<u>13,451</u>

Change in Cash and Cash Equivalents (15,509)

Cash and Cash Equivalents at beginning of year 21,391
Cash and Cash Equivalents at end of year \$ 5,882

Interest Paid \$ 749

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

MENDING HEARTS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
JUNE 30, 2011

	Program Services	Management & General	Fundraising	Total
Payroll Expense	207,150	179,794		386,944
Supplies	14,130			14,130
Transportation	8,597			8,597
Resident Fees	1,741			1,741
Professional Fees and Contract	55,384	16,269		71,653
Utilities	30,234	17,007		47,241
Communications	19,317			19,317
Occupancy	66,913	2,398		69,311
Repairs and Maintenance	26,967			26,967
Insurance	1,430	5,389		6,819
Equipment		4,551		4,551
Event Expense			4,302	4,302
License and Permits		4,323		4,323
Travel		1,310		1,310
Interest Expense		749		749
Depreciation	212	24		236
Miscellaneous	222	6,014		6,236
Total Expenses	<u>\$ 432,297</u>	<u>\$ 237,828</u>	<u>\$ 4,302</u>	<u>\$ 674,427</u>

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

MENDING HEARTS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General and Nature of Activities

Mending Hearts, Inc. is a Tennessee Not-For-Profit corporation(the “Organization”), was organized to assist women in seeking to overcome drug addiction by providing transitional shelter, food, clothing, counseling and other necessities.

Basis of Presentation

The financial statements of the Organization have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash held in checking and savings accounts. At year end and throughout the year, The Organization’s cash balances were deposited in one bank. Management believes the Organization is not exposed to any significant credit risks on cash and cash equivalents.

Property and Equipment

Fixed assets are capitalized at cost at the date of purchase or fair value at the date of donation. Depreciation is taken on a straight-line basis over the estimated useful life of the assets.

MENDING HEARTS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Support and Expenses

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. The organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activity as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

The organization reports gifts of goods and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the organization reports expirations of donor restrictions when the acquired long-lived assets are placed in service.

Expenses are recorded when incurred in accordance with the accrual basis of accounting.

Income Taxes

The Organization is a tax-exempt entity under Section 501(c)3 of the Internal Revenue Code and is not a private foundation. Accordingly, no provision for income taxes is included in the accompanying financial statements.

MENDING HEARTS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 2 – GRANT AND CONTRACTS RECEIVABLE

Grants and Contracts Receivable represents revenue earned but not received as of June 30, 2011. An allowance for uncollectible accounts was not considered necessary at June 30, 2011. The contracts receivable balance at June 30, 2011 was \$31,860.

NOTE 3 – PROPERTY AND EQUIPMENT

Property and Equipment consisted of the following ar June 30, 2011:

Furniture and Equipment	\$ 11,436
Vehicles	<u>7,855</u>
	\$ 19,291
Less accumulated depreciation	<u>(13,009)</u>
	<u>\$ 6,282</u>

NOTE 4 – FUNCTIONAL ALLOCATION OF EXPENSES

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

NOTE 5 – LEASE COMMITMENTS

The organization has entered into several cancelable operating leases for residential housing including a lease agreement for its office administrative space. The leases have various commencement dates. Total monthly rent payments amount to \$7,530. Total rent paid for the year ended June 30, 2011 was \$69,311. Future minimum lease payments are as follows:

Fiscal year ending June 30,	2012	\$61,510
	2013	15,130

MENDING HEARTS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 6 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through December 18, 2011, which is the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.