MENDING HEARTS, INC.

FINANCIAL STATEMENTS

FOR THE YEARS ENDED

JUNE 30, 2019 AND 2018

MENDING HEARTS, INC.

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CPA CONSULTING GROUP, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

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

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, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mending Hearts, Inc. as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CPA Consulting Group, PLLC

Nashville, Tennessee
December 12, 2019

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MENDING HEARTS, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018

ASSETS

CURRENT ASSETS	2019	2018
Cash and cash equivalents	179,842	145,605
Investments	132	1,425
Accounts receivable	68,402	94,952
Total current assets	248,376	241,982
PROPERTY, PLANT, AND EQUIPMENT		
Furniture and fixtures	15,907	15,907
Buildings and improvements	3,328,638	2,124,499
Vehicles	94,088	89,286
Land	316,444	247,903
Construction in progress	60,200	99,226
Accumulated depreciation	(416,309)	(315,666)
Total property, plant, and equipment, net	3,398,968	2,261,155
OTHER ASSETS		
Discount on note payable	63,989	79,897
Security deposit	1,055	1,055
Total other assets	65,044	80,952
Total assets	3,712,388	2,584,089

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	77,020	144,143
Payroll liabilities	65,740	105,142
Loan from related party	2,350	-
Accrued expenses	55,224	31,079
Current portion of notes payable	82,012	25,979
Deposits	600	600
Total current liabilities	282,946	306,943
LONG-TERM DEBT		
Notes payable, net of current portion	368,329	323,191
Line of credit	45,933	99,758
Total long-term liabilities	414,262	422,949
Total liabilities	697,208	729,892
NET ASSETS		
Net assets without donor restrictions	2,954,980	1,754,971
Net assets with donor restrictions	60,200	99,226
Total net assets	3,015,180	1,854,197
Total liabilities and net assets	3,712,388	2,584,089

See accompanying notes to financial statements and independent auditors' report.

MENDING HEARTS, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019			2018		
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total Net Assets	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total Net Assets
REVENUE AND OTHER SUPPORT						
Grants	$ 1,671,410	$ 60,200	$ 1,731,610	$ 491,911	$ 99,226	$ 591,137
Contributions	49,036	-	49,036	140,708	-	140,708
Special events, net of direct costs of $44,532 and $14,696, respectively	193,126	-	193,126	45,574	-	45,574
Insurance proceeds	84,657	-	84,657	341,820	-	341,820
Contracted services	107,019	-	107,019	594,370	-	594,370
Resident services	731,308	-	731,308	90,554	-	90,554
Unrealized gain or (loss)	(1,129)	-	(1,129)	476	-	476
Assets released from restriction	99,226	(99,226)	-	37,919	(37,919)	-
Total revenue and other support	2,934,653	(39,026)	2,895,627	1,743,332	61,307	1,804,639
EXPENSES						
Management and general	728,131	-	728,131	601,624	-	601,624
Program services	1,006,513	-	1,006,513	897,261	-	897,261
Total expenses	1,734,644	-	1,734,644	1,498,885	-	1,498,885
CHANGE IN NET ASSETS	1,200,009	(39,026)	1,160,983	244,447	61,307	305,754
NET ASSETS, BEGINNING OF YEAR	1,754,971	99,226	1,854,197	1,510,524	37,919	1,548,443
NET ASSETS, END OF YEAR	$ 2,954,980	$ 60,200	$ 3,015,180	$ 1,754,971	$ 99,226	$ 1,854,197

See accompanying notes to financial statement and independent auditors' report.

MENDING HEARTS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019

	Resident Services	Housing Services	Total Program Services	Management	Fundraising	Total Management and Fundraising	Total Expenses
Accounting	$ -	$ -	$ -	$ 200	$ -	$ 200	$ 200
Advertising	-	-	-	730	-	730	730
Bank fees	-	-	-	6,477	-	6,477	6,477
Contract services	280,295	-	280,295	350	-	350	280,645
Depreciation	-	-	-	100,642	-	100,642	100,642
Employee benefits	-	-	-	36,186	-	36,186	36,186
Equipment rental & maintenance	-	-	-	15,442	-	15,442	15,442
Food & beverage	937	-	937	1,330	-	1,330	2,267
Insurance	-	-	-	75,638	-	75,638	75,638
Interest	-	30,344	30,344	-	-	-	30,344
Office expenses	17,173	-	17,173	6,375	-	6,375	23,548
Payroll taxes	26,082	2,203	28,285	30,917	4,080	34,997	63,282
Penalties & fines	-	-	-	33,360	-	33,360	33,360
Program expenses	40,688	25,722	66,410	2,790	-	2,790	69,200
Repairs & maintenance	-	25,932	25,932	-	-	-	25,932
Rent	-	87,400	87,400	4,525	-	4,525	91,925
Salaries	337,997	28,160	366,157	325,021	50,000	375,021	741,178
Software	-	-	-	26,807	-	26,807	26,807
Staff development	-	-	-	139	-	139	139
Supplies	-	-	-	132	-	132	132
Transportation	7,060	-	7,060	265	-	265	7,325
Utilities	-	88,165	88,165	6,725	-	6,725	94,890
Vehicle expenses	8,355	-	8,355	-	-	-	8,355
Total	$ 718,587	$ 287,926	$ 1,006,513	$ 674,051	$ 54,080	$ 728,131	$ 1,734,644

See accompanying notes to financial statement and independent auditors' report.

MENDING HEARTS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018

	Resident Services	Housing Services	Total Program Service	Management	Fundraising	Total Management and Fundraising	Total Expenses
Accounting	$ -	$ -	$ -	$ 5,000	$ -	$ 5,000	$ 5,000
Advertising	-	-	-	2,670	-	2,670	2,670
Bank fees	-	-	-	7,957	-	7,957	7,957
Contract services	148,500	-	148,500	6,096	-	6,096	154,596
Depreciation	-	-	-	90,464	-	90,464	90,464
Employee benefits	-	-	-	38,211	-	38,211	38,211
Equipment rental & maintenance	-	-	-	5,540	-	5,540	5,540
Food & beverage	1,935	-	1,935	1,304	-	1,304	3,239
Insurance	-	-	-	52,292	-	52,292	52,292
Interest	-	22,237	22,237	-	-	-	22,237
In-kind donations	229	-	229	-	-	-	229
Office expenses	14,607	-	14,607	5,511	-	5,511	20,118
Payroll taxes	30,087	2,415	32,502	17,843	2,881	20,724	53,226
Penalties & fines	-	-	-	37,589	-	37,589	37,589
Program expenses	17,004	10,139	27,143	4,904	-	4,904	32,047
Rent	-	85,900	85,900	9,660	-	9,660	95,560
Repairs & maintenance	-	20,556	20,556	-	-	-	20,556
Salaries	394,193	30,929	425,122	246,560	21,211	267,771	692,893
Software	-	-	-	32,320	-	32,320	32,320
Staff development	-	-	-	8,019	-	8,019	8,019
Supplies	-	-	-	583	-	583	583
Transportation	6,383	-	6,383	1,226	-	1,226	7,609
Utilities	-	112,147	112,147	3,783	-	3,783	115,930
Total	$ 612,938	$ 284,323	$ 897,261	$ 577,532	$ 24,092	$ 601,624	$ 1,498,885

See accompanying notes to financial statement and independent auditors' report.

MENDING HEARTS, INC.
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

CASH FLOWS FROM OPERATING ACTIVITIES	2019	2018
Increase in net assets	$ 1,160,983	$ 305,754
Adjustments to reconcile increase in net assets to net cash flows provided by operating activities:		
Depreciation	100,642	90,464
Prior period adjustment	-	26,059
Amortization of discount	(15,908)	(15,035)
Unrealized (gains) or loss	(132)	(1,425)
Penalties paid	(34,013)	-
(Increase) decrease in operating assets:		
Accounts receivable	26,550	(62,526)
Increase (decrease) in operating liabilities:		
Accounts payable	(67,123)	123,129
Discount on note payable	-	(79,897)
Deposits	-	600
Accrued expenses	24,145	-
Payroll liabilities	(39,402)	(14,186)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,155,742	372,937
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction in progress	(7,700)	(99,227)
(Purchase)/disposal of equipment	(1,161,151)	(269,462)
NET CASH PROVIDED BY INVESTING ACTIVITIES	(1,168,851)	(368,689)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	172,218	39,000
Principal loan payments	(26,329)	(33,065)
Line of credit payments	(98,543)	-
NET CASH FLOW USED BY FINANCING ACTIVITIES	47,346	5,935
NET DECREASE IN CASH	34,237	10,183
BEGINNING CASH	145,605	135,422
ENDING CASH	$ 179,842	$ 145,605

SUPPLEMENTAL INFORMATION:

Interest paid	$ 14,437	$ 7,202

See accompanying notes to financial statements and independent auditors' report.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

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

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as followed:

Net assets without donor restrictions are resources available to support operations. The only limits on the use of net assets without donor restriction are the broad limits resulting from the nature of the Organization, the environment in which it operates, the purposes specified in the corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into the course of its operations.

Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose or in a particular future period. The Organization's unspent contributions are reported in this class if the donor limited their use, along with promised contributions that are not yet due. Contributions of property and equipment or cash restricted to acquisition of property and equipment are reported as net assets with donor restrictions if the donor has restricted the use of the property or equipment to a particular program. If donors specify a length of time over which the property or equipment must be used, the restrictions expire evenly over the required period. Absent that type of restriction for use, the Organization considers the restriction met when the assets are placed in service. When a donor restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from with donor restrictions to without donor restrictions.

Cash and Cash Equivalents

The Organization considers all cash funds, cash bank accounts and highly liquid debt instruments, with an original maturity when purchased of three months or less, to be cash and cash equivalents.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

Accounts receivable are reimbursements of grant work done under reimbursable grants and are considered income when the invoiced is submitted. Accounts receivable that are expected to be collected in less than one year are reported at net realizable value. Accounts receivable that are expected to be collected in more than one year are recorded at fair value at the date of invoice. That fair value is computed using a present value technique applied to anticipated cash flows. Amortization of the resulting discount is recognized as additional contribution revenue. Promises that remain uncollected more than one year after their due dates are written off unless the donors indicate that payment is merely postponed.

Accounting for Contributions

Contributions are recognized when received and are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Property and Equipment

Property and equipment are recorded at cost to the Organization or, if donated, at the estimated fair market value at the date of donation. All depreciation is computed using the straight-line method based on the estimated useful life of the asset. Estimated useful lives are 5 - 39 years, The Organization does not have a capitalization policy. Expenditures for repairs and maintenance are charged to operations when incurred. Depreciation expense was 100,642 and 90,464 for the years ended June 30, 2019 and 2018, respectively.

Expense Allocation

The costs of providing program services and supporting services have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among program and supporting services based on actual or estimated time employees spend on each function.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Organization is a nonprofit organization exempt from income taxes under section 501(c)(3) of the Internal Revenue Code, and the Organization is classified as an organization that is not a private foundation as defined in Section 509(a) of the Internal Revenue Code. In accordance with GAAP, management evaluates the Organization's federal and state income tax regulatory filing positions to identify uncertain tax positions for consideration of whether to record an accrued liability or disclose a potential liability. Management has not identified any material uncertain tax positions that require financial statement recognition as of June 30, 2019 and 2018. The Organization's federal and state income tax and regulatory filings are subject to examination by the applicable taxing or regulatory authority generally for a period of three years after a return is filed.

Subsequent Events

Management has evaluated subsequent events through December 12, 2019, the date the financial statements were available to be issued. See Note 9 for more details.

Adoption of Account Pronouncement

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. ASU 2016-14 requires significant changes to the financial reporting model of organizations who follow the not-for-profit reporting model. The changes include reducing the classes of net assets from three to two: net assets with donor restrictions and net assets without donor restrictions. The ASU also changes the way certain information is aggregated and reported by the Organization, including required disclosures about liquidity and availability of resources and increased disclosures on functional expenses. The new standard is effective for the Organization's year ending June 30, 2019 and thereafter and must be applied on a retrospective basis. The Organization adopted the ASU effective July 1, 2017. Adoption of the ASU did not result in any reclassifications or restatements to net assets or changes in net assets.

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, 2019, 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:

	2019	2018
Buildings & improvements	3,328,638	2,124,499
Land	316,444	247,903
Vehicles	94,088	89,286
Furniture and equipment	15,907	15,907
Total property and equipment	3,755,077	2,477,595
Less accumulated depreciation	(416,309)	(315,666)
Net property and equipment	3,338,768	2,161,929

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.

NOTE 4 – LEASES

The Organization leases facilities to carry out its programs. One lease has an automatic annual renewal, one has a month to month renewal and a third lease expires on September 30, 2023. Rent expense totaled $91,925 and 95,560 for the years ended June 30, 2019 and 2018, respectively. Future rental payments under operating leases are as follows for the years ended June 30:

2020	$	96,525
2021		98,400
2022		99,600
2023		45,750
	$	340,275

NOTE 5 – LINE OF CREDIT

During 2017, the Organization renewed a promissory note for a revolving line of credit with a maximum principal amount of $100,000. The line of credit requires interest payments on outstanding principal at a rate of one percentage point over a lender bank-determined index. At June 30, 2019 and 2018, this rate was 6.25% and 6.00% per annum, respectively. The line of credit maturity date was amended in May 2017, and matures on May 26, 2021.

The line of credit had an outstanding balance of $45,933 and $99,758 at June 30, 2019 and 2018, respectively.

NOTE 6 – NOTES PAYABLE

The Organization had three outstanding loans at June 30, 2018 and four at June 30, 2019. The total balance as of June 30, 2019 and 2018 was $450,341 and $349,170, respectively. All loans are held with Pinnacle Bank. Two loans have variable rates that range from 0% to 4%, which are below market value. Two loans have a fixed rate of 4.25% and 5.5%. The earliest loan matures on April 10, 2020, and the latest matures March 13, 2024.

Future principal payments under note payable obligations as of June 30, 2019, for each of the remaining five years, and in aggregate thereafter, are as follows:

Years Ending June 30:		
2020	$	82,012
2021		83,808
2022		21,969
2023		22,475
2024		240,077
	$	450,341

NOTE 7 – RELATED PARTY TRANSACTIONS

During the year ended June 30, 2019 Katrina Frierson, President of the Organization, loaned the Organization $31,375 to cover expenses in the short term. These amounts, except $2,350 were paid back by June 30, 2019, without interest.

Charlotte Frierson, Vice President of the Organization, loaned the Organization $7,610 in the year ended June 30, 2018, and was paid back in the same year.

NOTE 8 – LIQUIDITY OF ORGANIZATION

At June 30, 2019, the Organization had $179,842 cash and equivalents available to meet needs for general expenditures. Accordingly, all funds without restrictions are available to meet the cash needs of the Organization for the next 12 months. As of the date of this report, the Organization does not have a specific policy for how much cash needs to be in reserve at any given point, nor does it have a policy as to what can be done with any surplus funds. The Organization manages its liquidity by developing and adopting annual operating budgets that provide sufficient funds for general expenditures in meeting its liabilities and other obligations as they become due. Cash needs of the Organization are expected to be met on a monthly basis from its various sources of support as reported on its statement of activities.

NOTE 9 – SUBSEQUENT EVENTS

As of December 12, 2019, the Organization renewed their office lease on October 1, 2019. The new lease agreement increases rent to $1,200 per month and increases by $100 every 12 months during the life of the lease. The lease expires on September 30, 2022.

A former employee of the Organization filed a claim for breach of contract after the fiscal year ended, as of the time of this audit, the matter was settled in the amount of $11,314. The legal fees related to this matter were $6,105.