

MENDING HEARTS, INC.

**FINANCIAL STATEMENTS
AND REPORTING REQUIRED UNDER
THE FEDERAL UNIFORM GUIDANCE**

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

MENDING HEARTS, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Mending Hearts, Inc.

Report on the Financial Statements

Opinion

We have audited the financial statements of Mending Hearts, Inc., which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Mending Hearts, Inc. as of June 30, 2022 and 2021, 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.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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



Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Mending Hearts, Inc.'s internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Mending Hearts, Inc.'s ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards and schedule of state financial assistance, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards are presented for purposes of additional analysis and are 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 schedule of expenditures of federal awards and schedule of state financial assistance are 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 November 3, 2022, on our consideration of the 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Mending Hearts, Inc.'s 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 the Mending Hearts, Inc.'s internal control over financial reporting and compliance.

Marcum LLP

Nashville, TN
November 3, 2022

MENDING HEARTS, INC.
STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2022 AND 2021

Assets	<u>2022</u>	<u>2021</u>
Current Assets		
Cash and cash equivalents	\$ 913,916	\$ 527,217
Accounts and grants receivable	<u>169,087</u>	<u>149,477</u>
Total Current Assets	<u>1,083,003</u>	<u>676,694</u>
Property and Equipment, Net	<u>4,446,721</u>	<u>4,507,348</u>
Other Assets		
Security deposits	<u>1,000</u>	<u>1,750</u>
Total Other Assets	<u>1,000</u>	<u>1,750</u>
Total Assets	<u>\$ 5,530,724</u>	<u>\$ 5,185,792</u>

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

MENDING HEARTS, INC.
STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2022 AND 2021

Liabilities and Net Assets	2022	2021
Current Liabilities		
Accounts payable	\$ 34,411	\$ 111,527
Accrued expenses	48,623	35,986
Payroll liabilities	896	6,277
Current portion of notes payable	27,576	27,071
Total Current Liabilities	111,506	180,861
Long-Term Debt		
Notes payable, net of current portion and discount	354,974	576,358
Deferred revenue	46,591	--
Total Long-Term Liabilities	401,565	576,358
Total Liabilities	513,071	757,219
Net Assets		
Net assets without donor restrictions	4,872,509	4,426,073
Net assets with donor restrictions	145,144	2,500
Total Net Assets	5,017,653	4,428,573
Total Liabilities and Net Assets	\$ 5,530,724	\$ 5,185,792

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

MENDING HEARTS, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Other Support						
Grants	\$ 1,360,354	\$ 142,644	\$ 1,502,998	\$ 1,195,177	\$ --	\$ 1,195,177
Contracted services	1,291,537	--	1,291,537	1,034,794	--	1,034,794
Special events, net of direct costs of \$11,586 and \$4,488, respectively	68,064	--	68,064	121,828	--	121,828
Resident services	625,719	--	625,719	525,910	--	525,910
Contributions	118,920	--	118,920	59,851	--	59,851
Realized and unrealized gain (loss)	351	--	351	(1,120)	--	(1,120)
Gain on the sale of fixed assets	--	--	--	1,000	--	1,000
Paycheck protection loan forgiveness	202,076	--	202,076	202,197	--	202,197
Assets released from restriction	--	--	--	--	--	--
Total Revenue and Other Support	<u>3,667,021</u>	<u>142,644</u>	<u>3,809,665</u>	<u>3,139,637</u>	<u>--</u>	<u>3,139,637</u>
Expenses						
Program services	2,538,592	--	2,538,592	2,121,018	--	2,121,018
Management and general	525,568	--	525,568	418,180	--	418,180
Fundraising	156,425	--	156,425	115,079	--	115,079
Total Expenses	<u>3,220,585</u>	<u>--</u>	<u>3,220,585</u>	<u>2,654,277</u>	<u>--</u>	<u>2,654,277</u>
Change in Net Assets	446,436	142,644	589,080	485,360	--	485,360
Net Assets at Beginning of Year	<u>4,426,073</u>	<u>2,500</u>	<u>4,428,573</u>	<u>3,940,713</u>	<u>2,500</u>	<u>3,943,213</u>
Net Assets at End of Year	<u>\$ 4,872,509</u>	<u>\$ 145,144</u>	<u>\$ 5,017,653</u>	<u>\$ 4,426,073</u>	<u>\$ 2,500</u>	<u>\$ 4,428,573</u>

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

MENDING HEARTS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2022

	Resident Services	Housing Services	Total Program Services	Management and General	Fundraising	Total Management and Fundraising	Total Expenses
Salaries	\$ 954,172	\$ 44,658	\$ 998,830	\$ 249,771	\$ 136,046	\$ 385,817	\$ 1,384,647
Contract Services	559,792	--	559,792	--	--	--	559,792
Program expenses	194,862	--	194,862	--	--	--	194,862
Depreciation	--	147,120	147,120	21,034	--	21,034	168,154
Repairs & maintenance	--	137,307	137,307	30,419	--	30,419	167,726
Employee Benefits	65,851	--	65,851	49,330	--	49,330	115,181
Utilities	17,147	75,036	92,182	17,122	--	17,122	109,304
Payroll taxes	68,813	3,372	72,185	23,340	5,872	29,212	101,397
Insurance	23,050	19,123	42,173	51,101	--	51,101	93,274
Rent	--	92,700	92,700	--	--	--	92,700
Software	49,180	--	49,180	18,392	--	18,392	67,572
Office expenses	19,352	--	19,352	13,569	14,507	28,077	47,429
Interest	--	22,204	22,204	--	--	--	22,204
Food & beverage	4,501	--	4,501	11,532	--	11,532	16,033
Accounting	--	--	--	15,570	--	15,570	15,570
Staff development	11,100	--	11,100	3,697	--	3,697	14,797
Advertising	--	--	--	14,118	--	14,118	14,118
Transportation	11,493	--	11,493	1,000	--	1,000	12,493
Bank fees	2,075	3,291	5,366	1,086	--	1,086	6,452
Equipment rental & maintenance	3,366	--	3,366	1,123	--	1,123	4,489
Vehicle expenses	4,089	--	4,089	--	--	--	4,089
Charitable contributions	--	--	--	3,070	--	3,070	3,070
Property tax	--	2,115	2,115	294	--	294	2,409
Supplies	2,341	--	2,341	--	--	--	2,341
Personal property taxes	--	482	482	--	--	--	482
Total	\$ 1,991,184	\$ 547,408	\$ 2,538,592	\$ 525,568	\$ 156,425	\$ 681,993	\$ 3,220,585

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

MENDING HEARTS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2021

	Resident Services	Housing Services	Total Program Services	Management and General	Fundraising	Total Management and Fundraising	Total Expenses
Salaries	\$ 738,464	\$ 34,562	\$ 773,026	\$ 193,306	\$ 105,290	\$ 298,596	\$ 1,071,622
Contract services	554,069	--	554,069	--	--	--	554,069
Depreciation	--	134,681	134,681	19,256	--	19,256	153,937
Program expenses	131,845	--	131,845	--	--	--	131,845
Repairs & maintenance	--	89,907	89,907	19,918	--	19,918	109,825
Utilities	15,716	68,775	84,491	15,693	--	15,693	100,184
Rent	--	90,700	90,700	--	--	--	90,700
Insurance	20,656	17,137	37,793	45,793	--	45,793	83,586
Payroll taxes	54,891	2,690	57,581	18,618	4,684	23,302	80,883
Software	39,083	--	39,083	14,616	--	14,616	53,699
Employee benefits	29,222	--	29,222	21,891	--	21,891	51,113
Supplies	28,838	--	28,838	--	--	--	28,838
Accounting	--	--	--	24,160	--	24,160	24,160
Interest	--	21,310	21,310	--	--	--	21,310
Office expenses	6,810	--	6,810	4,775	5,105	9,880	16,690
Penalties & fines	--	--	--	16,128	--	16,128	16,128
Vehicle expenses	16,017	--	16,017	--	--	--	16,017
Food & beverage	2,822	--	2,822	7,230	--	7,230	10,052
Bank fees	2,519	3,996	6,515	1,318	--	1,318	7,833
Transportation	7,157	--	7,157	623	--	623	7,780
Dues, Licenses & Fees	2,000	--	2,000	5,434	--	5,434	7,434
Advertising	--	--	--	6,818	--	6,818	6,818
Equipment rental & maintenance	3,086	--	3,086	1,029	--	1,029	4,115
Property tax	--	2,260	2,260	314	--	314	2,574
Staff development	1,207	--	1,207	402	--	402	1,609
Charitable contributions	--	--	--	858	--	858	858
Personal property taxes	--	598	598	--	--	--	598
Total	\$ 1,654,402	\$ 466,616	\$ 2,121,018	\$ 418,180	\$ 115,079	\$ 533,259	\$ 2,654,277

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

MENDING HEARTS, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

	2022	2021
Cash Flows From Operating Activities		
Change in net assets	\$ 589,080	\$ 485,360
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	168,154	153,937
Paycheck Protection Program loan forgiveness	(202,076)	(202,197)
Change in value of discount	8,599	9,221
Realized and unrealized gains on investments	(351)	1,120
Changes in operating assets and liabilities:		
Accounts and grants receivable	(19,610)	73,298
Security deposit	750	555
Accounts payable	(77,116)	48,018
Accrued expenses	12,637	6,082
Deferred revenue	46,591	--
Payroll liabilities	(5,381)	4,437
	<u>521,277</u>	<u>579,831</u>
Net Cash Provided by Operating Activities		
Cash Flows From Investing Activities		
Proceeds from the sale of investments	351	(1,037)
Construction in progress	(1,700)	(1,700)
Purchases of property and equipment	(105,827)	(391,149)
	<u>(107,176)</u>	<u>(393,886)</u>
Net Cash Used in Investing Activities		
Cash Flows From Financing Activities		
Proceeds from notes payable	--	200,135
Principal repayment of notes payable	(27,402)	(89,435)
	<u>(27,402)</u>	<u>110,700</u>
Net Cash Provided By (Used in) Financing Activities		

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, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
Net Increase in Cash and Cash Equivalents	386,699	296,645
Cash and Cash Equivalents - Beginning	<u>527,217</u>	<u>230,572</u>
Cash and Cash Equivalents - Ending	<u>\$ 913,916</u>	<u>\$ 527,217</u>
Supplemental Disclosures of Cash Flow Information		
Interest paid	\$ 22,204	\$ 19,717
Non-cash investing and financing activities:		
Purchase of property, plant, and equipment financed through notes payable	\$ --	\$ 123,000
Forgiveness of Paycheck Protection Program loan	\$ 202,076	\$ 202,197

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

MENDING HEARTS, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

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, 2022 and 2021.

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.

MENDING HEARTS, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

REVENUE RECOGNITION - GRANTS (NON-GOVERNMENTAL) 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 contract requirements are satisfied in the year in which the revenue is recognized.

MENDING HEARTS, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

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.

REVENUE RECOGNITION - CONTRIBUTIONS

Unconditional contributions are reported as revenue in the year in which the payments are received and/or unconditional promises to give are made. The Organization reports gifts of cash and other assets as net assets with donor restrictions if they are received with donor stipulations that limit the use of donated assets. When a stipulated restriction ends or is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying statement of activities as net assets released from restrictions.

REVENUE RECOGNITION - EVENTS

The Organization receives support from events such as its annual Rise Breakfast and the Women Touched by Addiction event. Revenue is received from sponsorships and ticket sales. Sponsorship and ticket sales revenue are both recognized at the point in time that the event occurs. Revenue recognized on sponsorship and ticket sales for which payments have not been received is reflected as accounts receivable in the statement of financial position, with all deemed fully collectible by management. Deferred revenue at June 30, 2022 represents ticket sales received for the Women Touched by Addiction event which was held after year end.

PROPERTY AND EQUIPMENT

Property 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.

MENDING HEARTS, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 years ended June 30, 2022 and 2021.

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 \$8,599 and \$9,221 in interest during the years ended June 30, 2022 and 2021, respectively, related to these notes which was applied to the discount of notes payable. At June 30, 2022 and 2021 the note payable discount totaled \$1,000 and \$1,750, respectively.

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.

MENDING HEARTS, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

NEW ACCOUNTING PRONOUNCEMENTS

On 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

On August 16, 2022, the Organization received a new grant from the Department of Health and Human Services' Substance Abuse and Mental Health Services Administration Center for Substance Abuse Treatment Pregnant and Postpartum Women (PPW) Grant 2022 totaling up to \$2,625,000 over five years. The grant period is September 30, 2022, to September 29, 2027.

MENDING HEARTS, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SUBSEQUENT EVENTS (CONTINUED)

The Organization evaluated subsequent events through November 3, 2022, when these financial statements were available to be issued. Management is not aware of any significant events (other than the event mentioned above) 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. At times, balances held at a financial institution may exceed federally insured limits. At June 30, 2022, the Organization had \$445,214 in excess of FDIC insured limits. At June 30, 2021, 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:

	2022	2021
Buildings and improvements	\$ 4,275,111	\$ 4,246,225
Land	639,347	639,347
Vehicles	184,274	184,274
Leasehold improvements	53,612	53,612
Furniture and equipment	6,900	6,900
Construction in progress	<u>80,341</u>	<u>1,700</u>
Total property and equipment	5,239,585	5,132,058
Less: Accumulated depreciation	<u>(792,864)</u>	<u>(624,710)</u>
Property and Equipment, Net	<u>\$ 4,446,721</u>	<u>\$ 4,507,348</u>

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.

MENDING HEARTS, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

NOTE 3 - PROPERTY AND EQUIPMENT (CONTINUED)

Construction in progress totaling \$80,341 and \$1,700 at June 30, 2022 and 2021, respectively, represent ongoing construction related to new facilities and renovations to the Organization's residential treatment center. Construction in progress is expected to be completed June 30, 2023.

Depreciation expense totaled \$168,154 and \$153,937 for the years ended June 30, 2022 and 2021, 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 ending September 30, 2025. The Organization has chosen to present the future minimum lease payments for five years as the leases are expected to be renewed and continue at similar payments. Rent expense totaled \$92,700 and \$90,700 for the years ended June 30, 2022 and 2021, respectively.

Future rental payments under operating leases are as follows:

For the Year Ending June 30,	Amount
2023	\$ 94,800
2024	95,400
2025	95,400
2026	95,400
2027	<u>95,400</u>
	<u>\$ 476,400</u>

MENDING HEARTS, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

NOTE 5 - NOTES PAYABLE

Notes payable consist of the following at June 30:

	2022	2021
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.	\$ 142,447	\$ 162,562
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.	114,079	118,187
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.	41,999	47,119
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

MENDING HEARTS, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

NOTE 5 - NOTES PAYABLE (CONTINUED)

	<u>2022</u>	<u>2021</u>
Note payable to a financial institution for purchase of real estate, payable in monthly principal and interest payments of \$951. Interest is charged at a rate of 4.25%. All unpaid principal and interest are due January 2024. The note is secured by real estate.	<u>123,000</u>	<u>123,000</u>
Total Notes Payable	421,525	651,003
Less: Current portion	<u>(27,576)</u>	<u>(27,071)</u>
Notes Payable, Net of Current Portion	393,949	623,932
Less: Discount	<u>(38,975)</u>	<u>(47,574)</u>
Notes Payable, Net of Current Portion and Discount	<u>\$ 354,974</u>	<u>\$ 576,358</u>

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. As of June 30, 2020, the Organization used the full amount received to fund eligible payroll or other allowable expenses under the terms of the PPP loan. The PPP loan was forgiven by Pinnacle and the SBA on May 3, 2021.

On April 16, 2021, the Organization received a loan (the “PPP Loan #2”) from Pinnacle Bank in the amount of \$200,135 under the Paycheck Protection Program established by the Coronavirus Aid, Relief and Economic Security Act. As of June 30, 2021, the Organization used the full amount received to fund eligible payroll or other allowable expenses under the terms of the PPP loan. The PPP loan was forgiven by Pinnacle and the SBA on May 2, 2022.

MENDING HEARTS, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

NOTE 5 - NOTES PAYABLE (CONTINUED)

Future principal payments under notes payable are as follows:

For the Year Ending June 30,	Amount
2023	\$ 27,576
2024	362,085
2025	<u>31,864</u>
	<u>\$ 421,525</u>

NOTE 6 - LINE OF CREDIT

The Organization maintains a line of credit with a financial institution, allowing maximum borrowings of \$100,000, maturing on August 2, 2031. Interest on outstanding borrowings is computed at one percentage point over a lender bank-determined index. The outstanding principal balance due under the line credit was \$0 as of June 30, 2022 and 2021.

NOTE 7 - 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.

MENDING HEARTS, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

NOTE 7 - LIQUIDITY OF ORGANIZATION (CONTINUED)

The following table represents the Organization's financial assets as of June 30, 2022 and 2021, reduced by amounts not available for general expenditure within one year:

	<u>2022</u>	<u>2021</u>
Financial Assets		
Cash and cash equivalents	\$ 913,916	\$ 527,217
Accounts and grants receivable	<u>169,087</u>	<u>149,477</u>
Total Financial Assets	1,083,003	676,694
Less: Amounts not available to be used for general expenditures within one year:		
Net assets with donor restrictions	<u>(145,144)</u>	<u>(2,500)</u>
Financial Assets Available to Meet General Obligations within One Year	<u>\$ 937,859</u>	<u>\$ 674,194</u>

NOTE 8 - NET ASSETS WITH DONOR RESTRICTIONS

All of the Organization's net assets with donor restrictions are restricted for use within specific programs or for construction and totaled \$145,144 at June 30, 2022. Net assets with donor restrictions totaled \$2,500 at June 30, 2021.

MENDING HEARTS, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2022

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Assistance Listing 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	1H79TI084239 1H79T8082707-01	\$ --	\$ 1,011,836
Pass-Through Program from:				
Substance Abuse Prevention and Treatment Block Grant State of Tennessee Department of Mental Health and Substance Abuse Services Opioid STR	93.959	DGA 69861_2021-2022_024	--	729,202
State of Tennessee Department of Mental Health and Substance Abuse Services Opioid STR - COVID	93.788	H79TI0883307	--	443,149
	93.665	H79FG000641	--	49,996
Total U.S. Department of Health and Human Services			--	<u>2,234,183</u>
U.S. Department of Transportation				
Pass-Through Program from:				
Nashville Metropolitan Transit Authority	20.507	TN-2019-024-00	--	33,074
Total U.S. Department of Transportation			--	<u>33,074</u>
U.S. Department of Justice				
Pass-Through Program from:				
Office of Criminal Justice Victims of Crime Act 2018	16.575	2018-V2-GX-0024	--	12,072
Total U.S. Department of Justice			--	<u>12,072</u>
Total Expenditures of Federal Awards			\$ --	<u>\$ 2,279,329</u>

MENDING HEARTS, INC.

SCHEDULE OF STATE FINANCIAL ASSISTANCE

FOR THE YEAR ENDED JUNE 30, 2022

State Grantor/ Pass-Through Grantor/ Program or Cluster Title	Assistance Listing Number	Grant/ Contract Number	Passed Through to Subrecipients	State Expenditures
State Awards				
Department of Mental Health & Substance Abuse Services				
Addiction Recovery Program		DGA 69860-2021-2021_063	\$ --	\$ 39,985
Substance Abuse Prevention and Treatment Block Grant		DGA 69861_2021-2022_024	--	<u>29,205</u>
Total Department of Mental Health & Substance Abuse Services			<u>--</u>	<u>69,190</u>
Department of Finance & Administration				
Ignition Interlock		66642	--	<u>14,272</u>
Total Department of Finance & Administration			<u>--</u>	<u>14,272</u>
Total Expenditures of State Awards			<u>\$ --</u>	<u>\$ 83,462</u>

MENDING HEARTS, INC.

NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE

FOR THE YEAR ENDED JUNE 30, 2022

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedules of expenditures of federal awards and state financial assistance (the Schedules) includes the federal and state award activity of Mending Hearts, Inc. (the "Organization") under programs of the Federal government and State of Tennessee for the year ended June 30, 2022. The information in this Schedules are 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) and the requirements of the Comptroller of the Currency of the State of Tennessee. Because the Schedules 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 Schedules 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, 2022.

MENDING HEARTS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2022

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? Yes X 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 Assistance Listing 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

None Reported.

MENDING HEARTS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2022

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None Reported.

IV. PRIOR YEAR FINDINGS

Item #2021-001

Substance Abuse and Mental Health Services Projects of Regional and National Significance
CFDA No. 93.243

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.

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.

Current year update

Recommendation was implemented.