

MENDING HEARTS, INC.

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

JUNE 30, 2013

MENDING HEARTS, INC.

Table of Contents

Independent Auditors' Report	1
Financial Statements:	
Statement of Financial Position.....	2
Statements of Activities.....	3
Statement of Cash Flows	4
Statements of Functional Expenses	5
Notes to Financial Statements.....	6

MAURICE DANNER, CPA P.C.

Certified Public Accountant

3640 Burwick Place • Antioch, TN 37013 • (615) 364-5935 • FAX (615) 730-9215
maurice.danner@comcast.net

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Mending Hearts, Inc.

I have audited the accompanying financial statements of Mending Hearts, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, cash flows and functional expenses 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.

Auditor's Responsibility

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

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

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mending Hearts, Inc. as of June 30, 2013, 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.



November 6, 2013

MENDING HEARTS, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013

Assets

Cash	\$ 295,730
Contributions Receivable	50,000
Buildings and Equipment, net	221,879
Other Assets	2,450
Total Assets	<u><u>\$ 570,059</u></u>

Liabilities and Net Assets

Accounts Payable	7,744
Payroll Liabilities	23,512
Accrued Expenses	12,957
Notes Payable	125,889
Total Liabilities	<u>170,102</u>

Net Assets

Temporarily Restricted	111,248
Unrestricted	288,709
Total Net Assets	<u>399,957</u>

Total Liabilities and Net Assets	<u><u>\$ 570,059</u></u>
---	--------------------------

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

MENDING HEARTS, INC.
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and Other Support			
Grants and contracts	\$ 632,651	\$ 25,000	\$ 657,651
Program service fees	594,454	-	594,454
Contributions	50,147	100,000	150,147
Contributions - Inkind	25,753	-	25,753
Gain on sale of fixed assets	813	-	813
Interest and dividends	41	-	41
	<u>1,303,860</u>	<u>125,000</u>	<u>1,428,860</u>
Total Revenues and Other Support			
Annual Breakfast:			
Special event revenue	52,149	-	52,149
Direct benefits to donors	(1,909)	-	(1,909)
Net Support from Breakfast	<u>50,241</u>	<u>-</u>	<u>50,241</u>
Net assets released from restrictions:			
Expiration of time and purpose restrictions	<u>13,752</u>	<u>(13,752)</u>	<u>-</u>
Total Revenues and Other Support	1,367,852	111,248	1,479,100
Expenses			
Program Services:			
Housing	254,974	-	254,974
Residential Services	428,230	-	428,230
Total Program Services	683,204	-	683,204
Management and General	403,063	-	403,063
Fundraising	4,737	-	4,737
Total Expenses	<u>1,091,004</u>	<u>-</u>	<u>1,091,004</u>
Change in Net Assets	276,848	111,248	388,096
Net Assets at beginning of year	11,862	-	11,862
Net Assets at end of year	<u><u>\$ 288,709</u></u>	<u><u>\$ 111,248</u></u>	<u><u>\$ 399,957</u></u>

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

Mending Hearts, Inc.
Statement of Cash Flows
For the Year Ended June 30, 2013

Operating activities:	
Increase(Decrease) in net assets	\$ 388,096
Adjustments to reconcile increase in net assets to net cash flows from operating activities:	
Depreciation	10,015
Gain/Loss on sale of vehicle	
 (Increase) Decrease in assets	
Accounts Receivable	(46,582)
Other Assets	(34,443)
 (Decrease) Increase in liabilities	
Payroll Liabilities	8,045
Accrued Expenses	12,957
Accounts Payable	6,926
 Net cash provided by Operating Activities	<u>345,014</u>
Investing activities:	
Fixed assets purchases	(203,071)
Proceeds from sale of vehicle	813
 Net cash used by Investing Activities	<u>(202,259)</u>
Financing activities:	
Notes payable	128,000
Net cash provided by Financing Activities	<u>128,000</u>
 Change in cash and cash equivalents	270,755
 Cash and cash equivalents at beginning of year	<u>24,975</u>
 Cash and cash equivalents at end of year	<u>\$ 295,730</u>
 Interest Expense	\$ 2,779

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

MENDING HEARTS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
JUNE 30, 2013

	<u>Residential Services</u>	<u>Housing</u>	<u>Total Program Services</u>	<u>Management & General</u>	<u>Fundraising</u>	<u>Total</u>
Payroll Expense	\$ 291,743	\$ 18,982	\$ 310,725	\$ 216,514		\$ 527,239
Employee Benefits				2,611		2,611
Supplies	13,991		13,991		329	14,320
Transportation						-
Advertising and Promotion				3,624	361	3,986
Bank charges				3,761		3,761
Professional Fees and Contract	78,749		78,749	70,384	3,288	152,421
Utilities		59,379	59,379	23,987		83,365
Medication	3,769		3,769			3,769
Telephone		29,799	29,799			29,799
Staff Training				3,307		3,307
Printing				9,780		9,780
Occupancy		110,120	110,120	10,988	313	121,420
Repairs and Maintenance		22,867	22,867			22,867
Insurance		1,016	1,016	23,825		24,841
Bus Passes	1,496		1,496			1,496
Postage				58	414	472
Equipment expense				21,754	1,051	22,805
Food Expense	10,166		10,166			10,166
Automobile	17,951		17,951			17,951
Drug Screening	2,902		2,902			2,902
License and Permits				5,233		5,233
Travel				1,617		1,617
Interest Expense		2,779	2,779			2,779
Property Taxes		6,145	6,145			6,145
Depreciation	5,966	3,839	9,805	210		10,015
Miscellaneous	1,497	50	1,547	5,411	889	7,848
Total Expenses	\$ 428,230	\$ 254,974	\$ 683,204	\$ 403,063	\$ 6,645	\$ 1,092,913
Direct benefit to donors for breakfast event					(1,909)	
					<u>\$ 4,737</u>	

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

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.

Programs

Mending Hearts is a residential recovery-oriented therapeutic community for women who are or are at risk of becoming homeless as a result of their addiction to drugs, alcohol or both. Mending Hearts provides residents with a personal treatment plan developed around evidence-based practices and reviewed by the treatment team weekly; individual and group therapy, client-focused goals, Participation in 12-Step recovery program meetings, Work Force development, Relapse Prevention, Education (GED, Tutoring, College referrals), Case Management, Financial Planning, Budgeting/Saving guidance, Counseling, Transportation, Residential Treatment, Intensive Out Patient and Housing for Moms with Kids.

Revenue and Support

The organization receives its revenue and support from grant and contract agreements, contributions and program services.

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 accounts. 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.

Grant and Contract Revenue

Grant revenue is recognized when the qualifying costs are incurred for cost-reimbursement grants or contracts or when a unit of service is provided for performance grants.

Accounting for Contributions

Contributions, including unconditional promises to give, are recognized when received. All contributions are reported as increases in unrestricted net assets unless use of the contributed assets is specifically restricted by the donor. Amounts received that are restricted by the donor to use in future periods or for specific purposes are reported as increases in either temporarily restricted or permanently restricted net assets, consistent with the nature of the restriction. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restrictions is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted net assets.

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.

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
For the Year Ended June 30, 2013

NOTE 2 - CONTRIBUTIONS RECEIVABLE

Contributions receivable are unconditional promises to give that are recognized as contributions when the promise is received. Contributions receivable that are expected to be collected in less than a one year are reported at net realizable value.

NOTE 3 – PROPERTY AND EQUIPMENT

Property and Equipment consisted of the following at June 30, 2013:

Building	\$ 185,000
Furniture and Equipment	21,073
Leasehold Improvements	9,839
Vehicles	<u>35,741</u>
	251,653
Less accumulated depreciation	<u>(29,774)</u>
	<u><u>\$ 221,879</u></u>

NOTE 4 - COMPENSATED ABSENCES

Compensated absences have not been accrued because it cannot reasonably be estimated.

NOTE 5 – 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.

MENDING HEARTS, INC.
Notes to Financial Statements
For the Year Ended June 30, 2013

NOTE 6 - NOTES PAYABLE

Note payable to Ascend Federal Credit Union in the original principal amount of \$128,000. Fixed interest rate of 4.3%, payable monthly in monthly principal and interest payments of \$796.04, beginning January 19, 2013.

Year ending June 30,	
2014	\$ 9,552
2015	9,552
2016	9,552
2017	9,552
2018	9,552
Thereafter	<u>138,351</u>
Total Payments	186,113
Less portion representing interest	<u>(60,225)</u>
Note payable	<u>\$ 125,889</u>

NOTE 7 – LEASE COMMITMENTS

The organization has entered into several cancelable operating leases for residential housing and for its office administrative space. The leases have various commencement dates. Total rent paid for the year ended June 30, 2013 was \$121,107. Future minimum lease payments are as follows:

Fiscal year ending June 30, 2014	\$14,700
2015	\$10,500
2016	\$10,500

NOTE 8 - RESTRICTED NET ASSETS

Temporarily restricted net assets of \$111,248 represents a purpose restriction by the donor designated in support of programming, capital improvements and the residential treatment facility.

MENDING HEARTS, INC.
Notes to Financial Statements
For the Year Ended June 30, 2013

NOTE 9 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through November 6, 2013, 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.