

MENDING HEARTS, INC.
**INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS**
JUNE 30, 2012

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, 2012, 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, 2012, 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.



November 5, 2012

Member of American Institute of Certified Public Accountants

MENDING HEARTS, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2012

Assets

Cash	\$ 24,975
Contracts Receivable	3,418
Furniture, Equipment and Vehicles, net	28,597
Other Assets	38,400
Total Assets	<u><u>\$ 95,389</u></u>

Liabilities and Net Assets

Accounts Payable	818
Payroll Liabilities	15,467
Accrued Expenses	10,035
Line of Credit	5,763
Loan payable	15,000
Total Liabilities	<u>47,083</u>

Net Assets

Temporarily Restricted	5,000
Unrestricted	43,305
Total Net Assets	<u>48,305</u>

Total Liabilities and Net Assets	<u><u>\$ 95,389</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, 2012

Revenues and Other Support

Grants and Contracts	\$ 821,317
Resident Fees	64,680
Contributions	<u>91,676</u>

Total Revenues and Other Support 977,673

Expenses

Program Services	747,001
Management and General	244,693
Fundraising	<u>6,182</u>

Total Expenses 997,876

Change in Net Assets (20,203)

Net Assets at beginning of year 30,666

Capital surplus 37,841

Net Assets at end of year \$ 48,305

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

MENDING HEARTS, INC.
STATEMENT OF CASH FLOWS
JUNE 30, 2012

Cash Flows From Operating Activities

Increase (Decrease) in net assets	\$ (20,203)
Adjustments to reconcile increase in net assets to net cash flows provided by operating activities:	
Contracts Receivable	28,442
Depreciation	6,750
Accounts Payable	(90)
Payroll Liabilities	<u>15,917</u>
 Net Cash provided (used) by Operating Activities	 <u>30,817</u>

Investing Activities

Office Equipment	(1,179)
Vehicles	(27,886)
Building Deposit	<u>(4,800)</u>
Net Cash Used by Investing Activities	<u>(33,865)</u>

Financing Activities

Short Term Loan	15,000
Loans Payable	(32,388)
Capital Surplus	37,841
Opening Balance Equity	<u>1,420</u>
Net Cash Provided by Financing Activities	<u>21,874</u>

Change in Cash and Cash Equivalents 18,826

Cash and Cash Equivalents at beginning of year 6,149

Cash and Cash Equivalents at end of year \$ 24,975

Interest Expense \$ 2,055

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

MENDING HEARTS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
JUNE 30, 2012

	<u>Residential Services</u>	<u>Housing</u>	<u>Total Program Services</u>	<u>Management & General</u>	<u>Fundraising</u>	<u>Total</u>
Payroll Expense	431,951		431,951	149,767		581,718
Fringe Benefits			-	23,158		23,158
Supplies	13,128		13,128			13,128
Transportation	5,159		5,159			5,159
Advertising and Promotion			-	1,413		1,413
Professional Fees and Con	65,687		65,687	13,415		79,102
Utilities		50,501	50,501	16,916		67,416
Medication	4,215		4,215			4,215
Telephone		19,350	19,350			19,350
Software			-	4,519		4,519
Staff Training			-	1,389		1,389
Printing			-	7,667		7,667
Occupancy		107,123	107,123	5,683		112,807
Repairs and Maintenance		22,421	22,421			22,421
Insurance		4,142.0	4,142	7,329		11,471
Bus Passes	1,000		1,000			1,000
Event Expense			-		6,182	6,182
Food Expense	2,708		2,708			2,708
Automobile	5,629		5,629			5,629
Drug Screening	3,373		3,373			3,373
License and Permits			-	4,777		4,777
Travel			-	2,892		2,892
Interest Expense			-	2,055		2,055
Property Taxes		2,892	2,892			2,892
Depreciation	6,643		6,643	107		6,750
Miscellaneous	1,080		1,080	3,607		4,687
Total Expenses	<u>\$ 540,573</u>	<u>\$ 206,428</u>	<u>\$ 747,001</u>	<u>\$ 244,693</u>	<u>\$ 6,182</u>	<u>\$ 997,876</u>

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

MENDING HEARTS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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.

MENDING HEARTS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

MENDING HEARTS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

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.

NOTE 2 – GRANT AND CONTRACTS RECEIVABLE

Grants and Contracts Receivable represents revenue earned but not received as of June 30, 2012. An allowance for uncollectible accounts was not considered necessary at June 30, 2012. The contracts receivable balance at June 30, 2012 was \$3,417.

NOTE 3 – PROPERTY AND EQUIPMENT

Property and Equipment consisted of the following at June 30, 2012:

Furniture and Equipment	\$ 12,615
Vehicles	<u>35,741</u>
	\$ 48,356
Less accumulated depreciation	<u>(19,759)</u>
	<u>\$ 28,597</u>

MENDING HEARTS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 4 - COMPENSATED ABSENCES

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

NOTE 5 - SHORT-TERM LOAN PAYABLE

The organization has a short-term loan payable to Vicki Neal due by March 6, 2013. The loan balance as of June 30, 2012 was \$15,000.00.

NOTE 6 – 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 7 – 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 rent paid for the year ended June 30, 2012 was \$112,807. Future minimum lease payments are as follows:

Fiscal year ending June 30, 2013	\$75,125
2014	\$ 3,000

NOTE 8 - LINE OF CREDIT

The organization has a line of credit with SunTrust Bank. The total credit line is \$25,000, with a 4.25 annual percentage rate. The balance at June 30, 2012 was \$5,763.

MENDING HEARTS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 9- RESTRICTED NET ASSETS

Temporarily restricted net assets of \$5,000 represents a purpose restriction by the donor to be used for: Technology Grants Program.

NOTE 10 - CAPITAL SURPLUS

On April 4, 2012 the organization received \$37,841.40 of insurance proceeds for settlement claim on a collapsed building.

NOTE 11 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through November 5, 2012, 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.