

MENDING HEARTS, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2007
(With Independent Auditors' Report Thereon)

FARMER & ASSOCIATES, PLLC

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Independent Auditors' Report

To the Board of Directors
Mending Hearts, Inc.

We have audited the accompanying statement of financial position of Mending Hearts, Inc. as of June 30, 2007. This financial statement is the responsibility of the Organization's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit 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 statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of financial position referred to above presents fairly, in all material respects, the financial position of Mending Hearts, Inc. as of June 30, 2007 in conformity with accounting principles generally accepted in the United States of America.

Farmer & Associates, PLLC

May 27, 2008
Franklin, Tennessee

MENDING HEARTS, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2007

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	4,053
Unconditional promises to give		-
Contracts receivables		-
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Total Current Assets		4,053

PROPERTY AND EQUIPMENT

Land		-
Building and improvements		-
Furniture and equipment		10,236
Vehicles		6,000
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		16,236
Less accumulated depreciation		4,875
Total Property and Equipment		<hr/>
		11,361

OTHER ASSETS

		<hr/>
		10,500
		<hr/>
Total Assets	\$	<u>25,915</u>

LIABILITIES AND NET DEFICIT

CURRENT LIABILITIES

Notes payable officers		26,209
Notes payable bank		5,000
Accrued expense		5,567
Accounts payable		933
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Total Current Liabilities		37,709

NET DEFICIT

Unrestricted		11,794
Temporarily restricted		-
		<hr/>
Total Net Assets		11,794
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Total Liabilities and Net Assets	\$	<u>25,915</u>

See notes to financial statements.

MENDING HEARTS, INC.

NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION AND NATURE OF BUSINESS

Mending Hearts, Inc., a Tennessee not-for-profit corporation (the "Organization"), was organized in March of 2004 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 from various other charitable organizations, charitable contributions and fees charged to residents.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of Mending Hearts, Inc. have been prepared on the accrual basis of accounting. The financial statements reflect unrestricted, temporarily restricted, and permanently restricted net assets and activities. Net assets of the two restricted classes are created only by donor-imposed restrictions on their use. All other net assets, including board-designated amounts are reported as part of the unrestricted class. The Organization had no temporarily nor permanently restricted net assets at June 30, 2007.

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.

Promises to Give

Unconditional promises to give are recognized as revenues in the period in which the promises are made. Conditional promises to give are recognized when the conditions on which they depend are substantially met. The Organization recognized no unconditional promises to give in 2007. Promises to give are recorded at their net realizable value and are expected to be collected in less than one year.

Property and Equipment

Property and equipment are reported at cost. Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Property and equipment are depreciated principally using the straight-line method over their estimated useful lives ranging from three years for vehicles to five years for furniture and equipment.

MENDING HEARTS, INC.

NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-lived Assets

The Organization periodically reviews the values assigned to long-lived assets to determine if any impairments are other than temporary. Management believes that the long-lived assets in the accompanying statements of financial position are appropriately valued.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of any donor stipulations that limit the use of the donated assets either on a temporary or permanent basis. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. If a restriction is fulfilled in the same period in which the contribution is received, the Organization reports the support as unrestricted. Contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been included in the accompanying financial statements.

Cash and Cash Equivalents:

The Organization considers all highly liquid investments and certificates of deposits with original maturities of three months or less, to be cash equivalents.

Contributed Services

During the years ended June 30, 2007 the value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization at the program facilities, but these services do not meet the criteria for recognition as contributed services. The Organization receives approximately 1600 volunteer hours per year.

MENDING HEARTS, INC.

NOTES TO FINANCIAL STATEMENTS

3. LINE OF CREDIT

The Organization has a line of credit arrangement with a bank with a facility of \$25,000. Borrowings under the line bear interest at a rate of the prime rate as established by the lender plus one percent, which was 9.25% at June 30, 2007, and are secured by all assets of the Organization.

The balance at June 30, 2007 was \$5,000 due and payable on demand.

4. NOTES PAYABLE TO OFFICERS

The Organization has unsecured notes payable to officers of the Organization which are due upon demand. The officers have agreed to allow the Organization to repay the debt as it is able to do so. There is no stated rate of interest; therefore imputed interest of six percent has been used at June 30, 2007.

5. OPERATING LEASE COMMITMENT

As of December 1, 2006, the Organization entered into a one-year non-cancelable operating lease for its facility at 4302 Albion Street requiring rent of \$10,200 annually. As of January 1, 2008 the lease was renewed for an additional year requiring rent of \$10,800. As of April 13, 2007 the Organization entered into a one-year non-cancelable lease for its facility at 1000 Avenue North requiring rent of \$18,000 annually. As of January 14, 2007 the Organization entered into a one-year non-cancelable operating lease for its facility at 4305 Albion Street requiring rent of \$24,000 per year. Concurrently with the lease of the property at 4305 Albion, an option to purchase this property for \$170,000 was entered into by the Organization. The option will expire January 14, 2012 and increases the purchase price by three percent each year with the first increase April 1, 2007. This option required an \$8,000 non-refundable option fee and a further \$500 per month option fee paid concurrently with the rent. The option fees have been capitalized in other assets.