

MENDING HEARTS, INC.

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

JUNE 30, 2016

MENDING HEARTS, INC.

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INDEPENDENT AUDITOR'S REPORT

To Management
Mending Hearts, Inc.
Nashville, Tennessee

Report on the Financial Statements

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, 2016, and the related statement 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2016, 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.

Other Matters

Other Information

My audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards and state financial assistance as required by the *State of Tennessee Comptroller of the Treasury's Audit Manual for Local Governmental Units and Other Organizations*, is presented for purposes of additional analysis and is 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 my opinion, the information is 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*, I have also issued my report dated March 31, 2017, on my consideration of Mending Hearts, Inc's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Mending Hearts, Inc's internal control over financial reporting and compliance.

A handwritten signature in blue ink, followed by the text "CPA P.C." in blue ink.

Nashville, Tennessee
March 31, 2017

MENDING HEARTS, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016

Assets

Cash	\$ 15,494
Accounts Receivable	5,074
Investments	456,400
Buildings and Equipment, net	1,817,479
Other Assets	1,900
Total Assets	<u><u>\$ 2,296,346</u></u>

Liabilities and Net Assets

Accounts Payable	769
Accrued Expenses and other liabilities	64,430
Notes Payable	838,016
Total Liabilities	<u>903,215</u>

Net Assets

Temporarily Restricted	75,000
Unrestricted	1,318,131
Total Net Assets	<u>1,393,131</u>

Total Liabilities and Net Assets	<u><u>\$ 2,296,346</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, 2016

	Unrestricted	Temporarily Restricted	Total
Revenues and Other Support			
Grants and contracts	\$ 760,432		\$ 760,432
Program service fees	438,692		438,692
Contributions	221,616	75,000	296,616
	1,420,739	75,000	1,495,739
Annual Breakfast:			
Special event revenue	124,137	-	124,137
Unrealized gains on investments	22,000		22,000
Net assets released from restrictions:			
Expiration of time and purpose restrictions	79,390	(79,390)	-
Total Revenues and Other Support	1,646,266	(4,390)	1,641,876
Expenses			
Program Services:			
Housing	355,012	-	355,012
Residential Services	588,316	-	588,316
Total Program Services	943,327	-	943,327
Management and General	515,014	-	515,014
Fundraising	20,724	-	20,724
Total Expenses	1,479,065	-	1,479,065
 Change in Net Assets	 167,201	 (4,390)	 162,811

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

Mending Hearts, Inc.
Statement of Cash Flows
For the Year Ended June 30, 2016

Operating activities:	
Increase(Decrease) in net assets	\$ 162,811
Adjustments to reconcile increase in net assets to net cash flows from operating activities:	
Depreciation	62,833
 (Increase) Decrease in assets	
Accounts Receivable	42,128
Other Assets	(100)
 (Decrease) Increase in liabilities	
Accrued Expenses and other liabilities	(47,230)
Accounts Payable	553
 Net cash provided by Operating Activities	<u>220,995</u>
Investing activities:	
Fixed assets purchases	(663,966)
Furniture and Equipment purchases	-
 Net cash used by Investing Activities	<u>(663,966)</u>
Financing activities:	
Proceeds from borrowings	80,000
Payments on borrowings	(236,533)
 Net cash used by Financing Activities	<u>(156,533)</u>
 Change in cash and cash equivalents	(599,505)
 Cash and cash equivalents at beginning of year	<u>614,999</u>
 Cash and cash equivalents at end of year	<u>\$ 15,494</u>
 Interest Expense	\$ 21,124

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

MENDING HEARTS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
JUNE 30, 2016

	<u>Residential</u> <u>Services</u>	<u>Housing</u>	<u>Total</u> <u>Program Services</u>	<u>Management</u> <u>& General</u>	<u>Fundraising</u>	<u>Total</u>
Payroll Expense	\$ 344,798	\$ 37,477	\$ 382,275	\$ 335,468		\$ 717,743
Employee Benefits			-	24,668		24,668
Supplies	15,090		15,090		1,391	16,481
Advertising and Promotion			-	5,447		5,447
Bank charges			-	3,014		3,014
Professional Fees and Contract	193,001		193,001	15,229	2,300	210,530
Utilities		97,128	97,128	23,089		120,216
Medication	6,593		6,593			6,593
Staff Training			-	6,315		6,315
Occupancy		92,000	92,000	9,100		101,100
Repairs and Maintenance		36,043	36,043			36,043
Insurance			-	48,884		48,884
Equipment and software			-	24,147		24,147
Food Expense	2,210		2,210	5,014	17,033	24,257
Automobile	10,697		10,697			10,697
License and Permits			-	4,553		4,553
Travel	3,408		3,408	4,524		7,932
Interest Expense		21,124	21,124			21,124
Tax and License		21,995	21,995			21,995
Depreciation	11,580	49,244	60,824	2,009		62,833
Miscellaneous	938		938	3,555		4,494
Total Expenses	\$ 588,316	\$ 355,012	\$ 943,327	\$ 515,014	\$ 20,724	\$ 1,479,065

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. The tax years ending June 30, 2014, 2015 and 2016 are still open to audit for both federal and state purposes.

NOTE 2- CONCENTRATION OF RISK

Amounts held in financial institutions occasionally are in excess of the Federal Deposit Insurance Corporation limits. The organization deposits its cash with high quality financial institutions, and management believes the organization is not exposed to significant credit risk on those amounts.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable are primarily amounts due from grantors on cost reimbursement or performance grants. Management believes that all outstanding accounts receivable are collectible in full, therefore no allowance for uncollectible receivables has been provided.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and Equipment consisted of the following at June 30, 2016:

Building	\$	1,808,839
Furniture and Equipment		45,180
Leasehold Improvements		33,540
Vehicles		91,787
		<u>1,979,345</u>
Less accumulated depreciation		<u>(161,866)</u>
	\$	<u>1,817,479</u>

Depreciation expense for the year ending June 30, 2016 was \$62,833.

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.

NOTE 6 - NOTES PAYABLE

Note payable to Ascend Federal Credit Union of Nashville in the original principal amount of \$128,000, due December 19, 2017. Fixed interest rate of 4.3%, payable monthly in monthly principal and interest payments of \$796.04 and a final payment of \$105,842.71, beginning January 19, 2013. Notes Payable to Ascend Federal Credit Union of Nashville in the original principal amount of \$68,000, due August 9, 2018. Fixed interest rate of 4.5%, payable monthly in monthly principal and interest payments of \$630.20 and a final payment of \$56,448.51, beginning August 9, 2013. Notes payable to Avenue Bank in the original principal amount of \$301,715 due March 13, 2019. Variable interest rate based on the wall street journal prime rate, initial rate of 4.0% payable in monthly principal and interest payments of \$1,676.20 and final payment of \$202,819.67, beginning March 13, 2014. Note payable to Avenue Bank of Nashville in the original principal amount of \$74,500, due February 23, 2020. Variable interest rate based on wall street journal prime rate initial rate 3.25%, payable in monthly principal and interest payments in the initial amount of \$620.83 and one final payment of \$49,494.92. Note Payable to Avenue Bank of Nashville in the original principal amount of \$76,800, due April 10, 2020. Variable interest rate based on the wall street journal prime rate initial rate 4.0%, payable in monthly principal and interest payments of \$426.67 and one irregular last payment of \$51,626.47, beginning April 10, 2015. Note payable to Avenue bank in the original principal amount of \$400,000, due May 31, 2017. Variable interest rate based the wall street journal prime rate initial rate of 3.25%, payable in 22 monthly interest payments beginning July 31, 2015 and one principal payment of \$200,000 on May 31, 2016, during which interest continues to accrue and one principal and interest payment of \$200,560 on May 31, 2017. Note payable to Avenue bank in the original principal amount of \$80,000, due May 26, 2021. Fixed interest rate of 4.25%, payable in 59 monthly principal and interest payments of \$604.37 and one payment of \$59,427.61 on 5/26/2021.

Total note payables:

MENDING HEARTS, INC.
Notes to Financial Statements
For the Year Ended June 30, 2016

Year ending June 30,

2017	262,652
2018	147,919
2019	318,518
2020	130,547
Thereafter	<u>64,867</u>
Total Payments	924,503
Less portion representing interest	<u>(86,487)</u>
Notes Payable	<u>\$ 838,016</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, 2016 was \$101,100. Future minimum lease payments are as follows:

Fiscal year ending June 30, 2017 \$0

NOTE 8 - RESTRICTED NET ASSETS

Temporarily restricted net assets of \$75,000 represents a purpose restriction by the donor designated for salary support for the new Executive Director.

NOTE 9 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through March 31, 2017, 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.

Schedule of Expenditures of Federal Awards
and State Financial Assistance
For the Year Ended June 30, 2016

Federal Grantor/ Pass Through Entity/Programs	CFDA No.	State Contract number	c Total Federal Expenditures
<hr/>			
U.S. Department of Health and Human Services/State of Tennessee Department of Mental Health and Substance Abuse Services- Block grants Continuum of Care program	93.959	DGA 41157	\$ 257,181
U.S. Department of Housing and Urban Development/Metropolitan Development and Housing Agency/Moms with Kids program	14.267	TN0131L4J041303	15,103
U.S. Department of Housing and Urban Development/Metropolitan Development and Housing Agency /New leasing project program	14.267	TN0214L4J041200	28,125
Federal Transit Administration/Nashville Metropolitan Transit Authority	99.unknown		8,277
			<hr/>
Total Expenditures of Federal Awards			\$ 308,686
<hr/>			
STATE FINANCIAL ASSISTANCE			
<hr/>			
Federal Transit Administration/Nashville Metropolitan Transit Authority			\$ 4,139
State of Tennessee Department of Mental Health and Substance Abuse/Addiction Recovery Program		000045369	24,000
State of Tennessee Department of Mental Health and Substance Abuse/Supervised Probation Officer		000045420	37,566
State of Tennessee Department of Mental Health and Substance Abuse/Community Treatment Collaborative		000045422	20,000
Tennessee Housing Development Agency(THDA) Housing Trust Fund		HTF-14 5-05	168,747
			<hr/>
Total State Financial Assistance			\$ 254,452
Total Expenditures of Federal Awards and State Financial Assistance			<u><u>\$ 563,138</u></u>

Basis of Presentation

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting.

See Independent Auditor's Report



MAURICE DANNER, CPA P.C.

Certified Public Accountant

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To Management
Mending Hearts, Inc.
Nashville, Tennessee

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Mending Hearts, Inc. (the "Organization"), which comprise the statement of financial position as of June 30, 2016, and the related statement of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements, and have issued my report thereon dated March 31, 2017.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Mending Hearts, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mending Hearts, Inc. internal control. Accordingly, I do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mending Hearts, Inc.'s financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws,

regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Handwritten signature in blue ink: "Mark Damm, CPA P.C."

Nashville, Tennessee
March 31, 2017

SCHEDULE OF FINDINGS AND RESPONSES

None

SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES

There were no prior year findings reported.