

MENDING HEARTS, INC.

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

JUNE 30, 2014

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 financial statements of Mending Hearts, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2014, 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, 2014, 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.

Maurice Danner, CPA P.C.

November 28, 2014

MENDING HEARTS, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2014

Assets

Cash	\$ 174,437
Buildings and Equipment, net	779,757
Other Assets	<u>1,350</u>
Total Assets	<u><u>\$ 955,544</u></u>

Liabilities and Net Assets

Accounts Payable	650
Payroll Liabilities	20,198
Accrued Expenses	12,423
Notes Payable	<u>477,624</u>
Total Liabilities	510,896

Net Assets

Temporarily Restricted	65,000
Unrestricted	<u>379,548</u>
Total Net Assets	444,548

Total Liabilities and Net Assets	<u><u>\$ 955,444</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, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and Other Support			
Grants and contracts	\$ 604,527	\$ 45,480	\$ 650,007
Program service fees	461,585		461,585
Contributions	65,665	20,000	85,665
Contributions - Inkind	4,174	-	4,174
Interest and dividends	396	-	396
	<u>1,136,347</u>	<u>65,480</u>	<u>1,201,827</u>
Annual Breakfast:			
Special event revenue	116,388	-	116,388
Direct benefits to donors	(2,099)	-	(2,099)
Net Support from Breakfast	<u>114,290</u>	<u>-</u>	<u>114,290</u>
Net assets released from restrictions:			
Expiration of time and purpose restrictions	<u>111,728</u>	<u>(111,728)</u>	<u>-</u>
Total Revenues and Other Support	1,362,365	(46,248)	1,316,117
Expenses			
Program Services:			
Housing	321,383	-	321,383
Residential Services	491,796	-	491,796
Total Program Services	<u>813,179</u>	<u>-</u>	<u>813,179</u>
Management and General	452,796	-	452,796
Fundraising	5,739	-	5,739
Total Expenses	<u>1,271,714</u>	<u>-</u>	<u>1,271,714</u>
Change in Net Assets	90,651	(46,248)	44,403
Net Assets at beginning of year	288,897	111,248	400,145
Net Assets at end of year	<u>\$ 379,548</u>	<u>\$ 65,000</u>	<u>\$ 444,548</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, 2014

Operating activities:	
Increase(Decrease) in net assets	\$ 44,403
Adjustments to reconcile increase in net assets to net cash flows from operating activities:	
Depreciation	22,396
 (Increase) Decrease in assets	
Accounts Receivable	50,000
Other Assets	1,100
 (Decrease) Increase in liabilities	
Payroll Liabilities	(3,314)
Accrued Expenses	(534)
Accounts Payable	(7,094)
 Net cash provided by Operating Activities	<u>106,957</u>
Investing activities:	
Fixed assets purchases	(512,148)
Furniture and Equipment purchases	(6,448)
Vehicle purchase	(51,270)
 Net cash used by Investing Activities	<u>(569,866)</u>
Financing activities:	
Notes payable	341,617
 Net cash provided by Financing Activities	<u>341,617</u>
 Change in cash and cash equivalents	(121,293)
 Cash and cash equivalents at beginning of year	<u>295,730</u>
 Cash and cash equivalents at end of year	<u>\$ 174,437</u>
 Interest Expense	\$ 7,034

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

MENDING HEARTS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
JUNE 30, 2014

	<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	\$ 297,633	\$ 29,980	\$ 327,613	\$ 254,940		\$ 582,553
Employee Benefits			-	900		900
Supplies	23,458		23,458		3,543	27,001
Transportation	5,959		5,959			5,959
Advertising and Promotion			-	4,506		4,506
Bank charges			-	5,933		5,933
Professional Fees and Contract	74,198		74,198	91,436		165,634
Utilities		93,376	93,376	25,289		118,665
Medication	8,951		8,951			8,951
Telephone			-			-
Awards	1,803		1,803	1,112	1,355	4,270
Rents		105,218	105,218	9,720	511	115,450
Staff Training			-	1,594		1,594
Printing			-	454		454
Occupancy			-		313	313
Repairs and Maintenance		61,992	61,992			61,992
Housing Assistance	5,900		5,900			5,900
Insurance			-	30,233		30,233
Bus Passes	749		749			749
Postage			-	80	230	310
Equipment and software			-	11,280		11,280
Food Expense	59,102		59,102		1,786	60,888
Automobile	2,012		2,012			2,012
Drug Screening	1,058		1,058			1,058
License and Permits			-	4,795		4,795
Travel			-	3,825		3,825
Interest Expense		7,034	7,034			7,034
Tax and License		12,877	12,877			12,877
Depreciation	10,259	10,905	21,164	1,232		22,396
Miscellaneous	715		715	5,467	100	6,282
Total Expenses	\$ 491,796	\$ 321,383	\$ 813,179	\$ 452,796	\$ 7,838	\$ 1,273,813
Direct benefit to donors for breakfast event					(2,099)	
					<u>\$ 5,739</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.

MENDING HEARTS, INC.
Notes to Financial Statements
For the Year Ended June 30, 2014

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 – PROPERTY AND EQUIPMENT

Property and Equipment consisted of the following at June 30, 2014:

Building	\$ 673,674
Furniture and Equipment	37,930
Leasehold Improvements	33,313
Vehicles	<u>87,010</u>
	831,927
Less accumulated depreciation	<u>(52,170)</u>
	<u>\$ 779,757</u>

NOTE 3 - COMPENSATED ABSENCES

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

NOTE 4 – 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, 2014

NOTE 5 - 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 \$1,196.04, beginning January 19, 2013. Notes Payable to Ascend Federal Credit Union in the original principal amount of \$68,000. Fixed interest rate of 4.5%, payable monthly in monthly principal and interest payments of \$630.20, beginning August 9, 2013. Notes payable to Avenue Bank in the original principal amount of \$301,715, 0% interest, monthly payment of \$1,676.20, beginning March 13, 2014.

Year ending June 30,	
2015	\$ 42,028
2016	42,028
2017	42,028
2018	42,028
2019	42,028
Thereafter	<u>310,481</u>
Total Payments Remaining	520,621
Less portion representing	
interest	<u>(42,996)</u>
Note payable	<u>\$ 477,624</u>

NOTE 6 – 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, 2014 was \$114,939. Future minimum lease payments are as follows:

Fiscal year ending June 30, 2015	\$70,700
2016	\$37,800

MENDING HEARTS, INC.
Notes to Financial Statements
For the Year Ended June 30, 2014

NOTE 7 - RESTRICTED NET ASSETS

Temporarily restricted net assets of \$65,000 represents a purpose restriction by the donor designated in support of programming, capital improvements and the residential treatment facility.

NOTE 8 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through November 28, 2014, 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.