

MENDING HEARTS, INC.

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

JUNE 30, 2015

MENDING HEARTS, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
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, 2015, 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, 2015, 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* and by the *Office of Management and Budget Circular A-133, Audits of State, Local Governments, and Non-Profit 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 January 5, 2016, 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.

Nashville, Tennessee
January 5, 2016

MENDING HEARTS, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2015

Assets

Cash	\$ 614,999
Accounts Receivable	49,202
Buildings and Equipment, net	1,216,102
Other Assets	1,800
Total Assets	\$ 1,882,104

Liabilities and Net Assets

Accounts Payable	216
Payroll Liabilities	22,509
Accrued Expenses	36,125
Notes Payable	994,549
Total Liabilities	1,053,398

Net Assets

Temporarily Restricted	79,390
Unrestricted	749,316
Total Net Assets	828,706

Total Liabilities and Net Assets	\$ 1,882,104
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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, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and Other Support			
Grants and contracts	\$ 849,883		\$ 849,883
Program service fees	294,751		294,751
Contributions	75,405	200,000	275,405
Contributions - Inkind	12,500	-	12,500
Interest and dividends	157	-	157
	<u>1,232,696</u>	<u>200,000</u>	<u>1,432,696</u>
 Annual Breakfast:			
Special event revenue	<u>282,744</u>	<u>-</u>	<u>282,744</u>
 Net assets released from restrictions:			
Expiration of time and purpose restrictions	<u>185,610</u>	<u>(185,610)</u>	<u>-</u>
 Total Revenues and Other Support	<u>1,701,051</u>	<u>14,390</u>	<u>1,715,440</u>
 Expenses			
Program Services:			
Housing	291,132	-	291,132
Residential Services	<u>524,713</u>	<u>-</u>	<u>524,713</u>
Total Program Services	815,845	-	815,845
Management and General	519,647	-	519,647
Fundraising	<u>12,961</u>	<u>-</u>	<u>12,961</u>
Total Expenses	<u>1,348,453</u>	<u>-</u>	<u>1,348,453</u>
 Change in Net Assets	<u>352,597</u>	<u>14,390</u>	<u>366,987</u>
 Net Assets at beginning of year	<u>396,719</u>	<u>65,000</u>	<u>461,719</u>
 Net Assets at end of year	<u>\$ 749,316</u>	<u>\$ 79,390</u>	<u>\$ 828,706</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, 2015

Operating activities:	
Increase(Decrease) in net assets	\$ 366,987
Adjustments to reconcile increase in net assets to net cash flows from operating activities:	
Depreciation	48,533
 (Increase) Decrease in assets	
Accounts Receivable	(32,108)
Other Assets	(450)
 (Decrease) Increase in liabilities	
Payroll Liabilities	2,311
Accrued Expenses	23,601
Accounts Payable	(434)
 Net cash provided by Operating Activities	<u>408,440</u>
Investing activities:	
Fixed assets purchases	(471,198)
Furniture and Equipment purchases	(13,454)
 Net cash used by Investing Activities	<u>(484,652)</u>
Financing activities:	
Notes payable	516,775
 Net cash provided by Financing Activities	<u>516,775</u>
 Change in cash and cash equivalents	440,562
 Cash and cash equivalents at beginning of year	<u>174,437</u>
 Cash and cash equivalents at end of year	<u>\$ 614,999</u>
 Interest Expense	\$ 6,750

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

MENDING HEARTS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
JUNE 30, 2015

	<u>Residential Services</u>	<u>Housing</u>	<u>Total Program Services</u>	<u>Management & General</u>	<u>Fundraising</u>	<u>Total</u>
Payroll Expense	\$ 308,671	\$ 35,338	\$ 344,009	\$ 273,496		\$ 617,505
Employee Benefits			-	8,827		8,827
Supplies	16,018		16,018			16,018
Advertising and Promotion			-	3,256		3,256
Bank charges			-	7,416		7,416
Professional Fees and Contract	150,152		150,152	99,674		249,826
Utilities		63,225	63,225	23,769		86,994
Medication	14,915		14,915			14,915
Telephone		33,264	33,264			33,264
Awards			-	2,326	361	2,687
Event Expense					6,000	6,000
Staff Training			-	13,191		13,191
Occupancy		92,732	92,732	14,400		107,132
Rent					3,000	3,000
Repairs and Maintenance		22,713	22,713			22,713
Insurance			-	33,838		33,838
Bus Passes	746		746			746
Postage			-	361		361
Printing					3,500	3,500
Equipment and software			-	16,187		16,187
Food Expense	1,817		1,817			1,817
Office				5,276		5,276
Automobile	7,389		7,389			7,389
Drug Screening	2,502		2,502			2,502
License and Permits			-	5,811		5,811
Travel	1,205		1,205	4,081		5,286
Interest Expense		6,750	6,750			6,750
Tax and License		12,289	12,289			12,289
Depreciation	17,911	28,654	46,565	1,968		48,533
Miscellaneous	3,388	(3,834)	(446)	5,769	100	5,423
Total Expenses	\$ 524,713	\$ 291,132	\$ 815,845	\$ 519,647	\$ 12,961	\$ 1,348,453

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, 2015

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, 2013, 2014 and 2015 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, 2015:

Building	\$	1,024,262
Construction in Progress		120,610
Furniture and Equipment		44,752
Leasehold Improvements		33,540
Vehicles		93,642
		<hr/>
		1,316,805
Less accumulated depreciation		(100,703)
		<hr/>
	\$	1,216,102

Depreciation expense for the year ending June 30, 2015 was \$48,533.

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.

Total note payables:

MENDING HEARTS, INC.
Notes to Financial Statements
For the Year Ended June 30, 2015

Year ending June 30,	
2016	254,493
2017	255,399
2018	140,667
2019	311,266
2020	123,294
Thereafter	<u>-</u>
Total Payments	1,085,119
Less portion representing interest	<u>(90,570)</u>
Notes Payable	<u>\$ 994,549</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, 2015 was \$107,132. Future minimum lease payments are as follows:

Fiscal year ending June 30, 2016 \$37,800

NOTE 8 - RESTRICTED NET ASSETS

Temporarily restricted net assets of \$79,390 represents a purpose restriction by the donor designated in support of capital improvements.

NOTE 9 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through January 5, 2016, 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, 2015

Federal Grantor/ Pass Through Entity/Programs	State Contract number	CFDA No.	Pass Through Entity Identifying No.	a Beg. Balance	b Cash Receipts	c Total Federal Expenditures	d Ending balance
<hr/>							
U.S. Department of Health and Human Services/State of Tennessee Department of Mental Health and Substance Abuse Services- Block grants							
Continumn of Care program		93.959	DGA 41157	\$ 1,680	\$ 223,849	\$ 222,169	\$ -
Addiction Recovery Program		93.959	DP1234959	2,045	23,595	24,000	2,450
Total of Programs				<u>\$ 3,725</u>	<u>\$ 247,444</u>	<u>\$ 246,169</u>	<u>\$ 2,450</u>
U.S. Department of Health and Human Services/Meharry/Continumn of Care			0903326RKB10302	-	52,154	52,154	-
U.S. Department of Housing and Urban Development/Moms with Kids program			TN013114J041303	2,660	28,684	31,059	5,034
U.S. Department of Housing and Urban Development/New leasing project program			TN0214L4J041200	9,375	37,500	37,500	9,375
U.S. Department of Housing and Urban Development/MDHA/Community Development Block grant				-	126,645	126,645	-
U.S. Department of Housing and Urban Development/Emergency Shelter grant		14.231		-	39,941	39,941	-
				<u>\$ 15,760</u>	<u>\$ 532,368</u>	<u>\$ 533,468</u>	<u>\$ 16,859</u>
<hr/>							
STATE FINANCIAL ASSISTANCE							
State of Tennessee Department of Mental Health and Substance Abuse Services-Community Treatment Collaborative				22,219	\$ 113,789	\$ 110,466	\$ 18,896
State of Tennessee Department of Mental Health and Substance Abuse Services-Supervised Probation Offender Treatment				-	39,998	41,493	1,495
Office of Criminal Justice				2,915	24,018	28,005	6,902
Total State Financial Assistance				<u>25,134</u>	<u>\$ 177,805</u>	<u>\$ 179,964</u>	<u>\$ 27,293</u>
Total Expenditures of Federal Awards and State Financial Assistance				<u>\$ 40,894</u>	<u>\$ 710,173</u>	<u>\$ 713,432</u>	<u>\$ 44,152</u>

M- Major programs

The accompanying notes are an integral part of this schedule

Basis of Presentation

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



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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 the Board of Directors
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, 2015, 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 January 5, 2016.

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*.

I noted other matters that I communicated to the organization in a letter dated January 5, 2016.

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.

Nashville, Tennessee
January 5, 2016



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Report on Compliance for Each Major Program Federal Programs; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

To Board of Directors
Mending Hearts, Inc.
Nashville, Tennessee

Report on Compliance for Each Major Program

I have audited Mending Hearts, Inc.'s compliance with the types of compliance requirements described in the OMB Circular Supplement that could have a direct and material effect on each of Mending Hearts, Inc.'s major federal programs for the year ended June 30, 2015. Mending Hearts, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to each of its federal programs.

Auditor's Responsibility

My responsibility is to express an opinion on compliance for each of Mending Heart, Inc's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining , on a test basis, evidence about Mending Hearts, Inc's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of Mending Hearts, Inc's compliance.

Opinion of Each Major Federal Program

In my opinion, Mending Hearts, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of Mending Hearts, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered Mending Hearts, Inc's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion of the effectiveness of Mending Hearts Inc's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

I have audited the financial statements of Mending Hearts, Inc. as of and for the year ended June 30, 2015, and have issued my report thereon dated January 5, 2016, which contained an unmodified opinion on those financial statements. 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 is presented for purposes of additional analysis as required by OMB Circular A-133 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements taken as a whole.

Maurice Danner, CPA P.C.
Nashville, Tennessee

January 5, 2016

Mending Hearts , Inc.

Schedule of Findings and Questioned Costs

June 30, 2015

Section I

1. The auditor's report expresses an unqualified opinion on the basic financial statements of Mending Hearts, Inc.
2. No significant deficiencies were disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of Mending Hearts, Inc. were disclosed during the audit.
4. No significant deficiencies were disclosed during the audit of internal control over major federal awards programs.
5. The auditor's report on compliance for the major federal awards program for Mending Hearts, Inc. expresses an unqualified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The programs tested as a major program were:

<u>Program</u>	<u>CFDA</u>
Continuum of Care Program	93.959
Addiction Recovery Program	93.959
Continuum of Care Program-Meharry	93.959
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Mending Hearts, Inc. was determined to be a high risk auditee.

Mending Hearts, Inc.

Schedule of Findings and Questioned Costs(continued)

June 30, 2015

Section II – Findings

Status of Prior Year Findings

No findings

Current Year Findings

No findings