

MENDING HEARTS, INC.

**FINANCIAL STATEMENTS
AND REPORTING REQUIRED UNDER
THE FEDERAL UNIFORM GUIDANCE**

FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

MENDING HEARTS, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Mending Hearts, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Mending Hearts, Inc. (a nonprofit organization) which comprise the statements of financial position as of June 30, 2021 and June 30, 2020, and the related statements of activities, functional expenses, and cash flows for the years 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 auditors' 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, we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mending Hearts, Inc. as of June 30, 2021 and June 30, 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Information

Our 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, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 our 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*, we have also issued our report dated May 18, 2022, on our consideration of Mending Hearts, Inc.'s internal control over financial reporting and on our 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 our 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.

Marcum LLP

Nashville, TN
May 18, 2022

MENDING HEARTS, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2021 AND 2020

	2021	2020
Assets		
Current Assets		
Cash and cash equivalents	\$ 527,217	\$ 230,572
Accounts and grants receivable	149,477	222,775
Investments	<u> --</u>	<u> 83</u>
Total Current Assets	<u>676,694</u>	<u>453,430</u>
Property and Equipment, Net	<u>4,507,348</u>	<u>4,145,436</u>
Other Assets		
Security deposits	<u>1,750</u>	<u>2,305</u>
Total Other Assets	<u>1,750</u>	<u>2,305</u>
Total Assets	<u><u>\$ 5,185,792</u></u>	<u><u>\$ 4,601,171</u></u>

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

MENDING HEARTS, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2021 AND 2020

	2021	2020
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 111,527	\$ 63,509
Accrued expenses	35,986	29,904
Payroll liabilities	6,277	1,840
Current portion of notes payable	<u>27,071</u>	<u>87,515</u>
Total Current Liabilities	<u>180,861</u>	<u>182,768</u>
Long-Term Debt		
Notes payable, net of current portion and discount	<u>576,358</u>	<u>475,190</u>
Total Long-Term Liabilities	<u>576,358</u>	<u>475,190</u>
Total Liabilities	<u>757,219</u>	<u>657,958</u>
Net Assets		
Net assets without donor restrictions	4,426,073	3,940,713
Net assets with donor restrictions	<u>2,500</u>	<u>2,500</u>
Total Net Assets	<u>4,428,573</u>	<u>3,943,213</u>
Total Liabilities and Net Assets	<u>\$ 5,185,792</u>	<u>\$ 4,601,171</u>

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

MENDING HEARTS, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	2021		2020		Total
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions	
Revenue and Other Support					
Grants	\$ 1,195,177	\$ --	\$ 1,697,955	\$ 2,500	\$ 1,700,455
Contracted services	1,034,794	--	1,092,318	--	1,092,318
Special events, net of direct costs of \$4,488 and \$20,946, respectively	121,828	--	44,359	--	44,359
Resident services	525,910	--	349,804	--	349,804
Contributions	59,851	--	84,888	--	84,888
Realized and unrealized gain (loss)	(1,120)	--	(1,165)	--	(1,165)
Gain on the sale of fixed assets	1,000	--	--	--	--
Paycheck protection loan forgiveness	202,197	--	--	--	--
Assets released from restriction	--	--	60,200	(60,200)	--
Total Revenue and Other Support	<u>3,139,637</u>	<u>--</u>	<u>3,328,359</u>	<u>(57,700)</u>	<u>3,270,659</u>
Expenses					
Program services	2,121,018	--	1,449,026	--	1,449,026
Management and general	418,180	--	836,302	--	836,302
Fundraising	115,079	--	57,298	--	57,298
Total Expenses	<u>2,654,277</u>	<u>--</u>	<u>2,342,626</u>	<u>--</u>	<u>2,342,626</u>
Change in Net Assets	485,360	--	985,733	(57,700)	928,033
Net Assets at Beginning of Year	3,940,713	2,500	2,954,980	60,200	3,015,180
Net Assets at End of Year	<u>\$ 4,426,073</u>	<u>\$ 2,500</u>	<u>\$ 3,940,713</u>	<u>\$ 2,500</u>	<u>\$ 3,943,213</u>

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

MENDING HEARTS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2021

	Resident Services	Housing Services	Total Program Services	Management and General	Fundraising	Total Management and Fundraising	Total Expenses
Salaries	\$ 738,464	\$ 34,562	\$ 773,026	\$ 193,306	\$ 105,290	\$ 298,596	\$ 1,071,622
Contract Services	554,069	--	554,069	--	--	--	554,069
Depreciation	--	134,681	134,681	19,256	--	19,256	153,937
Program expenses	131,845	--	131,845	--	--	--	131,845
Repairs & maintenance	--	89,907	89,907	19,918	--	19,918	109,825
Utilities	15,716	68,775	84,491	15,693	--	15,693	100,184
Rent	--	90,700	90,700	--	--	--	90,700
Insurance	20,656	17,137	37,793	45,793	--	45,793	83,586
Payroll taxes	54,891	2,690	57,581	18,618	4,684	23,302	80,883
Software	39,083	--	39,083	14,616	--	14,616	53,699
Employee Benefits	29,222	--	29,222	21,891	--	21,891	51,113
Supplies	28,838	--	28,838	--	--	--	28,838
Accounting	--	--	--	24,160	--	24,160	24,160
Interest	--	21,310	21,310	--	--	--	21,310
Penalties & fines	--	--	--	16,128	--	16,128	16,128
Vehicle expenses	16,017	--	16,017	--	--	--	16,017
Office expenses	6,810	--	6,810	4,775	2,894	7,669	14,479
Food & beverage	2,822	--	2,822	7,230	--	7,230	10,052
Bank fees	2,519	3,996	6,515	1,318	--	1,318	7,833
Transportation	7,157	--	7,157	623	--	623	7,780
Dues, Licenses & Fees	2,000	--	2,000	5,434	--	5,434	7,434
Advertising	--	--	--	6,818	--	6,818	6,818
Equipment rental & maintenance	3,086	--	3,086	1,029	--	1,029	4,115
Property Tax	--	2,260	2,260	314	--	314	2,574
Special Event	--	--	--	--	2,211	2,211	2,211
Staff development	1,207	--	1,207	402	--	402	1,609
Charitable contributions	--	--	--	858	--	858	858
Personal Property Tax	--	598	598	--	--	--	598
Total	\$ 1,654,402	\$ 466,616	\$ 2,121,018	\$ 418,180	\$ 115,079	\$ 533,259	\$ 2,654,277

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

MENDING HEARTS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2020

	Resident Services	Housing Services	Total Program Services	Management and General	Fundraising	Management and Fundraising	Total Expenses
Payroll expenses	\$ 586,937	\$ --	\$ 586,937	\$ 478,751	\$ 53,825	\$ 532,576	\$ 1,119,513
Contract services	409,278	--	409,278	500	--	500	409,778
Program expenses	200,804	--	200,804	--	--	--	200,804
Depreciation	--	--	--	137,087	--	137,087	137,087
Utilities	--	87,523	87,523	20,433	--	20,433	107,956
Rent	--	86,675	86,675	--	--	--	86,675
Insurance	--	--	--	65,327	--	65,327	65,327
Software	--	--	--	53,853	--	53,853	53,853
Professional fees	--	--	--	38,268	--	38,268	38,268
Repairs and maintenance	--	23,661	23,661	3,386	--	3,386	27,047
Interest	--	19,717	19,717	--	--	--	19,717
Office expenses	7,258	--	7,258	4,666	3,473	8,139	15,397
Dues, licenses, and fees	--	--	--	11,018	--	11,018	11,018
Supplies	8,975	--	8,975	--	--	--	8,975
Vehicle expenses	8,145	--	8,145	--	--	--	8,145
Penalties and fines	--	--	--	8,144	--	8,144	8,144
Transportation	7,413	--	7,413	160	--	160	7,573
Equipment rental and maintenance	--	--	--	7,230	--	7,230	7,230
Food and beverage	1,597	--	1,597	4,347	--	4,347	5,944
Miscellaneous expenses	--	1,043	1,043	3,132	--	3,132	4,175
Total	\$ 1,230,407	\$ 218,619	\$ 1,449,026	\$ 836,302	\$ 57,298	\$ 893,600	\$ 2,342,626

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

MENDING HEARTS, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	2021	2020
Cash Flows From Operating Activities		
Change in net assets	\$ 485,360	\$ 928,033
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	153,937	137,087
Paycheck Protection Program loan forgiveness	(202,197)	--
Change in value of discount	9,221	7,194
Realized and unrealized gains on investments	1,120	(1,165)
Changes in operating assets and liabilities:		
Accounts and grants receivable	73,298	(154,373)
Security deposit	555	(1,250)
Accounts payable	48,018	(13,511)
Accrued expenses	6,082	(25,320)
Payroll liabilities	4,437	(63,900)
Deposits	--	(600)
Net Cash Provided by Operating Activities	<u>579,831</u>	<u>812,195</u>
Cash Flows From Investing Activities		
Proceeds from the sale of investments	(1,037)	1,214
Construction in progress	(1,700)	(816,196)
Purchases of property and equipment	<u>(391,149)</u>	<u>(14,267)</u>
Net Cash Used in Investing Activities	<u>(393,886)</u>	<u>(829,249)</u>
Cash Flows From Financing Activities		
Repayment of loan from related party	--	(2,350)
Net payments on line of credit	--	(45,933)
Proceeds from notes payable	200,135	200,135
Principal repayment of notes payable	<u>(89,435)</u>	<u>(84,068)</u>
Net Cash Provided by Financing Activities	<u>110,700</u>	<u>67,784</u>

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

MENDING HEARTS, INC.

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	2021	2020
Net Increase in Cash and Cash Equivalents	296,645	50,730
Cash and Cash Equivalents - Beginning	<u>230,572</u>	<u>179,842</u>
Cash and Cash Equivalents - Ending	<u>\$ 527,217</u>	<u>\$ 230,572</u>
Supplemental Disclosures of Cash Flow Information		
Interest paid	\$ 19,717	\$ 19,717
Non-cash investing and financing activities:		
Purchase of property, plant, and equipment financed through notes payable	\$ 123,000	\$ 53,092
Forgiveness of Paycheck Protection Program loan	\$ 202,197	\$ --

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

MENDING HEARTS, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF ORGANIZATION

Mending Hearts, Inc. (the "Organization") was incorporated under the laws of the State of Tennessee as a nonprofit organization in 2004. The Organization's mission is 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 and contract agreements from various sources, charitable contributions, and proceeds from residents and insurance organizations.

BASIS OF PRESENTATION

In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") guidelines, the Organization reports information regarding its financial position and activities according to two classes of net assets based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions, and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and Board of Directors.

Net Assets With Donor Restrictions – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature and will be met by specific actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. The Organization did not have any net assets with donor restrictions that are required to be held in perpetuity at June 30, 2021 and 2020.

CASH AND CASH EQUIVALENTS

The Organization considers all highly liquid demand deposits to be cash. Additionally, cash also includes other kinds of accounts which have the general characteristics of demand deposits in that the customer may deposit additional funds at any time and also effectively may withdraw funds at any time without prior notice or penalty of costs.

MENDING HEARTS, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ACCOUNTS AND GRANTS RECEIVABLE

Accounts and grants receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through adjustments to valuation allowances based on its assessment of the current status of individual receivables. No allowance for doubtful accounts has been established as the Organization believes all receivables are fully collectible.

REVENUE RECOGNITION - GRANTS AND CONTRIBUTIONS

The Organization receives a portion of its support from various grants and contributions. Revenue from unconditional grants and contributions is recognized as revenue when a pledge to give is made. Revenue from restricted grants and contributions is recognized as revenue when the restriction of the grant or contributions, either an event occurring or the passage of time, has been met. In management's opinion, all grants receivable are fully collectible. In accordance with FASB ASC guidelines, contributions and grants are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as increases to net assets with donor restrictions. When a restriction is fulfilled (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets are reclassified to net assets without donor restrictions and are reported in the statements of activities as net assets released from restrictions.

REVENUE RECOGNITION - FEDERAL AND STATE GRANTS AND CONTRACTS

Unconditional grants from the Federal Government and State of Tennessee designated for use in specific activities are recognized in the period when expenditures have been incurred in compliance with the specific grantor's requirements. Grant revenues from State and Federal agencies that are nonreciprocal are treated like contributions. Unconditional grants and contracts awarded for the acquisition of long-lived assets are reported as increases in net assets without donor restrictions, in the absence of donor stipulations to the contrary, during the fiscal year in which the assets are acquired. Cash received in excess of revenue recognized is recorded as refundable advances (when available). Certain grants and contracts require the Organization to provide certain services during specified periods. If such services are not provided during the periods, the governmental entities are not obligated to expend the funds allocated under the grants and contracts.

Revenue is recognized over the period of the grant or contract and based upon actual expenses incurred for prepayment and other reimbursement under the terms of the grants or contracts. Any unexpended and unexpired amounts are recorded as deferred revenue and unexpended grant funds. Such grant and contract revenues are treated as net assets without donor restrictions for financial statement presentation because the grant and contract requirements are satisfied in the year in which the revenue is recognized.

MENDING HEARTS, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVENUE RECOGNITION - CONTRACTED AND RESIDENT SERVICES REVENUES

The Organization has agreements with third-party payors that provide payments for services provided at discounted rates. Performance obligations are determined based on the nature of the services provided. The Organization recognizes revenue and the related accounts receivable at the point in time the services have been provided. Program fee revenues are reported at the amount that reflects the consideration to which the Organization expects to be entitled to in exchange for providing services. The Organization also receives revenue from residents of their facilities in the form of rent, which is recognized at the time of receipt of the funds.

PROPERTY AND EQUIPMENT

Property, plant and equipment are capitalized at cost when purchased, or fair value at date of donation if contributed, less accumulated depreciation. Expenditures for repairs and maintenance are charged to expense as incurred and additions and improvements that significantly extend the lives of assets are capitalized. Furniture, equipment, buildings, and building improvements are depreciated over estimated useful lives of 5 – 39 years using a straight-line method. Leasehold improvements are depreciated over the shorter of the lease term or useful life. Construction in progress relates to the construction of buildings or improvements to buildings that are not yet completed and therefore not placed into service.

IMPAIRMENT OF LONG-LIVED ASSETS

FASB ASC 360-10-35, *Accounting for the Impairment or Disposal of Long-Lived Assets*, requires the Organization to review long-lived assets, such as property and equipment or intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. There were no impairment losses recognized during the year ended June 30, 2021 and 2020.

NOTE PAYABLE DISCOUNT

The Organization has certain notes payable that have below market interest rates. See Note 5 for further detail on interest rates. The Organization imputed \$9,221 and \$10,095 in interest during the years ended June 30, 2021 and 2020, respectively, related to these notes which was applied to the discount of notes payable. At June 30, 2021 and 2020 the note payable discount totaled \$1,750 and \$2,305 respectively.

MENDING HEARTS, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. While most costs have been directly assigned to a functional category, certain costs have been allocated among program services and supporting services benefited. Such allocations are determined by management on an equitable basis. Expenses that are allocated consist primarily of salaries and wages expense which is allocated based on time and effort.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

INCOME TAXES

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

The Organization follows FASB ASC guidance related to unrecognized tax benefits. The guidance clarifies the accounting for uncertainty in income taxes recognized in an Organization's financial statements. This guidance prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. There are currently no examinations pending or in progress. The Organization has no tax penalties or interest reported in the accompanying financial statements.

MENDING HEARTS, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NEW ACCOUNTING PRONOUNCEMENTS

On January 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842), which requires that a lessee recognize the assets and liabilities that arise from operating leases. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. As amended by ASU 2020-05, ASU 2016-02 is now effective for financial statements issued for annual periods beginning after December 15, 2021. Management is currently evaluating the impact ASU 2016-02 will have on the Organization's financial statements.

SUBSEQUENT EVENTS

The Organization evaluated subsequent events through May 18, 2022, when these financial statements were available to be issued. Management is not aware of any significant events that occurred subsequent to the statements of financial position date but prior to the filing of this report that would have a material impact on the financial statements.

NOTE 2 - CONCENTRATION OF CREDIT RISK

The Organization maintains its cash balances at three banks. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 at each institution. Cash in bank deposit accounts may, at times during the year, exceed federally insured limits. At June 30, 2021 and 2020, respectively, the Organization had no amounts in excess of FDIC insured limits.

MENDING HEARTS, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	2021	2020
Buildings and improvements	\$ 4,246,225	\$ 3,288,403
Land	639,347	316,444
Vehicles	184,274	144,601
Leasehold improvements	53,612	53,612
Furniture and equipment	6,900	19,376
Construction in progress	<u>1,700</u>	<u>876,396</u>
Total property and equipment	5,132,058	4,698,832
Less: Accumulated depreciation	<u>(624,710)</u>	<u>(553,396)</u>
Property and Equipment, Net	<u>\$ 4,507,348</u>	<u>\$ 4,145,436</u>

The Organization has four assets that have a restricted purpose. Three housing properties must be used for low income and homeless individuals. One vehicle must be used for transporting individuals to and from their places of employment.

Construction in progress totaling \$1,700 and \$876,396 at June 30, 2021 and 2020, respectively, represent ongoing construction related to new facilities and renovations to the Organization's residential treatment center.

Depreciation expense totaled \$153,937 and \$137,087 for the years ended June 30, 2021 and 2020, respectively.

NOTE 4 - OPERATING LEASES

The Organization leases various facilities and residential properties to carry out its program objectives. The lease agreements require monthly payments ranging from \$1,200 to \$4,550, with expiration dates between October 31, 2021 and September 30, 2023. Rent expense totaled \$90,700 and \$86,675 for the years ended June 30, 2021 and 2020, respectively.

MENDING HEARTS, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

NOTE 4 - OPERATING LEASES (CONTINUED)

Future rental payments under operating leases are as follows for the years ending June 30:

For the Year Ending June 30,	Amount
2022	\$ 50,100
2023	<u>3,900</u>
	<u>\$ 54,000</u>

NOTE 5 - NOTES PAYABLE

Notes payable consist of the following at June 30:

	<u>2021</u>	<u>2020</u>
Note payable to a financial institution for purchase of real estate, payable in monthly principal and interest payments of \$604. Interest is charged at a rate of 4.25%. All unpaid principal and interest are due May 2021. The note is secured by real estate.	\$ --	\$ 62,379
Note payable to a financial institution for purchase of real estate, payable in monthly principal and interest payments of \$1,676. Interest is charged at a rate of 1.5%. All unpaid principal and interest are due March 2024. The note is secured by real estate.	162,562	182,676
Note payable to a financial institution for purchase of real estate, payable in monthly principal and interest payments of \$883. Interest is charged at a rate of 5.5%. All unpaid principal and interest are due December 2023. The note is secured by real estate.	118,187	122,071
Note payable to a financial institution for purchase of real estate, payable in monthly principal and interest payments of \$427. Interest is charged at a rate of 0.0%. All unpaid principal is due April 2025. The note is secured by real estate.	47,119	52,239

MENDING HEARTS, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

NOTE 5 - NOTES PAYABLE (CONTINUED)

	<u>2021</u>	<u>2020</u>
Note payable to a financial institution under the Paycheck Protection Program. Subject to potential forgiveness, as described below, the note matures April 2022 and would require monthly payments of principal and interest of \$11,263 beginning in November 2020. Interest is charged at a rate of 1.0%.	--	200,135
Note payable to a financial institution under the Paycheck Protection Program. Subject to potential forgiveness, as described below, the note matures April 2026 and would require monthly payments of principal and interest of \$3,421. Interest is charged at a rate of 1.0%.	200,135	--
Note payable to a financial institution for purchase of real estate, payable in monthly principal and interest payments of \$951. Interest is charged at a rate of 4.25%. All unpaid principal and interest are due January 2024. The note is secured by real estate.	<u>123,000</u>	<u>--</u>
Total Notes Payable	651,003	619,500
Less: Current portion	<u>(27,071)</u>	<u>(87,515)</u>
Notes Payable, Net of Current Portion	623,932	531,985
Less: Discount	<u>(47,574)</u>	<u>(56,795)</u>
Notes Payable, Net of Current Portion and Discount	<u>\$ 576,358</u>	<u>\$ 475,190</u>

MENDING HEARTS, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

NOTE 5 - NOTES PAYABLE (CONTINUED)

On April 17, 2020, the Organization received a loan (the “PPP Loan”) from Pinnacle Bank (“Pinnacle”) in the amount of \$200,135 under the Paycheck Protection Program established by the Coronavirus Aid, Relief and Economic Security Act. As of June 30, 2020, the Organization used the full amount received to fund eligible payroll or other allowable expenses under the terms of the PPP loan. The PPP loan was forgiven by the lender and the SBA on May 3, 2021.

On April 16, 2021, the Organization received a loan (the “PPP Loan #2”) from Pinnacle Bank in the amount of \$200,135 under the Paycheck Protection Program established by the Coronavirus Aid, Relief and Economic Security Act. Subject to potential forgiveness, as described below, the PPP Loan matures in five years on April 16, 2026, bears interest at a rate of 1.0% per year and is evidenced by a promissory note dated April 16, 2021 (the “Note”). Monthly payments of principal and interest are deferred May 1, 2022 (“deferment period”) and interest will continue to accrue during this deferment period. The Organization has applied for forgiveness on the loan as described below. The Organization expects the PPP #2 to be forgiven.

The PPP #2 loan is unsecured and federally guaranteed. The Note contains customary events of default relating to, among other things, failure to make payments of principal and interest and breaches of representations and warranties. The Organization may prepay the PPP Loan #2 at any time prior to maturity with no penalty.

All or a portion of the PPP Loan #2 may be eligible to be forgiven by the SBA and the lender upon application by the Organization, provided that the Organization shall have used the loan proceeds for eligible purposes, including the payment of payroll, benefits, rent, mortgage interest and utilities, during the 24-week period beginning on the date of funding of the loan (the “covered period”). Not more than 40% of the amount forgiven may be for non-payroll costs. The Organization has submitted for forgiveness of the PPP Loan. Consistent with the requirements of the PPP for loan forgiveness, the Organization used the loan proceeds solely for payment of payroll and otherwise in a manner which it believes satisfy the requirements for loan forgiveness. However, no assurance can be given that any application for loan forgiveness that the Organization may submit will be approved, in whole or in part.

MENDING HEARTS, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

NOTE 5 - NOTES PAYABLE (CONTINUED)

Future principal payments under notes payable as of June 30, 2021 are as follows:

For the Year Ending June 30,	Amount
2022	\$ 27,071
2023	227,711
2024	367,633
2025	28,588
2026	<u> --</u>
	<u>\$ 651,003</u>

NOTE 6 - LINE OF CREDIT

The Organization maintains a line of credit with a financial institution, allowing maximum borrowings of \$100,000. Interest on outstanding borrowings is computed at one percentage point over a lender bank-determined index (4.25% at June 30, 2021 and 2020). The outstanding principal balance due under the line credit was \$0 as of June 30, 2020 and 2019 and the line matures on August 2, 2031.

NOTE 7 - LIQUIDITY OF ORGANIZATION

The Organization has a goal to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Organization considers general expenditures to be all expenditures related to its ongoing activities of achieving its mission.

MENDING HEARTS, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

NOTE 7 - LIQUIDITY OF ORGANIZATION (CONTINUED)

The following table represents the Organization's financial assets as of June 30, 2021 and 2020, reduced by amounts not available for general expenditure within one year:

	2021	2020
Financial Assets		
Cash and cash equivalents	\$ 527,217	\$ 230,572
Accounts and grants receivable	149,477	222,775
Investments	<u> --</u>	<u> 83</u>
Total Financial Assets	676,694	453,430
Less: Amounts not available to be used for general expenditures within one year:		
Net assets with donor restrictions	<u> (2,500)</u>	<u> (2,500)</u>
Financial Assets Available to Meet General Obligations within One Year	<u>\$ 674,194</u>	<u>\$ 450,930</u>

NOTE 8 - NET ASSETS WITH DONOR RESTRICTIONS

All of the Organization's net assets with donor restrictions are restricted for use within specific programs and totaled \$2,500 at June 30, 2021 and 2020, respectively.

MENDING HEARTS, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2021

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Assistance Listing Number	Grant/ Contract Number	Passed Through to Subrecipients	Federal Expenditures
Federal Awards				
U.S. Department of Health and Human Services				
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	1H79TI082707-01 H/9110813/4-02M002	\$ --	\$ 824,235
Pass-Through Program from: State of Tennessee Department of Mental Health and Substance Abuse Services Opiod STR	93.788	093CFB-NSP-22	--	350,385
State of Tennessee Department of Mental Health and Substance Abuse Services Opiod STR - COVID	93.665	6H79TI081374-02	--	34,992
Total U.S. Department of Health and Human Services			--	<u>1,209,612</u>
U.S. Department of Transportation				
Pass-Through Program from: Nashville Metropolitan Transit Authority	20.507	TN-2019-024-00	--	47,165
Total U.S. Department of Transportation			--	<u>47,165</u>
Total Expenditures of Federal Awards			--	<u>\$ 1,256,777</u>

MENDING HEARTS, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2021

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Mending Hearts, Inc. (the "Organization") under programs of the federal government for the year ended June 30, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Organization.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 - INDIRECT COST RATE

The Organization did not elect to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance; however, no indirect costs were allocated to the awards during the year ended June 30, 2021.

MENDING HEARTS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2021

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified Opinion

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None Reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major federal program:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None Reported

Type of auditors' report issued on compliance for major federal program:

Unmodified Opinion

Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a)?

Yes No

Identification of major federal program:

<u>Name of Federal Program</u>	<u>Assistance Listing Number</u>
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Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243
---	--------

Dollar Threshold Used to Distinguish between Type A and Type B Programs \$750,000

Auditee qualified as low-risk auditee? Yes No

II. FINANCIAL STATEMENT FINDINGS

No current year findings are reported relating to the financial statements.

MENDING HEARTS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2021

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Item #2021-001

Substance Abuse and Mental Health Services Projects of Regional and National Significance
CFDA No. 93.243

Criteria

Mending Hearts, Inc. (the "Organization") currently has no process whereby drawdown requests and underlying calculations are reviewed prior to submission.

Condition and Context

The monthly drawdown requests and underlying calculations submitted for reimbursement under the federal grant were not reviewed by an independent party prior to submission.

Questioned Cost

None

Cause

The Organization's management was unaware that an independent review of the drawdown requests submitted was necessary.

Effect

The Organization submitted drawdown requests that were not reviewed by third party other than the preparer prior to submission.

Recommendation

We recommend the Organization's management implement procedures whereby requests made in accordance with grant terms are reviewed by an independent party prior to submission to help ensure intentional or unintentional errors do not occur.

Views of Responsible Officials and Planned Corrective Actions

The Organization was presented with this finding in the prior year audit report and implemented a review and approval process as soon as the audit report was received.

MENDING HEARTS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2021

IV. PRIOR YEAR FINDINGS

Item #2020-001

Substance Abuse and Mental Health Services Projects of Regional and National Significance
CFDA No. 93.243

Criteria

Mending Hearts, Inc. (the "Organization") currently has no process whereby drawdown requests and underlying calculations are reviewed prior to submission.

Condition and Context

The monthly drawdown requests and underlying calculations submitted for reimbursement under the federal grant were not reviewed by an independent party prior to submission.

Questioned Cost

None

Cause

The Organization's management was unaware that an independent review of the drawdown requests submitted was necessary.

Effect

The Organization submitted drawdown requests that were not reviewed by third party other than the preparer prior to submission.

Recommendation

We recommend the Organization's management implement procedures whereby requests made in accordance with grant terms are reviewed by an independent party prior to submission to help ensure intentional or unintentional errors do not occur.

Views of Responsible Officials and Planned Corrective Actions

The Organization agrees with the finding and the recommended procedures will be implemented.

