

MONROE HARDING, INC.
FINANCIAL STATEMENTS
December 31, 2015 and 2014

MONROE HARDING, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Monroe Harding, Inc.
Nashville, Tennessee

We have audited the accompanying financial statements of Monroe Harding, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2015 and 2014, 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.

Auditor's 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 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, 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 Monroe Harding, Inc. as of December 31, 2015 and 2014, 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.

Fraser, Owen & Howard, PLLC

May 12, 2016

MONROE HARDING, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2015 and 2014

	2015	2014
Assets		
Cash and cash equivalents	\$ 423,915	\$ 948,132
Accounts and pledges receivable	436,668	825,842
Prepaid expenses and other assets	57,242	54,128
Investments	4,809,677	4,997,065
Pooled investments	18,421	18,935
Beneficial interests in perpetual trusts	631,938	654,409
Land, buildings and equipment, net	2,113,870	1,276,108
Total assets	\$ 8,491,731	\$ 8,774,619
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 210,298	\$ 154,667
Accrued expenses	116,139	125,049
Children's account	8,119	2,026
Total liabilities	334,556	281,742
Net assets:		
Unrestricted:		
Undesignated	2,479,218	2,006,062
Board designated endowment	4,688,350	4,876,252
Total unrestricted	7,167,568	6,882,314
Temporarily restricted	217,921	816,406
Permanently restricted	771,686	794,157
Total net assets	8,157,175	8,492,877
Total liabilities and net assets	\$ 8,491,731	\$ 8,774,619

See accompanying notes to financial statements.

MONROE HARDING, INC.
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public support and revenue:				
Public support:				
Governmental contracts and sub-contracts	\$ 3,618,488	\$ -	\$ -	\$ 3,618,488
Church and private contributions	777,818	459,913	-	1,237,731
Special events	127,108	-	-	127,108
Gifts in-kind	13,731	-	-	13,731
Miscellaneous	4,420	-	-	4,420
Net assets released from restriction	1,077,894	(1,058,398)	(19,496)	-
Total public support	<u>5,619,459</u>	<u>(598,485)</u>	<u>(19,496)</u>	<u>5,001,478</u>
Revenue:				
Loss on disposal of property and equipment	(3)	-	-	(3)
Net loss on investments	(278,702)	-	(32,977)	(311,679)
Interest and dividend income, net of fees	90,800	-	30,002	120,802
Total public support and revenue	<u>5,431,554</u>	<u>(598,485)</u>	<u>(22,471)</u>	<u>4,810,598</u>
Expenses:				
Program services:				
Cooperative living	1,907,739	-	-	1,907,739
Independent living	400,203	-	-	400,203
Foster care	1,463,065	-	-	1,463,065
Youth Connections	480,944	-	-	480,944
Total program services	<u>4,251,951</u>	<u>-</u>	<u>-</u>	<u>4,251,951</u>
Supporting services:				
General and administrative	483,998	-	-	483,998
Development	410,351	-	-	410,351
Total supporting services	<u>894,349</u>	<u>-</u>	<u>-</u>	<u>894,349</u>
Total expenses	<u>5,146,300</u>	<u>-</u>	<u>-</u>	<u>5,146,300</u>
Change in net assets	285,254	(598,485)	(22,471)	(335,702)
Net assets, beginning of year	<u>6,882,314</u>	<u>816,406</u>	<u>794,157</u>	<u>8,492,877</u>
Net assets at end of year	<u>\$ 7,167,568</u>	<u>\$ 217,921</u>	<u>\$ 771,686</u>	<u>\$ 8,157,175</u>

See accompanying notes to financial statements.

MONROE HARDING, INC.
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public support and revenue:				
Public support:				
Governmental contracts and sub-contracts	\$ 4,530,962	\$ -	\$ -	\$ 4,530,962
Church and private contributions	539,275	906,935	-	1,446,210
Special events	121,824	-	-	121,824
Gifts in-kind	13,034	-	-	13,034
Miscellaneous	11,841	-	-	11,841
Net assets released from restriction	428,485	(407,665)	(20,820)	-
Total public support	<u>5,645,421</u>	<u>499,270</u>	<u>(20,820)</u>	<u>6,123,871</u>
Revenue:				
Loss on disposal of property and equipment	(7,740)	-	-	(7,740)
Net gain on investments	94,628	-	11,071	105,699
Interest and dividend income, net of fees	99,964	-	32,154	132,118
Total public support and revenue	<u>5,832,273</u>	<u>499,270</u>	<u>22,405</u>	<u>6,353,948</u>
Expenses:				
Program services:				
Cooperative living	1,533,350	-	-	1,533,350
Middle Tennessee Collaborative	1,377,599	-	-	1,377,599
Independent living	275,927	-	-	275,927
Foster care	1,280,627	-	-	1,280,627
Youth Connections	339,258	-	-	339,258
Total program services	<u>4,806,761</u>	<u>-</u>	<u>-</u>	<u>4,806,761</u>
Supporting services:				
General and administrative	506,386	-	-	506,386
Development	396,494	-	-	396,494
Total supporting services	<u>902,880</u>	<u>-</u>	<u>-</u>	<u>902,880</u>
Total expenses	<u>5,709,641</u>	<u>-</u>	<u>-</u>	<u>5,709,641</u>
Change in net assets	122,632	499,270	22,405	644,307
Net assets, beginning of year	<u>6,759,682</u>	<u>317,136</u>	<u>771,752</u>	<u>7,848,570</u>
Net assets at end of year	<u>\$ 6,882,314</u>	<u>\$ 816,406</u>	<u>\$ 794,157</u>	<u>\$ 8,492,877</u>

See accompanying notes to financial statements.

MONROE HARDING, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Change in net assets	\$ (335,702)	\$ 644,307
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	117,334	103,263
Change in beneficial interests in perpetual trusts	22,471	(22,405)
Change in pooled investments	514	(763)
Loss on disposal of property and equipment	3	7,740
Net loss (gain) on investments	278,041	(94,499)
Changes in operating assets and liabilities:		
Accounts and pledges receivable	389,174	(295,313)
Prepaid expenses and other assets	(3,114)	(2,008)
Accounts payable	55,631	(131,062)
Accrued expenses	(8,910)	(42,515)
Children's account	6,093	(435)
	<u>521,535</u>	<u>166,310</u>
Cash flows from investing activities:		
Purchases of property and equipment	(966,299)	(291,824)
Purchases of investments	(1,182,791)	(4,141,321)
Proceeds from disposal of property and equipment	11,200	8,013
Proceeds from sale of investments	1,092,138	4,492,328
	<u>(1,045,752)</u>	<u>67,196</u>
Net (decrease) increase in cash and cash equivalents	(524,217)	233,506
Cash and cash equivalents, beginning of year	<u>948,132</u>	<u>714,626</u>
Cash and cash equivalents, end of year	<u>\$ 423,915</u>	<u>\$ 948,132</u>

See accompanying notes to financial statements.

MONROE HARDING, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2015

	Program Services					Supporting Services			Total Expenses
	Cooperative Living	Independent Living	Foster Care	Youth Connections	Total	General and Administrative	Development	Total	
Salaries and wages	\$ 1,140,003	\$ 197,349	\$ 559,739	\$ 255,436	\$ 2,152,527	\$ 258,442	\$ 234,027	\$ 492,469	\$ 2,644,996
Foster care expenses	-	-	555,287	-	555,287	-	-	-	555,287
Employee benefits	143,884	16,986	85,002	37,118	282,990	19,999	25,796	45,795	328,785
Maintenance	103,048	13,741	24,504	15,311	156,604	31,950	12,525	44,475	201,079
Payroll taxes	84,636	14,296	41,744	18,409	159,085	18,637	16,674	35,311	194,396
Training and education	52,288	5,727	16,492	20,533	95,040	20,139	8,485	28,624	123,664
Food and kitchen supplies	73,868	18,777	1,861	2,791	97,297	17,081	2,018	19,099	116,396
Youth specific assistance	26,494	15,040	25,951	47,882	115,367	-	-	-	115,367
Insurance	52,458	7,481	24,808	6,701	91,448	12,538	6,619	19,157	110,605
Rent	-	73,500	-	20,800	94,300	-	-	-	94,300
Professional expenses	19,966	1,854	4,424	2,032	28,276	32,005	12,270	44,275	72,551
Utilities	49,996	1,185	3,880	187	55,248	6,897	3,707	10,604	65,852
Telephone and internet	23,705	12,331	11,409	9,009	56,454	3,907	2,455	6,362	62,816
Office supplies	17,877	3,288	13,243	3,151	37,559	18,203	5,124	23,327	60,886
Recruitment	14,136	1,338	35,505	1,086	52,065	2,367	1,166	3,533	55,598
Travel and transportation	6,271	1,277	23,526	15,085	46,159	1,528	1,321	2,849	49,008
Special events	-	-	-	-	-	-	39,349	39,349	39,349
Recreational and special	3,120	1,232	21,083	3,208	28,643	5,643	3,052	8,695	37,338
Printing and promotion	2,767	8	1,184	180	4,139	1,894	27,401	29,295	33,434
Contracted services	13,486	477	1,498	7,486	22,947	2,046	2,300	4,346	27,293
Dorm supplies	8,107	11,267	-	7,736	27,110	-	-	-	27,110
Other	465	-	-	636	1,101	7,877	3,878	11,755	12,856
	<u>1,836,575</u>	<u>397,154</u>	<u>1,451,140</u>	<u>474,777</u>	<u>4,159,646</u>	<u>461,153</u>	<u>408,167</u>	<u>869,320</u>	<u>5,028,966</u>
Depreciation	<u>71,164</u>	<u>3,049</u>	<u>11,925</u>	<u>6,167</u>	<u>92,305</u>	<u>22,845</u>	<u>2,184</u>	<u>25,029</u>	<u>117,334</u>
Total expenses	<u>\$ 1,907,739</u>	<u>\$ 400,203</u>	<u>\$ 1,463,065</u>	<u>\$ 480,944</u>	<u>\$ 4,251,951</u>	<u>\$ 483,998</u>	<u>\$ 410,351</u>	<u>\$ 894,349</u>	<u>\$ 5,146,300</u>

See accompanying notes to financial statements.

MONROE HARDING, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2014

	Program Services						Supporting Services			Total Expenses
	Cooperative Living	Middle Tennessee Collaborative	Independent Living	Foster Care	Youth Connections	Total	General and Administrative	Development	Total	
Salaries and wages	\$ 835,204	\$ 74,380	\$ 143,255	\$ 476,908	\$ 153,961	\$ 1,683,708	\$ 304,185	\$ 216,683	\$ 520,868	\$ 2,204,576
Collaborative partner expenses	-	1,268,606	-	-	-	1,268,606	-	-	-	1,268,606
Foster care expenses	-	-	-	509,961	-	509,961	-	-	-	509,961
Employee benefits	150,635	10,927	15,497	62,235	17,918	257,212	30,731	27,747	58,478	315,690
Payroll taxes	63,279	5,662	10,496	34,250	10,712	124,399	21,680	15,199	36,879	161,278
Maintenance	67,747	1,320	11,068	13,993	19,472	113,600	20,507	4,740	25,247	138,847
Professional expenses	36,921	216	975	1,133	703	39,948	34,473	35,314	69,787	109,735
Insurance	55,236	2,325	6,547	21,950	8,004	94,062	8,159	5,340	13,499	107,561
Food and kitchen supplies	75,361	78	11,758	1,870	2,588	91,655	5,681	1,518	7,199	98,854
Training and education	27,283	6,220	2,787	11,985	19,062	67,337	13,402	4,356	17,758	85,095
Youth specific assistance	23,327	-	10,190	25,036	22,614	81,167	-	-	-	81,167
Rent	-	-	46,200	-	31,480	77,680	-	-	-	77,680
Office supplies	16,628	2,654	5,221	13,931	6,969	45,403	17,885	6,736	24,621	70,024
Utilities	44,780	1,155	991	3,244	3,957	54,127	6,069	3,298	9,367	63,494
Telephone and internet	23,292	637	2,958	11,347	10,084	48,318	6,810	4,018	10,828	59,146
Recruitment	12,395	29	833	39,576	696	53,529	1,485	478	1,963	55,492
Travel and transportation	8,131	-	1,878	22,253	9,238	41,500	5,924	1,163	7,087	48,587
Printing and promotion	2,429	-	78	4,551	982	8,040	2,064	24,411	26,475	34,515
Special events	-	-	-	-	-	-	-	33,494	33,494	33,494
Recreational and special	3,620	-	360	13,793	3,616	21,389	8,180	1,624	9,804	31,193
Contracted services	9,816	252	388	1,593	6,801	18,850	4,993	1,200	6,193	25,043
Other	2,510	2,539	-	-	1,351	6,400	508	6,661	7,169	13,569
Dorm supplies	7,646	-	2,625	30	2,470	12,771	-	-	-	12,771
	1,466,240	1,377,000	274,105	1,269,639	332,678	4,719,662	492,736	393,980	886,716	5,606,378
Depreciation	67,110	599	1,822	10,988	6,580	87,099	13,650	2,514	16,164	103,263
Total expenses	\$ 1,533,350	\$ 1,377,599	\$ 275,927	\$ 1,280,627	\$ 339,258	\$ 4,806,761	\$ 506,386	\$ 396,494	\$ 902,880	\$ 5,709,641

See accompanying notes to financial statements.

MONROE HARDING, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015 and 2014

NOTE 1 – NATURE OF OPERATIONS

Monroe Harding, Inc. (the “Organization”) is a nonprofit organization that continues to change young people’s lives every day. Founded in 1893 as an orphanage, the Organization now serves children and youth who are in state’s custody. The Organization believes every child deserves the chance for a better life. The Organization serves children and youth from birth to twenty-six who are or have been in state custody through programs that include foster care, transitional living group homes, independent living apartments, and a community based resource center. Educational, health and wellness, social and spiritual, career and mentoring needs are all tended to so that these young people begin to heal from the trauma they’ve experienced and develop resiliency for a brighter future. Whether the child returns to a kinship home, is adopted, or becomes independent, the Organization ensures they have been safe, well cared for, and made significant gains while in its care.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Organization are presented on the accrual basis of accounting, under which revenue is recognized when earned rather than when collected and expenses are recognized when incurred rather than when disbursed. The significant accounting policies followed are described below.

Basis of Presentation

Net assets and revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization.

All contributions 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 temporarily restricted or permanently restricted support that increases those net asset classes.

MONROE HARDING, INC.
NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2015 and 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Contributions

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restriction.

The Organization reports gifts of land, buildings, 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 donated or acquired long-lived assets are placed in service.

Investments

All gains and losses on investments are reported in the statements of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law.

Land, Buildings and Equipment

Land, buildings and equipment are stated at cost at date of purchase or at estimated fair market value at date of gift. The fair value of donated labor services associated with fixed assets is added to the cost of the asset. Repairs and maintenance are charged to expense as incurred. Purchases with a cost of \$2,000 or more and an estimated useful life greater than one year are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from three to thirty-nine years.

MONROE HARDING, INC.
NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2015 and 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Organization is exempt from federal income taxes under the provisions of Internal Revenue Code Section 501(c)(3). Accordingly, no provision for income taxes is included in the accompanying financial statements. The Organization follows Financial Accounting Standards Board Accounting Standards Codification (“FASB ASC”) guidance that clarifies the accounting for uncertainty in income taxes recognized in an entity’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 fifty percent likely of being realized upon ultimate settlement. The Organization has no tax penalties or interest reported in the accompanying financial statements. Tax years that remain open for examination include the years ended December 31, 2012 through December 31, 2015. The Organization had no uncertain tax positions at December 31, 2015 or 2014.

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.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among program and supporting services based on estimates made by management.

Fair Value Measurements

The Organization follows the provisions of the Fair Value Measurement topic of the FASB ASC. This guidance establishes a framework for measuring fair value for financial assets and liabilities. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market

MONROE HARDING, INC.
NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2015 and 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

participants at the measurement date. Fair value is best determined based upon quoted market prices (Level 1). However, in some instances, there are no quoted market prices for financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques Level 3). Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments.

The three levels of the fair value hierarchy are described below.

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Reclassifications

Certain reclassifications have been made to the 2014 amounts to conform to the 2015 presentation.

Subsequent Events

Management has evaluated subsequent events through May 12, 2016, when these financial statements were available to be issued. Except for the item listed in Note 14, the Organization is not aware of any significant events that occurred subsequent to the statement of financial position date but prior to the filing of this report that would have a material impact on the financial statements.

MONROE HARDING, INC.
NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2015 and 2014

NOTE 3 – ACCOUNTS AND PLEDGES RECEIVABLE

Accounts and pledges receivable are due primarily from various government and private agencies and are expected to be received within one year. The carrying values of the receivables approximate their fair values due to the short maturities of these instruments. Management's estimate of uncollectible amounts is based on historical collection experience and a review of the current status of accounts and pledges receivable. It is reasonably possible that management's estimate of the allowance for uncollectible accounts could change. There was no allowance for uncollectible amounts at December 31, 2015 and December 31, 2014.

NOTE 4 – INVESTMENTS

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value at December 31, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity funds	\$ 1,196,521	\$ 1,022,776*	\$ -	\$ 2,219,297
Fixed income funds	692,287	572,682*	-	1,264,969
Other investments	-	542,289*	620,000	1,162,289
Cash and short term investments	163,122	-	-	163,122
Pooled accounts	<u>-</u>	<u>18,421</u>	<u>-</u>	<u>18,421</u>
Total	<u>\$ 2,051,930</u>	<u>\$ 2,156,168</u>	<u>\$ 620,000</u>	<u>\$ 4,828,098</u>

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value at December 31, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity funds	\$ 1,185,029	\$ 982,815*	\$ -	\$ 2,167,844
Fixed income funds	866,397	598,298*	-	1,464,695
Other investments	-	1,220,811*	-	1,220,811
Cash and short term investments	143,715	-	-	143,715
Pooled accounts	<u>-</u>	<u>18,935</u>	<u>-</u>	<u>18,935</u>
Total	<u>\$ 2,195,141</u>	<u>\$ 2,820,859</u>	<u>\$ -</u>	<u>\$ 5,016,000</u>

Investments identified above by asterisk (*) include units of ownerships in certain common trust funds owned by the Diversified Trust Company ("DTC"). The Organization values these investments as Level 2 because specific units held do not have quoted prices and are not traded on an active market. Level 3 investments are valued by applicable fund administrator based on reported values of underlying funds.

MONROE HARDING, INC.
NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2015 and 2014

NOTE 4 – INVESTMENTS (Continued)

The following table sets forth a summary of changes in the fair value of the Organization's Level 3 assets for the years ended December 31:

	<u>2015</u>	<u>2014</u>
Balance, beginning of year	\$ -	\$ -
Sales	-	-
Purchases	620,000	-
Net realized and unrealized gain	<u>-</u>	<u>-</u>
Balance, end of year	<u>\$ 620,000</u>	<u>\$ -</u>

The following schedule summarizes the net investment income in the statements of activities for the years ended December 31:

	<u>2015</u>	<u>2014</u>
Interest and dividend income, net of fees of (\$40,706 and \$42,662, respectively)	\$ 120,802	\$ 132,118
Net realized and unrealized (losses) gains on investments	<u>(311,679)</u>	<u>105,699</u>
	<u>\$ (190,877)</u>	<u>\$ 237,817</u>

NOTE 5 – LAND, BUILDINGS AND EQUIPMENT

A summary of land, buildings and equipment consists of the following as of December 31:

	<u>2015</u>	<u>2014</u>
Land	\$ 17,409	\$ 17,409
Buildings and improvements	1,941,296	1,655,592
Automobiles	234,037	187,549
Land improvements	102,035	102,035
Furniture, fixtures, and appliances	124,083	217,135
Information/communication technology	69,507	57,857
Construction in progress	<u>632,046</u>	<u>74,062</u>
	3,120,413	2,311,639
Less accumulated depreciation	<u>(1,006,543)</u>	<u>(1,035,531)</u>
Property and equipment, net	<u>\$ 2,113,870</u>	<u>\$ 1,276,108</u>

MONROE HARDING, INC.
NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2015 and 2014

NOTE 6 – BENEFICIAL INTERESTS IN PERPETUAL TRUSTS

The Organization is the beneficiary of two perpetual trusts. The Plummer Trust is held by First Presbyterian Church of Clarksville, Tennessee. The Organization is a 25% beneficiary of the trust and receives periodic distributions from the trust. At December 31, 2015, the trust had a fair market value of \$2,229,668, of which \$557,417 was for the benefit of the Organization. At December 31, 2014, the trust had a fair market value of \$2,293,470, of which \$573,368 was for the benefit of the Organization.

The Stanley Trust was initially held by Westminster Presbyterian Church of Nashville, Tennessee (“Westminster”). During 2015, Westminster, transferred the funds to a designated account to be held and managed by the Organization. Distributions from the Stanley Trust are made annually at an amount equal to 5.5% of the three year average annual value of the trust. At December 31, 2015 and 2014, the trust had a fair market value of \$74,521 and \$81,041, respectively.

The trusts’ assets are invested in money markets and publicly traded mutual funds. Investments identified below by asterisk (*) include units of ownerships in certain common trust funds owned by DTC. The Organization values these investments as Level 2 because specific units held do not have quoted prices and are not traded on an active market.

The following table sets forth by level, within the fair value hierarchy, the trusts’ assets at fair value at December 31, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity funds	\$ 569,334	\$ 16,152*	\$ -	\$ 585,486
Fixed income funds	11,159	9,111*	-	20,270
Other investments	-	18,393*	-	18,393
Cash and short term investments	<u>7,789</u>	<u>-</u>	<u>-</u>	<u>7,789</u>
Total	<u>\$ 588,282</u>	<u>\$ 43,656</u>	<u>\$ -</u>	<u>\$ 631,938</u>

The following table sets forth by level, within the fair value hierarchy, the trusts’ assets at fair value at December 31, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity funds	\$ 646,331	\$ -	\$ -	\$ 646,331
Cash and short term investments	<u>8,078</u>	<u>-</u>	<u>-</u>	<u>8,078</u>
Total	<u>\$ 654,409</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 654,409</u>

MONROE HARDING, INC.
NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2015 and 2014

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at December 31:

	2015	2014
Cooperative living programs	\$ 102,077	\$ 129,346
Youth Connections programs	77,526	94,389
Capital improvements	17,136	572,760
Foster care	20,795	15,724
Independent living program	387	4,187
	\$ 217,921	\$ 816,406

Temporarily restricted net assets of \$1,058,398 and \$356,541 were released from donor restrictions by satisfying the restricted purposes or by occurrence of other events specified by donors during the years ended December 31, 2015 and 2014. The purpose restrictions accomplished were for program services and the acquisition of capital assets.

NOTE 8 – GIFTS IN-KIND

Gifts in-kind received by the Organization are recorded based on their estimated value on the date of receipt. During 2015, the Organization recorded donated materials and services with an estimated value of \$13,731. During 2014, the Organization recorded donated materials and services with an estimated value of \$13,034. In addition, unpaid volunteers have made significant contributions of their time to assist the Organization in carrying out its programs, operations, and events. During the years ended December 31, 2015 and 2014, volunteers provided approximately 1,800 and 700 hours of service, respectively. The value of contributed time is not reflected in these statements since it does not meet the recording requirements specified by accounting principles generally accepted in the United States of America.

NOTE 9 – RETIREMENT PLAN

The Organization has a retirement plan in accordance with Internal Revenue Code Section 401. The plan is a defined contribution plan that covers full-time employees who have a minimum of one year of service with the Organization or another nonprofit organization. During 2015 and 2014, the Organization contributed matching contributions up to 4% of the participants' compensation. Employer contributions are fully vested after four years of service with the Organization or any other nonprofit health or social service organization. Total pension expense incurred during 2015 and 2014 were \$34,667 and \$30,416, respectively.

MONROE HARDING, INC.
NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2015 and 2014

NOTE 10 – COMMITMENTS AND CONTINGENCIES

The Organization has entered into noncancelable operating lease agreements for certain office equipment and a program location. The Organization has also entered into leases for independent living units with required monthly rent payments totaling approximately \$6,000. These leases have terms ranging from twelve to thirty-six months, and are generally renewed at the end of each period. Rent expense for all leases for 2015 and 2014 totaled \$115,471 and \$92,887, respectively.

The future minimum lease payments under noncancelable operating lease arrangements are as follows for the years ending December 31:

2016	\$	37,200
2017		37,200
2018		7,917
2019		<u>1,208</u>
	\$	<u>83,525</u>

NOTE 11 – BOARD DESIGNATED FUNDS

The board of directors has elected to set aside funds for a designated endowment. One of the common uses of board designated funds is for periodic distributions to cover operating expenses that cannot be met with available cash from operations. At December 31, the board designated balances were as follows:

	<u>2015</u>	<u>2014</u>
Endowment	\$ <u>4,688,350</u>	\$ <u>4,876,252</u>
Total board designated net assets:	\$ <u>4,688,350</u>	\$ <u>4,876,252</u>

NOTE 12 – CONCENTRATION OF CREDIT RISK

The Organization maintains its cash and cash equivalents in financial institutions with balances which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. Management believes it is not exposed to any significant concentration risk on cash and cash equivalents.

Prior to 2015, the Organization was the lead agency of the Middle Tennessee Collaborative (the “Collaborative”). The Collaborative had a contract with an agency of the State of Tennessee to provide residential and foster care services for youth. As the lead agency in the Collaborative, the Organization billed the state agency for services provided by all of the member agencies and remitted payments to the member agencies, less an agreed upon administration fee. During the year ended

MONROE HARDING, INC.
NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2015 and 2014

NOTE 12 – CONCENTRATION OF CREDIT RISK (Continued)

December 31, 2014, approximately \$4,333,000 was recorded as revenue from the state agency contract for services provided by the Collaborative. This accounted for approximately 68% of total public support and revenue recognized by the Organization during 2014. At December 31, 2014, approximately \$454,000 was receivable from the state agency related to the contract.

During the year ended December 31, 2014, the Organization recognized expenses totaling approximately \$1,269,000 for the amounts earned by the other members of the Collaborative for their services. At December 31, 2014, approximately \$139,000 was due to Collaborative members for these services. At December 31, 2014, approximately \$20,000, was due from Collaborative members.

Effective December 31, 2014, the Collaborative's contract with the State of Tennessee expired and the Department of Children's Services began contracting with each of the remaining partners, both the Organization and Group Effort as separate entities. During 2015, the Organization continued to collect accounts receivable and pay accounts payable related to services previously provided under the Collaborative contract.

NOTE 13 – ENDOWMENT AND PERMANENTLY RESTRICTED NET ASSETS

The Organization's endowment consists of individual funds established for a variety of purposes and includes both donor restricted endowment funds and funds designated by the board of directors to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the board of directors to function as endowments, are classified and reported based upon the existence or absence of donor-imposed restrictions. Permanently restricted endowment funds are beneficial interests in perpetual trusts held by the Westminster Presbyterian Church in Nashville, Tennessee and First Presbyterian Church in Clarksville, Tennessee.

Interpretation of Relevant Law

The board of directors of the Organization has interpreted the State Prudent Management of Institutional Funds Act ("SPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are

MONROE HARDING, INC.
NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2015 and 2014

NOTE 13 – ENDOWMENT AND PERMANENTLY RESTRICTED NET ASSETS (Continued)

Interpretation of Relevant Law (Continued)

appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- The investment policies of the Organization

Return Objectives and Risk Parameters

The Organization has adopted investment spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for donor-specified periods as well as board-designated funds. Under this policy, as approved by the board of directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of selected market and comparative indices while assuming a moderate level of investment risk. Actual returns will vary in any given year.

Strategies Employed for Achieving Investment Objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization has a policy which provides for the board of directors to identify distribution amounts, as needed, to fund the Organization's programs. In establishing this policy, the Organization considered the long-term expected return on its endowment. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

MONROE HARDING, INC.
NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2015 and 2014

NOTE 13 – ENDOWMENT AND PERMANENTLY RESTRICTED NET ASSETS (Continued)

Endowment Net Asset Composition by Type of Fund as of December 31, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ -	\$ 771,686	\$ 771,686
Board-restricted endowment funds	<u>4,688,350</u>	<u>-</u>	<u>-</u>	<u>4,688,350</u>
Total funds	<u>\$ 4,688,350</u>	<u>\$ -</u>	<u>\$ 771,686</u>	<u>\$ 5,460,036</u>

Endowment Net Asset Composition by Type of Fund as of December 31, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ -	\$ 794,157	\$ 794,157
Board-restricted endowment funds	<u>4,876,252</u>	<u>-</u>	<u>-</u>	<u>4,876,252</u>
Total funds	<u>\$ 4,876,252</u>	<u>\$ -</u>	<u>\$ 794,157</u>	<u>\$ 5,670,409</u>

Changes in Endowment Net Assets for the Year Ended December 31, 2015:

Endowment net assets, beginning of year	\$ <u>4,876,252</u>	\$ <u>-</u>	\$ <u>794,157</u>	\$ <u>5,670,409</u>
Investment return:				
Investment income	90,800	-	30,002	120,802
Net depreciation (realized and unrealized)	<u>(278,702)</u>	<u>-</u>	<u>(32,977)</u>	<u>(311,679)</u>
Total investment return	<u>(187,902)</u>	<u>-</u>	<u>(2,975)</u>	<u>(190,877)</u>
Appropriation of endowment assets for expenditure	<u>-</u>	<u>-</u>	<u>(19,496)</u>	<u>(19,496)</u>
Endowment net assets, end of year	<u>\$ 4,688,350</u>	<u>\$ -</u>	<u>\$ 771,686</u>	<u>\$ 5,460,036</u>

MONROE HARDING, INC.
NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2015 and 2014

NOTE 13 – ENDOWMENT AND PERMANENTLY RESTRICTED NET ASSETS (Continued)

Changes in Endowment Net Assets for the Year Ended December 31, 2014:

Endowment net assets, beginning of year	<u>\$ 5,131,997</u>	<u>\$ -</u>	<u>\$ 771,752</u>	<u>\$ 5,903,749</u>
Investment return:				
Investment income	98,796	-	32,154	130,950
Net appreciation (realized and unrealized)	<u>94,628</u>	<u>-</u>	<u>11,071</u>	<u>105,699</u>
Total investment return	<u>193,424</u>	<u>-</u>	<u>43,225</u>	<u>236,649</u>
Board designated transfers to endowment	<u>831</u>	<u>-</u>	<u>-</u>	<u>831</u>
Appropriation of endowment assets for expenditure	<u>(450,000)</u>	<u>-</u>	<u>(20,820)</u>	<u>(470,820)</u>
Endowment net assets, end of year	<u>\$ 4,876,252</u>	<u>\$ -</u>	<u>\$ 794,157</u>	<u>\$ 5,670,409</u>

NOTE 14 – FINANCING AGREEMENT

Subsequent to December 31, 2015, the Organization entered into a line of credit agreement with a financial institution. The agreement allows for borrowings up to \$800,000. Interest is payable monthly at a rate of 2.50% plus LIBOR. The balance is due in full April 13, 2017, unless requested sooner by the lender. The line of credit is collateralized by the Organization's board designated investment account.