MONROE HARDING, INC.

FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2017 and 2016

And Report of Independent Auditor

Cherry Bekaert LLP
CPAs & Advisors

MONROE HARDING, INC.

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Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor

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 statement of financial position as of December 31, 2017, and the related statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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, 2017, 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.

Prior Period Financial Statements

The financial statements as of December 31, 2016, were audited by other auditors whose report dated May 2, 2017, expressed an unmodified opinion on those statements.

Cherry Bekaert LLP

Nashville, Tennessee
August 17, 2018

MONROE HARDING, INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2017 AND 2016

	2017	2016
ASSETS		
Cash and cash equivalents, including deposits held for others of $1,128 and $68,026, respectively	$ 359,892	$ 280,308
Accounts and pledges receivable	352,017	466,259
Prepaid expenses and other assets	51,184	57,787
Investments	2,716,534	3,590,770
Pooled investments	23,238	20,828
Beneficial interests in perpetual trusts	760,529	662,647
Land, buildings, and equipment, net	2,032,305	2,257,933
Total Assets	$ 6,295,699	$ 7,336,532
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	$ 108,126	$ 292,597
Accrued expenses	112,554	150,348
Funds held for others	1,128	68,026
Total Liabilities	221,808	510,971
Net Assets:		
Unrestricted:		
Undesignated	2,417,241	2,269,666
Board designated endowment	2,600,024	3,471,850
Total unrestricted	5,017,265	5,741,516
Temporarily restricted	156,349	281,650
Permanently restricted	900,277	802,395
Total Net Assets	6,073,891	6,825,561
Total Liabilities and Net Assets	$ 6,295,699	$ 7,336,532

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

MONROE HARDING, INC.
STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public Support and Revenue:				
Public support:				
Governmental contracts and sub-contracts	$ 2,446,003	$ -	$ -	$ 2,446,003
Contributions	688,854	289,500	-	978,354
Special events	119,022	-	-	119,022
Gifts in-kind	10,406	-	-	10,406
Miscellaneous	1,005	-	-	1,005
Net assets released from restriction	439,465	(414,801)	(24,664)	-
Total public support	3,704,755	(125,301)	(24,664)	3,554,790
Revenue:				
Net gain on investments	294,755	-	82,338	377,093
Interest and dividend income, net of fees	59,419	-	40,208	99,627
Gain on disposal of property and equipment	1,014	-	-	1,014
Total Revenue	355,188	-	122,546	477,734
Total Public Support and Revenue	4,059,943	(125,301)	97,882	4,032,524
Expenses:				
Program services:				
Cooperative living	701,373	-	-	701,373
Independent living	552,071	-	-	552,071
Foster care	1,664,049	-	-	1,664,049
Youth Connections	548,643	-	-	548,643
Total program services	3,466,136	-	-	3,466,136
Supporting services:				
General and administrative	807,631	-	-	807,631
Development	510,427	-	-	510,427
Total supporting services	1,318,058	-	-	1,318,058
Total Expenses	4,784,194	-	-	4,784,194
Change in net assets	(724,251)	(125,301)	97,882	(751,670)
Net assets, beginning of year	5,741,516	281,650	802,395	6,825,561
Net assets, end of year	$ 5,017,265	$ 156,349	$ 900,277	$ 6,073,891

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

MONROE HARDING, INC.

STATEMENT OF ACTIVITIES (CONTINUED)

YEAR ENDED DECEMBER 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public Support and Revenue:				
Public support:				
Governmental contracts and sub-contracts	$ 3,540,995	$ -	$ -	$ 3,540,995
Contributions	500,889	398,384	-	899,273
Special events	167,791	-	-	167,791
Gifts in-kind	15,896	-	-	15,896
Miscellaneous	6,548	-	-	6,548
Net assets released from restriction	351,846	(334,655)	(17,191)	-
Total public support	4,583,965	63,729	(17,191)	4,630,503
Revenue:				
Net gain on investments	143,428	-	20,140	163,568
Interest and dividend income, net of fees	82,530	-	27,760	110,290
Gain on disposal of property and equipment	10,071	-	-	10,071
Total revenue	236,029	-	47,900	283,929
Total Public Support and Revenue	4,819,994	63,729	30,709	4,914,432
Expenses:				
Program services:				
Cooperative living	2,459,290	-	-	2,459,290
Independent living	504,207	-	-	504,207
Foster care	1,717,623	-	-	1,717,623
Youth Connections	488,608	-	-	488,608
Total program services	5,169,728	-	-	5,169,728
Supporting services:				
General and administrative	608,546	-	-	608,546
Development	467,772	-	-	467,772
Total supporting services	1,076,318	-	-	1,076,318
Total Expenses	6,246,046	-	-	6,246,046
Change in net assets	(1,426,052)	63,729	30,709	(1,331,614)
Net assets, beginning of year	7,167,568	217,921	771,686	8,157,175
Net assets, end of year	$ 5,741,516	$ 281,650	$ 802,395	$ 6,825,561

MONROE HARDING, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	$ (751,670)	$ (1,331,614)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	201,380	191,722
Change in beneficial interests in perpetual trusts	(97,882)	(30,709)
Change in pooled investments	(2,410)	(2,407)
Gain on disposal of property and equipment	(1,014)	(10,071)
Net gain on investments	(292,540)	(142,222)
Changes in operating assets and liabilities:		
Accounts and pledges receivable	114,242	(29,591)
Prepaid expenses and other assets	6,603	(545)
Accounts payable	(184,471)	82,299
Accrued expenses	(37,794)	34,209
Funds held for others	(66,898)	59,907
Net cash used in operating activities	(1,112,454)	(1,179,022)
Cash flows from investing activities:		
Purchases of property and equipment	(6,275)	(343,803)
Purchases of investments	(1,471,643)	(819,320)
Proceeds from disposal of property and equipment	31,537	18,089
Proceeds from sale of investments	2,638,419	2,180,449
Net cash provided by investing activities	1,192,038	1,035,415
Net increase (decrease) in cash and cash equivalents	79,584	(143,607)
Cash and cash equivalents, beginning of year	280,308	423,915
Cash and cash equivalents, end of year	$ 359,892	$ 280,308

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

MONROE HARDING, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2017

	Program Services					Supporting Services			
	Cooperative Living	Independent Living	Foster Care	Youth Connections	Total	General and Administrative	Development	Total	Total Expenses
Salaries and wages	$ 429,275	$ 312,039	$ 800,269	$ 296,054	$ 1,837,637	$ 322,844	$ 273,501	$ 596,345	$ 2,433,982
Foster care expenses	-	-	419,784	-	419,784	-	-	-	419,784
Employee benefits	69,399	43,440	137,399	44,818	295,056	46,870	36,884	83,754	378,810
Maintenance	29,163	15,179	58,896	13,703	116,941	51,904	13,173	65,077	182,018
Payroll taxes	34,027	22,508	58,669	21,502	136,706	23,038	19,981	43,019	179,725
Professional expenses	4,343	986	9,067	13,794	28,190	113,778	21,115	134,893	163,083
Insurance	9,391	12,733	42,352	11,482	75,958	18,358	10,418	28,776	104,734
Youth specific assistance	3,830	13,413	20,917	58,636	96,796	-	-	-	96,796
Rent	-	73,500	-	16,800	90,300	-	-	-	90,300
Food and kitchen supplies	25,870	24,910	871	3,466	55,117	15,432	789	16,221	71,338
Telephone and internet	8,767	12,957	14,755	10,141	46,620	6,209	2,553	8,762	55,382
Training and education	7,307	860	4,116	9,437	21,720	26,967	4,869	31,836	53,556
Travel and transportation	1,883	4,399	20,766	23,764	50,812	1,182	174	1,356	52,168
Utilities	19,702	2,539	5,980	102	28,323	14,292	5,623	19,915	48,238
Special events	-	-	-	-	-	-	45,591	45,591	45,591
Printing and promotion	810	272	2,244	736	4,062	663	35,095	35,758	39,820
Office supplies	3,834	1,802	7,293	6,086	19,015	17,314	2,888	20,202	39,217
Contracted services	6,375	1,120	2,770	6,410	16,675	4,846	14,613	19,459	36,134
Recruitment	633	152	32,623	361	33,769	2,074	152	2,226	35,995
Other	-	124	-	352	476	10,130	19,829	29,959	30,435
Recreational and special	971	1,475	15,778	1,332	19,556	4,009	2,143	6,152	25,708
	655,580	544,408	1,654,549	538,976	3,393,513	679,910	509,391	1,189,301	4,582,814
Depreciation	45,793	7,663	9,500	9,667	72,623	127,721	1,036	128,757	201,380
Total Expenses	$ 701,373	$ 552,071	$ 1,664,049	$ 548,643	$ 3,466,136	$ 807,631	$ 510,427	$ 1,318,058	$ 4,784,194

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

MONROE HARDING, INC.
STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2016

	Program Services					Supporting Services			
	Cooperative Living	Independent Living	Foster Care	Youth Connections	Total	General and Administrative	Development	Total	Total Expenses
Salaries and wages	$ 1,481,750	$ 269,314	$ 720,747	$ 277,060	$ 2,748,871	$ 252,166	$ 271,544	$ 523,710	$ 3,272,581
Foster care expenses	-	-	534,998	-	534,998	-	-	-	534,998
Employee benefits	213,424	33,811	134,720	38,341	420,296	33,941	42,429	76,370	496,666
Maintenance	118,209	16,356	48,007	14,837	197,409	51,004	10,204	61,208	258,617
Payroll taxes	109,936	19,267	53,054	19,732	201,989	17,843	19,004	36,847	238,836
Food and kitchen supplies	127,052	26,272	4,973	4,634	162,931	22,041	1,587	23,628	186,559
Insurance	58,043	8,316	26,397	7,373	100,129	13,691	7,383	21,074	121,203
Training and education	47,403	7,892	20,796	15,076	91,167	20,030	3,507	23,537	114,704
Youth specific assistance	26,161	14,619	23,177	45,475	109,432	-	-	-	109,432
Professional expenses	17,746	1,110	11,579	956	31,391	53,859	19,242	73,101	104,492
Office supplies	24,411	5,390	22,918	4,365	57,084	31,130	5,202	36,332	93,416
Rent	-	73,500	-	16,800	90,300	-	-	-	90,300
Utilities	57,509	1,145	3,698	127	62,479	6,493	3,503	9,996	72,475
Telephone and internet	26,342	12,184	13,852	9,216	61,594	3,123	2,009	5,132	66,726
Recruitment	9,591	1,973	37,264	2,801	51,629	7,128	943	8,071	59,700
Travel and transportation	6,163	5,340	25,433	13,593	50,529	1,805	295	2,100	52,629
Recreational and special	3,967	250	20,907	2,042	27,166	17,468	493	17,961	45,127
Other	6,408	-	-	-	6,408	17,377	13,451	30,828	37,236
Printing and promotion	2,701	76	1,364	203	4,344	1,047	30,086	31,133	35,477
Special events	-	-	-	-	-	-	32,532	32,532	32,532
Contracted services	13,784	1,000	2,909	7,195	24,888	3,396	2,334	5,730	30,618
	2,350,600	497,815	1,706,793	479,826	5,035,034	553,542	465,748	1,019,290	6,054,324
Depreciation	108,690	6,392	10,830	8,782	134,694	55,004	2,024	57,028	191,722
Total Expenses	$ 2,459,290	$ 504,207	$ 1,717,623	$ 488,608	$ 5,169,728	$ 608,546	$ 467,772	$ 1,076,318	$ 6,246,046

Note 1—Nature of operations

Founded in 1893, Monroe Harding, Inc. (the "Organization") is a nonprofit foster care organization dedicated to making meaningful change in the lives of children and youth in Middle Tennessee. Our agency supports them, from birth to 26, in the ways they need it most – by providing safe, healthy and nurturing environments. That could be in the home of one of our foster families, or for older youth aging out, their own apartment or participating in education and job programs through our Resource Center in downtown Nashville. We know that one caring adult can make an enormous difference in the lives of children who had been separated from their birth families. Home, Healing, and Opportunities are what the Organization strives to provide daily.

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.

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.

Note 2—Summary of significant accounting policies (continued)

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.

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 ("FASB") Accounting Standards Codification ("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 50% likely of being realized upon ultimate settlement. The Organization has no tax penalties or interest reported in the accompanying financial statements. The Organization had no uncertain tax positions at December 31, 2017 or 2016.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") 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 services 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 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.

Note 2—Summary of significant accounting policies (continued)

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; and
- 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.

Subsequent Events – Management has evaluated subsequent events through August 17, 2018, when these financial statements were available to be issued. Except for the items listed in Notes 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.

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, 2017 and 2016.

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, 2017:

	Level 1	Level 2	Level 3	Total
Equity funds	$ 973,427	$ 529,137 *	$ -	$ 1,502,564
Other investments	-	335,775 *	-	335,775
Fixed income funds	276,212	492,606 *	-	768,818
Cash and short term investments	109,377	-	-	109,377
Pooled accounts	-	23,238	-	23,238
Total	$ 1,359,016	$ 1,380,756	$ -	$ 2,739,772

Note 4—Investments (continued)

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value at December 31, 2016:

	Level 1	Level 2	Level 3	Total
Equity funds	$ 891,272	$ 658,796 *	$ -	$ 1,550,068
Other investments	-	402,119 *	461,003	863,122
Fixed income funds	244,526	595,117 *	-	839,643
Cash and short term investments	337,937	-	-	337,937
Pooled accounts	-	20,828	-	20,828
Total	$ 1,473,735	$ 1,676,860	$ 461,003	$ 3,611,598

Investments identified above by asterisk (*) include units of ownership 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 at December 31, 2016 were valued by applicable fund administrator based on reported values of underlying funds.

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:

	2017	2016
Balance, beginning of year	$ 461,003	$ 620,000
Sales	(461,003)	(158,997)
Purchases	-	-
Balance, end of year	$ -	$ 461,003

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

	2017	2016
Interest and dividend income, net of fees of $30,205 and $38,584, respectively	$ 99,627	$ 110,290
Net realized and unrealized gains on investments	377,093	163,568
	$ 476,720	$ 273,858

Note 5—Land, buildings, and equipment

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

	2017	2016
Land	$ 17,409	$ 17,409
Buildings and improvements	2,806,578	2,758,071
Automobiles	160,336	239,056
Land improvements	102,035	102,035
Furniture, fixtures, and appliances	134,825	116,083
Information/communication technology	115,036	69,507
Construction in progress	-	138,988
	3,336,219	3,441,149
Less accumulated depreciation	(1,303,914)	(1,183,216)
Land, Buildings, and Equipment, net	$ 2,032,305	$ 2,257,933

During the year ended December 31, 2017, the Organization listed its real property for sale. As of the date of these financial statements, no sales agreement has been executed.

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, 2017, the trust had a fair market value of $2,732,779, of which $683,195 was for the benefit of the Organization. At December 31, 2016, the trust had a fair market value of $2,355,388, of which $588,847 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, 2017 and 2016, the trust had a fair market value of $77,334 and $73,800, 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.

Note 6—Beneficial interests in perpetual trusts (continued)

The following table sets forth by level, within the fair value hierarchy, the trusts' assets at fair value at December 31, 2017:

	Level 1	Level 2		Level 3	Total
Equity funds	$ 706,992	$ 16,712	*	$ -	$ 723,704
Fixed income funds	5,850	10,163	*	-	16,013
Other investments	-	8,605	*	-	8,605
Cash and short term investments	12,207	-		-	12,207
Total	$ 725,049	$ 35,480		$ -	$ 760,529

The following table sets forth by level, within the fair value hierarchy, the trusts' assets at fair value at December 31, 2016:

	Level 1	Level 2		Level 3	Total
Equity funds	$ 601,872	$ 11,848	*	$ -	$ 613,720
Fixed income funds	7,027	11,051	*	-	18,078
Other investments	-	16,337	*	-	16,337
Cash and short term investments	14,512	-		-	14,512
Total	$ 623,411	$ 39,236		$ -	$ 662,647

Note 7—Temporarily restricted net assets

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

	2017	2016
Youth Connections programs	$ 83,506	$ 86,571
Trauma and resiliency informed care	30,331	-
Foster care	30,024	27,354
Independent living program	6,839	8,794
Music program	5,649	20,000
Cooperative living programs	-	115,795
Capital improvements	-	23,136
	$ 156,349	$ 281,650

Temporarily restricted net assets of $414,801 and $334,655 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, 2017 and 2016, respectively. 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 2017, the Organization recorded donated materials and services with an estimated value of $10,406. During 2016, the Organization recorded donated materials and services with an estimated value of $15,896. 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, 2017 and 2016, volunteers provided approximately 1,800 and 2,500 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 GAAP.

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 2017 and 2016, 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 2017 and 2016 were $45,009 and $44,089, respectively.

Note 10—Commitments and contingencies

The Organization has entered into non-cancelable 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 $7,500. 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 2017 and 2016 totaled $114,227 and $113,308, respectively.

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

2018	$ 16,309
2019	8,876
2020	7,668
2021	7,668
2022	7,668
Thereafter	4,952
	$ 53,141

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:

	2017	2016
Endowment	$ 2,600,024	$ 3,471,850
Total Board Designated Net Assets	$ 2,600,024	$ 3,471,850

Note 12—Concentrations

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 credit risk related to cash. Cash and cash equivalent balances in excess of federally insured limits amounted to approximately $143,000 and $59,000 at December 31, 2017 and 2016, respectively.

The Organization received $2,446,003 and $3,540,995 for the years ended December 31, 2017 and 2016, respectively, from contracts with governmental entities. A significant reduction in this support could have an adverse effect on the Organization's activities. Accounts receivable related to these contracts amounted to $257,882 and $402,133 at December 31, 2017 and 2016, respectively.

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 GAAP, 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 predominantly beneficial interests in perpetual trusts described in Note 6.

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.

Note 13—Endowment and permanently restricted net assets (continued)

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 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.

Endowment net asset composition by type of fund as of December 31, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ -	$ 900,277	$ 900,277
Board-restricted endowment funds	2,600,024	-	-	2,600,024
Total Funds	$ 2,600,024	$ -	$ 900,277	$ 3,500,301

Note 13—Endowment and permanently restricted net assets (continued)

Endowment net asset composition by type of fund as of December 31, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ -	$ 802,395	$ 802,395
Board-restricted endowment funds	3,471,850	-	-	3,471,850
Total Funds	$ 3,471,850	$ -	$ 802,395	$ 4,274,245

Changes in endowment net assets for the year ended December 31, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 3,471,850	$ -	$ 802,395	$ 4,274,245
Investment Return:				
Investment income	59,419	-	40,208	99,627
Net appreciation (realized and unrealized)	294,755	-	82,338	377,093
Total Investment Return	354,174	-	122,546	476,720
Appropriation of endowment assets for expenditure	(1,226,000)	-	(24,664)	(1,250,664)
Endowment net assets, end of year	$ 2,600,024	$ -	$ 900,277	$ 3,500,301

Note 13—Endowment and permanently restricted net assets (continued)

Changes in endowment net assets for the year ended December 31, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 4,688,350	$ -	$ 771,686	$ 5,460,036
Investment Return:				
Investment income	82,508	-	27,760	110,268
Net appreciation (realized and unrealized)	143,452	-	20,140	163,592
Total Investment Return	225,960	-	47,900	273,860
Board designated transfers to endowment	1,040	-	-	1,040
Appropriation of endowment assets for expenditure	(1,443,500)	-	(17,191)	(1,460,691)
Endowment net assets, end of year	$ 3,471,850	$ -	$ 802,395	$ 4,274,245

Note 14—Financing agreement

The Organization has 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. Any unpaid balance was due in full April 13, 2018, unless requested sooner by the lender. The line of credit is collateralized by the Organization's board designated investment account. Subsequent to December 31, 2017, the line of credit expired July 13, 2018.

Note 15—Program closing

During the year ended December 31, 2017, management and the board of directors made the decision to close its Cooperative Living program effective April 7, 2017. The Organization will continue to seek approval to be licensed by the state of Tennessee to provide Cooperative Living services in the future if the need arises. Total Cooperative Living revenues and expenses were as follows for the years ended December 31:

	2017	2016
Revenues	$ 230,321	$ 1,162,763
Expenses	$ 701,373	$ 2,459,290