

MONROE HARDING, INC.

**FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

DECEMBER 31, 2008 AND 2007

MONROE HARDING, INC.

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Independent Auditors' Report

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

We have audited the accompanying statements of financial position of Monroe Harding, Inc. as of December 31, 2008 and 2007, and the related statements of activities, cash flows and functional expenses for the years then ended. These financial statements are the responsibility of Monroe Harding, Inc.'s management. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2009, on our consideration of Monroe Harding, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

To the Board of Directors
Monroe Harding, Inc.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of Monroe Harding, Inc. taken as a whole. The accompanying schedules of comparison of public support and revenue with budget and comparison of expenses with budget are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 2008 basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Crosslin & Associates, P.C.

Nashville, Tennessee
April 22, 2009

MONROE HARDING, INC.
STATEMENTS OF FINANCIAL POSITION

ASSETS

	<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$ 399,931	\$ 491,466
Accounts receivable (Note B)	199,613	234,910
Pledges receivable (Note B)	62,000	-
Prepaid expenses	19,991	13,885
Investments (Notes C, K and M)	3,841,264	5,846,973
Beneficial interests in perpetual trusts (Note K and M)	409,563	620,811
Land, buildings and equipment, net (Note D)	<u>918,834</u>	<u>971,398</u>
 Total assets	 <u>\$5,851,196</u>	 <u>\$8,179,443</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$ 83,567	\$ 78,518
Accrued expenses	40,312	30,190
Children's account	22,432	18,413
Medical reimbursement	<u>2,985</u>	<u>2,868</u>
 Total liabilities	 <u>149,296</u>	 <u>129,989</u>

NET ASSETS

Unrestricted (Note A)		
Undesignated	1,181,045	1,329,675
Board designated for capital improvements (Note H)	122,154	156,197
Board designated endowment (Note K)	3,841,264	5,846,973
Temporarily restricted (Note E)	147,874	95,798
Permanently restricted (Note K)	<u>409,563</u>	<u>620,811</u>
 Total net assets	 <u>5,701,900</u>	 <u>8,049,454</u>
 Total liabilities and net assets	 <u>\$5,851,196</u>	 <u>\$8,179,443</u>

See accompanying notes to financial statements.

MONROE HARDING, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
PUBLIC SUPPORT AND REVENUE				
Public support				
Church and private gifts	\$ 212,978	\$ 158,931	\$ -	\$ 371,909
Governmental contracts and sub-contracts	2,241,152	-	-	2,241,152
USDE	34,595	-	-	34,595
Special events	160,304	-	-	160,304
Miscellaneous	31,937	-	-	31,937
Gifts in-kind	10,181	-	-	10,181
Net assets released from restriction	<u>107,391</u>	<u>(107,391)</u>	<u>-</u>	<u>-</u>
Total public support	2,798,538	51,540	-	2,850,078
Revenue				
Gain on sale of equipment	539	-	-	539
Income and net loss on investments	(1,419,868)	-	-	(1,419,868)
Income and net (loss) gain on beneficial interests in perpetual trusts	26,034	-	(211,248)	(185,214)
Interest	<u>3,957</u>	<u>536</u>	<u>-</u>	<u>4,493</u>
Total public support and revenue	<u>1,409,200</u>	<u>52,076</u>	<u>(211,248)</u>	<u>1,250,028</u>
EXPENSES				
Program services				
Residential care	2,750,147	-	-	2,750,147
General and occupancy	<u>365,933</u>	<u>-</u>	<u>-</u>	<u>365,933</u>
Total program services	<u>3,116,080</u>	<u>-</u>	<u>-</u>	<u>3,116,080</u>
Supporting services				
Administrative	272,168	-	-	272,168
General and occupancy	35,355	-	-	35,355
Fund raising	<u>173,979</u>	<u>-</u>	<u>-</u>	<u>173,979</u>
Total supporting services	<u>481,502</u>	<u>-</u>	<u>-</u>	<u>481,502</u>
Total expenses	<u>3,597,582</u>	<u>-</u>	<u>-</u>	<u>3,597,582</u>
Net (decrease) increase in net assets	(2,188,382)	52,076	(211,248)	(2,347,554)
Net assets, beginning of year	<u>7,332,845</u>	<u>95,798</u>	<u>620,811</u>	<u>8,049,454</u>
Net assets, end of year	<u>\$ 5,144,463</u>	<u>\$ 147,874</u>	<u>\$ 409,563</u>	<u>\$ 5,701,900</u>

2007			
<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Restricted</u>	<u>Total</u>
\$ 259,285	\$ 60,702	\$ -	\$ 319,987
2,238,136	120,433	-	2,358,569
29,991	-	-	29,991
163,030	-	-	163,030
27,855	-	-	27,855
14,426	-	-	14,426
<u>98,348</u>	<u>(98,348)</u>	<u>-</u>	<u>-</u>
2,831,071	82,787	-	2,913,858
-	-	-	-
(19,758)	-	-	(19,758)
25,755	-	6,847	32,602
<u>7,938</u>	<u>1,297</u>	<u>-</u>	<u>9,235</u>
<u>2,845,006</u>	<u>84,084</u>	<u>6,847</u>	<u>2,935,937</u>
2,747,776	-	-	2,747,776
<u>329,698</u>	<u>-</u>	<u>-</u>	<u>329,698</u>
<u>3,077,474</u>	<u>-</u>	<u>-</u>	<u>3,077,474</u>
253,263	-	-	253,263
34,308	-	-	34,308
<u>165,487</u>	<u>-</u>	<u>-</u>	<u>165,487</u>
<u>453,058</u>	<u>-</u>	<u>-</u>	<u>453,058</u>
<u>3,530,532</u>	<u>-</u>	<u>-</u>	<u>3,530,532</u>
(685,526)	84,084	6,847	(594,595)
<u>8,018,371</u>	<u>11,714</u>	<u>613,964</u>	<u>8,644,049</u>
<u>\$ 7,332,845</u>	<u>\$ 95,798</u>	<u>\$620,811</u>	<u>\$ 8,049,454</u>

See accompanying notes to financial statements.

MONROE HARDING, INC.
STATEMENTS OF CASH FLOWS

	<u>Year Ended December 31,</u>	
	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Decrease in net assets	\$(2,347,554)	\$(594,595)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Depreciation	91,632	88,152
Gain on sale of equipment	(539)	-
Gifts of equipment	(4,900)	(10,285)
Net loss on investments and beneficial interests in perpetual trusts	1,808,593	235,712
Decrease (increase) in accounts receivable	35,297	(96,921)
(Increase) decrease in pledges receivable	(62,000)	23,545
(Increase) decrease in prepaid expenses	(6,106)	40,238
Increase in accounts payable	5,049	36,030
Increase (decrease) in accrued expenses	10,122	(2,854)
Increase in children's account	4,019	764
Increase (decrease) in medical reimbursement	<u>117</u>	<u>(517)</u>
Net cash used in operating activities	<u>(466,270)</u>	<u>(280,731)</u>
Cash flows from investing activities:		
Net sales of investments, net of brokerage fees	408,364	373,698
Proceeds from sales of equipment	17,075	-
Purchases of equipment	<u>(50,704)</u>	<u>(35,203)</u>
Net cash provided by investing activities	<u>374,735</u>	<u>338,495</u>
Net (decrease) increase in cash and cash equivalents	(91,535)	57,764
Cash and cash equivalents, beginning of year	<u>491,466</u>	<u>433,702</u>
Cash and cash equivalents, end of year	<u>\$ 399,931</u>	<u>\$ 491,466</u>

See accompanying notes to financial statements.

MONROE HARDING, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2008

	<u>Program Services</u>	
	<u>Residential Care</u>	<u>General and Occupancy</u>
Total salaries, wages and benefits	<u>\$1,753,539</u>	<u>\$ -</u>
Other expenses:		
Food and kitchen supplies	60,827	-
Medical	1,051	-
Clothing	1,300	-
School and educational	6,845	-
Dorm supplies	8,557	-
Allowances	10,972	-
Recreational and special	29,234	-
Travel and transportation	13,251	-
Automobile gas and oil	17,262	-
Utilities	-	72,831
Contracted services	670,778	-
Maintenance	-	171,315
Insurance	-	37,499
Supplies and small equipment	37,505	-
Telephone	28,744	-
Postage	1,660	-
Training	35,581	-
Professional, legal and accounting	5,190	-
Dues and publications	2,993	-
Licenses and permits	1,026	-
Banking fees	-	-
Haircuts	615	-
Life skills	4,351	-
Fire and safety	-	2,775
Volunteer services	3,325	-
Printing	1,152	-
Recruitment	8,157	-
Youth specific assistance	46,048	-
Provision for depreciation	-	81,513
Provision for doubtful accounts	184	-
Total other expenses	<u>996,608</u>	<u>365,933</u>
 Total expenses	 <u>\$2,750,147</u>	 <u>\$365,933</u>

<u>Supporting Services</u>			
<u>Administrative</u>	<u>General and Occupancy</u>	<u>Fund Raising</u>	<u>Total</u>
<u>\$231,850</u>	<u>\$ -</u>	<u>\$110,990</u>	<u>\$2,096,379</u>
-	-	-	60,827
-	-	-	1,051
-	-	-	1,300
-	-	-	6,845
-	-	-	8,557
-	-	-	10,972
3,508	-	13,295	46,037
197	-	957	14,405
-	-	-	17,262
-	19,504	-	92,335
702	-	4,104	675,584
-	1,871	-	173,186
-	3,582	-	41,081
4,700	-	11,690	53,895
2,292	-	418	31,454
419	-	10,181	12,260
4,600	-	1,514	41,695
20,365	-	-	25,555
2,710	-	309	6,012
384	-	-	1,410
32	-	1,603	1,635
-	-	-	615
-	-	-	4,351
-	279	-	3,054
-	-	-	3,325
52	-	17,718	18,922
357	-	1,200	9,714
-	-	-	46,048
-	10,119	-	91,632
-	-	-	184
<u>40,318</u>	<u>35,355</u>	<u>62,989</u>	<u>1,501,203</u>
<u>\$272,168</u>	<u>\$35,355</u>	<u>\$173,979</u>	<u>\$3,597,582</u>

See accompanying notes to financial statements.

MONROE HARDING, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2007

	Program Services	
	Residential Care	General and Occupancy
Total salaries, wages and benefits	<u>\$1,663,384</u>	<u>\$ -</u>
Other expenses:		
Food and kitchen supplies	59,087	-
Medical	1,316	-
Clothing	1,804	-
School and educational	14,889	-
Dorm supplies	11,252	-
Allowances	11,185	-
Recreational and special	32,698	-
Travel and transportation	12,714	-
Automobile gas and oil	12,148	-
Utilities	-	63,671
Contracted services	729,220	-
Maintenance	-	148,868
Insurance	-	36,533
Supplies and small equipment	34,684	-
Telephone	30,561	-
Postage	3,155	-
Training	24,948	-
Professional, legal and accounting	22,553	-
Dues and publications	3,380	-
Licenses and permits	722	-
Banking fees	-	-
Haircuts	138	-
Life skills	5,145	-
Fire and safety	-	3,374
Volunteer services	4,122	-
Printing	4,124	-
Recruitment	8,660	-
Youth specific assistance	53,887	-
Provision for depreciation	-	77,252
Provision for doubtful accounts	<u>2,000</u>	<u>-</u>
Total other expenses	<u>1,084,392</u>	<u>329,698</u>
Total expenses	<u>\$2,747,776</u>	<u>\$329,698</u>

<u>Supporting Services</u>			
<u>Administrative</u>	<u>General and Occupancy</u>	<u>Fund Raising</u>	<u>Total</u>
<u>\$217,325</u>	<u>\$ -</u>	<u>\$107,227</u>	<u>\$1,987,936</u>
-	-	-	59,087
-	-	-	1,316
-	-	-	1,804
-	-	-	14,889
-	-	-	11,252
-	-	-	11,185
2,519	-	15,771	50,988
966	-	1,062	14,742
-	-	-	12,148
-	16,396	-	80,067
702	-	4,109	734,031
-	3,236	-	152,104
-	3,592	-	40,125
4,188	-	9,724	48,596
2,386	-	388	33,335
510	-	9,340	13,005
2,793	-	530	28,271
19,415	-	220	42,188
2,077	-	342	5,799
70	-	300	1,092
142	-	1,666	1,808
-	-	-	138
-	-	-	5,145
-	184	-	3,558
-	-	-	4,122
60	-	14,410	18,594
110	-	398	9,168
-	-	-	53,887
-	10,900	-	88,152
-	-	-	2,000
<u>35,938</u>	<u>34,308</u>	<u>58,260</u>	<u>1,542,596</u>
<u>\$253,263</u>	<u>\$34,308</u>	<u>\$165,487</u>	<u>\$3,530,532</u>

See accompanying notes to financial statements.

MONROE HARDING, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and General

Monroe Harding, Inc. ("MH") is a not-for-profit organization that provides care and lodging for abused and neglected children in Nashville, Tennessee.

Basis of Presentation

The financial statements of MH have been prepared on the accrual basis of accounting.

MH classifies its revenue, expenses, gains and losses into three classes of net assets based on the existence or absence of donor-imposed restrictions. Net assets of MH and changes therein are classified 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 MH and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they must be maintained permanently by MH. Generally, the donors of these assets permit MH to use all or part of the income earned on related investments for general or specific purposes.

The amount for each of these classes of net assets is presented in the statement of financial position and the amount of change in each class of net assets is displayed in the statement of activities.

In the event a donor makes changes to the nature of a restricted gift which affects its classification among the net asset categories, such amounts are reflected as reclassifications in the statement of activities.

Cash and Cash Equivalents

For financial statement purposes, MH considers all cash and all highly liquid investments not held for long-term investment, and which have original maturities of three months or less, to be cash equivalents.

MONROE HARDING, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Contributions

MH 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 statement of activities as net assets released from restriction.

MH 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, MH reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Investments

MH reports investments at fair value with gains and losses included in the statement of activities.

Land, Buildings and Equipment

Land, buildings and equipment are carried at cost. The fair value of donated labor services associated with fixed assets are added to the cost of the asset. Repairs and maintenance are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from three to thirty-nine years.

Pledges Receivable

Pledges receivable are recorded at their fair value and reflect discounts for payment terms greater than one year. Pledges receivable are considered to be either conditional or unconditional promises to give. A conditional contribution is one which depends on the occurrence of some specified uncertain future event to become binding on the donor. Conditional contributions are not recorded as revenue until the condition is met, at which time they become unconditional. Unconditional contributions are recorded as revenue at the time verifiable evidence of the pledge is received.

MONROE HARDING, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Income Taxes

MH is exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code; accordingly, no provision for income taxes is included in the accompanying financial statements.

Estimates

Judgment and estimation is exercised by management in certain areas of the preparation of financial statements. The more significant areas include the recovery period for buildings and equipment and the collectibility of pledges receivable. Management believes that such estimates have been based on reasonable assumptions and that such estimates are adequate. Actual results could differ from these estimates.

Recent Accounting Pronouncements

Effective January 1, 2008, MH adopted SFAS No. 157, "Fair Value Measurements," which established a framework for measuring fair value in accordance with GAAP, and expands disclosures about the use of fair value measurements. The adoption of SFAS No. 157 did not have an impact on MH's financial position or changes in net assets. Assets recorded at fair value in the statement of financial position are categorized based on the level of judgment associated with the inputs used to measure their fair value. Level inputs, as defined by SFAS No. 157, are as follows:

Level 1 - Values are unadjusted quoted prices for identical assets in active markets accessible at the measurement date.

Level 2 - Inputs include quoted prices for similar assets in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.

Level 3 - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

MONROE HARDING, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

B. ACCOUNTS AND PLEDGES RECEIVABLE

Accounts receivable are due primarily from various government and private agencies. No allowance for uncollectible amounts was considered necessary at December 31, 2008 and 2007.

Pledges receivable were due and collected in January 2009. No allowance for uncollectible pledges receivable was considered necessary at December 31, 2008. There were no pledges receivable at December 31, 2007.

C. INVESTMENTS

Investments at December 31 consisted of the following:

	<u>2008</u>		<u>2007</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Stocks and bonds	\$4,317,633	\$3,491,994	\$5,394,827	\$5,313,449
Interest bearing accounts	184,027	184,027	295,744	295,744
Mutual funds	<u>228,462</u>	<u>165,243</u>	<u>221,055</u>	<u>237,780</u>
Total	<u>\$4,730,122</u>	<u>\$3,841,264</u>	<u>\$5,911,626</u>	<u>\$5,846,973</u>

The yield on investments was as follows:

	<u>2008</u>		<u>2007</u>	
Dividends and interest	\$ 177,477	3.66%	\$ 222,801	3.62%
(Loss) gain on sale of investments, net of brokerage fees	(773,140)	(15.96)%	179,612	2.92%
Unrealized losses on investments	<u>(824,205)</u>	<u>(17.01)%</u>	<u>(422,171)</u>	<u>(6.86)%</u>
Total	<u>\$(1,419,868)</u>	<u>(29.31)%</u>	<u>\$(19,758)</u>	<u>(.32)%</u>

MONROE HARDING, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

D. LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment at December 31 consisted of the following:

	<u>2008</u>	<u>2007</u>
Land	\$ 22,055	\$ 22,055
Buildings, contents, and improvements	957,257	948,941
Scarborough Cottage	130,092	130,092
Grace Cottage	41,227	41,227
Grana Cottage	338,062	338,062
Gymnasium	68,485	68,485
Automobiles	134,743	148,316
Water, sewer, and roadway	107,223	107,223
Recreation Cottage	11,891	11,891
Wilson Cottage	<u>416,446</u>	<u>416,446</u>
	2,227,481	2,232,738
Less accumulated depreciation	<u>(1,308,647)</u>	<u>(1,261,340)</u>
Land, buildings and equipment, net	<u>\$ 918,834</u>	<u>\$ 971,398</u>

E. TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2008</u>	<u>2007</u>
Special project funds	\$ 85,874	\$95,798
Pledges receivable (time restriction)	<u>62,000</u>	<u>-</u>
	<u>\$147,874</u>	<u>\$95,798</u>

Net assets of \$107,391 and \$98,348 were released from donor restrictions by satisfying the restricted purposes or by occurrence of other events specified by donors for the years ended December 31, 2008 and 2007, respectively. The purpose restrictions accomplished were for program services and the acquisition of capital assets.

MONROE HARDING, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

F. RETIREMENT PLAN

MH has a retirement plan with Mutual of American Life Insurance Company 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 MH or another nonprofit organization. MH contributes an amount equal to 8% of the participants' compensation, which is fully vested after 4 years of service with MH or any other nonprofit health or social service organization.

Retirement expense under the plan totaled \$89,428 and \$63,723 for 2008 and 2007, respectively.

G. COMMITMENTS AND CONTINGENCIES

The Company leases certain real property for independent living residents. The leases expire in 2009. Minimum future rental payments under non-cancelable operating leases are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2009	\$ 48,100

In the normal course of business, operating leases are generally renewed annually or replaced by other leases. Total rental expense for operating leases was \$108,994 and \$91,407 for 2008 and 2007, respectively.

H. CAPITAL IMPROVEMENT RESTRICTIONS

The Board of Directors and certain donors have designated funds for capital improvements and fixed asset additions. The Board designated balances were \$122,154 and \$156,197 as of December 31, 2008 and 2007, respectively.

I. AUXILIARY ACTIVITIES

The ladies auxiliary club raises funds annually on behalf of MH, the proceeds of which are used to satisfy various needs of MH. The accounts of the ladies auxiliary club have not been combined with the financial statements of MH since the financial transactions are considered immaterial.

MONROE HARDING, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

J. CONCENTRATION OF CREDIT RISK

MH maintains its cash and cash equivalents in high credit quality financial institutions at balances which, at times, may exceed federally insured limits. MH has not experienced any losses in such accounts. Management believes it is not exposed to any significant concentration risk on cash and cash equivalents. Credit risk also extends to uncollateralized receivables.

K. ENDOWMENT

MH'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 on the existence or absence of donor-imposed restrictions.

Permanently restricted endowment funds are beneficial interests in perpetual trusts held by the Westminster Presbyterian Church of Nashville and First Presbyterian Church of Clarksville, Tennessee.

Interpretation of Relevant Law

The Board of Directors of MH has interpreted the applicable state laws 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, MH 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 appropriated for expenditure by MH in a manner consistent with the standard of prudence prescribed by applicable state laws. In accordance with applicable state laws, MH 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 MH 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
- Other resources of MH
- The investment policies of MH

MONROE HARDING, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

K. ENDOWMENT - Continued

2008

Endowment Net Asset Composition by Type of Fund as of December 31, 2008:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ -	\$409,563	\$ 409,563
Board-restricted endowment funds	<u>3,841,264</u>	<u>-</u>	<u>-</u>	<u>3,841,264</u>
Total funds	<u>\$3,841,264</u>	<u>\$ -</u>	<u>\$409,563</u>	<u>\$4,250,827</u>

Changes in Endowment Net Assets for the Year Ended December 31, 2008:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	<u>\$ 5,846,973</u>	<u>\$ -</u>	<u>\$ 620,811</u>	<u>\$ 6,467,784</u>
Investment return:				
Investment income	177,477	-	26,034	203,511
Net depreciation (realized and unrealized)	<u>(1,597,345)</u>	<u>-</u>	<u>(211,248)</u>	<u>(1,808,593)</u>
Total investment return	<u>(1,419,868)</u>	<u>-</u>	<u>(185,214)</u>	<u>(1,605,082)</u>
Appropriation of endowment assets for expenditure	<u>(610,000)</u>	<u>-</u>	<u>(26,034)</u>	<u>(636,034)</u>
Transfers to create board- designated endowment funds	<u>24,159</u>	<u>-</u>	<u>-</u>	<u>24,159</u>
Endowment net assets, end of year	<u>\$ 3,841,264</u>	<u>\$ -</u>	<u>\$ 409,563</u>	<u>\$ 4,250,827</u>

MONROE HARDING, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

K. ENDOWMENT - Continued

2007

Endowment Net Asset Composition by Type of Fund as of December 31, 2007:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ -	\$620,811	\$ 620,811
Board-restricted endowment funds	<u>5,846,973</u>	<u>-</u>	<u>-</u>	<u>5,846,973</u>
Total funds	<u>\$5,846,973</u>	<u>\$ -</u>	<u>\$620,811</u>	<u>\$6,467,784</u>

Changes in Endowment Net Assets for the Year Ended December 31, 2007:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	<u>\$ 6,463,230</u>	<u>\$ -</u>	<u>\$ 613,964</u>	<u>\$ 7,077,194</u>
Investment return:				
Investment income	222,801	-	25,755	248,556
Net (depreciation) appreciation (realized and unrealized)	<u>(242,559)</u>	<u>-</u>	<u>6,847</u>	<u>(235,712)</u>
Total investment return	<u>(19,758)</u>	<u>-</u>	<u>32,602</u>	<u>12,844</u>
Appropriation of endowment assets for expenditure	<u>(610,000)</u>	<u>-</u>	<u>(25,755)</u>	<u>(635,755)</u>
Transfers to create board- designated endowment funds	<u>13,501</u>	<u>-</u>	<u>-</u>	<u>13,501</u>
Endowment net assets, end of year	<u>\$ 5,846,973</u>	<u>\$ -</u>	<u>\$ 620,811</u>	<u>\$ 6,467,784</u>

MONROE HARDING, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

K. ENDOWMENT - Continued

Return Objectives and Risk Parameters

MH has adopted investment and 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 MH 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 Objectives

To satisfy its long-term rate-of-return objectives, MH 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). MH 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

MH has a current policy of appropriating for distribution each year \$610,000 from its endowment fund. In establishing this policy, MH considered the long-term expected return on its endowment. MH's objective is 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.

L. GIFTS IN-KIND

MH records donated materials and services at fair value on the date of donation. During 2008 and 2007, MH recorded donated labor and materials with a fair value of \$10,181 and \$14,426, respectively.

MONROE HARDING, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

M. FAIR VALUE OF FINANCIAL INSTRUMENTS

Required disclosures concerning the estimated fair value of financial instruments are presented below. The estimated fair value amounts have been determined based on MH's assessment of available market information and appropriate valuation methodologies. The following table summarizes required fair value disclosures and measurements at December 31, 2008 for assets measured at fair value on a recurring basis under SFAS No. 157, "Fair Value Measurements":

		<u>Fair Value Measurements at Reporting Date Using</u>		
		Quoted Prices in	Significant	Significant
		Active Markets for	Other Observable	Unobservable
	<u>Assets Measured</u>	<u>Identical Assets</u>	<u>(Level 2)</u>	<u>Inputs</u>
	<u>at Fair Value</u>	<u>(Level 1)</u>		<u>(Level 3)</u>
Investments	\$3,841,264	\$2,272,949	\$1,568,315	\$ -
Beneficial				
interests in				
perpetual trusts	409,563	-	409,563	-

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash, Receivables, Accounts Payable and Accrued Expenses

The carrying values of these items approximate their fair values due to the short maturities of these instruments.

Investments and Beneficial Interests in Perpetual Trusts

Fair values are based on quoted market prices, where available, and on Level 2 inputs. The carrying amounts and the fair values of MH's investments are presented in Note C.

SUPPLEMENTAL INFORMATION

SCHEDULE 1

MONROE HARDING, INC.
 COMPARISON OF PUBLIC SUPPORT AND REVENUE WITH BUDGET
 YEAR ENDED DECEMBER 31, 2008

	<u>Actual</u>	<u>Budget</u>	<u>Actual Over (Under) Budget</u>
PUBLIC SUPPORT AND REVENUE (BUDGETARY)			
Middle Tennessee Churches	\$ 103,167	\$ 98,000	\$ 5,167
West Tennessee Churches	640	600	40
Other churches	-	600	(600)
Individual gifts	79,817	94,000	(14,183)
Memorials	8,275	16,500	(8,225)
Foundation and corporate gifts	132,578	135,000	(2,422)
Special offerings	6,273	5,200	1,073
Special events	160,304	177,850	(17,546)
Governmental contracts and sub-contracts	2,214,445	2,790,000	(575,555)
USDE reimbursement	34,595	25,000	9,595
United Way	16,097	11,500	4,597
Gain on sale of equipment	539	-	539
Income and net (loss) gain on investments	(1,430,196)	600,000	(2,030,196)
Interest - Plummer Fund	21,580	20,000	1,580
Other income (loss)	(162,542)	17,950	(180,492)
Rental income	27,365	32,500	(5,135)
Stanley income	4,454	4,500	(46)
Clubs and organizations	<u>7,633</u>	<u>7,000</u>	<u>633</u>
	1,225,024	4,036,200	(2,811,176)
PUBLIC SUPPORT AND REVENUE (NONBUDGETARY)			
Education fund interest	10,327	10,000	327
Interest - capital account	4,496	5,500	(1,004)
Gifts in-kind	<u>10,181</u>	<u>5,500</u>	<u>4,681</u>
	<u>25,004</u>	<u>21,000</u>	<u>4,004</u>
 Total public support and revenue	 <u>\$ 1,250,028</u>	 <u>\$4,057,200</u>	 <u>\$(2,807,172)</u>

See accompanying independent auditors' report.

SCHEDULE 2

MONROE HARDING, INC.
 COMPARISON OF EXPENSES WITH BUDGET
 YEAR ENDED DECEMBER 31, 2008

	<u>Actual</u>	<u>Budget</u>	<u>Actual (Over) Under Budget</u>
EXPENSES			
SALARIES AND WAGES			
Staff Salaries and Wages	\$ 1,675,107	\$ 1,730,800	\$ 55,693
Salary/Wages-Accrued Vacation	<u>10,122</u>	<u>1,000</u>	<u>(9,122)</u>
Total salaries and wages	1,685,229	1,731,800	46,571
EMPLOYEE BENEFIT			
Medical and Dental Plan Premiums	133,833	126,000	(7,833)
Life & Disability Insurance	7,838	8,000	162
Pension Plan Benefits	89,428	81,000	(8,428)
Cafeteria Plan-Medical Reimb.	6,353	3,500	(2,853)
Other	<u>-</u>	<u>-</u>	<u>-</u>
Total employee benefits	237,452	218,500	(18,952)
PAYROLL TAXES			
Employer FICA	102,886	107,000	4,114
Employer Medicare Tax	24,062	25,000	938
Employer Unemployment Premiums	4,614	4,500	(114)
Workers' Compensation	<u>42,135</u>	<u>28,000</u>	<u>(14,135)</u>
Total payroll taxes	173,697	164,500	(9,197)
PROFESSIONAL FEES			
Auditing Fees	12,250	12,000	(250)
Accounting Services	1,500	1,600	100
Legal Fees	-	2,000	2,000
Therapy Session	2,340	3,500	1,160
Payroll Processing Services	6,465	6,500	35
Other Professional Consultant Fees	<u>3,000</u>	<u>14,400</u>	<u>11,400</u>
Total Professional Fees	25,555	40,000	14,445
RECRUITMENT			
Classified Advertisement	1,200	2,000	800
Background checks	6,057	8,700	2,643
Fingerprinting	<u>2,457</u>	<u>3,600</u>	<u>1,143</u>
Total Recruitment	9,714	14,300	4,586

See accompanying independent auditors' report.

MONROE HARDING, INC.
COMPARISON OF EXPENSES WITH BUDGET - Continued
YEAR ENDED DECEMBER 31, 2008

	<u>Actual</u>	<u>Budget</u>	<u>Actual (Over) Under Budget</u>
VOLUNTEER SERVICES			
Volunteer Training	53	-	(53)
Volunteer Food and Supplies	280	300	20
Recognition Awards	110	1,050	940
Other Volunteer Expenses	2,568	3,000	432
Board Retreat	411	700	289
Board/Committee Meetings	2,345	1,000	(1,345)
Board Recognition Awards	424	-	(424)
Total Volunteer Services	6,191	6,050	(141)
CONTRACTED SERVICES			
Maintenance	1,020	2,900	1,880
Housekeeping	7,020	7,100	80
Seminar/Comp. Training Class	1,500	-	(1,500)
Contracted Program Services	660,472	1,048,450	387,978
Total Contracted Services	670,012	1,058,450	388,438
SPECIAL EVENTS			
Facility Costs	3,579	3,500	(79)
Food and Beverages	9,319	8,000	(1,319)
Entertainment and Related Expense	2,100	1,500	(600)
Favors and Giveaways	121	200	79
Presentation Costs	664	500	(164)
Prizes/Gifts Certificates	305	-	(305)
Total Special Events	16,088	13,700	(2,388)
SUPPLIES			
Office Supplies	30,629	32,600	1,971
Stationery	393	1,000	607
Cleaning Supplies	1,791	1,800	9
Kitchen Supplies	1,380	1,500	120
Chaplain Supplies	-	100	100
Promotional Items	1,597	1,000	(597)
Other	3,859	-	(3,859)
Total Supplies	39,649	38,000	(1,649)
POSTAGE & SHIPPING			
General Postage	12,201	14,950	2,749
Express Delivery	59	50	(9)
Total Postage & Shipping	12,260	15,000	2,740

See accompanying independent auditors' report.

MONROE HARDING, INC.
COMPARISON OF EXPENSES WITH BUDGET - Continued
YEAR ENDED DECEMBER 31, 2008

	<u>Actual</u>	<u>Budget</u>	<u>Actual (Over) Under Budget</u>
TELEPHONE			
Long Distance Telephone	1,299	1,400	101
Local Telephone	12,104	17,000	4,896
Internet Service Provider	7,890	8,325	435
Pagers & Cellular Phones	<u>10,161</u>	<u>6,675</u>	<u>(3,486)</u>
Total Telephone	31,454	33,400	1,946
OCCUPANCY			
Rental fee - Off Campus Homes	108,994	107,200	(1,794)
Repairs & Maintenance-Buildings	14,732	19,000	4,268
Repairs & Maintenance-Autos	7,728	6,500	(1,228)
Repairs & Maintenance-Equipment	20,309	6,000	(14,309)
Fire and Security	3,054	3,300	246
Extermination	3,606	4,400	794
Garbage Service	2,872	3,300	428
Grounds Maintenance	<u>15,470</u>	<u>18,500</u>	<u>3,030</u>
Total Occupancy	176,765	168,200	(8,565)
UTILITIES			
Electric	39,670	35,000	(4,670)
Water	10,988	11,000	12
Gas	<u>41,677</u>	<u>39,000</u>	<u>(2,677)</u>
Total Utilities	92,335	85,000	(7,335)
EQUIPMENT & EQUIPMENT RENTAL			
Equipment Rental	3,082	5,000	1,918
Equipment Maint. contracts	1,838	1,000	(838)
Equipment Purchases (not capitalized)	<u>10,167</u>	<u>10,000</u>	<u>(167)</u>
Total Equipment & Equipment Rental	15,087	16,000	913
PUBLIC RELATIONS & MARKETING			
Printing and Binding	16,164	15,350	(814)
Artwork, Photos, Design & Layout	11	50	39
Promotional Efforts	1,561	600	(961)
Web Page Hosting	-	300	300
Advertising Fees	1,177	1,000	(177)
Other Printing and Publications	<u>9</u>	<u>-</u>	<u>(9)</u>
Total Public Relations & Marketing	18,922	17,300	(1,622)

See accompanying independent auditors' report.

MONROE HARDING, INC.
COMPARISON OF EXPENSES WITH BUDGET - Continued
YEAR ENDED DECEMBER 31, 2008

	<u>Actual</u>	<u>Budget</u>	<u>Actual (Over) Under Budget</u>
TRAVEL			
General Travel-Staff	13,556	15,700	2,144
Auto Gas and Oil	<u>17,262</u>	<u>18,500</u>	<u>1,238</u>
Total Travel	30,818	34,200	3,382
CONFERENCES, MTGS & COURSES			
Staff Development	28,451	24,200	(4,251)
Staff Travel & Out-of-Pocket	9,691	5,200	(4,491)
Professional Meetings	919	380	(539)
Other Meeting Expenses	<u>1,134</u>	<u>2,220</u>	<u>1,086</u>
Total Conferences, Meetings and Courses	40,195	32,000	(8,195)
SPECIAL OCCASIONS			
Staff Retreat	-	500	500
Holiday Gifts-Employee	5,050	5,000	(50)
Holiday Gifts-Resident	-	-	-
Recognition Gifts & Awards-Public	-	150	150
Recognition Gifts & Awards-Employee	7,197	4,600	(2,597)
Recognition Gifts & Awards-Youth	327	500	173
Special Lunches/Banquets	<u>13,422</u>	<u>15,950</u>	<u>2,528</u>
Total Special Occasions	25,996	26,700	704
MEMBERSHIPS & SUBSCRIPTIONS			
Membership Dues-Other Organizations	5,866	5,500	(366)
Agency Affiliation Fees	-	-	-
Subscription & Publication	<u>146</u>	<u>500</u>	<u>354</u>
Total Memberships and Subscriptions	6,012	6,000	(12)
INSURANCE EXPENSE			
Auto Insurance	6,663	5,000	(1,663)
Multi-Peril Insurance	25,686	28,500	2,814
Umbrella Insurance	6,772	7,000	228
Director & Officers Liability	<u>1,960</u>	<u>2,100</u>	<u>140</u>
Total Insurance Expense	41,081	42,600	1,519

See accompanying independent auditors' report.

MONROE HARDING, INC.
COMPARISON OF EXPENSES WITH BUDGET - Continued
YEAR ENDED DECEMBER 31, 2008

	<u>Actual</u>	<u>Budget</u>	<u>Actual (Over) Under Budget</u>
RESIDENT'S EXPENSES			
Allowances	10,972	12,500	1,528
Clothing	1,300	8,000	6,700
Food	59,430	59,500	70
Resident supplies	2,937	2,500	(437)
Dorm & Cottage supplies	5,620	12,500	6,880
Resident Travel	659	1,500	841
Haircuts	615	400	(215)
Medical	1,051	2,000	949
Outings	4,666	11,500	6,834
Arts and Enrichment	1,420	700	(720)
Education	1,852	4,500	2,648
G.E.D. Materials	1,485	2,500	1,015
Life Skills	4,351	10,300	5,949
Vocation	-	-	-
Summer Programs-Education	2,088	3,500	1,412
Youth Training	7,917	13,300	5,383
Youth-Civic Engagements/Incentives	179	11,500	11,321
Furniture & Appliances	-	3,000	3,000
Youth Specific Assistance	37,952	45,000	7,048
Emergency Housing Food	17	-	(17)
Emergency Youth Transportation	<u>190</u>	<u>300</u>	<u>110</u>
Total Resident's Expense	144,701	205,000	60,299
DEPRECIATION & AMORTIZATION			
Depreciation-Furniture, Fixtures & Equipment	40,232	36,000	(4,232)
Depreciation-Building & Land Improvements	<u>51,400</u>	<u>53,000</u>	<u>1,600</u>
Total Depreciation & Amortization	91,632	89,000	(2,632)
MISCELLANEOUS EXPENSES			
Losses on Sales of Fixed Assets	2,971	-	(2,971)
Provision for Doubtful Accounts	184	-	(184)
Miscellaneous Banking Fees	1,828	1,500	(328)
Filing Fees-Licenses & Permits	1,217	2,000	783
Other Miscellaneous Expenses	<u>537</u>	<u>500</u>	<u>(37)</u>
Total Miscellaneous Expense	<u>6,737</u>	<u>4,000</u>	<u>(2,737)</u>
Total Expenses	<u>\$ 3,597,582</u>	<u>\$ 4,059,700</u>	<u>\$ 462,118</u>

See accompanying independent auditors' report.