MONROE HARDING, INC.

FINANCIAL STATEMENTS

December 31, 2014 and 2013

MONROE HARDING, INC.

TABLE OF CONTENTS

FRASIERDEAN
HOWARDCPAs

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, 2014 and 2013, 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.

Frasier, Dean & Howard, PLLC • 3310 West End Avenue, Suite 550 • Nashville, Tennessee 37203-1089 • 615.383.6592 • *fax* 615.383.7094 • www.fdhcpa.com

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, 2014 and 2013, 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.

Frasier, Dean & Howard, PLLC

June 12, 2015

MONROE HARDING, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2014 and 2013

	2014	2013
Assets		
Cash and cash equivalents	$ 948,132	$ 714,626
Accounts and pledges receivable, net	825,842	530,529
Prepaid expenses and other assets	54,128	52,120
Investments	4,997,065	5,253,573
Pooled investments	18,935	18,172
Beneficial interests in perpetual trusts	654,409	632,004
Land, buildings and equipment, net	1,276,108	1,103,300
Total assets	$ 8,774,619	$ 8,304,324
Liabilities and Net Assets		
Liabilities:		
Accounts payable	$ 154,667	$ 285,729
Accrued expenses	125,049	167,564
Children's account	2,026	2,461
Total liabilities	281,742	455,754
Net assets:		
Unrestricted:		
Undesignated	2,006,062	1,627,685
Board designated endowment	4,876,252	5,131,997
Total unrestricted	6,882,314	6,759,682
Temporarily restricted	816,406	317,136
Permanently restricted	794,157	771,752
Total net assets	8,492,877	7,848,570
Total liabilities and net assets	$ 8,774,619	$ 8,304,324

See accompanying notes to financial statements.

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public support and revenue:				
Public support:				
Governmental contracts and sub-contracts	$ 4,530,962	$ -	$ -	$ 4,530,962
Church and private contributions	590,399	855,811	-	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	377,361	(356,541)	(20,820)	-
Total public support	5,645,421	499,270	(20,820)	6,123,871
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	5,832,273	499,270	22,405	6,353,948
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	4,806,761	-	-	4,806,761
Supporting services:				
General and administrative	506,386	-	-	506,386
Development	396,494	-	-	396,494
Total supporting services	902,880	-	-	902,880
Total expenses	5,709,641	-	-	5,709,641
Change in net assets	122,632	499,270	22,405	644,307
Net assets, beginning of year	6,759,682	317,136	771,752	7,848,570
Net assets at end of year	$ 6,882,314	$ 816,406	$ 794,157	$ 8,492,877

See accompanying notes to financial statements.

MONROE HARDING, INC.
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public support and revenue:				
Public support:				
Governmental contracts and sub-contracts	$ 4,386,722	$ -	$ -	$ 4,386,722
Church and private contributions	400,662	192,423	-	593,085
Special events	150,348	-	-	150,348
Miscellaneous	46,460	-	-	46,460
Gifts in-kind	16,813	-	-	16,813
Net assets released from restriction	281,288	(260,349)	(20,939)	-
Total public support	5,282,293	(67,926)	(20,939)	5,193,428
Revenue:				
Loss on disposal of property and equipment	(7,290)	-	-	(7,290)
Net gain on investments	349,643	-	75,883	425,526
Interest and dividend income, net of fees	134,718	-	18,987	153,705
Total public support and revenue	5,759,364	(67,926)	73,931	5,765,369
Expenses:				
Program services:				
Cooperative living	1,358,133	-	-	1,358,133
Middle Tennessee Collaborative	1,832,217	-	-	1,832,217
Independent living	239,635	-	-	239,635
Foster care	881,764	-	-	881,764
Youth Connections	325,934	-	-	325,934
Total program services	4,637,683	-	-	4,637,683
Supporting services:				
General and administrative	473,145	-	-	473,145
Development	299,503	-	-	299,503
Total supporting services	772,648	-	-	772,648
Total expenses	5,410,331	-	-	5,410,331
Change in net assets	349,033	(67,926)	73,931	355,038
Net assets, beginning of year	6,410,649	385,062	697,821	7,493,532
Net assets at end of year	$ 6,759,682	$ 317,136	$ 771,752	$ 7,848,570

See accompanying notes to financial statements.

MONROE HARDING, INC.
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Change in net assets	$ 644,307	$ 355,038
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	103,263	96,985
Change in beneficial interests in perpetual trusts	(22,405)	(73,931)
Change in pooled investments	(763)	(2,331)
Loss on disposal of property and equipment	7,740	7,290
Net gain on investments	(94,499)	(347,449)
Changes in operating assets and liabilities:		
Accounts and pledges receivable	(295,313)	(51,193)
Prepaid expenses and other assets	(2,008)	(24,529)
Accounts payable	(131,062)	8,199
Accrued expenses	(42,515)	36,368
Children's account	(435)	(2,016)
Net cash provided by operating activities	166,310	2,431
Cash flows from investing activities:		
Purchases of property and equipment	(291,824)	(203,081)
Purchases of investments	(4,141,321)	(1,646,880)
Proceeds from disposal of property and equipment	8,013	-
Proceeds from sale of investments	4,492,328	1,393,153
Net cash provided by (used in) investing activities	67,196	(456,808)
Net increase (decrease) in cash and cash equivalents	233,506	(454,377)
Cash and cash equivalents, beginning of year	714,626	1,169,003
Cash and cash equivalents, end of year	$ 948,132	$ 714,626

See accompanying notes to financial statements.

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

	Program Services						Supporting Services			
	Cooperative Living	Middle Tennessee Collaborative	Independent Living	Foster Care	Youth Connections	Total	General and Administrative	Development	Total	Total Expenses
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.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2013

	Program Services						Supporting Services			
	Cooperative Living	Middle Tennessee Collaborative	Independent Living	Foster Care	Youth Connections	Total	General and Administrative	Development	Total	Total Expenses
Salaries and wages	$ 750,006	$ 57,977	$ 120,130	$ 321,273	$ 142,047	$ 1,391,433	$ 256,936	$ 160,675	$ 417,611	$ 1,809,044
Collaborative partner expenses	-	1,756,456	-	-	-	1,756,456	-	-	-	1,756,456
Foster care expenses	-	-	-	342,312	-	342,312	-	-	-	342,312
Employee benefits	120,266	6,283	13,100	47,759	16,887	204,295	17,451	27,518	44,969	249,264
Maintenance	50,718	1,835	10,536	7,941	11,912	82,942	62,356	4,456	66,812	149,754
Payroll taxes	55,216	4,405	9,144	23,923	10,601	103,289	18,693	11,505	30,198	133,487
Rent	-	-	46,200	-	57,620	103,820	-	-	-	103,820
Insurance	47,640	2,127	6,266	13,854	6,134	76,021	8,388	3,652	12,040	88,061
Food and kitchen supplies	69,521	28	9,930	801	1,131	81,411	3,757	1,259	5,016	86,427
Youth specific assistance	22,859	-	10,085	19,438	29,532	81,914	-	-	-	81,914
Professional expenses	46,943	-	-	-	-	46,943	26,380	3,325	29,705	76,648
Training and education	19,548	820	1,717	12,900	15,514	50,499	21,504	3,301	24,805	75,304
Utilities	36,464	967	831	2,717	7,163	48,142	4,926	2,763	7,689	55,831
Office supplies	4,519	220	946	17,910	4,583	28,178	24,251	1,334	25,585	53,763
Telephone and internet	18,310	479	3,695	7,862	8,990	39,336	4,662	2,735	7,397	46,733
Printing and promotion	1,125	-	67	560	1,389	3,141	851	38,680	39,531	42,672
Travel and transportation	8,855	44	889	25,161	1,012	35,961	5,085	1,341	6,426	42,387
Special events	-	-	-	-	-	-	34	29,430	29,464	29,464
Recruitment	7,169	-	196	17,960	274	25,599	1,443	653	2,096	27,695
Recreational and special	6,479	-	1,283	11,500	1,122	20,384	4,955	1,742	6,697	27,081
Contracted services	9,278	148	287	495	2,373	12,581	1,255	595	1,850	14,431
Other	3,355	44	-	632	1,616	5,647	2,653	3,364	6,017	11,664
Dorm supplies	6,877	-	2,257	-	-	9,134	-	-	-	9,134
	1,285,148	1,831,833	237,559	874,998	319,900	4,549,438	465,580	298,328	763,908	5,313,346
Depreciation	72,985	384	2,076	6,766	6,034	88,245	7,565	1,175	8,740	96,985
Total expenses	$ 1,358,133	$ 1,832,217	$ 239,635	$ 881,764	$ 325,934	$ 4,637,683	$ 473,145	$ 299,503	$ 772,648	$ 5,410,331

See accompanying notes to financial statements.

MONROE HARDING, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014 and 2013

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, expenses, 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. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as unrestricted.

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.

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, 2011 through December 31, 2014. The Organization had no uncertain tax positions at December 31, 2014 or 2013.

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

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.

Subsequent Events

Management has evaluated subsequent events through June 12, 2015, when these financial statements were available to be issued. 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, 2014 and 2013

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. The allowance for uncollectible amounts was $25,349 at December 31, 2013. There was no allowance for uncollectible amounts at December 31, 2014.

NOTE 4 – INVESTMENTS

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

	Level 1	Level 2	Total
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	-	18,935	18,935
Total	$ 2,195,141	$ 2,820,859	$ 5,016,000

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value at December 31, 2013:

	Level 1	Level 2	Total
Equity funds	$ 1,819,971	$ 1,307,052*	$ 3,127,023
Fixed income funds	939,502	571,222*	1,510,724
Other investments	511,687	15,938*	527,625
Cash and short term investments	88,201	-	88,201
Pooled accounts	-	18,172	18,172
Total	$ 3,359,361	$ 1,912,384	$ 5,271,745

NOTE 4 – INVESTMENTS (Continued)

The following schedule summarizes the net investment income in the statement of activities for the years ended:

	2014	2013
Interest and dividend income, net of fees of ($42,662 and $41,417, respectively)	$ 132,118	$ 153,705
Net unrealized (losses) gains on investments	(31,000)	390,298
Net realized gains on investments	136,699	35,228
	$ 237,817	$ 579,231

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.

NOTE 5 – LAND, BUILDINGS AND EQUIPMENT

A summary of land, buildings and equipment as of December 31 is as follows:

	2014	2013
Land	$ 17,409	$ 17,409
Buildings and improvements	1,655,592	1,625,436
Automobiles	187,549	131,773
Land improvements	102,035	103,107
Furniture, fixtures, and appliances	217,135	305,659
Information/communication technology	57,857	134,212
Construction in progress	74,062	55,084
	2,311,639	2,372,680
Less accumulated depreciation	(1,035,531)	(1,269,380)
Property and equipment, net	$ 1,276,108	$ 1,103,300

NOTE 6 – BENEFICIAL INTERESTS IN PERPETUAL TRUSTS

The Organization is the beneficiary of two perpetual trusts held by others. The Stanley Trust is held by Westminster Presbyterian Church of Nashville, Tennessee. Distributions from the Stanley Trust may be made annually up to 5.5% of the average annual value of the trust. Distributions may not reduce the value of trust to less than the original principal amount. At December 31, 2014 and 2013, the trust had a fair market value of $81,041 and $80,882, respectively. 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, 2014, the trust had a fair market value of $2,293,470, of which $573,368 was for the benefit of the Organization. At December 31, 2013, the trust had a fair market value of $2,204,487, of which $551,122 was for the benefit of the Organization. The trusts' assets are invested in money markets and publicly traded mutual funds and are considered to be level 1 investments.

	2014	2013
Cash and short-term investments	$ 8,078	$ 3,248
Mutual funds	646,331	628,756
	$ 654,409	$ 632,004

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

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

	2014	2013
Capital improvements	$ 572,760	$ 164,771
Youth education	110,205	85,103
Cooperative living programs	70,345	19,999
Youth Connections programs	38,164	20,393
Foster care	15,724	22,224
Special projects	4,646	4,646
Independent living program	4,562	-
	$ 816,406	$ 317,136

Temporarily restricted net assets of $356,541 and $260,349 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, 2014 and 2013. 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 2014, the Organization recorded donated materials and services with an estimated value of $13,034. During 2013, the Organization recorded donated materials and services with an estimated value of $16,813. 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, 2014 and 2013, volunteers provided approximately 700 and 1,000 hours of service, respectively, per year. 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 2014 and 2013, 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 2014 and 2013 were $30,416 and $29,024, respectively.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

The Organization has entered into noncancelable operating lease agreements for certain office equipment and office space. The Organization has also entered into leases for independent living units with required monthly rent payments totaling approximately $4,000. These leases are cancelable at the end of each annual renewal period. Rent expense for all leases for 2014 and 2013 totaled $92,887 and $115,797, respectively.

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

2015	$ 18,300
2016	9,900
2017	9,900
2018	6,780
2019	1,208
	$ 46,088

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:

	2014	2013
Endowment	$ 4,876,252	$ 5,131,997
Total board designated net assets:	$ 4,876,252	$ 5,131,997

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.

The Organization is the lead agency of the Middle Tennessee Collaborative (the "Collaborative"). The Collaborative has 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 bills the state agency for services provided by all of the member agencies and remits payments to the member agencies, less an agreed upon administration fee. During the years ended December 31, 2014 and 2013, approximately $4,333,000 and $4,121,000, respectively, were recorded as revenue from the state agency contract for services provided by the Collaborative. This accounted for approximately 68% and 71% of total public support and revenue recognized by the Organization during 2014 and 2013, respectively. At December 31, 2014 and 2013, approximately $454,000 and $441,000, respectively, were receivable from the state agency related to the contract.

During the years ended December 31, 2014 and 2013, the Organization recognized expenses totaling approximately $1,269,000 and $1,756,000, respectively, for the amounts earned by the other members of the Collaborative for their services. At December 31, 2014 and 2013, approximately $139,000 and $207,000 was due to Collaborative members for these services. At December 31, 2014 and 2013, approximately $20,000 and $46,000, respectively, 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. The Organization continues 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 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

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

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, 2014:

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

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

Endowment Net Asset Composition by Type of Fund as of December 31, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ -	$ 771,752	$ 771,752
Board-restricted endowment funds	5,131,997	-	-	5,131,997
Total funds	$ 5,131,997	$ -	$ 771,752	$ 5,903,749

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

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

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

Changes in Endowment Net Assets for the Year Ended December 31, 2013:

Endowment net assets, beginning of year	$ 4,528,490	$ -	$ 697,821	$ 5,226,311
Investment return:				
Investment income	133,549	-	18,987	152,536
Net appreciation (realized and unrealized)	349,642	-	75,883	425,525
Total investment return	483,191	-	94,870	578,061
Board designated transfers to endowment	120,316	-	-	120,316
Appropriation of endowment assets for expenditure	-	-	(20,939)	(20,939)
Endowment net assets, end of year	$ 5,131,997	$ -	$ 771,752	$ 5,903,749

FRASIERDEAN
HOWARDCPAs

June 12, 2015

To the Board of Directors of
Monroe Harding, Inc.

In planning and performing our audit of the financial statements of Monroe Harding, Inc. as of and for the year ended December 31, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

However, during our audit we became aware of deficiencies in internal control other than significant deficiencies and material weaknesses and matters that are opportunities for strengthening internal controls and operating efficiency. The following is a summary of our comments and suggestions regarding those matters. This letter does not affect our report dated June 12, 2015, on the financial statements of Monroe Harding, Inc.

Fixed Assets

We noted that the fixed asset records and depreciation schedule differ from the general ledger. We recommend that the fixed asset module be reconciled to the general ledger. We also recommend that the Organization review the depreciation schedule for any assets no longer in use to correct the detail and reconcile the reports.

Policies & Procedures

We noted that many of the Organization's documented policies no longer reflect current practices, since procedures have been updated without changing the official documentation. We recommend that approved practices be formally documented.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Organization personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Frasier, Dean & Howard, PLLC • 3310 West End Avenue, Suite 550 • Nashville, Tennessee 37203-1089 • 615.383.6592 • *fax* 615.383.7094 • www.fdhcpa.com

This communication is intended solely for the information and use of management, the board of directors, and others with the Organization, and is not intended to be, and should not be, used by anyone other than those specified parties.

Sincerely,

Frasier Dean & Howard, PLLC

Frasier, Dean & Howard, PLLC