

MONROE HARDING, INC.

FINANCIAL STATEMENTS

December 31, 2010

MONROE HARDING, INC.

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statement of financial position of Monroe Harding, Inc. (a nonprofit organization) as of December 31, 2010, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. 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 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 audit provides 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, 2010, and the changes in its net assets and its cash flows for the year 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 11, 2011, 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, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Frasier, Dean & Howard, PLLC

April 11, 2011

MONROE HARDING, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2010

Assets

Cash and cash equivalents	\$ 964,160
Accounts receivable	457,680
Pledges receivable	26,000
Prepaid expenses	33,109
Investments	4,236,273
Beneficial interests in perpetual trusts	526,281
Land, buildings and equipment, net of accumulated depreciation of \$1,460,620	<u>829,279</u>
Total assets	<u><u>\$ 7,072,782</u></u>

Liabilities and Net Assets

Liabilities:

Accounts payable	\$ 273,255
Accrued expenses	110,555
Children's account	22,293
Medical reimbursement	<u>2,503</u>
Total liabilities	<u>408,606</u>

Net assets:

Unrestricted:

Undesignated	1,618,774
Board designated for capital improvements	75,568
Board designated endowment	<u>4,236,273</u>
Total unrestricted	5,930,615

Temporarily restricted	207,280
Permanently restricted	<u>526,281</u>

Total net assets	<u>6,664,176</u>
Total liabilities and net assets	<u><u>\$ 7,072,782</u></u>

See accompanying notes to financial statements.

MONROE HARDING, INC.
STATEMENT OF ACTIVITIES
Year Ended December 31, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public support and revenue:				
Public support:				
Governmental contracts and sub-contracts	\$ 3,130,057	\$ -	\$ -	\$ 3,130,057
Church and private gifts	295,565	325,254	-	620,819
Special events	192,457	2,585	-	195,042
Miscellaneous	25,064	-	-	25,064
Gifts in-kind	16,781	10,092	-	26,873
Net assets released from restriction	282,923	(282,923)	-	-
Total public support	3,942,847	55,008	-	3,997,855
Revenue:				
Net gain on investments	344,501	-	25,421	369,922
Interest and dividend income, net of fees	94,586	-	9,856	104,442
Total public support and revenue	4,381,934	55,008	35,277	4,472,219
Expenses:				
Program services:				
Residential care	3,343,332	-	-	3,343,332
General and occupancy	378,475	-	-	378,475
Total program services	3,721,807	-	-	3,721,807
Supporting services:				
Administrative	379,432	-	-	379,432
General and occupancy	31,905	-	-	31,905
Fund raising	204,305	-	-	204,305
Total supporting services	615,642	-	-	615,642
Total expenses	4,337,449	-	-	4,337,449
Change in net assets	44,485	55,008	35,277	134,770
Net assets, beginning of year				
As previously stated	5,796,748	152,272	491,004	6,440,024
Prior period adjustment (Note 14)	89,382	-	-	89,382
As restated	5,886,130	152,272	491,004	6,529,406
Net assets at end of year	<u>\$ 5,930,615</u>	<u>\$ 207,280</u>	<u>\$ 526,281</u>	<u>\$ 6,664,176</u>

See accompanying notes to financial statements.

MONROE HARDING, INC.
STATEMENT OF CASH FLOWS
Year Ended December 31, 2010

Cash flows from operating activities:	
Change in net assets	\$ 134,770
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	85,414
In-kind donation of equipment	(9,400)
In-kind donation of investments	(10,092)
Change in beneficial interests in perpetual trusts	(35,277)
Net gain on investments	(344,501)
Changes in operating assets and liabilities:	
Accounts receivable	(10,058)
Pledges receivable	(5,000)
Prepaid expenses	(8,817)
Accounts payable	78,798
Accrued expenses	689
Children's account	5,565
Medical reimbursement	(703)
Net cash used in operating activities	<u>(118,612)</u>
Cash flows from investing activities:	
Purchases of buildings and equipment	(52,766)
Purchases of investments	(1,056,937)
Proceeds from sale of investments	<u>1,374,022</u>
Net cash provided by investing activities	<u>264,319</u>
Net increase in cash and cash equivalents	145,707
Cash and cash equivalents at beginning of year	<u>818,453</u>
Cash and cash equivalents at end of year	<u><u>\$ 964,160</u></u>
Supplemental schedule of non-cash investing and financing activities:	
In-kind donation of equipment	<u>\$ 9,400</u>
In-kind donation of investments	<u><u>\$ 10,092</u></u>

See accompanying notes to financial statements.

MONROE HARDING, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2010

	Residential Care	General and Occupancy	Total Program Services	Administrative	General and Occupancy	Fund Raising	Total Supporting Services	Grand Total
Salaries, wages and benefits	\$ 1,652,726	\$ -	\$ 1,652,726	\$ 323,500	\$ -	\$ 137,787	461,287	\$ 2,114,013
Contracted services	1,392,276	-	1,392,276	696	-	4,363	5,059	1,397,335
Maintenance	-	174,352	174,352	-	1,705	-	1,705	176,057
Utilities	-	69,302	69,302	-	16,498	-	16,498	85,800
Provision for depreciation	-	76,745	76,745	-	8,669	-	8,669	85,414
Food and kitchen supplies	56,540	-	56,540	-	-	-	-	56,540
Insurance	-	51,072	51,072	-	4,488	-	4,488	55,560
Supplies and small equipment	32,444	-	32,444	4,245	-	11,233	15,478	47,922
Youth specific assistance	43,737	-	43,737	-	-	-	-	43,737
Recreational and special	23,522	-	23,522	3,192	-	13,217	16,409	39,931
Professional, legal and accounting	5,369	-	5,369	33,977	-	306	34,283	39,652
Telephone	30,971	-	30,971	2,836	-	605	3,441	34,412
Training	22,460	-	22,460	4,381	-	2,249	6,630	29,090
Printing	328	-	328	120	-	21,374	21,494	21,822
School and educational	16,396	-	16,396	-	-	-	-	16,396
Miscellaneous expenses	8,380	365	8,745	3,462	-	3,843	7,305	16,050
Automobile gas and oil	15,655	-	15,655	-	-	-	-	15,655
Travel and transportation	10,152	-	10,152	2,034	-	937	2,971	13,123
Postage	3,071	-	3,071	547	-	7,029	7,576	10,647
Recruitment	8,087	-	8,087	442	-	1,362	1,804	9,891
Allowances	8,697	-	8,697	-	-	-	-	8,697
Foster care	8,504	-	8,504	-	-	-	-	8,504
Fire and safety	-	6,639	6,639	-	545	-	545	7,184
Dorm supplies	4,017	-	4,017	-	-	-	-	4,017
	<u>\$ 3,343,332</u>	<u>\$ 378,475</u>	<u>\$ 3,721,807</u>	<u>\$ 379,432</u>	<u>\$ 31,905</u>	<u>\$ 204,305</u>	<u>\$ 615,642</u>	<u>\$ 4,337,449</u>

See accompanying notes to financial statements.

MONROE HARDING, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2010

NOTE 1 – NATURE OF OPERATIONS

Monroe Harding, Inc. (the “Organization”) is a not-for-profit organization that provides care and lodging for abused and neglected children in Nashville, Tennessee. The Organization partners with at-risk children, youth and families to provide a bridge toward independence and success. This mission is accomplished through four main programs: Project Share - which engages at-risk children in elementary school, foster care and adoption services, residential housing and group homes for youth transitioning into adulthood, and Youth Connections - a center for youth aging out of state custody. The goal is for all the children, youth and families to have a safe environment to develop family independence and success.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Organization are presented on the accrual basis. 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.

Cash Equivalents

For purposes of the statement 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.

MONROE HARDING, INC.
NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 statement 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 statement 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. 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. 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 THE FINANCIAL STATEMENTS (Continued)
December 31, 2010

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 has adopted 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 interpretation 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. This guidance must be applied to all existing tax positions upon initial adoption. The Organization has no tax penalties or interest reported in the accompanying financial statements. Adoption of this pronouncement had no impact on the Organization’s financial condition or results of operations. The Organization had no uncertain tax positions at December 31, 2010. Tax years that remain open for examination include the years ended December 31, 2007 through December 31, 2010.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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

For purposes of the statement of functional expenses, certain expenses have been allocated between program and supporting services based on estimates made by management.

Fair Value Measurements

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

MONROE HARDING, INC.
NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2010

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.

NOTE 3 – ACCOUNTS AND PLEDGES RECEIVABLE

Accounts receivable are due primarily from various government and private agencies and are expected to be received within one year. All pledges receivable are scheduled to be received within one year. The carrying values of accounts and pledges receivable approximate their fair values due to the short maturities of these instruments. No allowance for uncollectible amounts was considered necessary at December 31, 2010.

MONROE HARDING, INC.
NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2010

NOTE 4 – INVESTMENTS

A summary of investments as of December 31, 2010 is as follows:

	Quoted Prices in Active Markets for Identical Assets (Level 1)
Common stocks	\$ 2,566,092
Corporate bonds	1,225,644
Mutual funds	264,352
Cash and short tem investments	<u>180,185</u>
Total	<u>\$ 4,236,273</u>

The following schedule summarizes the net investment income in the statement of activities for 2010:

Dividend and interest income	\$ 127,208
Fees	(32,622)
Net realized gains on investments	11,844
Net unrealized gains on investments	<u>332,657</u>
	<u>\$ 439,087</u>

NOTE 5 – PROPERTY AND EQUIPMENT

A summary of property and equipment as of December 31, 2010 is as follows:

Land	\$ 22,055
Buildings, contents, and improvements	1,000,227
Scarborough Cottage	130,092
Grace Cottage	41,227
Grana Cottage	338,062
Gymnasium	68,485
Automobiles	123,647
Water, sewer and roadway	107,223
Recreation building	11,891
Wilson Cottage	416,446
Construction in progress	<u>30,544</u>
	2,289,899
Less accumulated depreciation	<u>(1,460,620)</u>
Land, buildings and equipment, net	<u>\$ 829,279</u>

MONROE HARDING, INC.
NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2010

NOTE 5 – PROPERTY AND EQUIPMENT (Continued)

The Organization is holding certain portions of the land as available for sale at December 31, 2010. The approximate cost of the property held-for-sale is \$16,000.

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2010 consisted of the following:

Special project funds	\$ 181,280
Pledges receivable (time restriction)	<u>26,000</u>
	<u>\$ 207,280</u>

Net assets of \$282,923 were released from donor restrictions by satisfying the restricted purposes or by occurrence of other events specified by donors during the year ended December 31, 2010. The purpose restrictions accomplished were for program services and the acquisition of capital assets.

NOTE 7 – 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. The Organization contributes a minimum amount equal to 4% of the participants' compensation. The Organization also contributes 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 the year ended December 31, 2010 was \$90,035.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

The Company has entered into non-cancelable 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 2010 totaled approximately \$101,000.

MONROE HARDING, INC.
NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2010

NOTE 8 – COMMITMENTS AND CONTINGENCIES (Continued)

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

2011	\$ 73,027
2012	74,018
2013	34,309
2014	6,310
2015	<u>4,879</u>
	<u>\$ 192,543</u>

NOTE 9 – CAPITAL IMPROVEMENT RESTRICTIONS

The board of directors has designated funds for capital improvements and fixed asset additions. The board designated balances were \$75,568 as of December 31, 2010.

NOTE 10 – 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 several contracts with agencies 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 agencies for services provided by all of the member agencies and remits payments to the member agencies, less an agreed upon administration fee. During the year ended December 31, 2010, approximately \$2,717,000 was recorded as revenue from state agency contracts for services provided by the Collaborative. This accounted for approximately 68% of total public support recognized by the Organization during 2010. At December 31, 2010, approximately \$213,000 was receivable from the state agencies related to those contracts. During the year ended December 31, 2010, the Organization recognized expenses totaling approximately \$1,204,000 for the amounts earned by the other members of the Collaborative for their services. At December 31, 2010, approximately \$209,000 was due to Collaborative members for services provided during 2010.

NOTE 11 – 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 generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the board of directors to function as

MONROE HARDING, INC.
NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2010

NOTE 11 – ENDOWMENT AND PERMANENTLY RESTRICTED NET ASSETS (Continued)

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 of Nashville and First Presbyterian Church of 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 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.

MONROE HARDING, INC.
NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2010

NOTE 11 – ENDOWMENT AND PERMANENTLY RESTRICTED NET ASSETS (Continued)

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 of appropriating for distribution each year a maximum of \$460,000 from its board-restricted endowment funds. 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, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ -	\$ 526,281	\$ 526,281
Board-restricted endowment funds	<u>4,236,273</u>	<u>-</u>	<u>-</u>	<u>4,236,273</u>
Total funds	<u>\$ 4,236,273</u>	<u>\$ -</u>	<u>\$ 526,281</u>	<u>\$ 4,762,554</u>

Changes in Endowment Net Assets for the Year Ended December 31, 2010:

Endowment net assets, beginning of year	<u>\$ 4,198,765</u>	<u>\$ -</u>	<u>\$ 491,004</u>	<u>\$ 4,689,769</u>
Investment return:				
Investment income	93,898	-	9,856	103,754
Net appreciation (realized and unrealized)	<u>344,501</u>	<u>-</u>	<u>25,421</u>	<u>369,922</u>

MONROE HARDING, INC.
NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2010

NOTE 11 – ENDOWMENT AND PERMANENTLY RESTRICTED NET ASSETS (Continued)

Changes in Endowment Net Assets for the Year Ended December 31, 2010 (Continued):

Total investment return	<u>438,399</u>	<u>-</u>	<u>35,277</u>	<u>473,676</u>
Appropriation of endowment assets for expenditure	<u>(410,983)</u>	<u>-</u>	<u>-</u>	<u>(410,983)</u>
Transfers to create board-designated endowment funds	<u>10,092</u>	<u>-</u>	<u>-</u>	<u>10,092</u>
Endowment net assets, end of year	<u>\$ 4,236,273</u>	<u>\$ -</u>	<u>\$ 526,281</u>	<u>\$ 4,762,554</u>

NOTE 12 – GIFTS IN-KIND

Gifts in-kind received by the Organization are recorded based on their estimated value on the date of receipt. During 2010, the Organization recorded donated materials and services with an estimated value of \$16,781 and donated investments with a value of \$10,092. No amounts have been reflected in the financial statements for donated labor by unskilled volunteers as no objective basis is available to measure the value of such services; however, a substantial number of volunteers have donated significant amounts of their time to the Organization's program services.

NOTE 13 – 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, 2010, the trust had a fair market value of \$75,001. 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, 2010, the trust had a fair market value of \$1,805,123, of which \$451,280 was for the benefit of the Organization. The trusts' assets are invested in publicly traded mutual funds and are considered to be level 1 investments.

MONROE HARDING, INC.
NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 14 – RESTATEMENT

During 2010, it was discovered that 2009 revenue and related expense from the Middle Tennessee Collaborative's performance based contract ("PBC") with the State of Tennessee was not recorded in the proper period. For the year ended December 31, 2009, assets and revenues were understated by \$166,510, liabilities and expenses were understated by \$77,128, and unrestricted net assets were understated by \$89,382. Beginning net assets have been restated in the accompanying statement of activities.

NOTE 15 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 11, 2011, the date the financial statements were available for issuance, and has determined that there are no subsequent events requiring disclosure.



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS***

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

We have audited the financial statements of Monroe Harding, Inc. (a nonprofit organization) as of and for the year ended December 31, 2010, and have issued our report thereon dated April 11, 2011. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Organization's internal control over financial reporting 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. Those significant deficiencies are described below.

Financial Reporting

Statement on Auditing Standards ("SAS") No. 115, *Communicating Internal Control Related Matters in an Audit*, heightened communication requirements regarding internal controls. During the year ended December 31, 2010, the Organization utilized the year-end audit to adjust its internal accounting records in order to present them in accordance with generally accepted accounting principles. This is considered a significant deficiency. We have communicated all adjustments identified during our audit to management. We suggest that management establish a year-end closing process that does not utilize the year-end audit to record adjustments to be in accordance with generally accepted accounting principles.

Management's Response:

Management is in the process of developing year-end closing procedures as well as quarterly processes to ensure all transactions are recorded in the appropriate time period. In addition, management is in the process of reassigning duties in the financial services area that will allow the Director of Financial Services adequate time to review financial statement processes throughout the year.

Segregation of Duties

The Director of Financial Services of the organization currently prepares and signs checks and pays bills online. No one employee should have access to both accounting records and underlying assets.

Accordingly, we recommend that the Director of Financial Services not be listed as a check signor on any bank account. Additionally, we recommend that a member of the Finance Committee or other third party individual receive the bank statements for all accounts unopened and review for unusual items. We also recommend that the Organization consider establishing a procedure whereby the bank statements, cancelled checks, and bank reconciliations are reviewed by someone outside of the administrative office to provide better monitoring of the cash disbursements processes. In both instances, we also recommend that the reviewer initial documents reviewed to provide evidence that the procedure was performed.

We noted that certain mitigating controls exist such as having a second signor on the check and having an outside accounting organization review certain bank statements monthly. We also noted that the financial statements are prepared and reviewed by the Finance Committee, and that the Finance Committee is active in the oversight of the Organization.

Management's Response:

The Director of Financial Services never served as the primary signer on any checks. The position was always a second signer for amounts between \$2,000 and \$9,999. However, based on audit findings, the Director of Financial Services will be removed as a counter signer. Management is reviewing current practices and processes regarding segregation of duties, authority to sign checks, access to bank statements and reconciliations. Management will put in place policies and procedures to ensure proper segregation of duties.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Monroe Harding, Inc. in a separate letter dated April 11, 2011.

Monroe Harding, Inc.'s response to the findings identified in our audit is described above. We did not audit Monroe Harding, Inc.'s response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the board of directors, others within the Organization, and the State of Tennessee Department of Children's Services and is not intended to be and should not be used by anyone other than these specified parties.

Frasier, Pen + Hand, PLLC

Nashville, Tennessee
April 11, 2011