

RECEIVED MAY 18 2007

MONROE HARDING, INC.

**FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

DECEMBER 31, 2006 AND 2005

MONROE HARDING, INC.

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Independent Auditors' Report

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, 2006 and 2005, 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, 2006 and 2005, 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 March 8, 2007 on our consideration of Monroe Harding, Inc.'s internal control over financial reporting and 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 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 should be considered in assessing the results of our audit.

The Board of Directors
Monroe Harding, Inc.

Our audits were made 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. The information has been subjected to the procedures applied in the audit of the 2006 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, Vaden & Associates, P.C.

Nashville, Tennessee
March 8, 2007

MONROE HARDING, INC.
STATEMENTS OF FINANCIAL POSITION

ASSETS

	<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>
Cash and cash equivalents	\$ 433,702	\$ 439,256
Accounts receivable	137,989	110,688
Pledges receivable (Note B)	23,545	20,323
Prepaid expenses	54,123	48,046
Investments (Note C)	6,463,230	6,373,409
Beneficial interests in perpetual trusts (Note J)	613,964	563,206
Land, buildings and equipment - net (Note D)	<u>1,014,062</u>	<u>1,030,511</u>
Total Assets	<u>\$8,740,615</u>	<u>\$8,585,439</u>

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable	\$ 42,488	\$ 26,218
Accrued expenses	33,044	24,819
Childrens' account	17,649	15,700
Medical reimbursement	<u>3,385</u>	<u>3,910</u>
Total Liabilities	<u>96,566</u>	<u>70,647</u>
NET ASSETS		
Unrestricted (Note A)		
Undesignated	1,321,879	1,307,340
Board designated for capital improvements (Note G)	233,262	232,431
Board designated endowment	6,463,230	6,373,409
Temporarily restricted (Note E)	11,714	38,406
Permanently restricted (Note J)	<u>613,964</u>	<u>563,206</u>
Total Net Assets	<u>8,644,049</u>	<u>8,514,792</u>
Total Liabilities and Net Assets	<u>\$8,740,615</u>	<u>\$8,585,439</u>

See accompanying notes to financial statements.

MONROE HARDING, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
PUBLIC SUPPORT AND REVENUE				
Public support				
Church and private gifts	\$ 256,234	\$ 28,198	\$ -	\$ 284,432
Governmental contracts and sub-contracts	1,117,046	59,643	-	1,176,689
USDE	23,800	-	-	23,800
Special events	158,809	-	-	158,809
Miscellaneous	27,406	-	-	27,406
Gifts-in-kind	23,706	-	-	23,706
Net assets released from restriction	<u>114,533</u>	<u>(114,533)</u>	<u>-</u>	<u>-</u>
Total Public Support	1,721,534	(26,692)	-	1,694,842
Revenue				
Income and net gain on investments	699,821	-	-	699,821
Income and net gain (loss) on beneficial interests in trusts	23,752	-	50,758	74,510
Interest	<u>10,831</u>	<u>-</u>	<u>-</u>	<u>10,831</u>
Total Public Support and Revenue	<u>2,455,938</u>	<u>(26,692)</u>	<u>50,758</u>	<u>2,480,004</u>
EXPENSES				
Program Services				
Residential care	1,636,748	-	-	1,636,748
General and occupancy	<u>278,237</u>	<u>-</u>	<u>-</u>	<u>278,237</u>
Total Program Services	<u>1,914,985</u>	<u>-</u>	<u>-</u>	<u>1,914,985</u>
Supporting Services				
Administrative	238,394	-	-	238,394
General and occupancy	34,392	-	-	34,392
Fund raising	<u>162,976</u>	<u>-</u>	<u>-</u>	<u>162,976</u>
Total Supporting Services	<u>435,762</u>	<u>-</u>	<u>-</u>	<u>435,762</u>
Total Expenses	<u>2,350,747</u>	<u>-</u>	<u>-</u>	<u>2,350,747</u>
Net increase (decrease) in net assets	105,191	(26,692)	50,758	129,257
Net assets, beginning of year	<u>7,913,180</u>	<u>38,406</u>	<u>563,206</u>	<u>8,514,792</u>
Net assets, end of year	<u>\$ 8,018,371</u>	<u>\$ 11,714</u>	<u>\$ 613,964</u>	<u>\$8,644,049</u>

2005			
<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Restricted</u>	<u>Total</u>
\$ 254,791	\$ 37,530	\$ -	\$ 292,321
1,001,697	75,000	-	1,076,697
28,509	-	-	28,509
144,579	-	-	144,579
18,325	-	-	18,325
9,552	-	-	9,552
<u>81,089</u>	<u>(81,089)</u>	<u>-</u>	<u>-</u>
1,538,542	31,441	-	1,569,983
210,836	-	-	210,836
27,159	-	(10,786)	16,373
<u>5,106</u>	<u>-</u>	<u>-</u>	<u>5,106</u>
<u>1,781,643</u>	<u>31,441</u>	<u>(10,786)</u>	<u>1,802,298</u>
1,463,971	-	-	1,463,971
<u>245,861</u>	<u>-</u>	<u>-</u>	<u>245,861</u>
<u>1,709,832</u>	<u>-</u>	<u>-</u>	<u>1,709,832</u>
224,347	-	-	224,347
37,801	-	-	37,801
<u>147,561</u>	<u>-</u>	<u>-</u>	<u>147,561</u>
<u>409,709</u>	<u>-</u>	<u>-</u>	<u>409,709</u>
<u>2,119,541</u>	<u>-</u>	<u>-</u>	<u>2,119,541</u>
(337,898)	31,441	(10,786)	(317,243)
<u>8,251,078</u>	<u>6,965</u>	<u>573,992</u>	<u>8,832,035</u>
<u>\$ 7,913,180</u>	<u>\$ 38,406</u>	<u>\$ 563,206</u>	<u>\$8,514,792</u>

See accompanying notes to financial statements.

MONROE HARDING, INC.
STATEMENTS OF CASH FLOWS

	<u>Year Ended December 31,</u>	
	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 129,257	\$(317,243)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Depreciation	82,524	76,267
Net loss on disposal of land, buildings and equipment	-	2,386
Net (gain) loss on investments and beneficial interests in trusts	(500,521)	9,214
(Increase) decrease in accounts and other receivables	(27,301)	24,942
(Increase) decrease in pledges receivable	(3,222)	6,549
Increase in other prepaid expenses	(6,077)	(36,406)
Increase (decrease) in accounts payable	16,270	(21,379)
Increase in other accrued expenses	8,225	1,990
Increase (decrease) in children's account	1,949	(6,947)
(Decrease) increase in medical reimbursement	<u>(525)</u>	<u>625</u>
Net cash used in operating activities	<u>(299,421)</u>	<u>(260,002)</u>
Cash flows from investing activities:		
Net sales of investments, net of brokerage fees	359,942	400,737
Proceeds from sale of land, buildings and equipment	-	750
Purchase of fixed assets	<u>(66,075)</u>	<u>(72,596)</u>
Net cash provided by investing activities	<u>293,867</u>	<u>328,891</u>
Net (decrease) increase in cash and cash equivalents	(5,554)	68,889
Cash and cash equivalents at beginning of year	<u>439,256</u>	<u>370,367</u>
Cash and cash equivalents at end of year	<u>\$ 433,702</u>	<u>\$ 439,256</u>

See accompanying notes to financial statements.

MONROE HARDING, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2006

	Program Services	
	Residential Care	General and Occupancy
Total Salaries, Wages and Benefits	<u>\$1,363,391</u>	<u>\$ -</u>
Other expenses:		
Food and kitchen supplies	48,257	-
Medical	865	-
Clothing	6,409	-
School and educational	4,173	-
Dorm supplies	12,461	-
Allowances	7,443	-
Recreational and special	26,740	-
Travel and transportation	5,221	-
Automobile gas and oil	9,052	-
Utilities	-	62,043
Contracted services	22,969	-
Maintenance	-	110,517
Insurance	-	31,167
Supplies and small equipment	30,058	-
Telephone	26,742	-
Postage	2,427	-
Training	26,700	-
Professional, legal and accounting	9,746	-
Dues and publications	4,852	-
Licenses and permits	934	-
Banking fees	-	-
Haircuts	244	-
Life skills	2,740	-
Fire and safety	-	4,126
Volunteer services	2,694	-
Printing	1,212	-
Recruitment	20,410	-
Provision for depreciation	-	70,384
Provision for double accounts	<u>1,008</u>	<u>-</u>
Total Other Expenses	<u>273,357</u>	<u>278,237</u>
Total Expenses	<u>\$1,636,748</u>	<u>\$278,237</u>

<u>Supporting Services</u>			
<u>Administrative</u>	<u>General and Occupancy</u>	<u>Fund Raising</u>	<u>Total</u>
<u>\$198,569</u>	<u>\$ -</u>	<u>\$102,489</u>	<u>\$1,664,449</u>
-	-	-	48,257
-	-	-	865
-	-	-	6,409
-	-	-	4,173
-	-	-	12,461
-	-	-	7,443
1,015	-	14,323	42,078
549	-	1,226	6,996
-	-	-	9,052
-	15,618	-	77,661
804	-	3,709	27,482
-	1,665	-	112,182
-	4,733	-	35,900
5,182	-	9,032	44,272
2,336	-	403	29,481
408	-	9,195	12,030
3,530	-	1,302	31,532
22,704	-	573	33,023
2,115	-	525	7,492
20	-	300	1,254
188	-	1,656	1,844
-	-	-	244
-	-	-	2,740
-	236	-	4,362
-	-	-	2,694
-	-	18,243	19,455
974	-	-	21,384
-	12,140	-	82,524
-	-	-	1,008
<u>39,825</u>	<u>34,392</u>	<u>60,487</u>	<u>686,298</u>
<u>\$238,394</u>	<u>\$34,392</u>	<u>\$162,976</u>	<u>\$2,350,747</u>

See accompanying notes to financial statements.

MONROE HARDING, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2005

	<u>Program Services</u>	
	<u>Residential</u>	<u>General</u>
	<u>Care</u>	<u>and</u>
		<u>Occupancy</u>
Total Salaries, Wages and Benefits	<u>\$1,218,031</u>	<u>\$ -</u>
Other expenses:		
Food and kitchen supplies	64,725	-
Medical	1,222	-
Clothing	7,100	-
School and educational	4,519	-
Dorm supplies	9,977	-
Allowances	6,629	-
Recreational and special	28,550	-
Travel and transportation	2,537	-
Automobile gas and oil	6,075	-
Utilities	-	56,844
Contracted services	9,325	-
Maintenance	-	90,636
Insurance	-	28,339
Supplies, small equipment, and software	36,170	-
Telephone	23,919	-
Postage	1,516	-
Training	20,434	-
Professional, legal and accounting	-	-
Dues and publications	3,450	-
Licenses and permits	1,446	-
Banking fees	-	-
Haircuts	134	-
Life skills	1,407	-
Fire and safety	-	3,953
Volunteer services	2,270	-
Printing	563	-
Recruitment	13,972	-
Losses on sale of fixed assets	-	2,386
Provision for depreciation	-	63,703
Total Other Expenses	<u>245,940</u>	<u>245,861</u>
Total Expenses	<u>\$1,463,971</u>	<u>\$245,861</u>

<u>Supporting Services</u>			
<u>Administrative</u>	<u>General and Occupancy</u>	<u>Fund Raising</u>	<u>Total</u>
<u>\$187,031</u>	<u>\$ -</u>	<u>\$86,676</u>	<u>\$1,491,738</u>
-	-	-	64,725
-	-	-	1,222
-	-	-	7,100
-	-	-	4,519
-	-	-	9,977
-	-	-	6,629
2,068	-	14,745	45,363
457	-	1,279	4,273
-	-	-	6,075
-	13,775	-	70,619
1,137	-	3,195	13,657
-	5,230	261	96,127
-	5,875	-	34,214
5,236	-	8,197	49,603
3,769	-	395	28,083
313	-	9,088	10,917
2,799	-	873	24,106
18,192	-	-	18,192
2,061	-	465	5,976
68	-	334	1,848
241	-	1,238	1,479
-	-	-	134
-	-	-	1,407
-	357	-	4,310
-	-	-	2,270
28	-	20,629	21,220
947	-	186	15,105
-	-	-	2,386
-	12,564	-	76,267
<u>37,316</u>	<u>37,801</u>	<u>60,885</u>	<u>627,803</u>
<u>\$224,347</u>	<u>\$37,801</u>	<u>\$147,561</u>	<u>\$2,119,541</u>

See accompanying notes to financial statements.

MONROE HARDING, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

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.

Accrual Basis and Financial Statement 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, 2006 AND 2005

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 restrictions.

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, 2006 AND 2005

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Tax Status

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

Use of Estimates in the Preparation of Financial Statements

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.

Fair Value of Financial Instruments

The carrying value of cash, receivables, accounts payable and accrued expenses approximate fair value because of the short maturity of these instruments.

B. PLEDGES RECEIVABLE

Pledges receivable are due within one year of December 31, 2006. No allowance for uncollectible pledges receivable was considered necessary at December 31, 2006 and 2005.

C. INVESTMENTS

Investments at December 31, 2006 and 2005 consisted of the following:

	<u>2006</u>		<u>2005</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Stock and bonds	\$5,221,712	5,547,484	\$5,358,111	\$5,760,825
Interest bearing				
accounts	689,736	689,736	413,506	413,506
Mutual funds	<u>198,070</u>	<u>226,010</u>	<u>193,733</u>	<u>199,078</u>
Total	<u>\$6,109,518</u>	<u>\$6,463,230</u>	<u>\$5,965,350</u>	<u>\$6,373,409</u>

MONROE HARDING, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

C. INVESTMENTS - Continued

The yield on investments for 2006 and 2005 was as follows:

	<u>2006</u>		<u>2005</u>	
Dividends and interest	\$ 250,058	3.90%	\$ 209,263	3.18%
Gain on sale of investments, net of brokerage fees	401,720	6.26%	347,540	5.29%
Unrealized gains (losses) on investments	<u>48,043</u>	<u>0.75%</u>	<u>(345,967)</u>	<u>(5.26)%</u>
Total	<u>\$ 699,821</u>	<u>10.90%</u>	<u>\$ 210,836</u>	<u>3.21%</u>

D. LAND, BUILDINGS AND EQUIPMENT

Land, buildings, and equipment at December 31, 2006 and 2005, consisted of the following:

	<u>2006</u>	<u>2005</u>
Land	\$ 22,055	\$ 22,055
Buildings and contents	929,368	888,333
Scarborough Cottage	130,092	130,092
Grace Cottage	41,227	41,227
Grana Cottage	338,062	338,062
Gymnasium	68,485	68,485
Automobiles	122,401	98,132
Water, sewer, and roadway	107,223	107,223
Recreation Cottage	11,891	11,891
Wilson Cottage	<u>416,446</u>	<u>416,446</u>
	2,187,250	2,121,946
Less accumulated depreciation	<u>(1,173,188)</u>	<u>(1,091,435)</u>
Net land, buildings, and equipment	<u>\$ 1,014,062</u>	<u>\$ 1,030,511</u>

MONROE HARDING, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

E. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

	<u>2006</u>	<u>2005</u>
Special project funds	<u>\$11,714</u>	<u>\$38,406</u>

Net assets of \$114,533 and \$81,089 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, 2006 and 2005, respectively. The purpose restrictions accomplished were for program services and the acquisition of capital assets.

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 non-profit 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 plans totaled \$59,846 and \$62,510 for 2006 and 2005, respectively.

G. CAPITAL IMPROVEMENT RESTRICTIONS

The Board of Directors and certain donors have designated funds for capital improvements and fixed asset additions. The designated balances were \$233,262 and \$232,431 as of December 31, 2006 and 2005, respectively.

H. 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, 2006 AND 2005

I. CONCENTRATION OF CREDIT RISK

MH maintains its cash and cash equivalents in high credit quality financial institutions at balances which, at times, may be uninsured or 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.

J. BENEFICIAL INTERESTS IN PERPETUAL TRUSTS

During 2006 and 2005, MH received interest and dividends of \$23,752 and \$27,159, respectively, on funds held in trust amounting to \$613,964 and \$563,206 respectively. These funds were held by the Presbyterian Church of Nashville and First Presbyterian Church of Clarksville, Tennessee.

K. GIFT IN KIND

MH records donated materials and services at fair value on the date of donation. During 2006 and 2005, MH recorded donated labor and materials with a fair value of \$23,706 and \$9,552, respectively.