MONROE HARDING, INC.

FINANCIAL STATEMENTS

December 31, 2011

MONROE HARDING, INC.

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FRASIERDEAN HOWARDCPAs

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, 2011, 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, 2011, 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 August 1, 2012, 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

August 1, 2012

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MONROE HARDING, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2011

Assets

Cash and cash equivalents	$ 749,461
Accounts receivable	373,693
Prepaid expenses	32,116
Investments	3,909,365
Beneficial interests in perpetual trusts	506,652
Land, buildings and equipment,	
net of accumulated depreciation of $1,487,191	789,538
Total assets	$ 6,360,825

Liabilities and Net Assets

Liabilities:	
Accounts payable	$ 196,224
Accrued expenses	133,915
Children's account	18,748
Medical reimbursement	1,003
Total liabilities	349,890
Net assets:	
Unrestricted:	
Undesignated	1,227,844
Board designated for capital improvements	75,574
Board designated endowment	3,909,365
Total unrestricted	5,212,783
Temporarily restricted	291,500
Permanently restricted	506,652
Total net assets	6,010,935
Total liabilities and net assets	$ 6,360,825

See accompanying notes to financial statements.

MONROE HARDING, INC.
STATEMENT OF ACTIVITIES
Year Ended December 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public support and revenue:				
Public support:				
Governmental contracts and sub-contracts	$ 3,024,973	$ -	$ -	$ 3,024,973
Church and private gifts	343,474	258,413	-	601,887
Special events	174,102	2,500	-	176,602
Gain on disposal of property and equipment	149,898	-	-	149,898
Miscellaneous	21,655	-	-	21,655
Gifts in-kind	59,200	-	-	59,200
Net assets released from restriction	193,046	(176,693)	(16,353)	-
Total public support	3,966,348	84,220	(16,353)	4,034,215
Revenue:				
Net loss on investments	(140,289)	-	(14,721)	(155,010)
Interest and dividend income, net of fees	91,585	-	11,445	103,030
Total public support and revenue	3,917,644	84,220	(19,629)	3,982,235
Expenses:				
Program services:				
Cooperative living	2,763,339	-	-	2,763,339
Independent living	226,776	-	-	226,776
Foster care	514,729	-	-	514,729
Youth Connections	409,032	-	-	409,032
Total program services	3,913,876	-	-	3,913,876
Supporting services:				
General and administrative	502,525	-	-	502,525
Development	219,075	-	-	219,075
Total supporting services	721,600	-	-	721,600
Total expenses	4,635,476	-	-	4,635,476
Change in net assets	(717,832)	84,220	(19,629)	(653,241)
Net assets, beginning of year	5,930,615	207,280	526,281	6,664,176
Net assets at end of year	$ 5,212,783	$ 291,500	$ 506,652	$ 6,010,935

See accompanying notes to financial statements.

MONROE HARDING, INC.
STATEMENT OF CASH FLOWS
Year Ended December 31, 2011

Cash flows from operating activities:	
Change in net assets	$ (653,241)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	88,515
In-kind donation of equipment	(7,669)
In-kind donation of investments	(525)
Change in beneficial interests in perpetual trusts	19,629
Gain on disposal of property and equipment	(149,898)
Net loss on investments	140,289
Changes in operating assets and liabilities:	
Accounts receivable	83,987
Pledges receivable	26,000
Prepaid expenses	993
Accounts payable	(77,031)
Accrued expenses	23,360
Children's account	(3,545)
Medical reimbursement	(1,500)
Net cash used in operating activities	(510,636)
Cash flows from investing activities:	
Purchases of property and equipment	(49,812)
Purchases of investments	(987,137)
Proceeds from disposal of property and equipment	158,605
Proceeds from sale of investments	1,174,281
Net cash provided by investing activities	295,937
Net decrease in cash and cash equivalents	(214,699)
Cash and cash equivalents, beginning of year	964,160
Cash and cash equivalents, end of year	$ 749,461
Supplemental schedule of non-cash investing and financing activities:	
In-kind donation of equipment	$ 7,669
In-kind donation of investments	$ 525

See accompanying notes to financial statements.

MONROE HARDING, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2011

	Program Services					Supporting Services			
	Cooperative Living	Independent Living	Foster Care	Youth Connections	Total	General and Administrative	Development	Total	Total Expenses
Salaries and wages	$ 848,538	$ 115,654	$ 182,440	$ 168,791	$ 1,315,423	$ 225,743	$ 110,229	$ 335,972	$ 1,651,395
Collaborative partner expenses	1,234,095	-	51,594	-	1,285,689	-	-	-	1,285,689
Employee benefits	144,130	18,255	29,601	33,667	225,653	19,262	19,631	38,893	264,546
Foster care expenses	-	-	168,592	-	168,592	-	-	-	168,592
Payroll taxes	69,086	9,214	13,950	12,904	105,154	17,184	8,284	25,468	130,622
Maintenance	62,363	5,487	4,902	24,469	97,221	30,193	2,242	32,435	129,656
Professional expenses	6,962	690	4,887	829	13,368	113,539	1,783	115,322	128,690
Insurance	83,872	7,785	12,338	9,603	113,598	8,561	2,692	11,253	124,851
Rent	-	42,350	-	75,655	118,005	-	-	-	118,005
Utilities	55,208	2,063	1,353	11,657	70,281	17,229	-	17,229	87,510
Food and kitchen supplies	54,330	4,470	109	780	59,689	22,849	149	22,998	82,687
Youth specific assistance	29,369	1,389	11,310	25,431	67,499	-	-	-	67,499
Training and education	41,916	3,269	3,608	2,323	51,116	3,359	1,450	4,809	55,925
Printing and promotion	938	-	131	1,574	2,643	412	46,333	46,745	49,388
Recreational and special	8,323	1,102	2,159	7,932	19,516	8,356	15,663	24,019	43,535
Office supplies	8,317	460	1,709	6,404	16,890	11,980	6,614	18,594	35,484
Telephone and internet	18,359	1,667	3,338	4,240	27,604	4,886	1,962	6,848	34,452
Travel and transportation	12,533	2,728	9,080	4,752	29,093	1,915	233	2,148	31,241
Dorm supplies	11,945	3,113	1,154	2,591	18,803	-	-	-	18,803
Recruitment	4,085	417	7,431	2,576	14,509	785	109	894	15,403
Other	3,635	775	1,425	1,890	7,725	4,120	1,489	5,609	13,334
Contracted services	5,847	348	967	316	7,478	1,983	193	2,176	9,654
	2,703,851	221,236	512,078	398,384	3,835,549	492,356	219,056	711,412	4,546,961
Depreciation	59,488	5,540	2,651	10,648	78,327	10,169	19	10,188	88,515
Total expenses	$ 2,763,339	$ 226,776	$ 514,729	$ 409,032	$ 3,913,876	$ 502,525	$ 219,075	$ 721,600	$ 4,635,476

See accompanying notes to financial statements.

NOTE 1 – NATURE OF OPERATIONS

Monroe Harding, Inc. (the "Organization") is a not-for-profit 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's programs include foster care, cooperative living, independent living, and a resource center for older youth. The Organization's range of services includes education, vocational skills, relationship building, spiritual formation, health & wellness, and - most importantly - the guidance and support of a caring adult in a safe and stable home.

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.

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. The organization had no pledges receivable at December 31, 2011.

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, 2008 through December 31, 2011. The Organization had no uncertain tax positions at December 31, 2011.

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

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 Measurements and Disclosures topic of the FASB ASC. This guidance establishes a framework for measuring fair value for financial assets and liabilities. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices (level 1). However, in some instances, there are no quoted market prices for

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

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 RECEIVABLE

Accounts receivable are due primarily from various government and private agencies and are expected to be received within one year. The carrying values of accounts receivable approximate their fair values due to the short maturities of these instruments. No allowance for uncollectible amounts was considered necessary at December 31, 2011.

NOTE 4 – INVESTMENTS

A summary of investments as of December 31, 2011 is as follows:

	Quoted Prices in Active Markets for Identical Assets (Level 1)
Common stocks	$ 2,480,632
Corporate bonds	914,494
Mutual funds	262,387
Cash and short term investments	251,852
Total	$ 3,909,365

The following schedule summarizes the net investment income in the statement of activities for 2011:

Dividend and interest income, net of fees of ($38,919)	$ 103,030
Net realized gains on investments	100,053
Net unrealized losses on investments	(255,063)
	$ (51,980)

NOTE 5 – LAND, BUILDINGS AND EQUIPMENT

A summary of land, buildings and equipment as of December 31, 2011 is as follows:

Land	$ 23,513
Buildings and improvements	1,361,312
Automobiles	129,940
Land improvements	109,204
Furniture, fixtures, and appliances	515,962
Information/communication technology	128,125
Construction in progress	8,673
	2,276,729
Less accumulated depreciation	(1,487,191)
Property and equipment, net	$ 789,538

The Organization is holding approximately 20 acres of the land as available for sale at December 31, 2011. Subsequent to year-end, the Organization sold approximately 8 acres of their property. See Note 14 for further details.

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2011 consisted of the following:

Capital improvements	$	126,100
Cooperative living program		67,679
Special project funds		62,321
Volunteer program		35,400
	$	291,500

Net assets of $176,693 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, 2011. 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, 2011 was $67,347.

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 2011 totaled approximately $123,264.

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

2012	$	59,446
2013		59,909
2014		22,942
2015		2,864
	$	145,161

NOTE 9 – CAPITAL IMPROVEMENT RESTRICTIONS

The board of directors has designated funds for capital improvements and fixed asset additions. The board designated balances were $75,574 as of December 31, 2011.

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, 2011, approximately $2,693,000 was recorded as revenue from state agency contracts for services provided by the Collaborative. This accounted for approximately 70% of total public support and revenue recognized by the Organization during 2011. At December 31, 2011, approximately $305,000 was receivable from the state agencies related to those contracts. During the year ended December 31, 2011, the Organization recognized expenses totaling approximately $1,286,000 for the amounts earned by the other members of the Collaborative for their services. At December 31, 2011, approximately $146,000 was due to Collaborative members for these services.

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 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

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

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.

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.

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

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, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ -	$ 506,652	$ 506,652
Board-restricted endowment funds	3,909,365	-	-	3,909,365
Total funds	$ 3,909,365	$ -	$ 506,652	$ 4,416,017

Changes in Endowment Net Assets for the Year Ended December 31, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 4,236,273	$ -	$ 526,281	$ 4,762,554
Investment return:				
Investment income	87,881	-	11,445	99,326
Net depreciation (realized and unrealized)	(140,289)	-	(14,721)	(155,010)
Total investment return	(52,408)	-	(3,276)	(55,684)
Appropriation of endowment assets for expenditure	(274,500)	-	(16,353)	(290,853)
Endowment net assets, end of year	$ 3,909,365	$ -	$ 506,652	$ 4,416,017

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 2011, the Organization recorded donated materials and services with an estimated approximate value of $59,000 and donated investments with a value of $525. 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, 2011, the trust had a fair market value of $73,725. 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, 2011, the trust had a fair market value of $1,731,708, of which $432,927 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.

NOTE 14 – SUBSEQUENT EVENTS

Subsequent to year-end, the Organization sold approximately 8 acres of the property for $1,275,000. Approximately 12 acres of the remaining property are still being held for sale. Management has evaluated subsequent events through August 1, 2012, the date the financial statements were available for issuance, and has determined that there are no other subsequent events requiring disclosure.

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, 2011, and have issued our report thereon dated August 1, 2012. 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

Management of Monroe Harding, Inc. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Monroe Harding, Inc.'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 Monroe Harding, Inc.'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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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. We considered the deficiencies below to be material weaknesses.

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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, 2011, 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 material weakness. 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. Additionally, the Organization does not have the expertise on staff to interpret generally accepted accounting principles and identify the risks of misstatement that might be relevant to the risks of preparation of reliable financial statements, including full disclosures in accordance with generally accepted accounting principles.

Management's Response:

On October 4, 2011 the Director of Financial Services tendered her resignation to take another position. A contract individual was brought in to fill that position until a permanent replacement could be found. A new Director of Financial Services was hired and started on January 16, 2012. During this interim time period just the basic recordkeeping was done to keep the agency functioning.

Once the new Director of Financial Services, not only did he have to learn a new software program, our record keeping system and the services the Organization provides, but he also had to catch up on many tasks that had not been completed in the interim period. This resulted in the Organization not being ready for our auditors when they arrived.

In future years, the financial records of the Organization will be kept in accordance with generally accepted accounting principles and we will not be relying on the year-end audit in order to record adjustments to get them in accordance with generally accepted accounting principles. A part of the new Director of Financial Services duties includes a review of all financial policies and procedures to ensure preparation of financial statements in accordance with generally accepted accounting principles.

The new Director of Financial Services holds an MBA in accounting and has the assistance of the new Chairman of the Finance Committee, a practicing certified public accountant, in preparing reliable financial statements. The knowledge and background of these individuals should result in financial statements that are prepared in accordance with generally accepted accounting principles.

Missing Documentation

Management was unable to locate supporting documentation for several disbursements. Additionally, some of the activity was not reflected in the accounting records. Accordingly, we recommend that management implement a documentation procedure to obtain and retain documentation to support all expenditures of the Organization. We also recommend that all transactions be recorded properly in the accounting records in a timely manner.

Management's Response:

The new Director of Financial Services was the individual from the Organization that dealt with our auditors. As stated above, he started in this position on January 16, 2012, after the year end being audited. Not having been here during the year being audited, he did not have the background knowledge of where every document might be located. As a result of this, some supporting documentation could not be located during the audit.

A part of his review of the financial policies and procedures noted above will include a review of the entity's documentation and record retention policies to ensure that proper documentation is obtained to evidence all transactions and it is filed in accordance with the record retention policies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Monroe Harding, Inc.'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 August 1, 2012.

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 entity, 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.

Nashville, Tennessee
August 1, 2012