

MONROE HARDING, INC.

**FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

DECEMBER 31, 2004 AND 2003

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, 2004 and 2003, 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. 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, 2004 and 2003, 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 February 25, 2005 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 and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audits were made for the purpose of forming an opinion on the basic financial statements 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 audits of the 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.

The accompanying schedule of expenditures of Federal and state awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the 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
February 25, 2005

MONROE HARDING, INC.
STATEMENTS OF FINANCIAL POSITION

ASSETS

	<u>December 31,</u>	
	<u>2004</u>	<u>2003</u>
Cash and cash equivalents	\$ 370,367	\$ 209,616
Accounts receivable	135,630	143,985
Pledges receivable (Note B)	26,872	21,625
Receivable from trust (Note J)	-	160,403
Prepaid expenses	11,640	19,276
Investments (Note C)	6,772,573	6,759,567
Beneficial interests in perpetual trusts (Note J)	573,992	528,117
Land, buildings and equipment - net (Note D)	<u>1,037,319</u>	<u>971,775</u>
Total Assets	<u>\$8,928,393</u>	<u>\$8,814,364</u>

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable	\$ 47,597	\$ 26,960
Accrued expenses	22,829	20,842
Childrens' account	22,647	17,904
Medical reimbursement	<u>3,285</u>	<u>3,808</u>
Total Liabilities	<u>96,358</u>	<u>69,514</u>
NET ASSETS		
Unrestricted (Note A)		
Undesignated	1,301,181	1,398,989
Board designated for capital improvements (Note G)	177,324	51,570
Board designated endowment	6,772,573	6,759,567
Temporarily restricted (Note E)	6,965	6,607
Permanently restricted (Note J)	<u>573,992</u>	<u>528,117</u>
Total Net Assets	<u>8,832,035</u>	<u>8,744,850</u>
Total Liabilities and Net Assets	<u>\$8,928,393</u>	<u>\$8,814,364</u>

See accompanying notes to financial statements.

MONROE HARDING, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
PUBLIC SUPPORT AND REVENUE				
Public support				
Church and private gifts	\$ 301,315	\$ 47,147	\$ -	\$ 348,462
Governmental contracts and sub-contracts	1,055,422	-	-	1,055,422
Wills and bequests	-	-	-	-
USDE	33,359	-	-	33,359
Special events	146,971	-	-	146,971
Miscellaneous	17,735	-	-	17,735
Gifts-in-kind	10,156	-	-	10,156
Reclassifications of net assets - Note J	-	-	-	-
Net assets released from restriction	46,789	(46,789)	-	-
Total Public Support	<u>1,611,747</u>	<u>358</u>	<u>-</u>	<u>1,612,105</u>
Revenue				
Income and net gain (loss) on investments	526,346	-	-	526,346
Income and net (loss) on beneficial interests in trusts	11,388	-	45,875	57,263
Gain on disposal of fixed assets	2,000	-	-	2,000
Interest	7,726	-	-	7,726
Total Public Support and Revenue	<u>2,159,207</u>	<u>358</u>	<u>45,875</u>	<u>2,205,440</u>
EXPENSES				
Program Services				
Residential care	1,517,876	-	-	1,517,876
General and occupancy	206,153	-	-	206,153
Total Program Services	<u>1,724,029</u>	<u>-</u>	<u>-</u>	<u>1,724,029</u>
Supporting Services				
Administrative	211,425	-	-	211,425
General and occupancy	37,915	-	-	37,915
Fund raising	144,886	-	-	144,886
Total Supporting Services	<u>394,226</u>	<u>-</u>	<u>-</u>	<u>394,226</u>
Total Expenses	<u>2,118,255</u>	<u>-</u>	<u>-</u>	<u>2,118,255</u>
Net increase (decrease) in net assets	40,952	358	45,875	87,185
Net assets, beginning of year	<u>8,210,126</u>	<u>6,607</u>	<u>528,117</u>	<u>8,744,850</u>
Net assets, end of year	<u>\$ 8,251,078</u>	<u>\$ 6,965</u>	<u>\$ 573,992</u>	<u>\$ 8,832,035</u>

2003			
<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Restricted</u>	<u>Total</u>
\$ 254,298	\$ 40,238	\$ -	\$ 294,536
851,092	-	-	851,092
3,008	-	-	3,008
36,541	-	-	36,541
89,430	-	-	89,430
19,866	-	-	19,866
43,594	-	-	43,594
169,434	(32,782)	(136,652)	-
47,325	(47,325)	-	-
<u>1,514,588</u>	<u>(39,869)</u>	<u>(136,652)</u>	<u>1,338,067</u>
1,341,438	-	-	1,341,438
14,213	-	63,528	77,741
607,053	-	-	607,053
860	-	-	860
<u>3,478,152</u>	<u>(39,869)</u>	<u>(73,124)</u>	<u>3,365,159</u>
1,459,094	-	-	1,459,094
189,201	-	-	189,201
<u>1,648,295</u>	<u>-</u>	<u>-</u>	<u>1,648,295</u>
208,449	-	-	208,449
38,595	-	-	38,595
157,342	-	-	157,342
404,386	-	-	404,386
<u>2,052,681</u>	<u>-</u>	<u>-</u>	<u>2,052,681</u>
1,425,471	(39,869)	(73,124)	1,312,478
<u>6,784,655</u>	<u>46,476</u>	<u>601,241</u>	<u>7,432,372</u>
<u>\$8,210,126</u>	<u>\$ 6,607</u>	<u>\$ 528,117</u>	<u>\$8,744,850</u>

See accompanying notes to financial statements.

MONROE HARDING, INC.
STATEMENTS OF CASH FLOWS

	<u>Year Ended December 31,</u>	
	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Increase in net assets	\$ 87,185	\$ 1,312,478
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Depreciation	75,765	83,480
Net gain on disposal of land, buildings and equipment	(2,000)	(607,053)
Net gain on investments and beneficial interests in trusts	(366,024)	(1,218,963)
Decrease (increase) in accounts and other receivables	168,758	(12,190)
(Increase) decrease increase in pledges receivable	(5,247)	24,375
Decrease (increase) in other prepaid expenses	7,636	(9,511)
Increase (decrease) increase in accounts payable	20,637	(348)
Increase in other accrued expenses	1,987	3,621
Increase in children's account	4,743	181
Decrease in medical reimbursement	(523)	(1,954)
Net cash used in operating activities	(7,083)	(425,884)
Cash flows from investing activities:		
Net sales (purchases) of investments, net of brokerage fees	307,143	(174,003)
Proceeds from sale of land, buildings and equipment	2,000	636,805
Purchase of fixed assets	(141,309)	(74,750)
Net cash provided by investing activities	167,834	388,052
Net increase (decrease) in cash and cash equivalents	160,751	(37,832)
Cash and cash equivalents at beginning of year	209,616	247,448
Cash and cash equivalents at end of year	<u>\$ 370,367</u>	<u>\$ 209,616</u>

See accompanying notes to financial statements.

MONROE HARDING, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2004

	Program Services	
	Residential Care	General and Occupancy
Total salaries, wages and benefits	\$1,247,529	\$ -
Other expenses:		
Food and kitchen supplies	58,271	-
Medical	576	-
Clothing	4,861	-
School and educational	3,357	-
Dorm supplies	7,262	-
Allowances	8,379	-
Recreational and special	31,238	-
Travel and transportation	1,883	-
Automobile gas and oil	6,207	-
Utilities	-	51,766
Contracted services	85,911	-
Maintenance	-	68,987
Insurance	-	23,508
Supplies and small equipment	16,365	-
Telephone	19,513	-
Postage	1,418	-
Training	9,897	-
Professional, legal and accounting	-	-
Dues and publications	3,357	-
Licenses and permits	791	-
Banking fees and trust fees	-	-
Haircuts	178	-
Life skills	746	-
Project S.H.A.R.E	-	-
Respite	8	-
Safety net services	-	-
Fire and safety	-	2,490
Volunteer services	2,897	-
Printing	79	-
Recruitment	6,626	-
Provision for depreciation	-	59,402
Provision for doubtful accounts	527	-
Total Other Expenses	<u>270,347</u>	<u>206,153</u>
Total Expenses	<u>\$1,517,876</u>	<u>\$206,153</u>

<u>Supporting Services</u>			
<u>Administrative</u>	<u>General and Occupancy</u>	<u>Fund Raising</u>	<u>Total</u>
\$174,139	\$ -	\$89,349	\$1,511,017
-	-	-	58,271
-	-	-	576
-	-	-	4,861
-	-	-	3,357
-	-	-	7,262
-	-	-	8,379
2,327	-	12,029	45,594
369	-	1,134	3,386
-	-	-	6,207
-	8,960	-	60,726
3,094	-	2,400	91,405
-	6,772	-	75,759
-	5,480	-	28,988
4,877	-	8,015	29,257
2,338	-	312	22,163
367	-	9,454	11,239
2,545	-	4,687	17,129
17,811	-	-	17,811
3,079	-	275	6,711
22	-	300	1,113
304	-	1,110	1,414
-	-	-	178
-	-	-	746
-	-	-	-
-	-	-	8
-	-	-	-
-	340	-	2,830
-	-	-	2,897
153	-	15,326	15,558
-	-	495	7,121
-	16,363	-	75,765
-	-	-	527
<u>37,286</u>	<u>37,915</u>	<u>55,537</u>	<u>607,238</u>
<u>\$211,425</u>	<u>\$37,915</u>	<u>\$144,886</u>	<u>\$2,118,255</u>

See accompanying notes to financial statements.

MONROE HARDING, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2003

	Program Services	
	Residential Care	General and Occupancy
Total salaries, wages and benefits	\$1,263,587	\$ -
Other expenses:		
Food and kitchen supplies	57,102	-
Medical	1,551	-
Clothing	7,070	-
School and educational	4,886	-
Dorm supplies	8,409	-
Allowances	10,607	-
Recreational and special	30,306	-
Travel and transportation	2,196	-
Automobile gas and oil	6,974	-
Utilities	-	51,485
Contracted services	1,825	-
Maintenance	-	57,014
Insurance	-	17,296
Supplies and small equipment	18,969	-
Telephone	18,256	-
Postage	1,493	-
Training	10,833	-
Professional, legal and accounting	-	-
Dues and publications	3,116	-
Licenses and permits	679	-
Banking fees and trust fees	-	-
Haircuts	486	-
Life skills	2,690	-
Respite	44	-
Fire and safety	-	2,494
Volunteer services	1,881	-
Printing	25	-
Recruitment	6,109	-
Provision for depreciation	-	60,912
Total Other Expenses	<u>195,507</u>	<u>189,201</u>
Total Expenses	<u>\$1,459,094</u>	<u>\$189,201</u>

<u>Supporting Services</u>			
<u>Administrative</u>	<u>General and Occupancy</u>	<u>Fund Raising</u>	<u>Total</u>
\$166,560	\$ -	\$98,965	\$1,529,112
-	-	-	57,102
-	-	-	1,551
-	-	-	7,070
-	-	-	4,886
-	-	-	8,409
-	-	-	10,607
838	-	11,362	42,506
192	-	1,115	3,503
-	-	-	6,974
-	8,341	-	59,826
6,043	-	3,150	11,018
-	2,271	-	59,285
-	5,415	-	22,711
5,368	-	10,447	34,784
2,076	-	672	21,004
317	-	10,630	12,440
3,265	-	1,270	15,368
20,192	-	-	20,192
2,791	-	275	6,182
215	-	300	1,194
567	-	1,527	2,094
-	-	-	486
-	-	-	2,690
-	-	-	44
-	-	-	2,494
-	-	-	1,881
25	-	17,629	17,679
-	-	-	6,109
-	22,568	-	83,480
<u>41,889</u>	<u>38,595</u>	<u>58,377</u>	<u>523,569</u>
<u>\$208,449</u>	<u>\$38,595</u>	<u>\$157,342</u>	<u>\$2,052,681</u>

See accompanying notes to financial statements.

MONROE HARDING, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

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.

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 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, 2004 AND 2003

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 purpose 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 estimated 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, 2004 AND 2003

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, 2004. No allowance for uncollectible pledges receivable was considered necessary at December 31, 2004 and 2003.

C. INVESTMENTS

Investments at December 31, 2004 and 2003 consisted of the following:

	<u>2004</u>		<u>2003</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Stock and bonds	\$5,386,464	\$6,127,212	\$5,394,441	\$6,246,314
Interest bearing				
accounts	440,086	440,086	513,253	513,253
Mutual funds	<u>191,997</u>	<u>205,275</u>	<u>-</u>	<u>-</u>
Total	<u>\$6,018,547</u>	<u>\$6,772,573</u>	<u>\$5,907,694</u>	<u>\$6,759,567</u>

MONROE HARDING, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

C. INVESTMENTS - Continued

The yield on investments for 2004 and 2003 was as follows:

	<u>2004</u>		<u>2003</u>	
Dividends and interest	\$ 206,197	3.05%	\$ 186,003	3.05%
Gain (loss) on sale of investments, net of brokerage fees	417,996	6.18%	85,383	1.40%
Unrealized gains (losses) on investments	<u>(97,847)</u>	<u>(1.44)%</u>	<u>1,070,052</u>	<u>17.52%</u>
Total	<u>\$ 526,346</u>	<u>7.79%</u>	<u>\$1,341,438</u>	<u>21.97%</u>

D. LAND, BUILDINGS AND EQUIPMENT

Land, buildings, and equipment at December 31, 2004 and 2003, consisted of the following:

	<u>2004</u>	<u>2003</u>
Land	\$ 22,055	\$ 22,055
Buildings and contents	834,737	732,401
Scarborough Cottage	127,792	124,028
Grace Cottage	38,772	35,043
Grana Cottage	338,062	338,062
Gymnasium	68,485	68,485
Automobiles	97,908	93,316
Water, sewer, and roadway	104,223	98,951
Recreation Cottage	11,891	11,891
Wilson Cottage	<u>416,446</u>	<u>416,446</u>
	2,060,371	1,940,678
Less accumulated depreciation	<u>(1,023,052)</u>	<u>(968,903)</u>
Net land, buildings, and equipment	<u>\$ 1,037,319</u>	<u>\$ 971,775</u>

MONROE HARDING, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

E. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

	<u>2004</u>	<u>2003</u>
Building funds	\$5,000	\$5,000
Special project funds	<u>1,965</u>	<u>1,607</u>
	<u>\$6,965</u>	<u>\$6,607</u>

Net assets of \$46,789 and \$47,325 released from donor restrictions by satisfying the restricted purposes or by occurrence of other events specified by donors for the years ended December 31, 2004 and 2003, 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 \$59,320 and \$63,841 for 2004 and 2003, 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 \$182,324 and \$56,570 as of December 31, 2004 and 2003, 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, 2004 and 2003

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 2004 and 2003, MH received interest and dividends of \$11,388 and \$14,213, respectively, on funds held in trust amounting to \$573,992 and \$528,117 respectively. These funds were held by the Presbyterian Church of Nashville and First Presbyterian Church of Clarksville, Tennessee.

During 2003, the Kempkau Trust was terminated and all restrictions were eliminated. MH, the beneficiary, consented to the termination and received the corpus of \$160,403 in January 2004. The January 1, 2003 market value of the Trust assets was reclassified to unrestricted net assets on the 2003 statement of activities.

K. GIFT IN KIND

MH records donated materials and services at fair value on the date of donation. During 2004 and 2003, MH recorded donated labor and materials with a fair value of \$10,156 and \$43,594, respectively.

SUPPLEMENTAL INFORMATION

MONROE HARDING, INC.
 SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
 YEAR ENDED DECEMBER 31, 2004

<u>Federal/Pass through Agency/State Grantor Program Title</u>	<u>Federal CFDA</u>	<u>Passed-Through Agency's Contract Number</u>	<u>Expenditures</u>
U.S. Department of Health and Human Services:			
Passed through Tennessee State		HL1000011	
Department of Childrens' Services*	93.778	HL2000013	
		FA-04-15363	
		FA-04-15684	
		GR-04-16009	
		GR-05-16624	
		GR-05-16492	\$705,195
U.S. Department of Education	10.550	N/A	<u>33,359</u>
Total Expenditures of Federal Awards			<u>\$738,554</u>

* - Denotes Major Federal Financial Assistance Program

Note: The schedule of expenditures of Federal and state awards includes the Federal and state financial assistance for Monroe Harding, Inc. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State of Tennessee.

MONROE HARDING, INC.
COMPARISON OF PUBLIC SUPPORT AND REVENUE WITH BUDGET
YEAR ENDED DECEMBER 31, 2004

	<u>Actual</u>	<u>Budget</u>	<u>Actual Over (Under) Budget</u>
PUBLIC SUPPORT AND REVENUE (BUDGETARY):			
Middle Tennessec Presbytery	\$ 5,200	\$ 6,500	\$ (1,300)
Middle Tennessee Churches	90,263	88,000	2,263
Memphis Churches	1,125	4,000	(2,875)
Other churches	1,100	1,300	(200)
Individual gifts	83,128	105,000	(21,872)
Memorials	10,648	21,000	(10,352)
Foundation and corporate gifts	123,165	103,000	20,165
Special offerings	13,213	5,000	8,213
Special events	146,971	156,300	(9,329)
Governmental Contracts and Sub-contracts	968,285	808,000	160,285
Subcontract Level II Program	-	-	-
Safety Net Service Fees	44,778	60,000	(15,222)
USDE reimbursement	33,359	35,000	(1,641)
United Way	13,634	10,000	3,634
Income and net (loss) gain on investments	572,221	628,800	(56,579)
Interest - Plummer Fund	7,038	8,000	(962)
NOW interest	29	150	(121)
Other income	34,445	37,250	(2,805)
Respite program	15,246	10,000	5,246
Rental income	11,288	16,400	(5,112)
Stanley income	4,350	3,000	1,350
Clubs and organizations	<u>6,101</u>	<u>7,800</u>	<u>(1,699)</u>
	2,185,587	2,114,500	71,087
PUBLIC SUPPORT AND REVENUE (NONBUDGETARY):			
Legacies and bequests	-	10,000	(10,000)
Kempkau trust	-	10,000	(10,000)
Education fund interest	6,943	-	6,943
Interest - Capital Account	754	750	4
Gifts In-kind	10,156	20,000	(9,844)
Net gain on sale of fixed assets	<u>2,000</u>	<u>-</u>	<u>2,000</u>
Total Public Support and Revenue	<u>\$2,205,440</u>	<u>\$2,155,250</u>	<u>\$ 50,190</u>

MONROE HARDING, INC.
COMPARISON OF EXPENSES WITH BUDGET
YEAR ENDED DECEMBER 31, 2004

	<u>Actual</u>	<u>Budget</u>	<u>Actual (Over) Under Budget</u>
EXPENSES			
SALARIES AND WAGES			
Staff Salaries and Wages	\$1,213,034	\$1,269,000	\$ 55,966
Salary/Wages-Accrued Vacation	<u>1,988</u>	<u>1,000</u>	<u>(988)</u>
Total Salaries and Wages	1,215,022	1,270,000	54,978
EMPLOYEE BENEFIT			
Medical and Dental Plan Premiums	89,621	105,000	15,379
Life & Disability Insurance	5,562	6,500	938
Pension Plan Benefits	59,320	70,000	10,680
Cafeteria Plan-Medical Reimb.	<u>6,467</u>	<u>5,000</u>	<u>(1,467)</u>
Total Employee Benefits	160,970	186,500	25,530
PAYROLL TAXES			
Employer FICA	74,011	78,000	3,989
Employer Medicare Tax	17,309	18,000	691
Employer Unemployment Premiums	8,597	8,500	(97)
Worker's Compensation	<u>35,109</u>	<u>40,000</u>	<u>4,891</u>
Total Payroll Taxes	135,026	144,500	9,474
PROFESSIONAL FEES			
Auditing Fees	11,650	12,000	350
Accounting Services	1,080	1,100	20
Legal Fees	-	1,000	1,000
Payroll Processing Services	4,581	5,000	419
Other Professional Consultant Fees	<u>500</u>	<u>4,000</u>	<u>3,500</u>
Total Professional Fees	17,811	23,100	5,289
RECRUITMENT			
Classified Advertisement	2,050	2,000	(50)
Background checks	3,214	2,200	(1,014)
Fingerprinting	<u>1,856</u>	<u>2,000</u>	<u>144</u>
Total Recruitment	7,120	6,200	(920)
VOLUNTEER SERVICES			
Volunteer Training	-	100	100
Volunteer Food and Supplies	470	1,000	530
Recognition Awards	13	500	487
Other Volunteer Expenses	1,909	500	(1,409)
Board Retreat	1,590	100	(1,490)
Board/Committee Meetings	156	500	344
Board Recognition Awards	<u>518</u>	<u>-</u>	<u>(518)</u>
Total Volunteer Services	4,656	2,700	(1,956)

MONROE HARDING, INC.
COMPARISON OF EXPENSES WITH BUDGET - Continued
YEAR ENDED DECEMBER 31, 2004

	<u>Actual</u>	<u>Budget</u>	<u>Actual (Over) Under Budget</u>
CONTRACTED SERVICES			
Maintenance	4,297	-	(4,297)
Housekeeping	6,683	6,000	(683)
Seminar/Comp. Training Class	<u>78,025</u>	<u>-</u>	<u>(78,025)</u>
Total Contracted Services	89,005	6,000	(83,005)
SPECIAL EVENTS			
Facility Costs	2,400	2,600	200
Food and Beverages	9,305	7,200	(2,105)
Entertainment and Related Expense	-	2,000	2,000
Favors and Giveaways	72	400	328
Presentation Costs	731	300	(431)
Prizes/Gifts Certificates	<u>436</u>	<u>-</u>	<u>(436)</u>
Total Special Events	12,944	12,500	(444)
SUPPLIES			
Office Supplies	18,445	16,350	(2,095)
Stationary	229	1,000	771
Cleaning Supplies	1,159	2,950	1,791
Kitchen Supplies	2,051	2,500	449
Chaplain Supplies	-	100	100
Promotional Items	<u>290</u>	<u>1,100</u>	<u>810</u>
Total Supplies	22,174	24,000	1,826
POSTAGE & SHIPPING			
General Postage	11,226	12,100	874
Express Delivery	<u>13</u>	<u>-</u>	<u>(13)</u>
Total Postage & Shipping	11,239	12,100	861
TELEPHONE			
Long Distance Telephone	1,019	3,000	1,981
Local Telephone	9,015	6,800	(2,215)
Internet service provider	7,333	7,500	167
Pagers & Cellular Phones	<u>4,796</u>	<u>4,200</u>	<u>(596)</u>
Total Telephone	22,163	21,500	(663)

MONROE HARDING, INC.
COMPARISON OF EXPENSES WITH BUDGET - Continued
YEAR ENDED DECEMBER 31, 2004

	<u>Actual</u>	<u>Budget</u>	<u>Actual (Over) Under Budget</u>
OCCUPANCY			
Repairs & Maintenance-Buildings	25,875	11,350	(14,525)
Repairs & Maintenance-Autos	4,640	6,000	1,360
Repairs & Maintenance-Equipment	2,482	1,500	(982)
Fire and Security	2,829	2,000	(829)
Extermination	3,150	4,400	1,250
Garbage Service	9,085	5,500	(3,585)
Grounds Maintenance	15,917	16,000	83
Rental fee - Off Campus Homes	<u>14,610</u>	<u>12,000</u>	<u>(2,610)</u>
Total Occupancy	78,588	58,750	(19,838)
UTILITIES			
Electric	24,298	24,000	(298)
Water	10,805	12,000	1,195
Gas	<u>25,623</u>	<u>31,000</u>	<u>5,377</u>
Total Utilities	60,726	67,000	6,274
EQUIPMENT & EQUIPMENT RENTAL			
Equipment Rental	1,006	1,200	194
Equipment Maint. contracts	7,991	8,100	109
Equipment Purchases (not capitalized)	<u>-</u>	<u>3,400</u>	<u>3,400</u>
Total Equipment & Equipment Rental	8,997	12,700	3,703
PUBLIC RELATIONS & MARKETING			
Printing and Binding	12,714	17,300	4,586
Artwork, Photos, Design & Layout	28	1,200	1,172
Promotional Efforts	1,773	1,200	(573)
Web Page Hosting	240	250	10
Outside Copying	53	100	47
Other Printing and Publications	<u>751</u>	<u>-</u>	<u>(751)</u>
Total Public Relations & Marketing	15,559	20,050	4,491
TRAVEL			
General Travel-Staff	2,799	4,200	1,401
Auto Gas and Oil	<u>6,207</u>	<u>8,000</u>	<u>1,793</u>
Total Travel	9,006	12,200	3,194

MONROE HARDING, INC.
COMPARISON OF EXPENSES WITH BUDGET - Continued
YEAR ENDED DECEMBER 31, 2004

	<u>Actual</u>	<u>Budget</u>	<u>Actual (Over) Under Budget</u>
CONFERENCES, MTGS & COURSES			
Staff Development	11,942	17,000	5,058
Staff Travel & Out-of-Pocket	4,240	1,050	(3,190)
Professional Meetings	59	100	41
Other Meeting Expenses	<u>888</u>	<u>100</u>	<u>(788)</u>
Total Conferences, Meetings and Courses	17,129	18,250	1,121
SPECIAL OCCASIONS			
Staff Retreat	449	150	(299)
Holiday Gifts-Employee	4,555	3,000	(1,555)
Holiday Gifts-Resident	4,426	-	(4,426)
Recognition Gifts & Awards-Public	589	200	(389)
Recognition Gifts & Awards-Employee	4,806	3,600	(1,206)
Recognition Gifts & Awards-Youth	-	900	900
Special Lunches/Banquets	<u>10,756</u>	<u>10,250</u>	<u>(506)</u>
Total Special Occasions	25,581	18,100	(7,481)
MEMBERSHIPS & SUBSCRIPTIONS			
Membership Dues-Other Organizations	5,917	4,200	(1,717)
Agency Affiliation Fees	40	-	(40)
Subscription & Publication	<u>755</u>	<u>700</u>	<u>(55)</u>
Total Memberships and Subscriptions	6,712	4,900	(1,812)
INSURANCE EXPENSE			
Auto Insurance	5,073	5,000	(73)
Multi-Peril Insurance	18,380	14,500	(3,880)
Umbrella Insurance	3,421	3,000	(421)
Director & Officers Liability	<u>2,114</u>	<u>2,100</u>	<u>(14)</u>
Total Insurance Expense	28,988	24,600	(4,388)
RESIDENT'S EXPENSES			
Allowances	8,379	11,650	3,271
Clothing	4,861	5,000	139
Food	56,221	66,950	10,729
Dorm & Cottage supplies	5,507	8,000	2,493
Resident Travel	586	500	(86)
Haircuts	178	700	522
Medical	576	1,500	924
Outings	7,710	8,250	540
Arts & Enrichment	23	500	477
Education	1,554	3,000	1,446

MONROE HARDING, INC.
 COMPARISON OF EXPENSES WITH BUDGET - Continued
 YEAR ENDED DECEMBER 31, 2004

	<u>Actual</u>	<u>Budget</u>	<u>Actual (Over) Under Budget</u>
Life Skills	723	2,100	1,377
Summer Programs-Education	1,566	2,000	434
Post-High School Education	237	-	(237)
Furniture & Appliances	1,755	1,000	(755)
Respite Program	<u>8</u>	<u>100</u>	<u>92</u>
Total Resident's Expense	89,884	111,250	21,366
DEPRECIATION & AMORTIZATION			
Depreciation-Furniture, Fixtures & Equipment	27,744	35,000	7,256
Depreciation-Building & Land Improvements	<u>48,021</u>	<u>50,000</u>	<u>1,979</u>
Total Depreciation & Amortization	75,765	85,000	9,235
MISCELLANEOUS EXPENSES			
Provision for Doubtful Accounts	527	-	(527)
Miscellaneous Banking Fees	1,414	2,000	586
Filing Fees-Licenses & Permits	1,113	1,400	287
Other Miscellaneous Expenses	<u>136</u>	<u>300</u>	<u>164</u>
Total Miscellaneous Expense	<u>3,190</u>	<u>3,700</u>	<u>510</u>
Total Expenses	<u>\$2,118,255</u>	<u>\$2,145,600</u>	<u>\$ 27,345</u>

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

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

We have audited the financial statements of Monroe Harding, Inc. ("MH") as of and for the years ended December 31, 2004 and 2003, and have issued our report thereon dated February 25, 2005. 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.

Compliance

As part of obtaining reasonable assurance about whether MH's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered MH's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

To the Board of Directors
Monroe Harding, Inc.
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This report is intended solely for the information and use of management, the Board of Directors, federal and state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Crosslin, Vaden & Associates, P.C.

Nashville, Tennessee
February 25, 2005

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO THE MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of Monroe Harding, Inc. ("MH") with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major Federal program for the year ended December 31, 2004. MH's major Federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major Federal program is the responsibility of MH's management. Our responsibility is to express an opinion on MH's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about MH's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on MH's compliance with those requirements.

In our opinion, MH complied, in all material respects, with the requirements referred to above that are applicable to its major Federal program for the year ended December 31, 2004.

Internal Control Over Compliance

The management of MH is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered MH's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, the Board of Directors, federal and state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Croselin, Vaden & Associates, P.C.

Nashville, Tennessee
February 25, 2005

MONROE HARDING, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2004

SECTION I: SUMMARY OF INDEPENDENT AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weaknesses identified? Yes X No
- Reportable conditions identified that are not
considered to be material weaknesses? Yes X None Reported

Noncompliance material to financial statements
noted? Yes X No

Federal Awards

Internal control over major programs:

- Material weaknesses identified? Yes X No
- Reportable conditions identified that are not
considered to be material weaknesses? Yes X None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

- Any audit findings disclosed that are required
to be reported in accordance with
section 510(1) of Circular A-133? Yes X No

MONROE HARDING, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2004

Major Program

CFDA Number	Name of Federal Program	Amount Expended
93.778	U.S. Department of Health and Human Services award passed through the Tennessee Department of Childrens Services - TN Care	\$705,195

Dollar threshold used to distinguish between type A
and type B programs

\$300,000

Auditee qualified as low-risk auditee

X Yes ___ No

SECTION II: FINANCIAL STATEMENT FINDINGS

A. Reportable Conditions in Internal Control

None reported

B. Compliance Findings

None reported

SECTION III: FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None