

**MONROE HARDING, INC.**

**FINANCIAL STATEMENTS  
AND SUPPLEMENTAL INFORMATION**

**DECEMBER 31, 2005 AND 2004**



MONROE HARDING, INC.

Table of Contents

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT.....	1 - 2
FINANCIAL STATEMENTS	
Statements of Financial Position.....	3
Statements of Activities .....	4 - 5
Statements of Cash Flows.....	6
Statements of Functional Expenses .....	7 - 10
Notes to Financial Statements.....	11 - 16
SUPPLEMENTAL INFORMATION	
Schedule 1 - Schedule of Expenditures of Federal and State Awards.....	17
Schedule 2 - Comparison of Public Support and Revenue with Budget .....	18
Schedule 3 - Comparison of Expenses with Budget.....	19 - 23
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 .....	24 - 25
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133.....	26 - 27
SCHEDULE OF FINDINGS AND QUESTIONED COSTS .....	28 - 29



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, 2005 and 2004, 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, 2005 and 2004, 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 January 27, 2006 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. 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 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  
January 27, 2006





MONROE HARDING, INC.  
STATEMENTS OF FINANCIAL POSITION

ASSETS

	<u>December 31,</u>	
	<u>2005</u>	<u>2004</u>
Cash and cash equivalents	\$ 439,256	\$ 370,367
Accounts receivable	110,688	135,630
Pledges receivable (Note B)	20,323	26,872
Prepaid expenses	48,046	11,640
Investments (Note C)	6,373,409	6,772,573
Beneficial interests in perpetual trusts (Note J)	563,206	573,992
Land, buildings and equipment - net (Note D)	<u>1,030,511</u>	<u>1,037,319</u>
Total Assets	<u>\$8,585,439</u>	<u>\$8,928,393</u>

LIABILITIES AND NET ASSETS

<b>LIABILITIES</b>		
Accounts payable	\$ 26,218	\$ 47,597
Accrued expenses	24,819	22,829
Childrens' account	15,700	22,647
Medical reimbursement	<u>3,910</u>	<u>3,285</u>
Total Liabilities	<u>70,647</u>	<u>96,358</u>
<b>NET ASSETS</b>		
Unrestricted (Note A)		
Undesignated	1,307,340	1,301,181
Board designated for capital improvements (Note G)	232,431	177,324
Board designated endowment	6,373,409	6,772,573
Temporarily restricted (Note E)	38,406	6,965
Permanently restricted (Note J)	<u>563,206</u>	<u>573,992</u>
Total Net Assets	<u>8,514,792</u>	<u>8,832,035</u>
Total Liabilities and Net Assets	<u>\$8,585,439</u>	<u>\$8,928,393</u>

See accompanying notes to financial statements.

MONROE HARDING, INC.  
STATEMENTS OF ACTIVITIES  
YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>PUBLIC SUPPORT AND REVENUE</b>				
Public support				
Church and private gifts	\$ 254,791	\$ 37,530	\$ -	\$ 292,321
Governmental contracts and sub-contracts	1,001,697	75,000	-	1,076,697
USDE	28,509	-	-	28,509
Special events	144,579	-	-	144,579
Miscellaneous	18,325	-	-	18,325
Gifts-in-kind	9,552	-	-	9,552
Net assets released from restriction	81,089	(81,089)	-	-
Total Public Support	<u>1,538,542</u>	<u>31,441</u>	<u>-</u>	<u>1,569,983</u>
Revenue				
Income and net gain on investments	210,836	-	-	210,836
Income and net gain (loss) on beneficial interests in trusts	27,159	-	( 10,786)	16,373
Gain on disposal of fixed assets	-	-	-	-
Interest	5,106	-	-	5,106
Total Public Support and Revenue	<u>1,781,643</u>	<u>31,441</u>	<u>( 10,786)</u>	<u>1,802,298</u>
<b>EXPENSES</b>				
Program Services				
Residential care	1,463,971	-	-	1,463,971
General and occupancy	245,861	-	-	245,861
Total Program Services	<u>1,709,832</u>	<u>-</u>	<u>-</u>	<u>1,709,832</u>
Supporting Services				
Administrative	224,347	-	-	224,347
General and occupancy	37,801	-	-	37,801
Fund raising	147,561	-	-	147,561
Total Supporting Services	<u>409,709</u>	<u>-</u>	<u>-</u>	<u>409,709</u>
Total Expenses	<u>2,119,541</u>	<u>-</u>	<u>-</u>	<u>2,119,541</u>
Net increase (decrease) in net assets	( 337,898)	31,441	( 10,786)	( 317,243)
Net assets, beginning of year	<u>8,251,078</u>	<u>6,965</u>	<u>573,992</u>	<u>8,832,035</u>
Net assets, end of year	<u>\$ 7,913,180</u>	<u>\$ 38,406</u>	<u>\$ 563,206</u>	<u>\$ 8,514,792</u>

2004

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Restricted</u>	<u>Total</u>
\$ 301,315	\$ 47,147	\$ -	\$ 348,462
1,055,422	-	-	1,055,422
33,359	-	-	33,359
146,971	-	-	146,971
17,735	-	-	17,735
10,156	-	-	10,156
46,789	(46,789)	-	-
<u>1,611,747</u>	<u>358</u>	<u>-</u>	<u>1,612,105</u>
526,346	-	-	526,346
11,388	-	45,875	57,263
2,000	-	-	2,000
7,726	-	-	7,726
<u>2,159,207</u>	<u>358</u>	<u>45,875</u>	<u>2,205,440</u>
1,517,876	-	-	1,517,876
206,153	-	-	206,153
<u>1,724,029</u>	<u>-</u>	<u>-</u>	<u>1,724,029</u>
211,425	-	-	211,425
37,915	-	-	37,915
144,886	-	-	144,886
394,226	-	-	394,226
<u>2,118,255</u>	<u>-</u>	<u>-</u>	<u>2,118,255</u>
40,952	358	45,875	87,185
<u>8,210,126</u>	<u>6,607</u>	<u>528,117</u>	<u>8,744,850</u>
<u>\$8,251,078</u>	<u>\$ 6,965</u>	<u>\$ 573,992</u>	<u>\$8,832,035</u>

See accompanying notes to financial statements.



MONROE HARDING, INC.  
STATEMENTS OF CASH FLOWS

	<u>Year Ended December 31,</u>	
	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
(Decrease) increase in net assets	\$(317,243)	\$ 87,185
Adjustments to reconcile (decrease) increase in net assets to net cash used in operating activities:		
Depreciation	76,267	75,765
Net loss (gain) on disposal of land, buildings and equipment	2,386	( 2,000)
Net loss (gain) on investments and beneficial interests in trusts	9,214	(366,024)
Decrease in accounts and other receivables	24,942	168,758
Decrease (increase) in pledges receivable	6,549	( 5,247)
(Increase) decrease in other prepaid expenses	( 36,406)	7,636
(Decrease) increase in accounts payable	( 21,379)	20,637
Increase in other accrued expenses	1,990	1,987
(Decrease) increase in children's account	( 6,947)	4,743
Increase (decrease) in medical reimbursement	<u>625</u>	<u>( 523)</u>
Net cash used in operating activities	<u>(260,002)</u>	<u>( 7,083)</u>
Cash flows from investing activities:		
Net sales of investments, net of brokerage fees	400,737	307,143
Proceeds from sale of land, buildings and equipment	750	2,000
Purchase of fixed assets	<u>( 72,596)</u>	<u>(141,309)</u>
Net cash provided by investing activities	<u>328,891</u>	<u>167,834</u>
Net increase in cash and cash equivalents	68,889	160,751
Cash and cash equivalents at beginning of year	<u>370,367</u>	<u>209,616</u>
Cash and cash equivalents at end of year	<u>\$ 439,256</u>	<u>\$ 370,367</u>

See accompanying notes to financial statements.

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

	Program Services	
	Residential	General
	Care	and Occupancy
Total salaries, wages and benefits	\$1,218,031	\$ -
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>
\$187,031	\$ -	\$86,676	\$1,491,738
-	-	-	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.  
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	-
Respite	8	-
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.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004

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 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, 2005 AND 2004

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, 2005 AND 2004

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, 2005. No allowance for uncollectible pledges receivable was considered necessary at December 31, 2005 and 2004.

C. INVESTMENTS

Investments at December 31, 2005 and 2004 consisted of the following:

	<u>2005</u>		<u>2004</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Stock and bonds	\$5,358,111	\$5,760,825	\$5,386,464	\$6,127,212
Interest bearing				
accounts	413,506	413,506	440,086	440,086
Mutual funds	<u>193,733</u>	<u>199,078</u>	<u>191,997</u>	<u>205,275</u>
Total	<u>\$5,965,350</u>	<u>\$6,373,409</u>	<u>\$6,018,547</u>	<u>\$6,772,573</u>

MONROE HARDING, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004

C. INVESTMENTS - Continued

The yield on investments for 2005 and 2004 was as follows:

	<u>2005</u>		<u>2004</u>	
Dividends and interest	\$ 209,263	3.18%	\$ 206,197	3.05%
Gain (loss) on sale of investments, net of brokerage fees	347,540	5.29%	417,996	6.18%
Unrealized gains (losses) on investments	<u>(345,967)</u>	<u>(5.26)%</u>	<u>( 97,847)</u>	<u>(1.44)%</u>
Total	<u>\$ 210,836</u>	<u>3.21%</u>	<u>\$ 526,346</u>	<u>7.79%</u>

D. LAND, BUILDINGS AND EQUIPMENT

Land, buildings, and equipment at December 31, 2005 and 2004, consisted of the following:

	<u>2005</u>	<u>2004</u>
Land	\$ 22,055	\$ 22,055
Buildings and contents	888,333	834,737
Scarborough Cottage	130,092	127,792
Grace Cottage	41,227	38,772
Grana Cottage	338,062	338,062
Gymnasium	68,485	68,485
Automobiles	98,132	97,908
Water, sewer, and roadway	107,223	104,223
Recreation Cottage	11,891	11,891
Wilson Cottage	<u>416,446</u>	<u>416,446</u>
	2,121,946	2,060,371
Less accumulated depreciation	<u>(1,091,435)</u>	<u>(1,023,052)</u>
Net land, buildings, and equipment	<u>\$ 1,030,511</u>	<u>\$ 1,037,319</u>

MONROE HARDING, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004

E. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

	<u>2005</u>	<u>2004</u>
Building funds	\$ -	\$5,000
Special project funds	<u>38,406</u>	<u>1,965</u>
	<u>\$38,406</u>	<u>\$6,965</u>

Net assets of \$81,089 and \$46,789 released from donor restrictions by satisfying the restricted purposes or by occurrence of other events specified by donors for the years ended December 31, 2005 and 2004, 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 \$62,510 and \$59,320 for 2005 and 2004, 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 \$232,431 and \$182,324 as of December 31, 2005 and 2004, 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, 2005 AND 2004

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 2005 and 2004, MH received interest and dividends of \$27,159 and \$11,388, respectively, on funds held in trust amounting to \$563,206 and \$573,992 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 2005 and 2004, MH recorded donated labor and materials with a fair value of \$9,552 and \$10,156, respectively.





## **SUPPLEMENTAL INFORMATION**



MONROE HARDING, INC.  
 SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
 YEAR ENDED DECEMBER 31, 2005

<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	
		HL1000025	
		HL2000032	
		GR-0617200-00	
		GR-0516492-00	\$785,498
U.S. Department of Education	10.550	N/A	<u>28,509</u>
Total Expenditures of Federal Awards			<u>\$814,007</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, 2005

	<u>Actual</u>	<u>Budget</u>	<u>Actual Over (Under) Budget</u>
<b>PUBLIC SUPPORT AND REVENUE (BUDGETARY):</b>			
Middle Tennessee Presbytery	\$ 250	\$ 5,000	\$( 4,750)
Middle Tennessee Churches	84,040	88,000	( 3,960)
West Tennessee Churches	610	2,500	( 1,890)
Other churches	200	1,000	( 800)
Individual gifts	74,767	89,000	( 14,233)
Memorials	10,297	15,000	( 4,703)
Foundation and corporate gifts	92,310	95,000	( 2,690)
Special offerings	4,443	7,000	( 2,557)
Special events	144,579	134,975	9,604
Governmental Contracts and Sub-contracts	1,031,476	1,011,500	19,976
Safety Net Service Fees	16,168	55,000	( 38,832)
USDE reimbursement	28,509	33,800	( 5,291)
United Way	16,313	12,000	4,313
Income and net (loss) gain on investments	210,836	600,000	(389,164)
Interest - Plummer Fund	22,807	9,000	13,807
Other income	24,787	22,175	2,612
Respite program	1,050	-	1,050
Rental income	14,277	14,100	177
Stanley income	4,351	4,350	1
Clubs and organizations	<u>5,570</u>	<u>8,000</u>	<u>( 2,430)</u>
	1,787,640	2,207,400	(419,760)
<b>PUBLIC SUPPORT AND REVENUE (NONBUDGETARY):</b>			
Education fund interest	-	10,000	( 10,000)
Interest - Capital Account	5,106	750	4,356
Gifts In-kind	<u>9,552</u>	<u>10,000</u>	<u>( 448)</u>
	<u>14,658</u>	<u>20,750</u>	<u>( 6,092)</u>
<b>Total Public Support and Revenue</b>	<b><u>\$1,802,298</u></b>	<b><u>\$2,228,150</u></b>	<b><u>\$(425,852)</u></b>

MONROE HARDING, INC.  
COMPARISON OF EXPENSES WITH BUDGET  
YEAR ENDED DECEMBER 31, 2005

	<u>Actual</u>	<u>Budget</u>	<u>Actual (Over) Under Budget</u>
EXPENSES			
SALARIES AND WAGES			
Staff Salaries and Wages	\$1,207,748	\$1,313,000	\$ 105,252
Salary/Wages-Accrued Vacation	<u>1,967</u>	<u>1,000</u>	<u>( 967)</u>
Total Salaries and Wages	1,209,715	1,314,000	104,285
EMPLOYEE BENEFIT			
Medical and Dental Plan Premiums	87,901	98,000	10,099
Life & Disability Insurance	5,539	5,500	( 39)
Pension Plan Benefits	62,510	70,000	7,490
Cafeteria Plan-Medical Reimb.	7,137	6,000	( 1,137)
Other	<u>2,500</u>	<u>-</u>	<u>( 2,500)</u>
Total Employee Benefits	165,587	179,500	13,913
PAYROLL TAXES			
Employer FICA	73,832	80,000	6,168
Employer Medicare Tax	17,290	19,000	1,710
Employer Unemployment Premiums	5,737	4,300	( 1,437)
Worker's Compensation	<u>19,577</u>	<u>35,000</u>	<u>15,423</u>
Total Payroll Taxes	116,436	138,300	21,864
PROFESSIONAL FEES			
Auditing Fees	12,200	12,200	-
Accounting Services	1,465	1,100	( 365)
Legal Fees	-	1,000	1,000
Payroll Processing Services	4,527	5,000	473
Other Professional Consultant Fees	<u>-</u>	<u>3,350</u>	<u>3,350</u>
Total Professional Fees	18,192	22,650	4,458
RECRUITMENT			
Classified Advertisement	7,787	2,000	( 5,787)
Background checks	5,020	3,700	( 1,320)
Fingerprinting	<u>2,298</u>	<u>2,250</u>	<u>( 48)</u>
Total Recruitment	15,105	7,950	( 7,155)
VOLUNTEER SERVICES			
Volunteer Food and Supplies	1,141	900	( 241)
Recognition Awards	540	800	260
Other Volunteer Expenses	421	750	329
Board Retreat	1,197	1,500	303
Board/Committee Meetings	95	500	405
Board Recognition Awards	<u>709</u>	<u>-</u>	<u>( 709)</u>
Total Volunteer Services	4,103	4,450	347

MONROE HARDING, INC.  
COMPARISON OF EXPENSES WITH BUDGET - Continued  
YEAR ENDED DECEMBER 31, 2005

	<u>Actual</u>	<u>Budget</u>	<u>Actual (Over) Under Budget</u>
<b>CONTRACTED SERVICES</b>			
Maintenance	2,138	2,800	662
Housekeeping	7,553	6,200	( 1,353)
In-house training	770	-	( 770)
Temporary help	<u>-</u>	<u>2,000</u>	<u>2,000</u>
Total Contracted Services	10,461	11,000	539
<b>SPECIAL EVENTS</b>			
Facility Costs	3,195	2,600	( 595)
Food and Beverages	9,897	8,500	( 1,397)
Entertainment and Related Expense	2,196	1,400	( 796)
Favors and Giveaways	88	450	362
Presentation Costs	1,166	550	( 616)
Prizes/Gifts Certificates	368	-	( 368)
Donated materials and services	<u>80</u>	<u>-</u>	<u>( 80)</u>
Total Special Events	16,990	13,500	( 3,490)
<b>SUPPLIES</b>			
Office Supplies	20,351	19,350	( 1,001)
Stationary	1,402	500	( 902)
Cleaning Supplies	1,652	1,400	( 252)
Kitchen Supplies	4,583	1,800	( 2,783)
Chaplain Supplies	27	100	73
Promotional Items	-	850	850
Other	<u>12,943</u>	<u>-</u>	<u>(12,943)</u>
Total Supplies	40,958	24,000	(16,958)
<b>POSTAGE &amp; SHIPPING</b>			
General Postage	10,904	12,500	1,596
Express Delivery	<u>13</u>	<u>-</u>	<u>( 13)</u>
Total Postage & Shipping	10,917	12,500	1,583
<b>TELEPHONE</b>			
Long Distance Telephone	621	1,000	379
Local Telephone	14,078	11,000	( 3,078)
Internet Service Provider	6,868	7,500	632
Pagers & Cellular Phones	<u>6,516</u>	<u>5,700</u>	<u>( 816)</u>
Total Telephone	28,083	25,200	( 2,883)

MONROE HARDING, INC.  
COMPARISON OF EXPENSES WITH BUDGET - Continued  
YEAR ENDED DECEMBER 31, 2005

	<u>Actual</u>	<u>Budget</u>	<u>Actual (Over) Under Budget</u>
<b>OCCUPANCY</b>			
Repairs & Maintenance-Buildings	19,829	12,350	( 7,479)
Repairs & Maintenance-Autos	7,011	5,500	( 1,511)
Repairs & Maintenance-Equipment	6,248	1,500	( 4,748)
Fire and Security	4,311	2,800	( 1,511)
Extermination	3,939	3,800	( 139)
Garbage Service	8,381	5,500	( 2,881)
Grounds Maintenance	19,066	16,250	( 2,816)
Rental fee - Off Campus Homes	<u>31,653</u>	<u>39,000</u>	<u>7,347</u>
Total Occupancy	100,438	86,700	(13,738)
<b>UTILITIES</b>			
Electric	27,546	28,000	454
Water	11,658	14,300	2,642
Gas	<u>31,415</u>	<u>40,900</u>	<u>9,485</u>
Total Utilities	70,619	83,200	12,581
<b>EQUIPMENT &amp; EQUIPMENT RENTAL</b>			
Equipment Rental	3,199	1,200	( 1,999)
Equipment Maint. contracts	7,633	11,300	3,667
Equipment Purchases (not capitalized)	<u>1,816</u>	<u>1,000</u>	<u>( 816)</u>
Total Equipment & Equipment Rental	12,648	13,500	852
<b>PUBLIC RELATIONS &amp; MARKETING</b>			
Printing and Binding	17,216	15,500	( 1,716)
Artwork, Photos, Design & Layout	-	300	300
Promotional Efforts	3,363	350	( 3,013)
Web Page Hosting	358	250	( 108)
Outside Copying	-	50	50
Other Printing and Publications	<u>283</u>	<u>-</u>	<u>( 283)</u>
Total Public Relations & Marketing	21,220	16,450	( 4,770)
<b>TRAVEL</b>			
General Travel-Staff	3,542	4,000	458
Auto Gas and Oil	<u>6,075</u>	<u>8,000</u>	<u>1,925</u>
Total Travel	9,617	12,000	2,383

MONROE HARDING, INC.  
COMPARISON OF EXPENSES WITH BUDGET - Continued  
YEAR ENDED DECEMBER 31, 2005

	<u>Actual</u>	<u>Budget</u>	<u>Actual (Over) Under Budget</u>
<b>CONFERENCES, MTGS &amp; COURSES</b>			
Staff Development	15,459	14,500	( 959)
Staff Travel & Out-of-Pocket	8,463	5,500	( 2,963)
Professional Meetings	120	500	380
Other Meeting Expenses	<u>64</u>	<u>100</u>	<u>36</u>
Total Conferences, Meetings and Courses	24,106	20,600	( 3,506)
<b>SPECIAL OCCASIONS</b>			
Staff Retreat	235	500	265
Holiday Gifts-Employee	3,055	3,000	( 55)
Holiday Gifts-Resident	290	-	( 290)
Recognition Gifts & Awards-Public	-	200	200
Recognition Gifts & Awards-Employee	4,232	3,500	( 732)
Recognition Gifts & Awards-Youth	671	2,350	1,679
Special Lunches/Banquets	<u>13,354</u>	<u>10,200</u>	<u>( 3,154)</u>
Total Special Occasions	21,837	19,750	( 2,087)
<b>MEMBERSHIPS &amp; SUBSCRIPTIONS</b>			
Membership Dues-Other Organizations	5,249	5,000	( 249)
Agency Affiliation Fees	50	50	-
Subscription & Publication	<u>678</u>	<u>700</u>	<u>22</u>
Total Memberships and Subscriptions	5,977	5,750	( 227)
<b>INSURANCE EXPENSE</b>			
Auto Insurance	5,888	5,100	( 788)
Multi-Peril Insurance	22,845	24,000	1,155
Umbrella Insurance	3,489	3,600	111
Director & Officers Liability	<u>1,992</u>	<u>2,200</u>	<u>208</u>
Total Insurance Expense	34,214	34,900	686
<b>RESIDENT'S EXPENSES</b>			
Allowances	6,629	8,900	2,271
Clothing	7,100	6,500	( 600)
Food	60,142	58,900	( 1,242)
Resident supplies	48	-	( 48)
Dorm & Cottage supplies	8,694	7,500	( 1,194)
Resident Travel	731	750	19
Haircuts	134	750	616
Medical	1,222	1,500	278
Outings	7,898	11,750	3,852
Education	1,281	2,500	1,219



MONROE HARDING, INC.  
 COMPARISON OF EXPENSES WITH BUDGET - Continued  
 YEAR ENDED DECEMBER 31, 2005

	<u>Actual</u>	<u>Budget</u>	<u>Actual (Over) Under Budget</u>
Life Skills	1,407	1,500	93
Summer Programs-Education	3,237	2,500	( 737)
Furniture & Appliances	1,235	1,000	-
Respite Program	<u>-</u>	<u>-</u>	<u>( 235)</u>
Total Resident's Expense	99,758	104,050	4,292
DEPRECIATION & AMORTIZATION			
Depreciation-Furniture, Fixtures & Equipment	22,730	27,000	4,270
Depreciation-Building & Land Improvements	<u>53,537</u>	<u>48,000</u>	<u>( 5,537)</u>
Total Depreciation & Amortization	76,267	75,000	( 1,267)
MISCELLANEOUS EXPENSES			
Losses on sales of fixed assets	2,386	-	( 2,386)
Provision for Doubtful Accounts	-	-	-
Miscellaneous Banking Fees	1,479	1,500	21
Filing Fees-Licenses & Permits	1,848	1,400	( 448)
Other Miscellaneous Expenses	<u>580</u>	<u>300</u>	<u>( 280)</u>
Total Miscellaneous Expense	<u>6,293</u>	<u>3,200</u>	<u>( 3,093)</u>
 Total Expenses	 <u>\$2,119,541</u>	 <u>\$2,228,150</u>	 <u>\$ 108,609</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 year ended December 31, 2005, and have issued our report thereon dated January 27, 2006. 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.

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 audit, 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.  
Page 2

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  
January 27, 2006



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, 2005. MH's major Federal program is identified in the summary of auditors' 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, 2005.





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.

*Crosslin, Vaden & Associates, P.C.*

Nashville, Tennessee  
January 27, 2006

MONROE HARDING, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED DECEMBER 31, 2005

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 auditors' 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, 2005

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	\$785,498

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

