

MONROE HARDING, INC.
FINANCIAL STATEMENTS
December 31, 2016 and 2015

MONROE HARDING, INC.

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Monroe Harding, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Frasier Dean & Hard PLLC

May 2, 2017

MONROE HARDING, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Assets		
Cash and cash equivalents, including deposits held for others of \$68,026 and \$8,119, respectively	\$ 280,308	\$ 423,915
Accounts and pledges receivable	466,259	436,668
Prepaid expenses and other assets	57,787	57,242
Investments	3,590,770	4,809,677
Pooled investments	20,828	18,421
Beneficial interests in perpetual trusts	662,647	631,938
Land, buildings and equipment, net	<u>2,257,933</u>	<u>2,113,870</u>
 Total assets	 <u><u>\$ 7,336,532</u></u>	 <u><u>\$ 8,491,731</u></u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 292,597	\$ 210,298
Accrued expenses	150,348	116,139
Funds held for others	<u>68,026</u>	<u>8,119</u>
 Total liabilities	 <u>510,971</u>	 <u>334,556</u>
Net assets:		
Unrestricted:		
Undesignated	2,269,666	2,479,218
Board designated endowment	<u>3,471,850</u>	<u>4,688,350</u>
 Total unrestricted	 5,741,516	 7,167,568
Temporarily restricted	281,650	217,921
Permanently restricted	<u>802,395</u>	<u>771,686</u>
 Total net assets	 <u>6,825,561</u>	 <u>8,157,175</u>
 Total liabilities and net assets	 <u><u>\$ 7,336,532</u></u>	 <u><u>\$ 8,491,731</u></u>

See accompanying notes to financial statements.

MONROE HARDING, INC.
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public support and revenue:				
Public support:				
Governmental contracts and sub-contracts	\$ 3,540,995	\$ -	\$ -	\$ 3,540,995
Church and private contributions	500,889	398,384	-	899,273
Special events	167,791	-	-	167,791
Gifts in-kind	15,896	-	-	15,896
Miscellaneous	6,548	-	-	6,548
Net assets released from restriction	351,846	(334,655)	(17,191)	-
Total public support	<u>4,583,965</u>	<u>63,729</u>	<u>(17,191)</u>	<u>4,630,503</u>
Revenue:				
Net gain on investments	143,428	-	20,140	163,568
Interest and dividend income, net of fees	82,530	-	27,760	110,290
Gain on disposal of property and equipment	10,071	-	-	10,071
Total revenue	<u>236,029</u>	<u>0</u>	<u>47,900</u>	<u>283,929</u>
Total public support and revenue	<u>4,819,994</u>	<u>63,729</u>	<u>30,709</u>	<u>4,914,432</u>
Expenses:				
Program services:				
Cooperative living	2,459,290	-	-	2,459,290
Independent living	504,207	-	-	504,207
Foster care	1,717,623	-	-	1,717,623
Youth Connections	488,608	-	-	488,608
Total program services	<u>5,169,728</u>	<u>-</u>	<u>-</u>	<u>5,169,728</u>
Supporting services:				
General and administrative	608,546	-	-	608,546
Development	467,772	-	-	467,772
Total supporting services	<u>1,076,318</u>	<u>-</u>	<u>-</u>	<u>1,076,318</u>
Total expenses	<u>6,246,046</u>	<u>-</u>	<u>-</u>	<u>6,246,046</u>
Change in net assets	(1,426,052)	63,729	30,709	(1,331,614)
Net assets, beginning of year	<u>7,167,568</u>	<u>217,921</u>	<u>771,686</u>	<u>8,157,175</u>
Net assets at end of year	<u>\$ 5,741,516</u>	<u>\$ 281,650</u>	<u>\$ 802,395</u>	<u>\$ 6,825,561</u>

See accompanying notes to financial statements.

MONROE HARDING, INC.
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public support and revenue:				
Public support:				
Governmental contracts and sub-contracts	\$ 3,618,488	\$ -	\$ -	\$ 3,618,488
Church and private contributions	777,818	459,913	-	1,237,731
Special events	127,108	-	-	127,108
Gifts in-kind	13,731	-	-	13,731
Miscellaneous	4,420	-	-	4,420
Net assets released from restriction	1,077,894	(1,058,398)	(19,496)	-
Total public support	<u>5,619,459</u>	<u>(598,485)</u>	<u>(19,496)</u>	<u>5,001,478</u>
Revenue:				
Interest and dividend income, net of fees	90,800	-	30,002	120,802
Loss on disposal of property and equipment	(3)	-	-	(3)
Net loss on investments	(278,702)	-	(32,977)	(311,679)
Total revenue	<u>(187,905)</u>	<u>-</u>	<u>(2,975)</u>	<u>(190,880)</u>
Total public support and revenue	<u>5,431,554</u>	<u>(598,485)</u>	<u>(22,471)</u>	<u>4,810,598</u>
Expenses:				
Program services:				
Cooperative living	1,907,739	-	-	1,907,739
Independent living	400,203	-	-	400,203
Foster care	1,463,065	-	-	1,463,065
Youth Connections	480,944	-	-	480,944
Total program services	<u>4,251,951</u>	<u>-</u>	<u>-</u>	<u>4,251,951</u>
Supporting services:				
General and administrative	483,998	-	-	483,998
Development	410,351	-	-	410,351
Total supporting services	<u>894,349</u>	<u>-</u>	<u>-</u>	<u>894,349</u>
Total expenses	<u>5,146,300</u>	<u>-</u>	<u>-</u>	<u>5,146,300</u>
Change in net assets	285,254	(598,485)	(22,471)	(335,702)
Net assets, beginning of year	<u>6,882,314</u>	<u>816,406</u>	<u>794,157</u>	<u>8,492,877</u>
Net assets at end of year	<u>\$ 7,167,568</u>	<u>\$ 217,921</u>	<u>\$ 771,686</u>	<u>\$ 8,157,175</u>

See accompanying notes to financial statements.

MONROE HARDING, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ (1,331,614)	\$ (335,702)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	191,722	117,334
Change in beneficial interests in perpetual trusts	(30,709)	22,471
Change in pooled investments	(2,407)	514
(Gain) loss on disposal of property and equipment	(10,071)	3
Net (gain) loss on investments	(142,222)	278,041
Changes in operating assets and liabilities:		
Accounts and pledges receivable	(29,591)	389,174
Prepaid expenses and other assets	(545)	(3,114)
Accounts payable	82,299	55,631
Accrued expenses	34,209	(8,910)
Funds held for others	59,907	6,093
	<u>(1,179,022)</u>	<u>521,535</u>
Net cash (used in) provided by operating activities		
Cash flows from investing activities:		
Purchases of property and equipment	(343,803)	(966,299)
Purchases of investments	(819,320)	(1,182,791)
Proceeds from disposal of property and equipment	18,089	11,200
Proceeds from sale of investments	2,180,449	1,092,138
	<u>1,035,415</u>	<u>(1,045,752)</u>
Net cash provided by (used in) investing activities		
Net decrease in cash and cash equivalents	(143,607)	(524,217)
Cash and cash equivalents, beginning of year	<u>423,915</u>	<u>948,132</u>
Cash and cash equivalents, end of year	<u><u>\$ 280,308</u></u>	<u><u>\$ 423,915</u></u>

See accompanying notes to financial statements.

MONROE HARDING, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2016

	Program Services					Supporting Services			
	Cooperative Living	Independent Living	Foster Care	Youth Connections	Total	General and Administrative	Development	Total	Total Expenses
Salaries and wages	\$ 1,481,750	\$ 269,314	\$ 720,747	\$ 277,060	\$ 2,748,871	\$ 252,166	\$ 271,544	\$ 523,710	\$ 3,272,581
Foster care expenses	-	-	534,998	-	534,998	-	-	-	534,998
Employee benefits	213,424	33,811	134,720	38,341	420,296	33,941	42,429	76,370	496,666
Maintenance	118,209	16,356	48,007	14,837	197,409	51,004	10,204	61,208	258,617
Payroll taxes	109,936	19,267	53,054	19,732	201,989	17,843	19,004	36,847	238,836
Food and kitchen supplies	113,527	20,782	4,973	3,389	142,671	22,041	1,587	23,628	166,299
Insurance	58,043	8,316	26,397	7,373	100,129	13,691	7,383	21,074	121,203
Training and education	47,403	7,892	20,796	15,076	91,167	20,030	3,507	23,537	114,704
Youth specific assistance	26,161	14,619	23,177	45,475	109,432	-	-	-	109,432
Professional expenses	17,746	1,110	11,579	956	31,391	53,859	19,242	73,101	104,492
Office supplies	24,411	5,390	22,918	4,365	57,084	31,130	5,202	36,332	93,416
Rent	-	73,500	-	16,800	90,300	-	-	-	90,300
Utilities	57,509	1,145	3,698	127	62,479	6,493	3,503	9,996	72,475
Telephone and internet	26,342	12,184	13,852	9,216	61,594	3,123	2,009	5,132	66,726
Recruitment	9,591	1,973	37,264	2,801	51,629	7,128	943	8,071	59,700
Travel and transportation	6,163	5,340	25,433	13,593	50,529	1,805	295	2,100	52,629
Recreational and special	3,967	250	20,907	2,042	27,166	17,468	493	17,961	45,127
Other	6,408	-	-	-	6,408	17,377	13,451	30,828	37,236
Printing and promotion	2,701	76	1,364	203	4,344	1,047	30,086	31,133	35,477
Special events	-	-	-	-	-	-	32,532	32,532	32,532
Contracted services	13,784	1,000	2,909	7,195	24,888	3,396	2,334	5,730	30,618
Dorm supplies	13,525	5,490	-	1,245	20,260	-	-	-	20,260
	2,350,600	497,815	1,706,793	479,826	5,035,034	553,542	465,748	1,019,290	6,054,324
Depreciation	108,690	6,392	10,830	8,782	134,694	55,004	2,024	57,028	191,722
Total expenses	<u>\$ 2,459,290</u>	<u>\$ 504,207</u>	<u>\$ 1,717,623</u>	<u>\$ 488,608</u>	<u>\$ 5,169,728</u>	<u>\$ 608,546</u>	<u>\$ 467,772</u>	<u>\$ 1,076,318</u>	<u>\$ 6,246,046</u>

See accompanying notes to financial statements.

MONROE HARDING, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2015

	Program Services					Supporting Services			
	Cooperative Living	Independent Living	Foster Care	Youth Connections	Total	General and Administrative	Development	Total	Total Expenses
Salaries and wages	\$ 1,140,003	\$ 197,349	\$ 559,739	\$ 255,436	\$ 2,152,527	\$ 258,442	\$ 234,027	\$ 492,469	\$ 2,644,996
Foster care expenses	-	-	555,287	-	555,287	-	-	-	555,287
Employee benefits	143,884	16,986	85,002	37,118	282,990	19,999	25,796	45,795	328,785
Maintenance	103,048	13,741	24,504	15,311	156,604	31,950	12,525	44,475	201,079
Payroll taxes	84,636	14,296	41,744	18,409	159,085	18,637	16,674	35,311	194,396
Training and education	52,288	5,727	16,492	20,533	95,040	20,139	8,485	28,624	123,664
Food and kitchen supplies	73,868	18,777	1,861	2,791	97,297	17,081	2,018	19,099	116,396
Youth specific assistance	26,494	15,040	25,951	47,882	115,367	-	-	-	115,367
Insurance	52,458	7,481	24,808	6,701	91,448	12,538	6,619	19,157	110,605
Rent	-	73,500	-	20,800	94,300	-	-	-	94,300
Professional expenses	19,966	1,854	4,424	2,032	28,276	32,005	12,270	44,275	72,551
Utilities	49,996	1,185	3,880	187	55,248	6,897	3,707	10,604	65,852
Telephone and internet	23,705	12,331	11,409	9,009	56,454	3,907	2,455	6,362	62,816
Office supplies	17,877	3,288	13,243	3,151	37,559	18,203	5,124	23,327	60,886
Recruitment	14,136	1,338	35,505	1,086	52,065	2,367	1,166	3,533	55,598
Travel and transportation	6,271	1,277	23,526	15,085	46,159	1,528	1,321	2,849	49,008
Special events	-	-	-	-	-	-	39,349	39,349	39,349
Recreational and special	3,120	1,232	21,083	3,208	28,643	5,643	3,052	8,695	37,338
Printing and promotion	2,767	8	1,184	180	4,139	1,894	27,401	29,295	33,434
Contracted services	13,486	477	1,498	7,486	22,947	2,046	2,300	4,346	27,293
Dorm supplies	8,107	11,267	-	7,736	27,110	-	-	-	27,110
Other	465	-	-	636	1,101	7,877	3,878	11,755	12,856
	1,836,575	397,154	1,451,140	474,777	4,159,646	461,153	408,167	869,320	5,028,966
Depreciation	71,164	3,049	11,925	6,167	92,305	22,845	2,184	25,029	117,334
Total expenses	\$ 1,907,739	\$ 400,203	\$ 1,463,065	\$ 480,944	\$ 4,251,951	\$ 483,998	\$ 410,351	\$ 894,349	\$ 5,146,300

See accompanying notes to financial statements.

MONROE HARDING, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 1 – NATURE OF OPERATIONS

Monroe Harding, Inc. (the “Organization”) is a nonprofit 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 serves children and youth from birth to twenty-six who are or have been in state custody through programs that include foster care, transitional living group homes, independent living apartments, and a community based resource center. Educational, health and wellness, social and spiritual, career and mentoring needs are all tended to so that these young people begin to heal from the trauma they’ve experienced and develop resiliency for a brighter future. Whether the child returns to a kinship home, is adopted, or becomes independent, the Organization ensures they have been safe, well cared for, and made significant gains while in its care.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Organization are presented on the accrual basis of accounting, under which revenue is recognized when earned rather than when collected and expenses are recognized when incurred rather than when disbursed. The significant accounting policies followed are described below.

Basis of Presentation

Net assets and revenues, 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.

Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

MONROE HARDING, INC.
NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2016 and 2015

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 statements 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 statements 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 at date of purchase or at estimated fair market value at date of gift. 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. Purchases with a cost of \$2,000 or more and an estimated useful life greater than one year are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from three to thirty-nine years.

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

MONROE HARDING, INC.
NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2016 and 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

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. The Organization had no uncertain tax positions at December 31, 2016 or 2015.

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

The costs of providing the various programs and other services have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among program and supporting services based on estimates made by management.

Fair Value Measurements

The Organization follows the provisions of the Fair Value Measurement topic of the FASB ASC. This guidance establishes a framework for measuring fair value for financial assets and liabilities. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices (Level 1). However, in some instances, there are no quoted market prices for financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques (Level 3). Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments.

MONROE HARDING, INC.
NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2016 and 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

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.

Subsequent Events

Management has evaluated subsequent events through May 2, 2017, when these financial statements were available to be issued. Except for the items listed in Notes 14 and 15, the Organization is not aware of any significant events that occurred subsequent to the statement of financial position date but prior to the filing of this report that would have a material impact on the financial statements.

NOTE 3 – ACCOUNTS AND PLEDGES RECEIVABLE

Accounts and pledges receivable are due primarily from various government and private agencies and are expected to be received within one year. The carrying values of the receivables approximate their fair values due to the short maturities of these instruments. Management's estimate of uncollectible amounts is based on historical collection experience and a review of the current status of accounts and pledges receivable. It is reasonably possible that management's estimate of the allowance for uncollectible accounts could change. There was no allowance for uncollectible amounts at December 31, 2016 and 2015.

MONROE HARDING, INC.
NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2016 and 2015

NOTE 4 – INVESTMENTS

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value at December 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity funds	\$ 891,272	\$ 658,796*	\$ -	\$ 1,550,068
Other investments	-	402,119*	461,003	863,122
Fixed income funds	244,526	595,117*	-	839,643
Cash and short term investments	337,937	-	-	337,937
Pooled accounts	<u>-</u>	<u>20,828</u>	<u>-</u>	<u>20,828</u>
Total	<u>\$ 1,473,735</u>	<u>\$ 1,676,860</u>	<u>\$ 461,003</u>	<u>\$ 3,611,598</u>

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value at December 31, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity funds	\$ 1,196,521	\$ 1,022,776*	\$ -	\$ 2,219,297
Fixed income funds	692,287	572,682*	-	1,264,969
Other investments	-	542,289*	620,000	1,162,289
Cash and short term investments	163,122	-	-	163,122
Pooled accounts	<u>-</u>	<u>18,421</u>	<u>-</u>	<u>18,421</u>
Total	<u>\$ 2,051,930</u>	<u>\$ 2,156,168</u>	<u>\$ 620,000</u>	<u>\$ 4,828,098</u>

Investments identified above by asterisk (*) include units of ownership in certain common trust funds owned by the Diversified Trust Company ("DTC"). The Organization values these investments as Level 2 because specific units held do not have quoted prices and are not traded on an active market. Level 3 investments are valued by applicable fund administrator based on reported values of underlying funds.

The following table sets forth a summary of changes in the fair value of the Organization's Level 3 assets for the years ended December 31:

	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 620,000	\$ -
Sales	(158,997)	-
Purchases	<u>-</u>	<u>620,000</u>
Balance, end of year	<u>\$ 461,003</u>	<u>\$ 620,000</u>

MONROE HARDING, INC.
NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2016 and 2015

NOTE 4 – INVESTMENTS (Continued)

The following schedule summarizes the net investment income in the statements of activities for the years ended December 31:

	<u>2016</u>	<u>2015</u>
Interest and dividend income, net of fees of \$38,584 and \$40,706, respectively	\$ 110,290	\$ 120,802
Net realized and unrealized gains (losses) on investments	<u>163,568</u>	<u>(311,679)</u>
	<u>\$ 273,858</u>	<u>\$ (190,877)</u>

NOTE 5 – LAND, BUILDINGS AND EQUIPMENT

A summary of land, buildings and equipment consists of the following as of December 31:

	<u>2016</u>	<u>2015</u>
Land	\$ 17,409	\$ 17,409
Buildings and improvements	2,758,071	1,941,296
Automobiles	239,056	234,037
Land improvements	102,035	102,035
Furniture, fixtures, and appliances	116,083	124,083
Information/communication technology	69,507	69,507
Construction in progress	<u>138,988</u>	<u>632,046</u>
	3,441,149	3,120,413
Less accumulated depreciation	<u>(1,183,216)</u>	<u>(1,006,543)</u>
Land, buildings and equipment, net	<u>\$ 2,257,933</u>	<u>\$ 2,113,870</u>

NOTE 6 – BENEFICIAL INTERESTS IN PERPETUAL TRUSTS

The Organization is the beneficiary of two perpetual trusts. 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, 2016, the trust had a fair market value of \$2,355,388, of which \$588,847 was for the benefit of the Organization. At December 31, 2015, the trust had a fair market value of \$2,229,668, of which \$557,417 was for the benefit of the Organization.

MONROE HARDING, INC.
NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2016 and 2015

NOTE 6 – BENEFICIAL INTERESTS IN PERPETUAL TRUSTS (Continued)

The Stanley Trust was initially held by Westminster Presbyterian Church of Nashville, Tennessee (“Westminster”). During 2015, Westminster, transferred the funds to a designated account to be held and managed by the Organization. Distributions from the Stanley Trust are made annually at an amount equal to 5.5% of the three year average annual value of the trust. At December 31, 2016 and 2015, the trust had a fair market value of \$73,800 and \$74,521, respectively.

The trusts’ assets are invested in money markets and publicly traded mutual funds. Investments identified below by asterisk (*) include units of ownerships in certain common trust funds owned by DTC. The Organization values these investments as Level 2 because specific units held do not have quoted prices and are not traded on an active market.

The following table sets forth by level, within the fair value hierarchy, the trusts’ assets at fair value at December 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity funds	\$ 601,872	\$ 11,848*	\$ -	\$ 613,720
Fixed income funds	7,027	11,051*	-	18,078
Other investments	-	16,337*	-	16,337
Cash and short term investments	<u>14,512</u>	<u>-</u>	<u>-</u>	<u>14,512</u>
Total	<u>\$ 623,411</u>	<u>\$ 39,236</u>	<u>\$ -</u>	<u>\$ 662,647</u>

The following table sets forth by level, within the fair value hierarchy, the trusts’ assets at fair value at December 31, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity funds	\$ 569,334	\$ 16,152*	\$ -	\$ 585,486
Fixed income funds	11,159	9,111*	-	20,270
Other investments	-	18,393*	-	18,393
Cash and short term investments	<u>7,789</u>	<u>-</u>	<u>-</u>	<u>7,789</u>
Total	<u>\$ 588,282</u>	<u>\$ 43,656</u>	<u>\$ -</u>	<u>\$ 631,938</u>

MONROE HARDING, INC.
NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2016 and 2015

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at December 31:

	<u>2016</u>	<u>2015</u>
Cooperative living programs	\$ 115,795	\$ 102,077
Youth Connections programs	86,571	77,526
Foster care	27,354	20,795
Capital improvements	23,136	17,136
Music program	20,000	-
Independent living program	<u>8,794</u>	<u>387</u>
	<u>\$ 281,650</u>	<u>\$ 217,921</u>

Temporarily restricted net assets of \$334,655 and \$1,058,398 were released from donor restrictions by satisfying the restricted purposes or by occurrence of other events specified by donors during the years ended December 31, 2016 and 2015. The purpose restrictions accomplished were for program services and the acquisition of capital assets.

NOTE 8 – GIFTS IN-KIND

Gifts in-kind received by the Organization are recorded based on their estimated value on the date of receipt. During 2016, the Organization recorded donated materials and services with an estimated value of \$15,896. During 2015, the Organization recorded donated materials and services with an estimated value of \$13,731. In addition, unpaid volunteers have made significant contributions of their time to assist the Organization in carrying out its programs, operations, and events. During the years ended December 31, 2016 and 2015, volunteers provided approximately 2,500 and 1,800 hours of service, respectively. The value of contributed time is not reflected in these statements since it does not meet the recording requirements specified by accounting principles generally accepted in the United States of America.

NOTE 9 – 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. During 2016 and 2015, the Organization contributed 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 2016 and 2015 were \$44,089 and \$34,667, respectively.

MONROE HARDING, INC.
NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2016 and 2015

NOTE 10 – COMMITMENTS AND CONTINGENCIES

The Organization has entered into noncancelable operating lease agreements for certain office equipment and a program location. The Organization has also entered into leases for independent living units with required monthly rent payments totaling approximately \$6,000. These leases have terms ranging from twelve to thirty-six months, and are generally renewed at the end of each period. Rent expense for all leases for 2016 and 2015 totaled \$113,308 and \$115,471, respectively.

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

2017	\$ 37,200
2018	7,917
2019	<u>1,208</u>
	<u>\$ 46,325</u>

NOTE 11 – BOARD DESIGNATED FUNDS

The board of directors has elected to set aside funds for a designated endowment. One of the common uses of board designated funds is for periodic distributions to cover operating expenses that cannot be met with available cash from operations. At December 31, the board designated balances were as follows:

	<u>2016</u>	<u>2015</u>
Endowment	<u>\$ 3,471,850</u>	<u>\$ 4,688,350</u>
Total board designated net assets:	<u>\$ 3,471,850</u>	<u>\$ 4,688,350</u>

NOTE 12 – 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.

NOTE 13 – 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 accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the board of

MONROE HARDING, INC.
NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2016 and 2015

NOTE 13 – ENDOWMENT AND PERMANENTLY RESTRICTED NET ASSETS (Continued)

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 described in Note 6.

Interpretation of Relevant Law

The board of directors of the Organization has interpreted the State Prudent Management of Institutional Funds Act (“SPMIFA”) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- The investment policies of the Organization

Return Objectives and Risk Parameters

The Organization has adopted investment spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for donor-specified periods as well as board-designated funds. Under this policy, as approved by the board of directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of selected market and comparative indices while assuming a moderate level of investment risk. Actual returns will vary in any given year.

MONROE HARDING, INC.
NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2016 and 2015

NOTE 13 – ENDOWMENT AND PERMANENTLY RESTRICTED NET ASSETS (Continued)

Strategies Employed for Achieving Investment Objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization has a policy which provides for the board of directors to identify distribution amounts, as needed, to fund the Organization's programs. 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, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ -	\$ 802,395	\$ 802,395
Board-restricted endowment funds	<u>3,471,850</u>	<u>-</u>	<u>-</u>	<u>3,471,850</u>
Total funds	<u>\$ 3,471,850</u>	<u>\$ -</u>	<u>\$ 802,395</u>	<u>\$ 4,274,245</u>

Endowment Net Asset Composition by Type of Fund as of December 31, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ -	\$ 771,686	\$ 771,686
Board-restricted endowment funds	<u>4,688,350</u>	<u>-</u>	<u>-</u>	<u>4,688,350</u>
Total funds	<u>\$ 4,688,350</u>	<u>\$ -</u>	<u>\$ 771,686</u>	<u>\$ 5,460,036</u>

MONROE HARDING, INC.
NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2016 and 2015

NOTE 13 – ENDOWMENT AND PERMANENTLY RESTRICTED NET ASSETS (Continued)

Changes in Endowment Net Assets for the Year Ended December 31, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 4,688,350	\$ -	\$ 771,686	\$ 5,460,036
Investment return:				
Investment income	82,508	-	27,760	110,268
Net appreciation (realized and unrealized)	<u>143,452</u>	<u>-</u>	<u>20,140</u>	<u>163,592</u>
Total investment return	<u>225,960</u>	<u>-</u>	<u>47,900</u>	<u>273,860</u>
Board designated transfers to endowment	<u>1,040</u>	<u>-</u>	<u>-</u>	<u>1,040</u>
Appropriation of endowment assets for expenditure	<u>(1,443,500)</u>	<u>-</u>	<u>(17,191)</u>	<u>(1,460,691)</u>
Endowment net assets, end of year	<u>\$ 3,471,850</u>	<u>\$ -</u>	<u>\$ 802,395</u>	<u>\$ 4,274,245</u>

Changes in Endowment Net Assets for the Year Ended December 31, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 4,876,252	\$ -	\$ 794,157	\$ 5,670,409
Investment return:				
Investment income	90,800	-	30,002	120,802
Net depreciation (realized and unrealized)	<u>(278,702)</u>	<u>-</u>	<u>(32,977)</u>	<u>(311,679)</u>
Total investment return	<u>(187,902)</u>	<u>-</u>	<u>(2,975)</u>	<u>(190,877)</u>
Appropriation of endowment assets for expenditure	<u>-</u>	<u>-</u>	<u>(19,496)</u>	<u>(19,496)</u>
Endowment net assets, end of year	<u>\$ 4,688,350</u>	<u>\$ -</u>	<u>\$ 771,686</u>	<u>\$ 5,460,036</u>

MONROE HARDING, INC.
NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2016 and 2015

NOTE 14 – FINANCING AGREEMENT

During 2016, the Organization entered into a line of credit agreement with a financial institution. The agreement allows for borrowings up to \$800,000. Interest is payable monthly at a rate of 2.50% plus LIBOR (3.18% at December 31, 2016). Any unpaid balance was due in full April 13, 2017, unless requested sooner by the lender. The line of credit is collateralized by the Organization's board designated investment account. Subsequent to December 31, 2016, the line of credit was renewed through April 13, 2018.

NOTE 15 – SUBSEQUENT EVENT

Subsequent to December 31, 2016, management and the board of directors made the decision to close its Cooperative Living program effective April 7, 2017. The Organization will continue to seek approval to be licensed by the State of Tennessee to provide Cooperative Living services in the future if the need arises. Total Cooperative Living revenues and expenses were as follows for the years ended December 31:

	<u>2016</u>	<u>2015</u>
Revenues	<u>\$ 1,162,763</u>	<u>\$ 1,048,044</u>
Expenses	<u>\$ 2,459,290</u>	<u>\$ 1,907,739</u>