

MONROE HARDING, INC.

**FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

DECEMBER 31, 2009

MONROE HARDING, INC.

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Independent Auditors' Report

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

We have audited the accompanying statement of financial position of Monroe Harding, Inc. as of December 31, 2009, and the related statements of activities, cash flows and functional expenses for the year then ended. These financial statements are the responsibility of Monroe Harding, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Monroe Harding, Inc. as of December 31, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2010, on our consideration of Monroe Harding, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Board of Directors
Monroe Harding, Inc.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Monroe Harding, Inc. taken as a whole. The accompanying schedules of comparison of public support and revenue with budget - excluding RSI and comparison of expenses with budget - excluding RSI are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit 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 & Associates, P.C.

Nashville, Tennessee
June 28, 2010

MONROE HARDING, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2009

ASSETS

Cash and cash equivalents	\$ 818,453
Accounts receivable (Note B)	281,112
Pledges receivable (Note B)	21,000
Prepaid expenses	24,292
Investments (Notes C, K and M)	4,198,765
Beneficial interests in perpetual trusts (Note K and M)	491,004
Land, buildings and equipment, net (Note D)	<u>852,527</u>
 Total assets	 <u>\$6,687,153</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$ 117,329
Accrued expenses	109,866
Children's account	16,728
Medical reimbursement	<u>3,206</u>
 Total liabilities	 <u>247,129</u>

NET ASSETS

Unrestricted (Note A)	
Undesignated	1,522,426
Board designated for capital improvements (Note H)	75,557
Board designated endowment (Note K)	4,198,765
Temporarily restricted (Note E)	152,272
Permanently restricted (Note K)	<u>491,004</u>
 Total net assets	 <u>6,440,024</u>
 Total liabilities and net assets	 <u>\$6,687,153</u>

See accompanying notes to financial statements.

MONROE HARDING, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
PUBLIC SUPPORT AND REVENUE				
Public support				
Church and private gifts	\$ 276,587	\$ 196,592	\$ -	\$ 473,179
Governmental contracts and sub-contracts	3,104,624	-	-	3,104,624
USDE	25,872	-	-	25,872
Special events	228,945	-	-	228,945
Miscellaneous	50,072	-	-	50,072
Gifts in-kind	10,181	-	-	10,181
Net assets released from restriction	<u>192,194</u>	<u>(192,194)</u>	<u>-</u>	<u>-</u>
Total public support	3,888,475	4,398	-	3,892,873
Revenue				
Income on investments	777,625	-	-	777,625
Income on beneficial interests in perpetual trusts	10,520	-	81,441	91,961
Interest	<u>411</u>	<u>-</u>	<u>-</u>	<u>411</u>
Total public support and revenue	<u>4,677,031</u>	<u>4,398</u>	<u>81,441</u>	<u>4,762,870</u>
EXPENSES				
Program services				
Residential care	3,680,597	-	-	3,680,597
General and occupancy	<u>469,347</u>	<u>-</u>	<u>-</u>	<u>469,347</u>
Total program services	<u>4,149,944</u>	<u>-</u>	<u>-</u>	<u>4,149,944</u>
Supporting services				
Administrative	334,162	-	-	334,162
General and occupancy	29,718	-	-	29,718
Fund raising	<u>174,871</u>	<u>-</u>	<u>-</u>	<u>174,871</u>
Total supporting services	<u>538,751</u>	<u>-</u>	<u>-</u>	<u>538,751</u>
Total expenses	<u>4,688,695</u>	<u>-</u>	<u>-</u>	<u>4,688,695</u>
Net (decrease) increase in net assets	(11,664)	4,398	81,441	74,175
Net assets, beginning of year, as restated (Note N)	<u>5,808,412</u>	<u>147,874</u>	<u>409,563</u>	<u>6,365,849</u>
Net assets, end of year	<u>\$ 5,796,748</u>	<u>\$ 152,272</u>	<u>\$491,004</u>	<u>\$6,440,024</u>

See accompanying notes to financial statements.

MONROE HARDING, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2009

Cash flows from operating activities:	
Increase in net assets	\$ 74,175
Adjustments to reconcile increase in net assets to net cash used in operating activities:	
Depreciation	87,564
Net gain on investments and beneficial interests in perpetual trusts	(721,190)
Decrease in accounts receivable	17,030
Decrease in pledges receivable	41,000
Decrease in prepaid expenses	54,226
Increase in accounts payable	31,076
Increase in accrued expenses	13,603
Decrease in children's account	(5,704)
Increase in medical reimbursement	<u>221</u>
Net cash used in operating activities	<u>(407,999)</u>
Cash flows from investing activities:	
Sales of investments, net of brokerage fees	282,248
Purchases of equipment	<u>(11,347)</u>
Net cash provided by investing activities	<u>270,901</u>
Net decrease in cash and cash equivalents	(137,098)
Cash and cash equivalents, beginning of year	<u>955,551</u>
Cash and cash equivalents, end of year	<u><u>\$ 818,453</u></u>

See accompanying notes to financial statements.

MONROE HARDING, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2009

	Program Services	
	Residential Care	General and Occupancy
Total salaries, wages and benefits	<u>\$2,128,368</u>	<u>\$ -</u>
Other expenses:		
Food and kitchen supplies	56,625	-
Medical	502	-
Clothing	145	-
School and educational	8,469	-
Dorm supplies	5,178	-
Allowances	8,958	-
Recreational and special	16,440	-
Travel and transportation	27,582	-
Automobile gas and oil	14,278	-
Utilities	-	62,895
Contracted services	1,201,104	-
Maintenance	-	74,152
Insurance	-	55,984
Supplies and small equipment	31,155	-
Telephone	45,881	-
Postage	2,215	-
Training	17,612	-
Professional, legal and accounting	30,933	-
Dues and publications	2,460	-
Licenses and permits	1,838	-
Banking fees	-	-
Haircuts	952	-
Life skills	1,035	-
Rent	-	193,994
Fire and safety	-	3,824
Volunteer services	1,211	-
Printing	3,377	-
Recruitment	15,247	-
Youth specific assistance	59,032	-
Provision for depreciation	-	78,498
Total other expenses	<u>1,552,229</u>	<u>469,347</u>
Total expenses	<u><u>\$3,680,597</u></u>	<u><u>\$469,347</u></u>

<u>Supporting Services</u>			
<u>Administrative</u>	<u>General and Occupancy</u>	<u>Fund Raising</u>	<u>Total</u>
<u>\$275,096</u>	<u>\$ -</u>	<u>\$118,077</u>	<u>\$2,521,541</u>
-	-	-	56,625
-	-	-	502
-	-	-	145
-	-	-	8,469
-	-	-	5,178
-	-	-	8,958
4,073	-	16,027	36,540
365	-	1,257	29,204
-	-	-	14,278
-	14,759	-	77,654
2,316	-	-	1,203,420
-	1,754	-	75,906
-	3,750	-	59,734
4,920	-	8,930	45,005
2,227	-	528	48,636
3,494	-	9,915	15,624
2,389	-	375	20,376
34,048	-	1,500	66,481
3,065	-	673	6,198
372	-	338	2,548
78	-	3,151	3,229
-	-	-	952
-	-	-	1,035
-	-	-	193,994
-	389	-	4,213
1,370	-	93	2,674
35	-	13,929	17,341
314	-	78	15,639
-	-	-	59,032
-	9,066	-	87,564
<u>59,066</u>	<u>29,718</u>	<u>56,794</u>	<u>2,167,154</u>
<u>\$334,162</u>	<u>\$29,718</u>	<u>\$174,871</u>	<u>\$4,688,695</u>

See accompanying notes to financial statements.

MONROE HARDING, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

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 in Nashville, Tennessee.

Basis of 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, 2009

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Contributions

MH reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

MH reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, MH reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Investments

MH reports investments at fair value with gains and losses included in the statement of activities.

Land, Buildings and Equipment

Land, buildings and equipment are carried at cost. The fair value of donated labor services associated with fixed assets are added to the cost of the asset. Repairs and maintenance are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from three to thirty-nine years.

Pledges Receivable

Pledges receivable are recorded at their fair value and reflect discounts for payment terms greater than one year. Pledges receivable are considered to be either conditional or unconditional promises to give. A conditional contribution is one which depends on the occurrence of some specified uncertain future event to become binding on the donor. Conditional contributions are not recorded as revenue until the condition is met, at which time they become unconditional. Unconditional contributions are recorded as revenue at the time verifiable evidence of the pledge is received.

MONROE HARDING, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Income Taxes

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

Estimates

Judgment and estimation are 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.

Financial Instruments

Assets recorded at fair value in the statement of financial position are categorized based on the level of judgment associated with the inputs used to measure their fair value, as follows:

Level 1 - Values are unadjusted quoted prices for identical assets in active markets accessible at the measurement date.

Level 2 - Inputs include quoted prices for similar assets in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.

Level 3 - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

MONROE HARDING, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

B. ACCOUNTS AND PLEDGES RECEIVABLE

Accounts receivable are due primarily from various government and private agencies. No allowance for uncollectible amounts was considered necessary at December 31, 2009.

Pledges receivable were due and collected in January 2010. No allowance for uncollectible pledges receivable was considered necessary at December 31, 2009.

C. INVESTMENTS

Investments at December 31, 2009, consisted of the following:

	<u>Cost</u>	<u>Fair Value</u>
Stocks and bonds	\$3,739,293	\$3,716,443
Interest bearing accounts	228,828	228,828
Mutual funds	<u>269,714</u>	<u>253,494</u>
Total	<u>\$4,237,835</u>	<u>\$4,198,765</u>

The yield on investments was as follows:

Dividends and interest	\$ 137,876	3.42%
Loss on sale of investments, including brokerage fees	(210,039)	(5.22)%
Unrealized gains on investments	<u>849,788</u>	<u>21.14%</u>
Total	<u>\$ 777,625</u>	<u>19.34%</u>

MONROE HARDING, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

D. LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment at December 31, 2009, consisted of the following:

Land	\$ 22,055
Buildings, contents, and improvements	1,215,828
Scarborough Cottage	130,092
Grace Cottage	41,227
Grana Cottage	338,062
Gymnasium	68,485
Automobiles	175,832
Water, sewer, and roadway	170,193
Recreation Cottage	11,891
Wilson Cottage	<u>416,446</u>
	2,590,111
Less accumulated depreciation	<u>(1,737,584)</u>
Land, buildings and equipment, net	<u>\$ 852,527</u>

E. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2009, consisted of the following:

Special project funds	\$131,272
Pledges receivable (time restriction)	<u>21,000</u>
	<u>\$152,272</u>

Net assets of \$192,194 were released from donor restrictions by satisfying the restricted purposes or by occurrence of other events specified by donors for the year ended December 31, 2009. The purpose restrictions accomplished were for program services and the acquisition of capital assets.

MONROE HARDING, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

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 nonprofit 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 plan totaled \$76,157 for 2009.

G. COMMITMENTS AND CONTINGENCIES

The Company leases certain real property for independent living residents. The leases expire in 2011. Minimum future rental payments under non-cancelable operating leases are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2010	\$108,300
2011	<u>49,600</u>
Total	<u>\$157,900</u>

In the normal course of business, operating leases are generally renewed annually or replaced by other leases. Total rental expense for operating leases was \$193,994 for 2009.

H. CAPITAL IMPROVEMENT RESTRICTIONS

The Board of Directors and certain donors have designated funds for capital improvements and fixed asset additions. The Board designated balances were \$75,557 as of December 31, 2009.

I. 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, 2009

J. CONCENTRATION OF CREDIT RISK

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

K. ENDOWMENT

MH'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 GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Permanently restricted endowment funds are beneficial interests in perpetual trusts held by the Westminster Presbyterian Church of Nashville and First Presbyterian Church of Clarksville, Tennessee.

Interpretation of Relevant Law

The Board of Directors of MH has interpreted the applicable state laws 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, MH 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 MH in a manner consistent with the standard of prudence prescribed by applicable state laws. In accordance with applicable state laws, MH 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 MH 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
- Other resources of MH
- The investment policies of MH

MONROE HARDING, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

K. ENDOWMENT - Continued

Endowment Net Asset Composition by Type of Fund as of December 31, 2009:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ -	\$491,004	\$ 491,004
Board-restricted endowment funds	<u>4,198,765</u>	<u>-</u>	<u>-</u>	<u>4,198,765</u>
Total funds	<u>\$4,198,765</u>	<u>\$ -</u>	<u>\$491,004</u>	<u>\$4,689,769</u>

Changes in Endowment Net Assets for the Year Ended December 31, 2009:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	<u>\$ 3,841,264</u>	<u>\$ -</u>	<u>\$ 409,563</u>	<u>\$ 4,250,827</u>
Investment return:				
Investment income	137,876	-	10,520	148,396
Net appreciation (realized and unrealized)	<u>639,749</u>	<u>-</u>	<u>81,441</u>	<u>721,190</u>
Total investment return	<u>777,625</u>	<u>-</u>	<u>91,961</u>	<u>869,586</u>
Appropriation of endowment assets for expenditure	<u>(460,000)</u>	<u>-</u>	<u>(10,520)</u>	<u>(470,520)</u>
Transfers to create board- designated endowment funds	<u>39,876</u>	<u>-</u>	<u>-</u>	<u>39,876</u>
Endowment net assets, end of year	<u>\$ 4,198,765</u>	<u>\$ -</u>	<u>\$ 491,004</u>	<u>\$ 4,689,769</u>

MONROE HARDING, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

K. ENDOWMENT - Continued

Return Objectives and Risk Parameters

MH has adopted investment and 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 MH must hold in perpetuity or for donor-specified periods as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of selected market and comparative indices while assuming a moderate level of investment risk. Actual returns will vary in any given year.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, MH 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). MH 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

MH has a current policy of appropriating for distribution each year \$460,000 from its board-restricted endowment funds. In establishing this policy, MH considered the long-term expected return on its endowment. MH's objective is 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.

L. GIFTS IN-KIND

MH records donated materials and services at fair value on the date of donation. During 2009, MH recorded donated labor and materials with a fair value of \$10,181.

MONROE HARDING, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

M. FAIR VALUE OF FINANCIAL INSTRUMENTS

Required disclosures concerning the estimated fair value of financial instruments are presented below. The estimated fair value amounts have been determined based on MH's assessment of available market information and appropriate valuation methodologies. The following table summarizes required fair value disclosures and measurements at December 31, 2009 for assets measured at fair value on a recurring basis:

	Assets Measured at Fair Value	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable (Level 2)	Significant Unobservable Inputs (Level 3)
Investments	\$4,198,765	\$2,758,606	\$1,440,159	\$ -
Beneficial interests in perpetual trusts	491,004	-	491,004	-

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash Equivalents, Receivables, Accounts Payable and Accrued Expenses

The carrying values of these items approximate their fair values due to the short maturities of these instruments.

Investments and Beneficial Interests in Perpetual Trusts

Fair values are based on quoted market prices, where available, and on Level 2 inputs. The carrying amounts and the fair values of MH's investments are presented in Note C.

N. MERGER

MH and Residential Services, Inc. ("RSI") merged effective August 31, 2009. RSI was a specialized foster care not-for-profit organization that served children with a handicapping condition or other special needs. Pursuant to the Articles of Merger, MH is the surviving nonprofit corporation. The combination is reported using the pooling of interests method and, as such, the financial statements include activity of both organizations for the entire year, with the exception of \$59,616 in intercompany transactions prior to the merger, which have been eliminated. As of August 31, 2009, MH reported revenues of \$2,572,764 and net income of \$70,470; RSI reported revenues and net loss of \$469,333 and \$295,489, respectively, during the same period. MH's beginning unrestricted net assets have been restated to reflect an increase of \$663,949 for RSI's net assets as of January 1, 2009.

MONROE HARDING, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

O. SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 28, 2010, the date the financial statements were available for issuance, and has determined that there are no subsequent events requiring disclosure.

SUPPLEMENTAL INFORMATION

SCHEDULE 1

MONROE HARDING, INC.
 COMPARISON OF PUBLIC SUPPORT AND REVENUE
 WITH BUDGET - EXCLUDING RSI
 YEAR ENDED DECEMBER 31, 2009

	<u>Actual</u>	<u>Budget</u>	<u>Actual Over (Under) Budget</u>
PUBLIC SUPPORT AND REVENUE (BUDGETARY)			
Middle Tennessee Presbytery	\$ 92,874	\$ 110,000	\$(17,126)
Middle Tennessee Churches	310	500	(190)
West Tennessee Churches	7,294	6,500	794
Other churches	550	1,000	(450)
Individual gifts	84,937	103,400	(18,463)
Memorials	14,960	9,500	5,460
Foundation and corporate gifts	181,411	185,000	(3,589)
Special events	228,945	170,950	57,995
Governmental contracts and sub-contracts	2,701,267	2,835,000	(133,733)
USDE reimbursement	25,872	29,000	(3,128)
United Way	28,877	29,000	(123)
Income and net gain on investments	850,393	600,200	250,193
Interest - Plummer Fund	10,520	21,000	(10,480)
Other income	73,886	6,650	67,236
Rental income	19,034	15,500	3,534
Stanley income	-	4,400	(4,400)
Clubs and organizations	<u>11,440</u>	<u>8,000</u>	<u>3,440</u>
	4,332,570	4,135,600	196,970
PUBLIC SUPPORT AND REVENUE (NONBUDGETARY)			
Education fund interest	10,000	10,000	-
Interest - capital account	402	3,000	(2,598)
Gifts in-kind	<u>10,181</u>	<u>6,000</u>	<u>4,181</u>
	<u>20,583</u>	<u>19,000</u>	<u>1,583</u>
 Total public support and revenue	 <u>\$4,353,153</u>	 <u>\$4,154,600</u>	 <u>\$ 198,553</u>

See accompanying independent auditors' report.

MONROE HARDING, INC.
COMPARISON OF EXPENSES WITH BUDGET - EXCLUDING RSI
YEAR ENDED DECEMBER 31, 2009

	<u>Actual</u>	<u>Budget</u>	<u>Actual (Over) Under Budget</u>
EXPENSES			
SALARIES AND WAGES			
Staff Salaries and Wages	<u>\$ 1,720,995</u>	<u>\$ 1,674,050</u>	<u>\$(46,945)</u>
Total salaries and wages	1,720,995	1,674,050	(46,945)
EMPLOYEE BENEFIT			
Medical and Dental Plan Premiums	145,502	150,000	4,498
Life & Disability Insurance	8,143	8,300	157
Pension Plan Benefits	74,799	63,000	(11,799)
Cafeteria Plan-Medical Reimb.	<u>6,594</u>	<u>7,500</u>	<u>906</u>
Total employee benefits	235,038	228,800	(6,238)
PAYROLL TAXES			
Employer FICA	109,240	103,000	(6,240)
Employer Medicare Tax	25,506	25,000	(506)
Employer Unemployment Premiums	19,001	5,000	(14,001)
Workers' Compensation	<u>28,211</u>	<u>35,000</u>	<u>6,789</u>
Total payroll taxes	181,958	168,000	(13,958)
PROFESSIONAL FEES			
Auditing Fees	15,600	15,000	(600)
Accounting Services	1,375	1,800	425
Payroll Processing Services	8,060	6,200	(1,860)
Other Professional Consultant Fees	<u>4,777</u>	<u>-</u>	<u>(4,777)</u>
Total Professional Fees	29,812	23,000	(6,812)
RECRUITMENT			
Classified Advertisement	476	1,200	724
Background checks	4,091	5,000	909
Fingerprinting	<u>3,504</u>	<u>2,500</u>	<u>(1,004)</u>
Total Recruitment	8,071	8,700	629

See accompanying independent auditors' report.

MONROE HARDING, INC.
COMPARISON OF EXPENSES WITH BUDGET - EXCLUDING RSI - Continued
YEAR ENDED DECEMBER 31, 2009

	<u>Actual</u>	<u>Budget</u>	<u>Actual (Over) Under Budget</u>
VOLUNTEER SERVICES			
Volunteer Training	757	300	(457)
Volunteer Recognition Awards	228	700	472
Other Volunteer Expenses	298	2,800	2,502
Board/Committee Meetings	329	500	171
Board Retreat	549	400	(149)
Board Recognition Awards	<u>264</u>	<u>-</u>	<u>(264)</u>
Total Volunteer Services	2,425	4,700	2,275
CONTRACTED SERVICES			
Maintenance	1,801	1,000	(801)
Housekeeping	6,679	7,000	321
Temporary Help	2,316	-	(2,316)
Contracted Program Services	1,028,502	1,267,500	238,998
Contracted Foster care Parents	<u>61,137</u>	<u>-</u>	<u>(61,137)</u>
Total Contracted Services	1,100,435	1,275,500	175,065
SPECIAL EVENTS			
Facility Costs	6,741	3,600	(3,141)
Food and Beverages	6,408	8,500	2,092
Entertainment and Related Expense	1,200	1,500	300
Favors and Giveaways	365	200	(165)
Presentation (Decorations)	<u>620</u>	<u>650</u>	<u>30</u>
Total Special Events	15,334	14,450	(884)
SUPPLIES			
Office Supplies	16,779	26,300	9,521
Stationery	502	500	(2)
Cleaning Supplies	2,137	1,500	(637)
Kitchen Supplies	842	1,100	258
Promotional (Decorations)	<u>-</u>	<u>900</u>	<u>900</u>
Total Supplies	20,260	30,300	10,040
POSTAGE & SHIPPING			
General Postage	13,189	10,350	(2,839)
Express Delivery	39	-	(39)
Courier Service	79	-	(79)
Outside Mailing Service	<u>16</u>	<u>-</u>	<u>(16)</u>
Total Postage & Shipping	13,323	10,350	(2,973)

See accompanying independent auditors' report.

MONROE HARDING, INC.
 COMPARISON OF EXPENSES WITH BUDGET - EXCLUDING RSI - Continued
 YEAR ENDED DECEMBER 31, 2009

	<u>Actual</u>	<u>Budget</u>	<u>Actual (Over) Under Budget</u>
TELEPHONE			
Long Distance Telephone	1,760	1,500	(260)
Local Telephone	11,986	11,800	(186)
Internet Service Provider	7,858	8,100	242
Pagers & Cellular Phones	<u>12,394</u>	<u>11,000</u>	<u>(1,394)</u>
Total Telephone	33,998	32,400	(1,598)
OCCUPANCY			
Rental fee - Off Campus Homes	112,390	118,400	6,010
Repairs & Maintenance-Buildings	9,437	8,200	(1,237)
Repairs & Maintenance-Autos	9,496	7,000	(2,496)
Repairs & Maintenance-Equipment	16,256	5,000	(11,256)
Fire and Security	4,212	3,000	(1,212)
Extermination	4,578	4,400	(178)
Garbage Service	3,211	3,300	89
Grounds Maintenance	<u>16,155</u>	<u>14,500</u>	<u>(1,655)</u>
Total Occupancy	175,735	163,800	(11,935)
UTILITIES			
Electric	34,837	37,000	2,163
Water	15,514	9,500	(6,014)
Gas	<u>27,302</u>	<u>32,800</u>	<u>5,498</u>
Total Utilities	77,653	79,300	1,647
EQUIPMENT & EQUIPMENT RENTAL			
Equipment Rental	2,704	2,300	(404)
Equipment Purchases (not capitalized)	590	-	(590)
Equipment Maintenance contracts	<u>10,364</u>	<u>11,400</u>	<u>1,036</u>
Total Equipment & Equipment Rental	13,658	13,700	42
PUBLIC RELATIONS & MARKETING			
Printing and Binding	13,760	15,800	2,040
Artwork, Photos, Design & Layout	165	500	335
Promotional Efforts	755	200	(555)
Web Page Hosting	657	700	43
Advertising Fees	<u>991</u>	<u>1,200</u>	<u>209</u>
Total Public Relations & Marketing	16,328	18,400	2,072

See accompanying independent auditors' report.

MONROE HARDING, INC.
COMPARISON OF EXPENSES WITH BUDGET - EXCLUDING RSI - Continued
YEAR ENDED DECEMBER 31, 2009

	<u>Actual</u>	<u>Budget</u>	<u>Actual (Over) Under Budget</u>
TRAVEL			
General Travel-Staff	15,663	22,000	6,337
Auto Gas and Oil	<u>10,530</u>	<u>14,000</u>	<u>3,470</u>
Total Travel	26,193	36,000	9,807
CONFERENCES, MTGS & COURSES			
Staff Development	14,658	21,200	6,542
Staff Travel & Out-of-Pocket	2,254	7,200	4,946
Professional Meetings	1,286	700	(586)
Other Meeting Expenses	<u>868</u>	<u>3,100</u>	<u>2,232</u>
Total Conferences, Meetings and Courses	19,066	32,200	13,134
SPECIAL OCCASIONS			
Staff Retreat	186	-	(186)
Holiday Gifts-Employee	4,906	5,500	594
Holiday Gifts-Resident	268	-	(268)
Employee Recognition/Service Awards	6,834	6,000	(834)
Youth Recognition	389	-	(389)
Special Lunches/Banquets	<u>6,960</u>	<u>12,200</u>	<u>5,240</u>
Total Special Occasions	19,543	23,700	4,157
MEMBERSHIPS & SUBSCRIPTIONS			
Membership Dues-Other Organizations	6,163	3,250	(2,913)
Subscription & Publication	<u>35</u>	<u>-</u>	<u>(35)</u>
Total Memberships and Subscriptions	6,198	3,250	(2,948)
INSURANCE EXPENSE			
Auto Insurance	7,712	8,000	288
Multi-Peril Insurance	27,890	28,000	110
Umbrella Insurance	7,908	8,500	592
Director & Officers Liability	1,960	2,100	140
Professional Liability Insurance	<u>1,939</u>	<u>-</u>	<u>(1,939)</u>
Total Insurance Expense	47,409	46,600	(809)

See accompanying independent auditors' report.

MONROE HARDING, INC.
COMPARISON OF EXPENSES WITH BUDGET - EXCLUDING RSI - Continued
YEAR ENDED DECEMBER 31, 2009

	<u>Actual</u>	<u>Budget</u>	<u>Actual (Over) Under Budget</u>
RESIDENT'S EXPENSES			
Allowances	8,958	13,000	4,042
Child/Foster care	2,999	-	(2,999)
Clothing	145	2,500	2,355
Food	56,626	66,000	9,374
Resident supplies	1,795	3,000	1,205
Dorm & Cottage supplies	3,679	6,500	2,831
Resident Travel	1,500	1,300	(200)
Haircuts	952	1,000	48
Medical	502	1,500	998
Outings	3,587	7,000	3,413
Arts and Enrichment	1,250	2,200	950
Education	650	2,500	1,850
G.E.D. Materials	191	1,000	809
Life Skills	1,035	4,100	3,065
Summer Programs-Education	1,302	2,500	1,198
Youth Training	20,384	9,000	(11,384)
Youth-Civic Engagements/Incentives	638	6,000	5,362
Furniture & Appliances	683	-	(683)
Youth Specific Assistance	20,426	43,000	22,574
Emergency Youth Transportation	295	-	(295)
Total Resident's Expense	<u>127,597</u>	<u>172,100</u>	<u>44,503</u>
DEPRECIATION & AMORTIZATION			
Depreciation-Furniture, Fixtures & Equipment	36,627	42,000	5,373
Depreciation-Building	<u>49,337</u>	<u>50,000</u>	<u>663</u>
Total Depreciation & Amortization	85,964	92,000	6,036
MISCELLANEOUS EXPENSES			
Miscellaneous Banking Fees	3,229	1,300	(1,929)
Filing Fees-Licenses & Permits	2,314	1,500	(814)
Other Miscellaneous Expenses	157	-	(157)
Moving Expense	309	-	(309)
Other Miscellaneous Expenses	487	500	13
Total Miscellaneous Expense	<u>6,496</u>	<u>3,300</u>	<u>(3,196)</u>
Total Expenses	<u>\$3,983,489</u>	<u>\$4,154,600</u>	<u>\$ 171,111</u>

See accompanying independent auditors' report.



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

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

We have audited the financial statements of Monroe Harding, Inc., as of and for the year ended December 31, 2009, and have issued our report thereon dated June 28, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Monroe Harding, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Monroe Harding, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Monroe Harding, Inc.'s internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

To the Board of Directors
Monroe Harding, Inc.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Monroe Harding, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 & Associates, P.C.

Nashville, Tennessee
June 28, 2010