

**PLANNED PARENTHOOD OF  
MIDDLE AND EAST TENNESSEE, INC.**

Financial Statements

June 30, 2005 and 2004

(With Independent Auditors' Report Thereon)



Hill, Harper & Associates  
Certified Public Accountants

**Independent Auditors' Report**

Terry A. Hill  
Ernest R. Harper

**The Board of Directors  
Planned Parenthood of Middle and  
East Tennessee, Inc.**

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We have audited the statements of financial position of Planned Parenthood of Middle and East Tennessee, Inc. (a nonprofit organization) as of June 30, 2005 and 2004, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organizations' 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. Those standards require that we plan and perform the audits 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 Planned Parenthood of Middle and East Tennessee, Inc. as of June 30, 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.

*Hill Harper & Associates*

November 22, 2005

**PLANNED PARENTHOOD OF  
MIDDLE AND EAST TENNESSEE, INC.**

**Statements of Financial Position**

**June 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
<u>Assets</u>		
<b>Current assets:</b>		
Cash and cash equivalents		
Cash in bank	\$ 171,594	214,479
Money market accounts	215,206	38,478
Total cash and cash equivalents	386,800	252,957
Investments	162,839	291,481
Accounts receivable:		
Grants receivable	15,858	51,849
Pledges receivable	42,267	61,480
Other	535	-
Total receivables	58,660	113,329
Prepaid expenses	23,753	17,412
Inventory	34,814	35,103
Total current assets	666,866	710,282
<b>Property and equipment:</b>		
Land	101,975	101,975
Building	846,267	846,267
Office furniture and equipment	199,958	645,503
Leasehold improvements	22,857	12,729
	1,171,057	1,606,474
Less accumulated depreciation	(412,131)	(834,908)
Net property and equipment	758,926	771,566
<b>Other assets:</b>		
Beneficial interest at Community Foundation	47,887	44,159
	<u>\$ 1,473,679</u>	<u>1,526,007</u>
<u>Liabilities and Net Assets</u>		
<b>Current liabilities:</b>		
Accounts payable	\$ 49,170	58,101
Accrued expenses	68,115	50,791
Mortgage payable due on demand	62,266	90,122
Total current liabilities	179,551	199,014
<b>Net assets:</b>		
Unrestricted	1,198,917	1,254,641
Temporarily restricted	47,324	28,193
Permanently restricted	47,887	44,159
Total net assets	1,294,128	1,326,993
	<u>\$ 1,473,679</u>	<u>1,526,007</u>

See accompanying notes to financial statements.

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2005

<u>Fund Raising</u>	<u>Community Services &amp; Public Affairs</u>	<u>Total Unrestricted Fund Groups</u>	<u>Temporarily Restricted Fund Groups</u>	<u>Permanently Restricted Fund Groups</u>	<u>2005 Total</u>	<u>2004 Total</u>
23,370	-	23,370	7,207	-	30,577	37,578
-	-	-	476,266	-	476,266	432,814
-	-	-	11,000	-	11,000	18,786
151,136	-	151,136	27,885	50	179,071	194,520
-	-	1,568,293	-	-	1,568,293	1,511,013
7,005	-	7,005	372	913	8,290	3,361
1,132	-	1,132	-	-	1,132	3,932
-	-	-	-	2,765	2,765	4,840
75,980	-	75,980	-	-	75,980	33,997
258,623	-	1,826,916	522,730	3,728	2,353,374	2,240,841
-	-	503,599	(503,599)	-	-	-
258,623	-	2,330,515	19,131	3,728	2,353,374	2,240,841
-	-	1,791,940	-	-	1,791,940	1,669,099
26,633	27,677	307,183	-	-	307,183	328,104
177,649	-	177,649	-	-	177,649	123,544
-	109,467	109,467	-	-	109,467	91,824
204,282	137,144	594,299	-	-	594,299	543,472
204,282	137,144	2,386,239	-	-	2,386,239	2,212,571
54,341	(137,144)	(55,724)	19,131	3,728	(32,865)	28,270
		1,254,641	28,193	44,159	1,326,993	1,298,723
		\$ 1,198,917	47,324	47,887	1,294,128	1,326,993

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**2005**

<b>Supporting Services</b>					
<b>Manage- ment and General</b>	<b>Fund Raising</b>	<b>Community Services &amp; Public Affairs</b>	<b>Total</b>	<b>2004 Total</b>	
183,698	84,817	88,143	1,162,404	1,018,669	Salaries and payroll taxes
-	-	-	158,240	171,100	Physicians
26,416	11,810	4,580	148,430	113,337	Employee benefits
45	-	-	216,528	232,508	Medical supplies
1,817	2,251	2,026	28,340	20,777	Office and other supplies
					Equipment rental and
1,268	1,793	789	20,089	17,676	maintenance
5,365	1,987	1,202	40,715	40,092	Telephone
15,971	66	40	72,537	74,377	Contract services
1,519	3,984	330	10,044	12,709	Postage and freight
549	605	-	65,259	70,098	Occupancy
12,492	7,818	2,308	86,184	62,074	Rent
4,971	7,159	2,929	33,717	40,893	Printing and publications
-	-	-	1,707	1,062	Security services
15,901	6,417	2,333	44,626	56,661	Travel
2,056	495	555	5,308	25,823	Employee development
-	-	-	63,452	61,985	Malpractice insurance
5,708	-	-	5,708	7,688	Interest
493	1,497	4,468	70,373	58,620	Advertising and marketing
-	-	-	8,260	12,160	Assistance to individuals
2,988	1,226	-	59,055	51,844	Depreciation
					Dues to state and
24,709	50	(236)	26,198	26,866	national organizations
-	44,723	-	44,895	22,704	Events
1,217	577	-	12,250	10,903	Bank fees
-	374	-	1,920	1,945	Permits, licenses and other
<b>307,183</b>	<b>177,649</b>	<b>109,467</b>	<b>2,386,239</b>	<b>2,212,571</b>	
<b>(307,183)</b>	<b>26,633</b>	<b>27,677</b>	<b>-</b>	<b>-</b>	
<b>-</b>	<b>204,282</b>	<b>137,144</b>	<b>2,386,239</b>	<b>2,212,571</b>	

**PLANNED PARENTHOOD OF  
MIDDLE AND EAST TENNESSEE, INC.**

**Statements of Cash Flows**

**For the years ended June 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
<b><u>Cash Flows from Operating Activities</u></b>		
Cash received from:		
Clients and public support	\$ 1,884,084	1,824,750
Federal, state and local governments	512,257	416,972
Interest income	7,377	2,618
Cash paid for:		
Employees and vendors	(2,319,670)	(2,091,839)
Interest	(5,708)	(7,688)
Net operating activities	<u>78,340</u>	<u>144,813</u>
<b><u>Cash Flows from Investing Activities</u></b>		
Purchase of equipment	(46,415)	(45,954)
Proceeds from sale of investments	333,701	11,663
Purchase of investments	(203,927)	(275,061)
Net investing activities	<u>83,359</u>	<u>(309,352)</u>
<b><u>Cash Flows from Financing Activities</u></b>		
Principal payments of long term debt	(27,856)	(25,877)
Net increase (decrease) in cash and cash equivalents	133,843	(190,416)
Cash and cash equivalents at beginning of year	252,957	443,373
	<u>\$ 386,800</u>	<u>252,957</u>
<b><u>Reconciliation of change in net assets to cash flows from operating activities</u></b>		
Change in net assets	\$ (32,865)	28,270
Depreciation	59,055	51,844
Realized and unrealized gains	(1,132)	(3,932)
Increase in funds held in trust	(3,728)	(7,696)
(Increase) decrease in current assets:		
Grants and contracts receivable	35,991	(15,842)
Pledges receivable	19,213	28,566
Other receivables	(535)	2,403
Prepaid expenses	(6,341)	512
Inventory	289	(3,777)
Increase (decrease) in current liabilities:		
Accounts payable	(8,931)	55,020
Accrued payroll, benefits and other expenses	17,324	9,445
Net operating activities	<u>\$ 78,340</u>	<u>144,813</u>

See accompanying notes to financial statements.



**PLANNED PARENTHOOD OF  
MIDDLE AND EAST TENNESSEE, INC.**

**Notes to Financial Statements**

**June 30, 2005 and 2004**

**General**

On July 1, 2000, Planned Parenthood of Middle Tennessee and Planned Parenthood of East Tennessee were merged with the new name being Planned Parenthood of Middle and East Tennessee, Inc. (the "Affiliate") and affiliated with Planned Parenthood Federation of America. The Affiliate is primarily engaged in providing education and medical treatment options to individuals concerning reproductive and health - related decisions.

**(1) Summary of Significant Accounting Policies**

**Basis of Financial Statement Presentation**

The financial statements have been prepared on the accrual basis of accounting and accordingly, reflect all significant receivables, payables and other liabilities.

These financial statements have been prepared to focus on the entity as a whole and to present transactions according to the existence or absence of donor-imposed restrictions in conformity with Statements of Financial Accounting Standards (SFAS) No. 116 "Accounting for Contributions Received and Contributions Made" and No. 117 "Financial Statements of Not for Profit Organizations". This has been accomplished by classification of fund transactions into three categories of net assets: unrestricted net assets which have no donor-imposed restrictions, temporarily restricted assets which have donor-imposed restrictions that expire in the future, and permanently restricted net assets which have donor imposed restrictions that do not expire, if any.

**Revenue Recognition**

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor restricted support is reported as an increase in temporarily or permanently restricted net assets, depending of the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

**Pledges Receivable**

The amounts, if any, less an appropriate reserve, will be recorded at their estimated fair value with amounts due later than one year at the present value of estimated future cash flows.

**Inventory**

Inventory consists of drugs, medical, contraceptive and laboratory supplies. Inventory is stated at the lower of cost or market, with cost being determined by use of the first - in, first-out method.

**Income Taxes**

The Affiliate is exempt from federal income taxes under the provisions of Section 501 (c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the financial statements.

**Property and Equipment**

Expenditures for property and equipment are stated at cost or estimated fair value at date of gift. Depreciation is provided over the estimated useful lives of the respective assets on a straight-line basis as follows:

Buildings and improvements	35 years
Office furniture and equipment	3 - 7 years
Leasehold improvements	Life of lease

**Use of Estimates**

The preparation of financial statements 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.

**PLANNED PARENTHOOD OF  
MIDDLE AND EAST TENNESSEE, INC.**

**Notes to Financial Statements, continued**

**(1) Summary of Significant Accounting Policies, continued**

**Cash and Cash Equivalents**

For purposes of the statements of cash flows, cash on hand, deposits in financial institutions and highly liquid debt instruments with an original maturity of three months or less are considered to be cash and cash equivalents.

**Allocation of Expenses**

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the following programs:

**Unrestricted Fund Groups**

Surgical Services - resources are utilized in the performance of surgical services.

Family Planning and Teen Clinic - resources are utilized to encourage family involvement with respect to family planning services provided to individuals and comprehensive services to teens. No state or federal grant resources are used for providing abortion services.

Non Grant - resources provide a fee - for - service base for patients capable of paying modest fees for high quality medical services and supplies.

Education - resources are utilized for providing family planning education to youth, youth serving agencies, and to adults. Educational programs and materials emphasize the connection between behavior and consequences, and encourage the development of responsible decision making skills. No education resources are used for providing surgical services.

J. P. Davis Fund - Contributions to this fund are temporarily restricted to providing abortions to indigent or low income women. As assistance is extended to these individuals the donor imposed restriction is released.

**Contributed Services**

Contributed services are reflected in the financial statements at the fair value of the services received, if those services (a) create or enhance non financial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. During the year ended June 30, 2005 and 2004 the Affiliate recognized no contributed services.

**Compensated Absences**

Employees are entitled to paid vacation, paid sick days and personal days off, depending on job classification, length of service and other factors. A liability has been provided in the financial statements for compensated absences relating to vacations earned not paid. It is impractical to estimate the amount of compensation for future absences related to sick days and personal days off, accordingly, this liability has not been recorded in the accompanying financial statements. The policy is to recognize the cost of these other compensated absences when actually paid to employees.

**Fair Value of Financial Instruments**

The carrying value of cash, accounts receivable, inventory, prepaid expenses, accounts payable and accrued expenses approximate fair value because of the short maturity of these instruments. The carrying values of other liabilities and long term debt are not materially different from the estimated fair values of these instruments.

**Financial Statement Presentation**

Certain reclassifications may have been made to the prior year figures in order to conform to current year presentation. These reclassifications, if any, have no effect on reported net assets.

# PLANNED PARENTHOOD OF MIDDLE AND EAST TENNESSEE, INC.

## Notes to Financial Statements, continued

(1) **Summary of Significant Accounting Policies, continued**

**Investments and Realized and Unrealized Gains and Losses**

Investments are reported at market value to comply with Financial Accounting Standards No. 124, "Accounting for Certain Investments of Not for Profit Organizations".

The excess (deficit) of proceeds from the sale of investments as compared to cost is recognized as a realized gain or loss. The measurement of increase (decrease) in market values of investments from the beginning of year to end of year is recognized as unrealized gain or loss.

**Accounts receivable**

Accounts receivable are deemed to be fully collectable by management and no reserve is considered necessary.

(2) **Investments**

Marketable securities consist of the following:

At quoted market value:	<u>2005</u>	<u>2004</u>
Common stock	\$ 13,349	17,074
Certificates of deposit	99,490	174,407
Bonds	50,000	100,000
Total market value	162,839	291,481
Total cost or carrying value	160,210	287,371
Unrealized cumulative gains	2,629	4,110
Prior year unrealized cumulative gains	4,110	
Unrealized loss from investments	(1,481)	
Realized gain from disposition of investments	2,613	
Realized and unrealized gains	\$ 1,132	

(3) **Beneficial Interest at Community Foundation**

The Affiliate has a beneficial interest in a trust held by the Community Foundation. The Foundation has legal ownership of these funds. The Affiliate may request a grant from the Foundation based on the beneficial interest. This asset is classified as a permanently restricted net asset. The quoted market value of this beneficial interest amounted to \$47,887 and \$44,159 as of June 30, 2005 and 2004, respectively.

(4) **Mortgage Payable**

Mortgage payable on demand, but if no demand is made then in monthly installments of \$2,797 including interest at 7.25%, maturing June 2007. The loan is secured by a deed of trust of the D.B. Todd Building. The balance of \$62,266 and \$90,122 as of June 30, 2005 and 2004, respectively, is reported as a current liability in the financial statements.

(5) **Pension Plan**

The Affiliate offers a pension plan (the Plan) to its full-time employees who are at least 20 years of age with at least 2 years of service. Eligible employees may contribute up to 6% of their gross earnings, with the Affiliate matching 50% of the employees' contributed amounts. Also, eligible employees may contribute an additional 6% of their gross earnings (with no additional contribution from the Affiliate). There is immediate vesting by the employees for the Affiliate's contribution. During the years ended June 30, 2005 and 2004, the Affiliate contributed \$12,784 and \$8,120, respectively. The plan is administered by Paymaxx.

(6) **State and National Organizations**

Dues paid to state and national organizations, including the Affiliate's Fair Share Assessment, amount to \$26,198 and \$26,866, respectively in 2005 and 2004.

# MIDDLE AND EAST TENNESSEE, INC.

## Notes to Financial Statements, continued

(7) **Contingencies**

The Affiliate receives significant support, approximately 20% (\$476,266), from federal awards programs and fee for service contracts. A substantial reduction in the level of this support, should this occur, would have a material effect on the Affiliate's programs and services. The following summarizes the nature of the support from federal awards:

Family Planning Services	\$ 324,500
Family Planning Education	116,000
HIV Education - Middle Tennessee	31,664
HIV Education - East Tennessee	4,102
	<u>\$ 476,266</u>

(8) **Leases**

The Affiliate is obligated under certain lease agreements for office and clinic space and office equipment. Non cancelable lease terms for the office and clinic space is 1) Metro Center (administrative office) - \$3,000 per month through July 2007; and 2) Knoxville Clinic - \$1,183 per month through June 2009.

Future maturities of operating leases having an initial or remaining term of one year or more are as follows:

Year Ended June 30	
2006	\$ 50,196
2007	50,196
2008	17,196
2009	14,196
	<u>\$ 131,784</u>
Future minimum lease payments under operating lease obligations	<u>\$ 131,784</u>

(9) **Temporarily Restricted Net Assets**

Temporarily restricted net assets are available as follows:

	<u>2005</u>	<u>2004</u>
Private foundation grant for future Rivergate service center	\$ 10,000	10,000
Education	4,307	5,720
Anderson County Education and Clinic	-	1,151
Future capital acquisitions or maintenance	10,030	-
HIV Vaccine	1,785	-
J. P. Davis	21,202	11,322
	<u>\$ 47,324</u>	<u>28,193</u>

Net assets released from donor restrictions by incurring expenses satisfying the restricted purposes of the funds received:

Private gifts and grants for operational purposes	\$ 2,651
J. P. Davis	8,260
HIV Vaccine	2,215
Grant for PG - 13 Players program	14,207
Federal grants	476,266
	<u>\$ 503,599</u>

# MIDDLE AND EAST TENNESSEE, INC.

## Notes to Financial Statements, continued

### (10) Concentration of Credit Risk

The Affiliate has an accounting risk of loss in the areas of cash, investments, and accounts receivable to the extent that cash funds are not insured by a governmental agency, investments are not guaranteed by the United States Government and accounts receivable subject to collectibility. The following table summarizes the Affiliate's accounting risk of loss.

	Account <u>Balance</u>	Secured / <u>Collateralized</u>	Amount of Accounting Risk of <u>Loss</u>
Cash held in banks	\$ 171,594	107,538	64,056
Cash - money market	215,206	215,206	-
Investments	162,839	99,490	63,349
Government grants receivable	15,858	15,858	-
Other receivables	535	-	535
Pledges receivable	42,267	-	42,267
	<u>\$ 608,299</u>	<u>438,092</u>	<u>170,207</u>

### (11) Comparative Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the affiliate's financial statements for the year ended June 30, 2004, from which the summarized information was derived.