

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

Financial Statements and Supplemental Schedules

June 30, 2004 and 2003

(With Independent Auditors' Report Thereon)

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

Table of Contents

	<u>Page Number</u>
Unqualified Opinion on Financial Statements and Supplementary Schedule of Expenditures of Federal Awards - Not for Profit Organization	1
Financial Statements:	
Statements of Financial Position	2
Statements of Activities and Changes in Net Assets	3
Statements of Functional Expenses	4
Statements of Cash Flows	5
Notes to Financial Statements	6 - 9
Supplementary Data:	
Schedule of Expenditures of Federal Awards	10
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	11
Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A - 133	12 - 13
Schedule of Findings and Questioned Costs	14 - 16



Hill, Harper & Associates
Certified Public Accountants

Unqualified Opinion on Financial Statements and
Supplementary Schedule of Expenditures of Federal
Awards - Not for Profit Organization

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, 2004 and 2003, 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 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 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, 2004 and 2003, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 17, 2004 on our consideration of Planned Parenthood of Middle and East Tennessee, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Planned Parenthood of Middle and East Tennessee, Inc. taken as a whole. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133. Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the 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.

Hill Harper & Associates

November 17, 2004

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

Statements of Financial Position

June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 214,479	176,614
Cash - money market	38,478	266,759
Investments	291,481	24,151
Accounts receivable:		
Grants receivable	51,849	36,007
Pledges receivable	61,480	90,046
Other	-	2,403
Total receivables	113,329	128,456
Prepaid expenses	17,412	17,924
Inventory	35,103	31,326
Total current assets	710,282	645,230
Property and equipment:		
Land	101,975	101,975
Building	846,267	846,267
Office furniture and equipment	645,503	599,549
Leasehold improvements	12,729	12,729
	1,606,474	1,560,520
Less accumulated depreciation	(834,908)	(783,189)
Net property and equipment	771,566	777,331
Other assets:		
Beneficial interest at Community Foundation	44,159	36,463
	<u>\$ 1,526,007</u>	<u>1,459,024</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 58,101	2,956
Accrued expenses	50,791	41,346
Mortgage payable due on demand	90,122	115,999
Total current liabilities	199,014	160,301
Net assets:		
Unrestricted	1,247,607	1,223,524
Temporarily restricted	35,227	38,736
Permanently restricted	44,159	36,463
Total net assets	1,326,993	1,298,723
	<u>\$ 1,526,007</u>	<u>1,459,024</u>

See accompanying notes to financial statements.

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2004

<u>Fund Raising</u>	<u>Community Services & Public Affairs</u>	<u>Total Unrestricted Fund Groups</u>	<u>Temporarily Restricted Fund Groups</u>	<u>Permanently Restricted Fund Groups</u>	<u>2004 Total</u>	<u>2003 Total</u>
37,578	-	37,578	-	-	37,578	64,133
-	-	-	432,814	-	432,814	390,777
-	-	-	18,786	-	18,786	32,485
180,107	-	180,107	12,300	2,113	194,520	137,013
-	-	1,511,013	-	-	1,511,013	1,351,176
2,618	-	2,618	-	743	3,361	9,565
3,932	-	3,932	-	-	3,932	5,897
-	-	-	-	4,840	4,840	3,046
33,997	-	33,997	-	-	33,997	85,538
258,232	-	1,769,245	463,900	7,696	2,240,841	2,079,630
-	1,249	467,409	(467,409)	-	-	-
258,232	1,249	2,236,654	(3,509)	7,696	2,240,841	2,079,630
-	-	1,669,099	-	-	1,669,099	1,591,554
21,852	21,950	328,104	-	-	328,104	283,014
123,544	-	123,544	-	-	123,544	162,325
-	91,824	91,824	-	-	91,824	-
145,396	113,774	543,472	-	-	543,472	445,339
145,396	113,774	2,212,571	-	-	2,212,571	2,036,893
112,836	(112,525)	24,083	(3,509)	7,696	28,270	42,737
		1,223,524	38,736	36,463	1,298,723	1,255,986
	\$	1,247,607	35,227	44,159	1,326,993	1,298,723

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2004

Supporting Services

Management and General	Fund Raising	Community Services & Public Affairs	Total	2003 Total	
202,183	54,417	54,631	1,018,669	910,984	Salaries and payroll taxes
-	-	-	171,100	151,645	Physicians
22,245	5,748	2,598	113,337	92,150	Employee benefits
-	-	-	232,508	232,394	Medical supplies
1,233	703	622	20,777	27,567	Office and other supplies
1,246	2,860	1,080	17,676	22,217	Equipment rental and maintenance
5,124	1,353	2,602	40,092	49,225	Telephone
15,039	70	70	74,377	80,408	Contact services
1,151	4,783	1,626	12,709	12,818	Postage and freight
754	695	-	70,098	58,748	Occupancy
11,520	8,640	16	62,074	59,117	Rent
2,805	13,241	4,130	40,893	41,883	Printing and publications
-	-	-	1,062	1,787	Security services
13,423	2,738	22,072	56,661	29,284	Travel
7,180	1,819	64	25,823	19,880	Employee development
-	-	-	61,985	57,671	Malpractice insurance
7,688	-	-	7,688	10,086	Interest
650	1,996	1,733	58,620	43,743	Advertising and marketing
-	-	-	12,160	11,329	Assistance to individuals
2,735	1,013	-	51,844	53,856	Depreciation
25,836	205	580	26,866	25,814	Dues to state and national organizations
-	22,704	-	22,704	29,243	Events
6,962	259	-	10,903	11,234	Bank fees
330	300	-	1,945	3,810	Permits, licenses and other
328,104	123,544	91,824	2,212,571	2,036,893	
(328,104)	21,852	21,950	-	-	
-	145,396	113,774	2,212,571	2,036,893	

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

Statements of Cash Flows

For the years ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
<u>Cash Flows from Operating Activities</u>		
Cash received from:		
Clients and public support	\$ 1,824,750	1,723,877
Federal, state and local governments	416,972	376,370
Interest income	2,618	15,462
Cash paid for:		
Employees and vendors	(2,091,839)	(1,991,632)
Interest	(7,688)	(10,086)
Net operating activities	<u>144,813</u>	<u>113,991</u>
<u>Cash Flows from Investing Activities</u>		
Purchase of equipment	(45,954)	(15,004)
Proceeds from sale of investments	11,663	-
Purchase of investments	<u>(275,061)</u>	<u>-</u>
Net investing activities	<u>(309,352)</u>	<u>(15,004)</u>
<u>Cash Flows from Financing Activities</u>		
Principal payments of long term debt	<u>(25,877)</u>	<u>(24,001)</u>
Net increase (decrease) in cash and cash equivalents	(190,416)	74,986
Cash and cash equivalents at beginning of year	<u>443,373</u>	<u>368,387</u>
	<u>\$ 252,957</u>	<u>443,373</u>
<u>Reconciliation of change in net assets to cash flows from operating activities</u>		
Change in net assets	\$ 28,270	42,737
Depreciation	51,719	53,856
Donation of common stock	-	(13,219)
Realized and unrealized gains	(3,932)	(5,897)
Investment earnings from funds held in trust	(7,696)	(3,046)
(Increase) decrease in current assets:		
Grants and contracts receivable	(15,842)	(14,407)
Pledges receivable	28,566	6,584
Other receivables	2,403	62,529
Prepaid expenses	512	11,053
Inventory	(3,777)	(1,912)
Increase (decrease) in current liabilities:		
Accounts payable	55,145	(20,292)
Accrued payroll, benefits and other expenses	9,445	(3,995)
Net operating activities	<u>\$ 144,813</u>	<u>113,991</u>

See accompanying notes to financial statements.

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

Notes to Financial Statements

June 30, 2004 and 2003

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 grant resources are used for providing of 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 nonfinancial 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, 2004 and 2003 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>2004</u>	<u>2003</u>
Common stock	\$ 17,074	24,151
Certificates of deposit	174,407	-
Bonds	100,000	-
Total market value	291,481	24,151
Total cost or carrying value	287,371	18,254
Unrealized cumulative gains	4,110	5,897
Prior year unrealized cumulative gains	5,897	-
Unrealized loss from investments	(1,787)	-
Realized gain from disposition of investments	5,719	-
Realized and unrealized gains	<u>\$ 3,932</u>	<u>-</u>

(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 \$44,159 and \$36,463 as of June 30, 2004 and 2003, 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 \$90,122 and \$115,999 as of June 30, 2004 and 2003, 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, 2004 and 2003, the Affiliate contributed \$8,120 and \$5,986, respectively. The plan is administered by Paymaxx.

(6) **Contingencies**

The Affiliate receives significant support, approximately 19% (\$432,814), 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.

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

Notes to Financial Statements, continued

(7) **State and National Organizations**

Dues paid to state and national organizations, including the Affiliate's Fair Share Assessment, amount to \$28,866 and \$25,814, respectively in 2004 and 2003.

(8) **Leases**

The Affiliate is obligated under certain lease agreements for office and clinic space and office equipment. Non cancellable lease terms for the office and clinic space is 1) Metro Center (administrative office) - \$3,000 per month through July 2005; and 2) Knoxville Clinic - \$1,680 per month through November 2005.

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

Year Ended <u>June 30</u>	
2005	\$ 56,160
2006	11,400
Future minimum lease payments under operating lease obligations	<u>\$ 67,560</u>

(9) **Temporarily Restricted Net Assets**

Temporarily restricted net assets are available as follows:

Private foundation grant for future Rivergate service center	\$ 10,000
J. P. Davis	24,076
	<u>\$ 34,076</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	\$ 3,649
J. P. Davis	12,160
Grant for PG - 13 Players program	18,786
Federal grants	432,814
	<u>\$ 467,409</u>

(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 Balance	Secured / Collateralized	Amount of Accounting Loss
Cash held in banks	\$ 214,479	162,341	52,138
Cash - money market	38,478	38,478	-
Investments	291,481	174,407	117,074
Government grants receivable	51,849	51,849	-
Pledges receivable	61,480	-	61,480
	<u>\$ 657,767</u>	<u>427,075</u>	<u>230,692</u>

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

Schedule of Expenditures of Federal Awards

For the year ended June 30, 2004

<u>CFDA No.</u>	<u>Grant Number</u>	<u>Grant Amount</u>	<u>Balance due June 30, 2003</u>	<u>Cash Receipts</u>	<u>Expend- itures</u>	<u>Balance due June 30, 2004</u>
Direct Grants through Tennessee Department of Health						
Family Planning Education Grant (Teen Grant)						
93.994	GR - 03 - 14566 - 00	\$ 116,000	\$ 12,408	12,408	-	-
93.994	GR - 04 - 15364 - 02	116,000	-	112,744	116,000	3,256
Family Planning Services Grant						
93.217	GR - 03 - 14566 - 00	234,200	20,992	20,992	-	-
93.217	GR - 04 - 15364 - 02	324,500	-	233,773	280,668	46,895
Pass -Through Grants						
HIV / AIDS Prevention Services Middle Tennessee						
93.940	Z - 01 - 002600 - 00	32,394	2,607	19,106	16,499	-
93.940	Z - 01 - 002600 - 00	31,422	-	13,851	15,549	1,698
HIV / AIDS Prevention Services Chattanooga Tennessee						
93.940	Not available	8,000	-	4,098	4,098	-
			<u>\$ 36,007</u>	<u>416,972</u>	<u>432,814</u>	<u>51,849</u>



Hill, Harper & Associates
Certified Public Accountants

Report on Compliance and on Internal Control Over
Financial Reporting Based on an Audit of Financial
Statements Performed in Accordance with
Government Auditing Standards

Terry A. Hill
Ernest R. Harper

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

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Brentwood, TN 37027
TEL: 615/377-3485
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We have audited the financial statements of Planned Parenthood of Middle and East Tennessee, Inc. (a nonprofit organization) as of and for the year ended June 30, 2004 and have issued our report dated November 17, 2004. 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 of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards for the year ended June 30, 2004.

Internal Control Over Financial Reporting

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

This report is intended for the information of the Board of Directors, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Hill, Harper & Associates

November 17, 2004



Hill, Harper & Associates
Certified Public Accountants

**Report on Compliance With Requirements Applicable to Each
Major Program and Internal Control Over Compliance in
Accordance with OMB Circular A-133**

Terry A. Hill
Ernest R. Harper

To the Board of Directors
Planned Parenthood of Middle and
East Tennessee, Inc.

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Compliance

We have audited the compliance of Planned Parenthood of Middle and East Tennessee, Inc. with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. Planned Parenthood of Middle and East Tennessee, Inc.'s major federal programs are identified in the summary of auditor's Schedule of Expenditures of Federal Awards. Compliance with the requirements of laws regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Planned Parenthood of Middle and East Tennessee, Inc.'s management. Our responsibility is to express an opinion on Planned Parenthood of Middle and East Tennessee, Inc.'s compliance based on our audit.

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

As described in item 04 - 1 in the accompanying schedule of findings and questioned costs, Planned Parenthood of Middle and East Tennessee, Inc. did not comply with requirements regarding services to be performed in the teen clinic that are applicable to its Tennessee Department of Health grant. Compliance with such requirements is necessary, in our opinion, for Planned Parenthood of Middle and East Tennessee, Inc. to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Planned Parenthood of Middle and East Tennessee, Inc. complied, in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

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

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

This report is intended for the information of the Board of Directors, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Heel, Harper & Associates

Brentwood, Tennessee

November 17, 2004

**PLANNED PARENTHOOD OF
MIDDLE AND EAST TENNESSEE, INC.**
Schedule of Prior Year Findings as Reported June 30, 2003
Year ended June 30, 2004

**Findings and Questioned Costs -
Major Federal Award Programs Audit**

Tennessee Department of Health - Teen Clinic Services

03 - 1 Condition

The Affiliate failed to provide the amount of services required by the teen clinic portion of the grant.

Criteria

The grant requires the Affiliate provide a certain amount of services / procedures.

Effect

The Affiliate failed to meet specific requirements of the grant as follows:

	<u>Teens Served</u>	<u>Required by Grant</u>
Comprehensive health services	340	625
Training sessions	23	100
Sexuality Education Certifications	10	12
Professional conferences	60	100

Recommendation

The Affiliate should address these requirements in future grant proposals.

Grantee's Response

The Affiliate agrees with this finding. The number of procedures to be performed will be addressed in future year grant proposals.

Questioned Costs

The amount of questioned costs cannot be determined.

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

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Summary of Auditors' Results

1. The auditors' report expresses an unqualified opinion on the general purpose financial statements of Planned Parenthood of Middle and East Tennessee, Inc.
2. No reportable conditions relating to the audit of the financial statements are reported in the Report on Compliance and on Internal Control over Financial Reporting on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.
3. No instances of noncompliance material to the financial statements of Planned Parenthood of Middle and East Tennessee, Inc. which would be required to be reported in accordance with Government Auditing Standards were disclosed during the audit.
4. A reportable condition was disclosed during the audit of the financial statements and is reported in the Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A - 133.
5. The auditors' report on compliance for the major federal award programs for Planned Parenthood of Middle and East Tennessee, Inc. expresses an unqualified opinion on the major federal programs.
6. Audit findings relative to the major federal award programs for Planned Parenthood of Middle and East Tennessee, Inc. were disclosed during the audit of the major federal awards programs.
7. The programs tested as major programs include:

<u>CFDA #</u>	<u>Program Name</u>
93.217	Family Planning Services
94.994	Teen Clinic

8. The threshold used for distinguishing between Type A and B Programs was \$300,000.
9. Planned Parenthood of Middle and East Tennessee, Inc. qualifies as a low-risk auditee.

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

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

**Findings and Questioned Costs -
Major Federal Award Programs Audit**

Tennessee Department of Health - Teen Clinic Services

04 - 1 Condition

The Affiliate failed to provide the amount of services required by the teen clinic portion of the grant.

Criteria

The grant requires the Affiliate provide a certain number of services / procedures.

Effect

The Affiliate failed to meet specific requirements of the grant as follows:

	<u>Teens Served</u>	<u>Required by Grant</u>
Comprehensive health services	276	470
Conduct training sessions for parents	32	100
Conduct Sexuality Education Certification Series Professionals provided	8	12

Recommendation

The Affiliate should address these requirements in future grant proposals.

Grantee's Response

The Affiliate agrees with this finding. The number of procedures to be performed will be addressed in future year grant proposals.

Questioned Costs

The amount of questioned costs cannot be determined.