PLANNED PARENTHOOD OF MIDDLE AND EAST TENNESSEE, INC.

Financial Statements

June 30, 2006 and 2005

(With Independent Auditors' Report Thereon)

Hill, Harper & Associates
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Independent Auditors' Report

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

We have audited the statements of financial position of Planned Parenthood of Middle and East Tennessee, Inc. (a nonprofit organization) as of June 30, 2006 and 2005, 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 Organization's 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, 2006 and 2005, 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 20, 2006

PLANNED PARENTHOOD OF MIDDLE AND EAST TENNESSEE, INC.

Statements of Financial Position

June 30, 2006 and 2005

	2006	2005
Assets		
Current assets:		
Cash and cash equivalents		
Cash in bank	$ 293,305	171,594
Money market accounts	127,265	215,206
Total cash and cash equivalents	420,570	386,800
Investments	313,809	162,839
Accounts receivable:		
Grants receivable	2,548	15,858
Pledges receivable	31,010	27,503
Other	707	535
Total receivables	34,265	43,896
Prepaid expenses	42,109	23,753
Inventory	17,303	34,814
Total current assets	828,056	652,102
Property and equipment:		
Land	101,975	101,975
Building	846,267	846,267
Office furniture and equipment	210,043	199,958
Leasehold improvements	22,857	22,857
	1,181,142	1,171,057
Less accumulated depreciation	(472,862)	(412,131)
Net property and equipment	708,280	758,926
Other assets:		
Beneficial interest at Community Foundation	52,495	47,887
	$ 1,588,831	1,458,915
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	$ 48,785	49,170
Accrued expenses	70,544	68,115
Mortgage payable due on demand	32,334	62,266
Total current liabilities	151,663	179,551
Net assets:		
Unrestricted	1,339,904	1,184,153
Temporarily restricted	44,769	47,324
Permanently restricted	52,495	47,887
Total net assets	1,437,168	1,279,364
	$ 1,588,831	1,458,915

See accompanying notes to financial statements.

PLANNED PARENTHOOD OF
MIDDLE AND EAST TENNESSEE, INC.

Statements of Activities and Changes in Net Assets

For the years ended June 30, 2006 and 2005

	2006					2006						
	Unrestricted Fund Groups											
	Surgical Services	amily Planning and Teen Clinic Grant	Non Grant	Education	J. P. Davis Fund	Fund Raising	Community Services & Public Affairs	Total Unrestricted Fund Groups	Temporarily Restricted Fund Groups	Permanently Restricted Fund Groups	2006 Total	2005 Total
Public support and revenue:												
Public support - United Way	$ -	-	-	-	-	36,577	-	36,577	7,028	-	43,605	30,577
Grants from government agencies	-	-	-	-	-	-	-	-	490,580	-	490,580	476,266
Grants from other agencies	-	-	-	-	-	-	-	-	35,000	-	35,000	11,000
Contributions and memberships	-	-	-	-	-	236,656	-	236,656	11,145	-	247,801	179,071
Patient fees	1,197,998	291,527	187,702	2,811	-	-	-	1,680,038	-	-	1,680,038	1,568,293
Interest income	-	-	-	-	-	14,146	-	14,146	1,450	1,061	16,657	8,290
Realized and unrealized gains	-	-	-	-	-	363	-	363	-	-	363	1,132
Gain from funds held in trust with Community Foundation	-	-	-	-	-	-	-	-	-	3,547	3,547	2,765
Special events	-	-	-	-	-	41,840	-	41,840	-	-	41,840	75,980
Total support and revenue	1,197,998	291,527	187,702	2,811	-	329,582	-	2,009,620	545,203	4,608	2,559,431	2,353,374
Net assets released from restrictions	-	404,200	-	131,693	11,865	-	-	547,758	(547,758)	-	-	-
	1,197,998	695,727	187,702	134,504	11,865	329,582	-	2,557,378	(2,555)	4,608	2,559,431	2,353,374
Expenses:												
Program services	709,770	664,102	109,403	315,967	11,865	-	-	1,811,107	-	-	1,811,107	1,791,940
Supporting services:												
General and administrative	79,511	129,757	26,167	75,265	-	14,754	22,513	347,967	-	-	347,967	307,183
Fund raising	-	-	-	-	-	137,695	-	137,695	-	-	137,695	177,649
Community services and Public affairs	-	-	-	-	-	-	104,858	104,858	-	-	104,858	109,467
Total supporting services	79,511	129,757	26,167	75,265	-	152,449	127,371	590,520	-	-	590,520	594,299
Total expenses	789,281	793,859	135,570	391,232	11,865	152,449	127,371	2,401,627	-	-	2,401,627	2,386,239
Increase (decrease) in net assets	$ 408,717	(98,132)	52,132	(256,728)	-	177,133	(127,371)	155,751	(2,555)	4,608	157,804	(32,865)
Net assets at beginning of year								1,184,153	47,324	47,887	1,279,364	1,312,229
Net assets at end of year, as restated								$ 1,339,904	44,769	52,495	1,437,168	1,279,364

See accompanying notes to financial statements.

PLANNED PARENTHOOD OF
MIDDLE AND EAST TENNESSEE, INC.

Statements of Functional Expenses

For the years ended June 30, 2006 and 2005

	2006					2006				
	Program Services					Supporting Services				
	Surgical Services	Family Planning & Teen Clinic	Non Grant	Education	J.P. Davis Fund	Management and General	Fund Raising	Community Services & Public Affairs	Total	2005 Total
Personnel costs:										
Salaries	$ 189,504	309,189	62,358	179,395	-	209,527	35,140	53,694	1,038,807	1,028,437
Payroll taxes	14,866	24,702	4,953	13,867	-	16,609	2,562	4,312	81,871	87,890
Fringe benefits	28,747	51,063	4,105	23,444	-	23,640	9,816	3,493	144,308	148,430
Contract Labor	480	1,440	480	8,780	-	-	1,560	29,059	41,799	46,077
Physicians	173,025	-	-	-	-	-	-	-	173,025	158,240
Total personnel costs	406,622	386,394	71,896	225,486	-	249,776	49,078	90,558	1,479,810	1,469,074
Medical supplies	144,516	67,391	10,829	-	-	54	-	-	222,790	216,528
Office and other supplies	2,192	4,837	616	20,930	-	2,466	942	820	32,803	28,340
Equipment rental and maintenance	1,978	2,618	358	93	-	139	1,445	375	7,006	20,089
Telephone	8,157	14,769	1,861	6,652	-	5,375	2,408	1,204	40,426	40,715
Contract services	12,903	32,301	5,652	395	-	15,724	123	62	67,160	72,537
Postage and freight	386	1,439	311	2,274	-	3,691	2,021	237	10,359	10,044
Occupancy	31,496	45,813	3,333	2,074	-	533	955	408	84,612	65,259
Rent	899	14,782	4,130	16,569	-	13,047	7,248	3,624	60,299	86,184
Printing and publications	4,310	5,610	366	3,534	-	4,741	15,400	917	34,878	33,717
Security services	466	1,309	228	209	-	-	-	-	2,212	1,707
Travel	993	4,712	1,074	15,636	-	16,899	2,950	2,715	44,979	44,626
Employee development	3,070	2,966	301	1,657	-	1,793	861	56	10,704	5,308
Malpractice insurance	44,906	11,369	568	-	-	-	-	-	56,843	63,452
Interest	-	-	-	-	-	3,632	-	-	3,632	5,708
Marketing	19,026	35,512	4,276	15,048	-	373	1,636	3,357	79,228	70,373
Assistance to individuals	-	-	-	-	11,865	-	-	-	11,865	8,260
Depreciation	23,637	24,609	3,287	4,890	-	3,057	1,253	-	60,733	59,055
Dues	86	123	7	245	-	26,095	500	525	27,581	26,198
Events	-	-	-	275	-	-	50,305	-	50,580	44,895
Bank fees	4,127	7,548	310	-	-	572	570	-	13,127	12,250
Total program services	709,770	664,102	109,403	315,967	11,865	347,967	137,695	104,858	2,401,627	2,384,319
Allocation of general and administrative expenses	79,511	129,757	26,167	75,265	-	(347,967)	14,754	22,513	-	-
Total expenses	$ 789,281	793,859	135,570	391,232	11,865	-	152,449	127,371	2,401,627	2,386,239

See accompanying notes to financial statements.

PLANNED PARENTHOOD OF
MIDDLE AND EAST TENNESSEE, INC.

Statements of Cash Flows

For the years ended June 30, 2006 and 2005

	2006	2005
Cash Flows from Operating Activities		
Cash received from:		
Clients and public support	$ 2,044,777	1,884,084
Federal, state and local governments	503,890	512,257
Interest income	15,596	7,377
Cash paid for:		
Employees and vendors	(2,336,235)	(2,319,670)
Interest	(3,632)	(5,708)
Net operating activities	224,396	78,340
Cash Flows from Investing Activities		
Purchase of equipment	(10,085)	(46,415)
Proceeds from sale of investments	354,817	333,701
Purchase of investments	(505,426)	(203,927)
Net investing activities	(160,694)	83,359
Cash Flows from Financing Activities		
Principal payments of long term debt	(29,932)	(27,856)
Net increase in cash and cash equivalents	33,770	133,843
Cash and cash equivalents at beginning of year	386,800	252,957
	$ 420,570	386,800
Reconciliation of change in net assets to cash flows from operating activities		
Change in net assets	$ 157,804	(32,865)
Depreciation	60,733	59,055
Realized and unrealized gains	(363)	(1,132)
Increase in funds held in trust	(4,608)	(3,728)
(Increase) decrease in current assets:		
Grants and contracts receivable	13,310	35,991
Pledges receivable	(3,507)	19,213
Other receivables	(172)	(535)
Prepaid expenses	(18,356)	(6,341)
Inventory	17,511	289
Increase (decrease) in current liabilities:		
Accounts payable	(385)	(8,931)
Accrued payroll, benefits and other expenses	2,429	17,324
Net operating activities	$ 224,396	78,340

See accompanying notes to financial statements.

PLANNED PARENTHOOD OF
MIDDLE AND EAST TENNESSEE, INC.

Notes to Financial Statements

June 30, 2006 and 2005

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 that 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.

(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 individuates 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, 2006 and 2005 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.

(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:

	2006	2005
At quoted market value:		
Common stock	$ 10,046	13,349
Certificates of deposit	303,763	99,490
Bonds	-	50,000
Total market value	313,809	162,839
Total cost or carrying value	312,105	160,210
Unrealized cumulative gains	1,704	2,629
Prior year unrealized cumulative gains	2,629	
Unrealized loss from investments	(925)	
Realized gain from disposition of investments	1,288	
Realized and unrealized gains	$ 363	

(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 $52,495 and $47,887 as of June 30, 2006 and 2005, 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 $32,334 and $62,266 as of June 30, 2006 and 2005, 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 if 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, 2006 and 2005, the Affiliate contributed $13,270 and $12,784, respectively. The plan is administered by CompuPay.

(6) State and National Organizations

Dues paid to state and national organizations, including the Affiliate's Fair Share Assessment, amount to $25,107 and $26,866, respectively in 2006 and 2005.

(7) Contingencies

The Affiliate receives significant support, approximately 19% ($490,580), 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	$ 334,600
Family Planning Education	116,000
HIV Education	39,980
	$ 490,580

(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 of more are as follows:

Year Ended June 30	
2007	$ 50,196
2008	17,196
2009	14,196
Future minimum lease payments under operating lease obligations	$ 81,588

(9) Temporarily Restricted Net Assets

Temporarily restricted net assets are available as follows:	2006	2005
Private foundation grant for future Rivergate service center	$ 10,000	10,000
Education	2,957	4,307
Future capital acquisitions or maintenance	10,392	10,030
HIV Vaccine	-	1,785
J. P. Davis	21,420	21,202
	$ 44,769	47,324

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

Private gifts and grants for operational purposes	$ 1,500
J. P. Davis	11,865
HIV Vaccine	29,785
Grant for PG - 13 Players program	14,028
Federal grants	490,580
	$ 547,758

(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 Rick of Loss
Cash held in banks	$	293,305	200,000	93,305
Cash - money market		127,265	127,265	-
Investments		313,809	303,763	10,046
Government grants receivable		2,548	2,548	-
Other receivables		707	-	707
Pledges receivable		31,010	-	31,010
	$	768,644	633,576	135,068

(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, 2005, from which the summarized information was derived.

(12) Correction of Accounting Error

An error in recording pledges from United Way designations was made in prior years. The error was found when United Way changed its method of reporting pledges. The new reporting revealed that certain large designations had actually been collected when the pledge was made and should not have been considered pledges. The effect of the error is to restate the earliest reported net assets and pledges receivable. The error had no effect on operations for the year ended June 30, 2006. The following summarizes the effect of the error.

		Pledges Receivable	Net assets
As reported beginning net assets June 30, 2004	$	N/A	1,326,993
Effect of pledges recorded in error		N/A	(14,764)
Net assets as restated - June 30, 2004	$	N/A	1,312,229
As reported June 30, 2005	$	42,267	1,294,128
Effect of pledges recorded in error		(14,764)	(14,764)
Balances as restated - June 30, 2005	$	27,503	1,279,364