

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

Financial Statements

June 30, 2012 and 2011

(With Independent Auditors' Report Thereon)



Hill, Harper & Associates
Certified Public Accountants

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, 2012, and the related statements of activities and changes in net assets, activities by functional classification, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Affiliate's management. Our responsibility is to express an opinion on these financial statements based on our audits. The prior year summarized comparative information has been derived from the Affiliate's 2011 financial statements and, in our report dated December 9, 2011 we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Planned Parenthood of Middle and East Tennessee, Inc. as of June 30, 2012, 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.

A handwritten signature in blue ink that reads 'Hill Harper & Associates'.

December 6, 2012

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

Statements of Financial Position

June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents:		
Cash in bank	\$ 251,380	159,759
Money market accounts, held by brokerage firm	533,922	415,880
Total cash and cash equivalents	785,302	575,639
Accounts receivable:		
Grants receivable	9,518	35,762
Pledges receivable	21,000	10,000
Patient receivable - insurance reimbursement	3,546	-
Other	6,876	100
Total receivables	40,940	45,862
Prepaid expenses	99,949	32,732
Inventory	43,677	80,971
Note receivable	-	50,000
Total current assets	969,868	785,204
Property and equipment:		
Land	176,100	176,100
Buildings	1,135,770	1,133,853
Office furniture and equipment	239,952	190,641
	1,551,822	1,500,594
Less accumulated depreciation	(606,845)	(543,372)
Net property and equipment	944,977	957,222
Other assets:		
Beneficial interest at Community Foundation	52,281	55,286
	<u>\$ 1,967,126</u>	<u>1,797,712</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 49,554	65,844
Current portion of long term mortgage payable	7,140	6,708
Accrued expenses	66,537	57,690
Total current liabilities	123,231	130,242
Long term mortgage payable	214,856	221,743
Total liabilities	338,087	351,985
Net assets:		
Unrestricted	1,361,181	1,308,772
Temporarily restricted	215,576	81,669
Permanently restricted	52,282	55,286
Total net assets	1,629,039	1,445,727
	<u>\$ 1,967,126</u>	<u>1,797,712</u>

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, 2012 and 2011

	Unrestricted Fund Groups	Temporarily Restricted Fund Groups	Permanently Restricted Fund Groups	2012 Total	2011 Total
Public support and revenue:					
United Way/Community Shares \$	40,885	-	-	40,885	23,393
Grants from government agencies	-	52,805	-	52,805	537,257
Grants from other agencies	-	593,045	-	593,045	394,564
Contributions and memberships	309,669	29,795	1,000	340,464	240,831
Patient fees	2,057,137	-	-	2,057,137	1,856,405
Interest income	899	26	403	1,328	3,171
Gain from funds held in trust with Community Foundation	-	-	(1,707)	(1,707)	9,332
Special events	45,445	-	-	45,445	33,009
	<u>2,454,035</u>	<u>675,671</u>	<u>(304)</u>	<u>3,129,402</u>	<u>3,097,962</u>
Net assets released from restrictions	544,464	(541,764)	(2,700)	-	-
Total support and revenue	<u>2,998,499</u>	<u>133,907</u>	<u>(3,004)</u>	<u>3,129,402</u>	<u>3,097,962</u>
Expenses:					
Program services	2,218,363	-	-	2,218,363	2,404,837
Supporting services:					
General and administrative	451,589	-	-	451,589	421,876
Fund raising	127,150	-	-	127,150	87,678
Community services and Public affairs	148,988	-	-	148,988	144,977
Total supporting services	<u>727,727</u>	<u>-</u>	<u>-</u>	<u>727,727</u>	<u>654,531</u>
Total expenses	<u>2,946,090</u>	<u>-</u>	<u>-</u>	<u>2,946,090</u>	<u>3,059,368</u>
Increase in net assets	52,409	133,907	(3,004)	183,312	38,594
Net assets at beginning of year	<u>1,308,772</u>	<u>81,669</u>	<u>55,286</u>	<u>1,445,727</u>	<u>1,407,133</u>
Net assets at end of year	<u>\$ 1,361,181</u>	<u>215,576</u>	<u>52,282</u>	<u>1,629,039</u>	<u>1,445,727</u>

See accompanying notes to financial statements.

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

Statements of Activities by Functional Classification

For the years ended June 30, 2012 and 2011

	Unrestricted Fund Groups				Community Services & Public Affairs				Total Unrestricted Fund Groups		Temporarily Restricted Fund Groups		Permanently Restricted Fund Groups		2012 Total	2011 Total
	Health Centers	Education	J. P. Davis Fund	Fund Raising												
Public support and revenue:																
United Way/Community Shares	-	-	-	40,885	-	-	-	-	40,885	-	-	-	-	-	40,885	23,393
Grants from government agencies	-	-	-	-	-	-	-	-	-	-	52,805	-	-	-	52,805	537,257
Grants from other agencies	-	-	-	-	-	-	-	-	-	-	593,045	-	-	-	593,045	394,564
Contributions and memberships	-	-	-	309,669	-	-	-	-	309,669	-	29,795	-	1,000	-	340,464	240,831
Patient fees	2,052,440	4,697	-	-	-	-	-	-	2,057,137	-	-	-	-	-	2,057,137	1,856,405
Interest income	-	-	-	899	-	-	-	-	899	-	26	-	-	-	925	2,556
Gain (loss) from funds held in trust with Community Foundation	-	-	-	-	-	-	-	-	-	-	-	-	(1,304)	-	(1,304)	9,947
Special events	-	-	-	45,445	-	-	-	-	45,445	-	-	-	-	-	45,445	33,009
Total support and revenue	2,052,440	4,697	-	396,898	-	-	-	-	2,454,035	675,671	(304)	(304)	(304)	-	3,129,402	3,097,962
Net assets released from restrictions	459,861	69,850	12,053	2,700	-	-	-	-	544,464	(541,764)	(2,700)	(2,700)	(2,700)	-	-	-
	2,512,301	74,547	12,053	399,598	-	-	-	-	2,998,499	133,907	-	-	(3,004)	-	3,129,402	3,097,962
Expenses:																
Program services	2,006,989	199,321	12,053	-	-	-	-	-	2,218,363	-	-	-	-	-	2,218,363	2,404,837
Supporting services:																
General and administrative	337,201	49,314	-	27,366	-	-	-	37,708	451,589	-	-	-	-	-	451,589	421,876
Fund raising	-	-	-	127,150	-	-	-	-	127,150	-	-	-	-	-	127,150	87,678
Community services and Public affairs	-	-	-	-	-	-	-	148,988	148,988	-	-	-	-	-	148,988	144,977
Total supporting services	337,201	49,314	-	154,516	-	-	-	186,696	727,727	-	-	-	-	-	727,727	654,531
Total expenses	2,344,190	248,635	12,053	154,516	-	-	-	186,696	2,946,090	-	-	-	-	-	2,946,090	3,059,368
Increase (decrease) in net assets	\$ 168,111	(174,088)	-	245,082	-	-	-	(186,696)	52,409	133,907	(3,004)	(3,004)	(3,004)	-	183,312	38,594

See accompanying notes to financial statements.

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

Statements of Functional Expenses

For the years ended June 30, 2012 and 2011

2012

	Program Services		Supporting Services				2012 Total	2011 Total
	Health Centers	Education	J.P. Davis Fund	Manage- ment and General	Fund Raising	Community Services & Public Affairs		
Personnel costs:								
Salaries	\$ 696,790	101,938	-	252,685	56,524	77,870	1,185,807	1,229,602
Payroll taxes	56,193	8,170	-	20,607	4,380	6,288	95,638	104,367
Fringe benefits	83,773	11,425	-	18,844	5,909	9,966	129,917	157,490
Contract Labor	6,995	5,180	-	14,447	1,861	23,000	51,483	68,717
Physicians	300,629	-	-	-	-	-	300,629	284,542
Total personnel costs	1,144,380	126,713	-	306,583	68,674	117,124	1,763,474	1,844,718
Medical supplies	379,336	1,984	-	-	-	426	381,746	418,174
Office and other supplies	18,153	6,473	-	6,557	1,857	1,635	34,675	27,644
Equipment rental and maintenance	6,141	1,026	-	1,455	2,001	353	10,976	11,010
Telephone	16,959	4,288	-	5,823	1,476	1,520	30,066	32,991
Contract services	130,343	651	-	15,163	97	109	146,363	140,421
Postage and freight	2,006	401	-	1,604	8,434	232	12,677	13,135
Occupancy	104,224	5,664	-	1,700	1,261	698	113,547	130,821
Rent	3,250	12,617	-	13,304	6,710	6,912	42,793	40,945
Printing and publications	9,649	9,576	-	10,124	14,756	4,320	48,425	41,810
Security services	3,319	275	-	-	-	14	3,608	3,816
Travel	6,533	7,408	-	18,656	2,446	4,409	39,452	43,474
Employee development	1,996	1,824	-	8,191	435	1,581	14,027	3,702
Malpractice insurance	64,629	-	-	-	-	-	64,629	66,438
Interest	11,654	3,251	-	-	-	-	14,905	15,195
Marketing	21,777	12,242	-	1,201	900	3,073	39,193	71,907
Assistance to individuals	-	-	12,053	-	-	-	12,053	14,032
Depreciation	54,784	4,246	-	3,272	775	395	63,472	53,302
Dues	3,938	666	-	57,767	5,941	5,788	74,100	54,785
Events	-	15	-	-	8,790	300	9,105	11,353
Bank fees	23,918	1	-	189	2,597	99	26,804	19,695
	2,006,989	199,321	12,053	451,589	127,150	148,988	2,946,090	3,059,368
Allocation of general and administrative expenses	337,201	49,314	-	(451,589)	27,366	37,708	-	-
Total expenses	\$ 2,344,190	248,635	12,053	-	154,516	186,696	2,946,090	3,059,368

See accompanying notes to financial statements.

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

Statements of Cash Flows

For the years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<u>Cash Flows from Operating Activities</u>		
Cash received from:		
Clients and public support	\$ 3,087,674	2,563,495
Federal, state and local governments	52,805	531,885
Interest income	926	2,556
Distributions from Community Foundation	2,700	2,600
Cash paid for:		
Interest	(14,905)	(15,195)
Employees and vendors	(2,911,855)	(3,042,904)
Net operating activities	<u>217,345</u>	<u>42,437</u>
<u>Cash Flows from Investing Activities</u>		
Purchase of property and equipment	(51,227)	(38,846)
Collection of not receivable	50,000	-
Net investing activities	<u>(1,227)</u>	<u>(38,846)</u>
<u>Cash Flows from Financing Activities</u>		
Repayment of long term debt	(6,455)	(6,165)
Net increase (decrease) in cash and cash equivalents	209,663	(2,574)
Cash and cash equivalents at beginning of year	575,639	578,213
Cash and cash equivalents at end of year	<u><u>\$ 785,302</u></u>	<u><u>575,639</u></u>
<u>Reconciliation of change in net assets to cash flows from operating activities</u>		
Change in net assets	\$ 183,312	38,594
Depreciation	63,472	53,302
Increase in funds held in beneficial interest	3,005	(7,348)
(Increase) decrease in current assets:		
Grants and contracts receivable	26,244	9,922
Pledges receivable	(11,000)	-
Patient receivable - insurance reimbursements	(3,546)	-
Other receivables	(6,776)	4,937
Prepaid expenses	(67,217)	2,927
Inventory	37,294	(45,032)
Increase (decrease) in current liabilities:		
Accounts payable	(16,290)	35,393
Accrued payroll, benefits and other expenses	8,847	(50,258)
Net operating activities	<u><u>\$ 217,345</u></u>	<u><u>42,437</u></u>

See accompanying notes to financial statements.

PLANNED PARENTHOOD OF MIDDLE AND EAST TENNESSEE, INC.

Notes to Financial Statements

June 30, 2012 and 2011

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, however, have been prepared to focus on the Affiliate as a whole and to present transactions according to the existence or absence of donor-imposed restrictions in conformity with accounting principles generally accepted in the United States of America.

As required by generally accepted accounting principles, the Affiliate reports information regarding its financial position and activities according to three classes of net assets as follows:

Unrestricted net assets - Net assets not subject to donor imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the governing body.

Temporarily restricted net assets - Net assets whose use is subject to donor imposed stipulations and / or the passage of time.

Permanently restricted net assets - Net assets to be maintained in perpetuity as directed by donor imposed stipulations.

The amount of each of the classes of net assets are presented in the statement of financial position and the change in each class of net assets is presented in the statement of activities.

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, 2011, from which the summarized information was derived.

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.

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 on 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.

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.

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

Notes to Financial Statements, continued

(1) Summary of Significant Accounting Policies, continued

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.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and sets out a fair value hierarchy which gives the highest priority to observable inputs such as quoted prices in active markets for identical assets or liabilities (Level 1), the next highest priority to inputs from observable data other than quoted prices (Level 2) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability. The beneficial interest at Community Foundation is valued using Level 2 inputs.

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

Property and Equipment

Expenditures for property and equipment are stated at cost or estimated fair value at date of gift. Expenditures for property and equipment of \$500 or more are capitalized and depreciated. Depreciation is provided over the estimated useful lives of the respective assets on a straight-line basis as follows:

Buildings and improvements	35 - 40 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.

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, 2012 the Affiliate recognized contributed services related to legal services of \$1,941 and donated materials for events of \$600. No contributed services were recognized in 2011.

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.

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

Notes to Financial Statements, continued

(1) Summary of Significant Accounting Policies, continued

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

Health Centers - resources are utilized in the performance of abortion services and to encourage family involvement with respect to family planning services provided to individuals.

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.

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.

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.

Generally accepted accounting principles prescribe a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Management believes that the Affiliate is not involved in any activities that could be deemed taxable.

Subsequent Events

Subsequent events have been evaluated for potential recognition and disclosure through December 7, 2012, the date these financial statements were available to be issued.

(2) 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 requests grants from the Foundation based on the beneficial interest periodically. This asset is classified as a permanently restricted net asset. The quoted market value of this beneficial interest amounted to \$52,281 and \$55,286 as of June 30, 2012 and 2011, respectively.

(3) Mortgage Payable

During January 2010, the Affiliate purchased land and building to house its clinical services in Knoxville, Tennessee. This purchase was funded in part through a mortgage with the Affiliate's primary bank. The original mortgage amounted to \$237,000 at 6.5% interest, with monthly payments of \$1,780. The outstanding balance amounted to \$221,996 and \$228,451 at June 30, 2012 and 2011, respectively. The mortgage matures January 2015 and requires a balloon payment of approximately \$204,000 or to be refinanced. This mortgage is secured by the Knoxville real property which has a basis of approximately \$362,000.

Summary of maturities of mortgage payable is as follows:

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>Total</u>
\$	<u>7,140</u>	<u>7,619</u>	<u>207,237</u>	<u>221,996</u>

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

Notes to Financial Statements, continued

(4) Temporarily Restricted Net Assets

Temporarily restricted net assets are available as follows:

	<u>2012</u>	<u>2011</u>
Private foundation grant for future health center	\$ 10,000	10,000
Education	6,460	6,059
Justice Fund for client abortion assistance	67,139	-
J. P. Davis for client abortion assistance	81,977	65,610
PPFA - Polling grant	50,000	-
	<u>\$ 215,576</u>	<u>81,669</u>

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

Education - Generations	\$ 1,000
J. P. Davis for client abortion assistance	12,053
Grant for PG - 13 Players program	3,000
Joe Davis education grant	10,000
Justice Fund for client abortion assistance	459,861
Grant for the Future	3,045
Federal grants	52,805
Temporarily restricted net assets released from restriction	541,764
Grants from funds held by Community Foundation see note 2	2,700
Net assets released to unrestricted funds	<u>\$ 544,464</u>

(5) Notes Receivable

At June 30, 2011, a 5% note receivable amounting to \$50,000 from an affiliated organization, which was repaid at its' maturity date of July 25, 2011.

(6) Contingencies and Commitments

Support Concentrations

The Affiliate receives significant support from one private donor amounting to \$527,000 in 2012 and \$424,428 in 2011. A substantial reduction in the level of this support, should this occur, would have a material effect on programs and services. Support from Federal sources decreased from \$537,257 in 2011 to \$52,805 in 2012.

Leases

The Affiliate is obligated under certain lease agreements for office and equipment. The lease agreement for the administrative office Metro Center - Nashville, Tennessee, requires monthly payments of \$3,000 and expires August 2013.

Future obligations under non cancelable office equipment lease agreements amounts to \$27,881 in 2013; 12,075 in 2014; and \$595 in 2015.

Pension Plan

The Affiliate offers a pension plan to its full-time employees who are at least 21 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, 2012 and 2011, the Affiliate contributed \$17,402 and \$21,402, respectively.

**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 \$40,664 and \$37,843, respectively in 2012 and 2011.

(8) Concentration of Credit Risk

The Affiliate is primarily engaged in providing education and medical treatment options to individuals in Middle and East Tennessee concerning reproductive and health - related decisions. The Affiliate has an accounting risk of loss in the areas of cash and receivables to the extent that cash funds are not insured by a governmental agency and receivables collectibility. The following table summarizes the Affiliate's accounting risk of loss:

	<u>Account Balance</u>	<u>Secured / Collateralized</u>	<u>Amount of Accounting Risk of Loss</u>
Cash held in banks	\$ 251,380	251,380	-
Cash - money market	533,922	533,922	-
Accounts receivable	40,940	-	40,940
Beneficial interest at Community Foundation	52,281	-	52,281
	<u>\$ 878,523</u>	<u>785,302</u>	<u>93,221</u>