

2016
Financial Statements
With
Auditor's Letters

PLANNED PARENTHOOD OF
MIDDLE AND EAST TENNESSEE, INC.

FINANCIAL STATEMENTS

JUNE 30, 2016

(With Independent Auditor's Report Thereon)

**PLANNED PARENTHOOD OF
MIDDLE AND EAST TENNESSEE, INC.
FINANCIAL STATEMENTS
JUNE 30, 2016**

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PATTERSON, HARDEE & BALLENTINE, P.C.

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Planned Parenthood of Middle and East Tennessee, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 14 to the financial statements, the previously issued financial statements have been restated to correct certain errors. Net assets in the previously issued financial statements were understated. Our opinion is not modified with respect to that matter.

Patterson Hardee & Ballentine

November 23, 2016

PLANNED PARENTHOOD OF
MIDDLE AND EAST TENNESSEE, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016

ASSETS

Current Assets		
Patient accounts receivable, net	\$ 143,977	
Investments	441,709	
Accounts receivable	21,554	
Inventory	62,219	
Prepaid expenses	65,813	
Total current assets		\$ 735,272
Property and Equipment, net		1,441,004
Security deposit		4,672
Assets Whose Use is Limited		
Cash	500,436	
Beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	160,162	
Total assets whose use is limited		660,598
Total assets		<u>\$ 2,841,546</u>

LIABILITIES AND NET ASSETS

Current Liabilities		
Restrictions in excess of cash	\$ 90,082	
Installment note payable - current portion	26,097	
Accounts payable	326,931	
Accrued expenses	146,305	
Deferred revenue	33,713	
Total current liabilities		\$ 623,128
Long-term Liability		
Installment note payable - less current portion		793,550
Total liabilities		<u>1,416,678</u>
Net Assets		
Unrestricted		
Undesignated	764,270	
Total unrestricted net assets		764,270
Restricted Net Assets		
Temporarily restricted	500,436	
Permanently restricted	160,162	
Total restricted net assets		660,598
Total net assets		<u>1,424,868</u>
Total liabilities and net assets		<u>\$ 2,841,546</u>

See accompanying notes to financial statements.

**PLANNED PARENTHOOD OF
MIDDLE AND EAST TENNESSEE, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public Support and Revenue				
Patient fees	\$ 2,880,503	\$ -	\$ -	\$ 2,880,503
United Way	10,703	-	-	10,703
Government grants	97,791	-	-	97,791
Grants from other agencies	465,863	411,488	-	877,351
Contributions	615,245	-	-	615,245
Investment income, net	39,969	-	-	39,969
Special event revenue	121,266	-	-	121,266
Net assets released from restriction	233,799	(227,379)	(6,420)	-
Total public support and revenue	<u>4,465,139</u>	<u>184,109</u>	<u>(6,420)</u>	<u>4,642,828</u>
Expenses				
Program services				
Healthcare services	3,045,447	-	-	3,045,447
Public affairs	197,076	-	-	197,076
Education	200,242	-	-	200,242
Lobbying	34,455	-	-	34,455
Total program services	<u>3,477,220</u>	<u>-</u>	<u>-</u>	<u>3,477,220</u>
Supporting Services				
Management and general	848,327	-	-	848,327
Fundraising & special events	142,699	-	-	142,699
Total supporting services	<u>991,026</u>	<u>-</u>	<u>-</u>	<u>991,026</u>
Total expenses	<u>4,468,246</u>	<u>-</u>	<u>-</u>	<u>4,468,246</u>
Increase (decrease) in net assets	<u>(3,107)</u>	<u>184,109</u>	<u>(6,420)</u>	<u>174,582</u>
Net assets- beginning of year, as previously reported	666,488	316,327	166,582	1,149,397
Prior period adjustment	<u>100,889</u>	<u>-</u>	<u>-</u>	<u>100,889</u>
Net assets - beginning of year, as restated	<u>767,377</u>	<u>316,327</u>	<u>166,582</u>	<u>1,250,286</u>
Net assets - end of year	<u>\$ 764,270</u>	<u>\$ 500,436</u>	<u>\$ 160,162</u>	<u>\$ 1,424,868</u>

See accompanying notes to financial statements.

**PLANNED PARENTHOOD OF MIDDLE
AND EAST TENNESSEE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016**

	Program Services					Supporting Services		
	Healthcare Services	Public Affairs	Education	Lobbying	Total Program Services	Management and General	Fundraising & Special Events	Total
Salaries	\$ 884,478	\$ 138,982	\$ 96,848	\$ 497	\$ 1,120,805	\$ 372,367	\$ 69,684	\$ 1,562,856
Payroll taxes and benefits	130,620	19,392	17,616	39	167,667	55,405	10,287	233,359
Contract labor	47,336	2,714	1,895	32,650	84,595	23,393	-	107,988
Physicians	393,726	-	-	-	393,726	-	-	393,726
Total payroll and related expenses	1,456,160	161,088	116,359	33,186	1,766,793	451,165	79,971	2,297,929
Bad debt expense	374,015	-	-	-	374,015	-	-	374,015
Depreciation and amortization	67,745	-	-	-	67,745	990	-	68,735
Dues	584	2,141	-	-	2,725	44,807	5,865	53,397
Employee development	2,084	-	300	-	2,384	8,028	-	10,412
Insurance	90,367	343	1,512	65	92,307	2,652	794	95,753
Interest	20	-	-	-	20	48,862	-	48,882
Instructional materials	2,673	-	889	-	3,562	-	-	3,562
Licenses and fees	4,325	-	100	150	4,575	141	-	4,716
Maintenance and repairs	100,100	379	224	-	100,703	21,136	710	122,549
Marketing	497	813	18,990	-	20,300	60	-	20,360
Medical supplies	796,554	-	36,860	-	833,414	327	-	833,741
Merchant, bank and other fees	8,169	838	31	-	9,038	53,019	1,553	63,610
Miscellaneous	361	-	-	-	361	566	-	927
Occupancy	5,050	3,662	11,065	732	20,509	11,618	8,790	40,917
Office supplies	13,719	525	2,708	6	16,958	12,356	832	30,146
Printing and postage	18,160	3,096	4,034	214	25,504	17,684	17,160	60,348
Professional services	8,001	85	142	-	8,228	131,273	-	139,501
Special events	-	18,055	425	-	18,480	242	24,826	43,548
Travel	18,678	4,708	3,667	-	27,073	24,350	764	52,187
Utilities	51,036	1,190	2,662	102	54,990	18,614	1,434	75,038
Waste	27,129	153	254	-	27,536	447	-	27,983
	\$ 3,045,447	\$ 197,076	\$ 200,242	\$ 34,455	\$ 3,477,220	\$ 848,327	\$ 142,669	\$ 4,468,246

See accompanying notes to financial statements.

**PLANNED PARENTHOOD OF
MIDDLE AND EAST TENNESSEE, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016**

Cash Flows From Operating Activities:

Increase in net assets \$ 174,582

Adjustments to reconcile increase in net assets
to net cash used in operating activities:

Change in allowance for doubtful accounts	\$	207,770	
Depreciation and amortization		68,735	
Investment earnings, net of fees		(9,466)	
Realized gains on investments		(24,846)	
Unrealized gains on investments		(9,177)	
Contributed investments		(35,581)	
Changes in:			
Patient accounts receivable		(296,192)	
Accounts receivable		221,268	
Inventory		(16,718)	
Prepaid expenses		(47,753)	
Security deposit		(4,672)	
Assets whose use is limited		(494,016)	
Accounts payable & accrued expenses		(64,503)	
Deferred revenue		33,713	
Total adjustments			(471,438)
Net cash used in operating activities			(296,856)

Cash Flows From Investing Activities:

Purchase of investments	(121,665)		
Proceeds from sale of investments	110,065		
Purchase of property and equipment	(35,033)		
Net cash used in investing activities			(46,633)

Cash Flows From Financing Activities:

Payments on installment note payable	(29,118)		
Net cash used in financing activities			(29,118)

Net decrease in cash (372,607)

Cash - beginning of year 282,525

Cash - end of year \$ (90,082)

Supplemental Cash Flow Information

Interest paid during the year ended June 30, 2016, was \$44,772.

See accompanying notes to financial statements.

**PLANNED PARENTHOOD OF
MIDDLE AND EAST TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 - Summary of Significant Accounting Policies

Nature of Activities and Program Description

The terms "we", "us", "our" or "Organization" are used throughout these notes to the financial statements to identify Planned Parenthood of Middle and East Tennessee, Inc., a Tennessee not-for-profit organization. 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. and affiliated with Planned Parenthood Federation of America. Planned Parenthood of Middle and East Tennessee, Inc. is primarily engaged in providing education and medical treatment options to individuals concerning reproductive and health related decisions.

Program and Supporting Services

The following program and supporting services are included in the accompanying financial statements:

Program Services

Operating expenses include the following:

Healthcare Services - resources are utilized to provide medical services, abortion services, contraceptives STD testing and family planning.

Public Affairs - is outreach to communities about our services, advocacy training support to volunteer leaders, development and management of organizational partners, and hosting community organizing events in order to build a strong voice of support for reproductive and sexual healthcare. This includes government relations, media and email communications, issue management, information dissemination and strategic communications.

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.

Lobbying - creating email action alerts or phone scripts for our supporters to contact their legislators about key, relevant issues to Planned Parenthood. Direct lobbying efforts includes conducting meeting with elected state representatives.

Supporting Services

Management and general - relates to the overall direction of the organization. These costs are not identifiable with a particular program or event or with fundraising, but are indispensable to the conduct of those activities and are essential to the organization. Specific activities include organization oversight, business management, recordkeeping, budgeting, financing, and other administrative activities.

Fundraising & special events - includes costs of activities directed toward appeals for financial support, including special events. Other activities include creation and distribution of fundraising materials.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, our net assets and changes therein are classified and reported as follows:

**PLANNED PARENTHOOD OF
MIDDLE AND EAST TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 - Summary of Significant Accounting Policies (continued)

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may, or will be, met by our actions and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Basis of Presentation (continued)

Permanently restricted net assets - Net assets subject to donor-imposed stipulations which require the assets to be permanently maintained. Generally, the donors of these assets permit us to use all or part of the income earned and any related investments for general or specific purposes.

Cash Equivalents

For the purposes of the Statement of Cash Flows, we consider all unrestricted cash and investment instruments purchased with an original maturity date of ninety days or less from the date of issuance to be cash equivalents. At June 30, 2016, we had no cash equivalents.

Inventory

Inventory consists primarily 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.

Investments

Investments in equity securities with readily determinable fair values, mutual funds and all investments in debt securities are reported at their fair values on the Statement of Financial Position. The fair values for these investments are based on quoted market prices. Donated securities are recognized at the fair value on the date of the contribution. All interest, dividends and unrealized gains and losses are reported on the Statement of Activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law.

Agency Endowment Fund

Our beneficial interest in an agency endowment fund held by the Community Foundation of Middle Tennessee is recognized as an asset. Investment income and changes in the value are recognized in the Statement of Activities. Distributions received from the fund are recorded as decreases in the beneficial interest. The beneficial interest has been classified as a permanently restricted net asset on the Statement of Financial Position.

Contributions Receivable

Contributions are recognized when the donor makes a promise to give to us that is, in substance, unconditional. Unconditional promises to give are recorded as temporarily restricted revenue in the year the promise is made and released from restriction in the year received.

Unconditional promises to give due in the next year are reflected as current promises to give and are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reflected as long-term promises to give and are recorded at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are received to discount the amounts.

**PLANNED PARENTHOOD OF
MIDDLE AND EAST TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 - Summary of Significant Accounting Policies (continued)

We use the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and our analysis of specific promises made. At June 30, 2016, no allowance was considered necessary.

Property and Equipment

Property and equipment is recorded at cost, or, if donated, at the estimated fair market value at the date of donation. If equipment is donated, the donor can stipulate how long the assets must be used, and the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support. Our capitalization policy is to capitalize any expenditure over \$500 for property and equipment. Depreciation is provided utilizing the straight-line method over the estimated useful lives of the respective assets:

Building and improvements	35-40 years
Office furniture and equipment	3-7 years

Expenditures for repairs and maintenance are charged to expense as incurred.

Loan Costs

Costs required to obtain long term financing are capitalized and amortized to operations over the 6 year call period, using the straight line method.

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. 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 (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Contributed Services

Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. We receive many contributed services from various dental professionals. These services meet the requirements for recognition in the financial statements and have been recorded or reflected accordingly.

Patient Fees

Patient fee revenue is recognized at time of service less any contractual adjustments from insurance payers and prompt pay adjustments for cash payers. Fees are charged according to market value or maximum allowable charges set by the insurance payer contract. In some cases financial assistance for healthcare services is offered according to the Justice Fund distribution policies. Justice Funds are received from our national affiliate, see NOTE 12. The initial allowance for patient receivables is calculated according to the industry average of 3.03% of revenue. We then evaluate patient receivables aging and calculate any additional allowance based on a percentage of old outstanding balances that have a high risk of not being collected. The allowance for patient receivables as of June 30, 2016, was \$374,024.

**PLANNED PARENTHOOD OF
MIDDLE AND EAST TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 - Summary of Significant Accounting Policies (continued)

Compensated Absences

Full time employees are defined as those working 30 hours or more per week. Vacation pay is calculated based on each employee's regularly scheduled hours per week and is granted based upon each employee's employment contract.

Functional Allocation of Expenses

The costs of providing program services and supporting services have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes

We are exempt from federal income taxes under Section 501(c) (3) of the Internal Revenue Code and, therefore, no provision for federal income taxes is reflected in the accompanying financial statements. We have been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Internal Revenue Code. We are no longer subject to examination by U.S. federal and state taxing authorities for years ending before 2013. Therefore, no provision for federal income taxes is included in the accompanying financial statements. There was no unrelated business income for the year ended June 30, 2016. During the year ended June 30, 2016, we were assessed a penalty by the IRS in the amount of \$33,559, for failure to file a required form. This penalty has been accrued at June 30, 2016, see NOTE 6.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

NOTE 2 - Accounts Receivable

At June 30, 2016, accounts receivable consisted of the following:

Grant receivable	\$ 11,708
Other receivables	<u>9,846</u>
	\$ <u>21,554</u>

NOTE 3 - Investments

We hold investments in various equity securities and cash. These investments are carried at the fair market value using quoted market prices.

Investment income (loss) consisted of the following for the year ended June 30, 2016:

Interest and dividend income	\$ 17,734
Realized gain	24,846
Unrealized gain	9,177
Investment fees	(8,268)
Permanently restricted investment change in value, NOTE 9	<u>(3,520)</u>
Investment income (loss) – net	\$ <u>39,969</u>

**PLANNED PARENTHOOD OF
MIDDLE AND EAST TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 4 - Fair Value Measurements

This standard establishes a framework for measuring fair value and expands disclosures about fair value measurements. The standard defines fair value as the price which would be received to sell an asset in an orderly transaction between market participants at the measurement date. The adoption of the standard had no impact on any investment's financial position or results of operations. The standard applies to all assets and liabilities measured and reported on a fair value basis and enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values.

The statement requires each asset and liability carried at fair value be classified into one of the following categories:

- Level 1 - Quoted market prices in active markets for identical assets or liabilities
- Level 2 - Observable market based inputs or unobservable inputs corroborated by market data
- Level 3 - Unobservable inputs not corroborated by market data

The current maturities of debts are based on current rates.

The following table summarizes our financial assets measured at fair value on a recurring basis segregated by level of valuation inputs within the fair value hierarchy utilized to measure fair value as of June 30, 2016:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments	\$ 441,709	\$ 441,709	\$ -	\$ -
Beneficial interest in agency Endowment fund held by The Community Foundation of Middle Tennessee	160,162	-	-	160,162
	<u>\$ 601,871</u>	<u>\$ 441,709</u>	<u>\$ -</u>	<u>\$ 160,162</u>

No transfers were made between levels as of June 30, 2016.

A reconciliation of changes in the amounts reported for The Community Foundation of Middle Tennessee is included in NOTE 9.

NOTE 5 - Property and Equipment

Property and equipment consisted of the following at June 30, 2016:

Furniture and Equipment	\$ 491,427
Capitalized loan costs	20,908
Land, buildings and improvements	<u>1,778,875</u>
	2,291,210
Less accumulated depreciation	<u>(850,206)</u>
Net property and equipment	<u>\$ 1,441,004</u>

**PLANNED PARENTHOOD OF
MIDDLE AND EAST TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6 - Accrued Expenses

At June 30, 2016, accrued expenses consisted of the following:

Accrued insurance	\$ 1,473
Accrued payroll	49,518
Accrued vacation	57,655
Accrued IRS penalty	33,559
Accrued interest payable	4,100
	<hr/>
	\$ 146,305

NOTE 7 - Installment Note Payable

The installment note payable consisted of the following at June 30, 2016:

Note payable to Civic Bank. Principal and interest payments of \$5,295 due monthly with remaining balance of principal and interest due August 2, 2036. Interest is charged at a variable rate (4.75% at June 30, 2016). Collateral for the note payable consists of a first mortgage on the property located at 412 Dr. D.B. Todd Jr. Blvd. in Nashville, Tennessee.	\$ 819,647
Less: current portion	<hr/> (26,097)
	<hr/> \$ 793,550

Future maturities of the note payable are as follows as of July 30, 2016:

Year Ending June 30,

2017	\$ 26,097
2018	26,417
2019	27,699
2020	29,044
2021	30,454
Thereafter	<hr/> 679,936
	<hr/> \$ 819,647

NOTE 8 - Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following at June 30, 2016:

J.P. Davis for client abortion assistance	\$ 132,333
Youth Conference	28,912
Health Care Advocacy Program	224
Health Care Investment Program	93,450
Justice Fund Travel	3,100
Security Grant	40,000
Fund for the Future	47,975
PG-13 Players	2,480
2 nd Century Cap Investments	146,056
Ripple	<hr/> 5,906
	<hr/> \$ 500,436

**PLANNED PARENTHOOD OF
MIDDLE AND EAST TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 9 - Permanently Restricted Net Assets

The Organization has a beneficial interest in trusts held by the Community Foundation. The Community Foundation has legal ownership of these funds. We request grants from the Community 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 \$160,162 as of June 30, 2016.

A schedule of the changes in our beneficial interest in this fund for the year ended June, 30, 2016, is as follows:

Beneficial Interest - July 1, 2015	\$ 166,582
Change in Value of Beneficial Interest:	
Change in value	(3,520)
Distributions	(2,900)
	<u>(6,420)</u>
Beneficial Interest - June 30, 2016	\$ 160,162

Permanently restricted net assets consisted of the following at June 30, 2016:

Beneficial interest in agency endowment fund	\$ 160,162
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See NOTE 4 for the fair value measurement of The Community Foundation of Middle Tennessee.

NOTE 10 - Leases

We are obligated under certain lease agreements for office space and equipment. The lease agreement for the administrative office at Metro Center in Nashville, Tennessee, requires monthly payments of \$3,000 and expires August 2016. Further, our affiliate clinic leases office space in Johnson City, Tennessee (NOTE 12) which requires monthly payments of \$400 on a month to month basis. Total rent expense for the year ended June 30, 2016, was \$59,556, which is included in "printing and postage" and "occupancy" on the statement of functional expenses.

A schedule of future minimum lease payments required under all non-cancelable operating leases as of June 30, 2016, is as follows:

<u>Year Ending June 30,</u>	
2017	\$ 49,761
2018	36,940
2019	37,438
2020	<u>6,250</u>
	<u>\$ 130,389</u>

NOTE 11 - Concentrations of Credit Risk

We maintain cash accounts at financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation up to statutory limits. Our cash balances, at times, may exceed federally insured limits. We have not experienced any losses in such accounts and do not believe that we are exposed to any significant credit risk on our cash.

**PLANNED PARENTHOOD OF
MIDDLE AND EAST TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 11 - Concentrations of Credit Risk (continued)

As of June 30, 2016, 38% of our total payables were due to three vendors, while 21% of our receivables were due from 1 payer.

We receive all of our patient fees from patients located in Middle and East Tennessee.

NOTE 12 - Related Parties

We provide all administrative services for 2 clinics located in Middle and East Tennessee, where patient services are performed.

We receive Justice Funds from our national affiliate to subsidize our services for qualifying patients. During the year ended June 30, 2016, we received Justice Funds in the amount of \$473,288 from our national affiliate.

NOTE 13 - Employee Benefit Plan

We offer a pension plan to 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 Organization 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 Organization). There is immediate vesting by the employees for the Organization's contribution. During the year ended June 30, 2016, we contributed \$15,827 to the plan.

NOTE 14 - Prior Period Adjustment

A prior period adjustment at the beginning of the fiscal year was made to correct errors in previously reported unrestricted net assets. During the prior year, patient accounts receivable was understated. The effect of the restatement was an increase to unrestricted net assets by \$100,889.

NOTE 15 - Subsequent Events

We have evaluated events subsequent to the year ending June 30, 2016. As of November 23, 2016, the date that the financial statements were available to be issued, no other events subsequent to the balance sheet date are considered necessary to be included in the financial statements for the year ended June 30, 2016.



PATTERSON, HARDEE & BALLENTINE, P.C.

Certified Public Accountants

November 23, 2016

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

We have audited the financial statements of Planned Parenthood of Middle and East Tennessee, Inc. ("the Organization") for the year ended June 30, 2016, and have issued our report thereon dated November 23, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 8, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Planned Parenthood of Middle and East Tennessee, Inc. are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2016. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the allowance for doubtful accounts for patient accounts receivable is based on an industry standard percentage of revenue. We evaluated the key factors and assumptions used to develop the allowance for doubtful accounts for patient accounts receivable in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of patient receivables in Note 1 to the financial statements explaining that an allowance for uncollectable receivables of \$374,024 was considered necessary.

The disclosure in Note 1 to the financial statements explaining the basis of allocation of functional expenses into their appropriate functional categories.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The following material misstatements detected as a result of audit procedures were corrected by management: cash, patient accounts receivable, allowance for doubtful accounts, bad debt expense, patient fee revenue, grant revenue, and net assets.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 23, 2016.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

In addition, we noted other matters involving internal control and its operation that we have reported to management of Planned Parenthood of Middle and East Tennessee, Inc. in separate letters dated November 23, 2016.

Other Matters

This information is intended solely for the use of the Board of Directors and management of Planned Parenthood of Middle and East Tennessee, Inc. and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Patterson Handley & Ballentine

Planned Parenthood of Middle and East Tennessee, Inc.

Schedule of Uncorrected Misstatements

June 30, 2016

Description (Nature) of Audit Difference (AD)	Factual (F), Judgmental (J), or Projected (P)	Cause	W/P Reference	Financial Statement Effect—Amount of Over (Under) Statement of:						
				Total Assets	Total Liabilities	Net Assets	Revenues	Expenses	Change in Net Assets	Working Capital
Accrued Vacation difference	F	Paychex did not have a complete listing of all employees	O-1		\$3,256	\$3,256		\$3,256	-\$3,256	\$3,256
Total				\$0	\$3,256	\$3,256	\$0	\$3,256	-\$3,256	\$3,256
Less Audit Adjustments Subsequently Booked										
Unadjusted AD—Current Year (Iron Curtain Method)				\$0	\$3,256	\$3,256	\$0	\$3,256	-\$3,256	\$3,256
Effect of Unadjusted AD—Prior Years										
Combined Current and Prior Year AD (Rollover Method)				\$0	\$3,256	\$3,256	\$0	\$3,256	-\$3,256	\$3,256
Financial Statement Caption Totals				\$2,841,546	\$1,416,678	\$1,424,868	\$4,642,828	\$4,468,246	\$174,582	\$112,144
Current Year AD as % of FS Captions (Iron Curtain Method)				0.00%	0.23%	0.23%	0.00%	0.07%	-1.87%	2.90%
Current and Prior Year AD as % of FS Captions (Rollover Method)				0.00%	0.23%	0.23%	0.00%	0.07%	-1.87%	2.90%

Conclusion: Based on the results of the evaluation performed above, as well as the consideration of qualitative factors, uncorrected audit differences, individually and in the aggregate, do not cause the financial statements taken as a whole to be materially misstated.