NATIONAL EMBRYO ADOPTION CENTER
d/b/a NATIONAL EMBRYO DONATION CENTER

Financial Statements

June 30, 2014

(With Independent Auditors' Report Thereon)

LATTIMORE BLACK MORGAN & CAIN, PC
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

NATIONAL EMBRYO ADOPTION CENTER
d/b/a NATIONAL EMBRYO DONATION CENTER

Table of Contents

INDEPENDENT AUDITORS' REPORT

Board of Directors
National Embryo Adoption Center
d/b/a National Embryo Donation Center

Report on the Financial Statements

We have audited the accompanying financial statements of National Embryo Adoption Center, d/b/a National Embryo Donation Center (the "Organization") which comprise the statement of financial position as of June 30, 2014, and the related statements of activities and changes in net assets, 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.

Auditors' 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 and the standards applicable to financial audits in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 polices 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 National Embryo Donation Center as of June 30, 2014 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2015 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Rattmore Black Morgan & Cain, PC

Knoxville, Tennessee
January 5, 2015

NATIONAL EMBRYO ADOPTION CENTER
d/b/a NATIONAL EMBRYO DONATION CENTER

Statement of Financial Position

June 30, 2014

Assets

Current assets:	
Cash and cash equivalents	$ 112,232
Prepaid expenses	1,688
Total current assets	113,920
Property and equipment, net	4,164
	$ 118,084

Liabilities and Net Assets

Current liabilities:	
Accounts payable	$ 15,384
Grant payable	7,919
Accrued payroll and benefits	11,017
Total current liabilities	34,320
Net Assets:	
Unrestricted net assets	83,764
Total net assets	83,764
	$ 118,084

See accompanying notes to the financial statements.

NATIONAL EMBRYO ADOPTION CENTER
d/b/a NATIONAL EMBRYO DONATION CENTER

Statement of Activities and Changes in Net Assets

Year ended June 30, 2014

	Unrestricted	Temporarily Restricted	Total
Revenue, gains and other support:			
Contributions	$ 1,755	$ -	$ 1,755
Grant income	-	380,683	380,683
Fees for services	177,446	-	177,446
Gain on disposal of equipment	745	-	745
Other income	878	-	878
Net assets released from restriction	380,683	(380,683)	-
Total support and revenue	561,507	-	561,507
Expenses:			
Program	359,220	-	359,220
Management and general	206,247	-	206,247
Total expenses	565,467	-	565,467
Change in net assets	(3,960)	-	(3,960)
Net assets at beginning of year	87,724	-	87,724
Net assets at end of year	$ 83,764	$ -	$ 83,764

See accompanying notes to the financial statements.

NATIONAL EMBRYO ADOPTION CENTER
d/b/a NATIONAL EMBRYO DONATION CENTER

Statement of Functional Expenses

Year ended June 30, 2014

	Program	Management and General	Total
Salaries and payroll taxes	$ 90,267	$ 149,179	$ 239,446
Fringe benefits	11,817	18,835	30,652
Professional services	27,824	31,551	59,375
Advertising	111,131	-	111,131
Embryo expenses	72,439	-	72,439
Training, meetings and travel	22,322	-	22,322
Facilities and operations	15,208	-	15,208
Insurance	1,307	-	1,307
Supplies and materials	2,510	6,682	9,192
Other expenses	1,531	-	1,531
Expenses before depreciation	356,356	206,247	562,603
Depreciation	2,864	-	2,864
Total expenses	$ 359,220	$ 206,247	$ 565,467

See accompanying notes to the financial statements.

NATIONAL EMBRYO ADOPTION CENTER
d/b/a NATIONAL EMBRYO DONATION CENTER

Statement of Cash Flows

Year ended June 30, 2014

Cash flows from operating activities:	
Increase in net assets	**$ (3,960)**
Adjustments to reconcile change in net assets to cash flows provided by operating activities:	
Depreciation	**2,864**
Gain on disposal of equipment	**(745)**
(Increase) decrease in operating assets:	
Other receivables	**65**
Grants receivable	**56,153**
Prepaid expenses	**(1,688)**
Increase (decrease) in operating liabilities:	
Accounts payable	**3,680**
Grants payable	**7,919**
Accrued payroll and benefits	**10,496**
Net cash provided by operating activities	**74,784**
Cash flows from investing activities:	
Proceeds from disposal of equipment	**745**
Net cash provided by investing activities	**745**
Increase in cash and cash equivalents	**75,529**
Cash and cash equivalents at beginning of year	**36,703**
Cash and cash equivalents at end of year	**$ 112,232**

See accompanying notes to the financial statements.

(1) Nature of operations

National Embryo Adoption Center, d/b/a National Embryo Donation Center (the "Organization") is a not-for-profit organization whose mission is to protect the lives and dignity of human embryos by promoting, facilitating, and educating the public about embryo donation and adoption. The Organization maintains an office in Knoxville, Tennessee. The Organization is primarily funded by grants and by fees for providing embryo transfer services.

(2) Summary of significant accounting policies

The financial statements of the Organization are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The significant accounting policies followed are described below.

(a) Basis of presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

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 either by actions of the Organization and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. The Organization does not currently have any permanently restricted net assets.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. However, if a restriction is fulfilled in the same time period in which the contribution or grant is received, the Organization reports the support as unrestricted.

(b) Cash and cash equivalents

The Organization considers all highly liquid investments with original maturities of less than three months to be cash equivalents.

(c) Property and equipment

Property and equipment are stated at cost. Donated property and equipment are recorded at their estimated market value at the date of donation. Depreciation is provided over the assets' estimated useful lives using the straight-line method. Property and equipment purchased with federal funding may be subject to limitations on disposition or use of proceeds from such disposals.

Expenditures for maintenance and repairs are expensed when incurred. Expenditures for renewals or betterments are capitalized. When property is retired or sold, the cost and the related accumulated depreciation are removed from the accounts, and the resulting gain or loss is included in operations.

(d) Income taxes

The Organization is exempt from federal income taxes under the provisions of Internal Revenue Code Section 501(c)(3), and, accordingly, no provision for income taxes is included in the financial statements. The Internal Revenue Service does not classify the Organization as a private foundation.

An uncertain tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The Organization has no material uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

As of June 30, 2014, the Organization has accrued no interest and no penalties related to uncertain tax positions. It is the Organization's policy to recognize interest and/or penalties related to income tax matters in income tax expense. The Organization files a U.S. Federal nonprofit tax return annually. The Organization is currently open to audit under the statute of limitations by the Internal Revenue Service for the years ended June 30, 2011 through 2014.

(e) Revenue recognition

Cash contributions are recognized as revenues when received.

The Clinic works to match donors of embryos to recipients in an adoption process. There are certain costs involved, including shipping, storage and medical testing, that may initially be paid by the Organization but will be billed to the recipient if and when an adoption occurs. The costs are expensed as incurred and the related revenue is recognized when the recipient is billed. At June 30, 2014, the Organization had incurred approximately $54,000 in costs not billed to future recipients of embryos not adopted as of June 30, 2014.

Grant funds are earned and reported as revenues of the applicable grant when the Organization has incurred expenses in compliance with the specific restrictions of the grant agreement. Expenses incurred for grant funds which has not been received are reported as grants receivable. Grants payable represents amounts advanced to the Organization before qualifying expenses were incurred. These amounts as of June 30, 2014 will be incurred during the coming year.

(f) Advertising and promotion costs

Advertising and promotion costs are expensed as incurred. The expense for the year ended June 30, 2014 was $111,131.

(g) Vacation and sick leave

Organization employees are granted paid time off in varying amounts. In the event of termination, an employee is reimbursed accumulated paid time off.

The cost of paid time off is recorded as a liability when the benefit is earned, and is included in accrued payroll and benefits.

(h) Realization of long-lived assets

Management evaluates the recoverability of the investment in long-lived assets on an ongoing basis and recognizes any impairment in the year of determination. It is reasonably possible that relevant conditions could change in the near term and necessitate a change in management's estimate of the recoverability of these assets.

(i) Use of estimates

The preparation of financial statements in conformity with GAAP 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.

(j) Events occurring after reporting date

The Organization has evaluated events and transactions that occurred between June 30, 2014 and January 5, 2015, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

(3) Credit risk and other concentrations

The Organization generally maintains cash and cash equivalents on deposit at banks in excess of federally insured amounts. The Organization has not experienced any losses in such accounts in the past and management believes the Organization is not exposed to any significant credit risk related to cash and cash equivalents.

A major portion of the Organization's funding is provided by grants from the U.S. Department of Health and Human Services. A major reduction of funds by this grantor could have a significant effect on future operations.

(4) Assets and liabilities measured at fair value

Fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, fair value accounting standards establish a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity including quoted market prices in active markets for identical assets (Level 1), or significant other observable inputs (Level 2) and the reporting entity's own assumptions about market participant assumptions (Level 3). The Organization does not have any fair value measurements using significant unobservable inputs (Level 3) as of June 30, 2014.

(a) Financial instruments

The carrying amount of financial instruments, consisting of cash and cash equivalents, accounts payable, accrued expenses, and grants payable approximate their fair value due to their relatively short maturities.

(b) Non-financial assets

The Organization's non-financial assets, which include property and equipment, are not required to be measured at fair value on a recurring basis. However, if certain triggering events occur, or if an annual impairment test is required and the Organization is required to evaluate the non-financial instrument for impairment, a resulting asset impairment would require that the non-financial asset be recorded at fair value. During the year ended June 30, 2014, the Organization did not measure any non-recurring, non-financial assets at fair value or recognize any revenue or expenses related to changes in fair value.

(5) Property and equipment

A summary of property and equipment as of June 30, 2014 is as follows:

		Estimated Useful Lives
Storage equipment	$ 7,141	7 years
Office and computer equipment	15,420	3 years
	22,561	
Accumulated depreciation	(18,397)	
	$ 4,164	

(6) Lease obligations

The Organization leases space in a facility owned by a related party under a long-term agreement classified as an operating lease with an automatic renewal in annual increments unless terminated. Rental expense under this agreement totaled $12,769 for the year ended June 30, 2014. Future minimum lease payments under this noncancellable operating lease (with initial or remaining terms in excess of one year) as of June 30, 2014:

Year		
2015	$	13,440
2016		3,360
	$	16,800

It is expected that in the normal course of business, leases that expire will be renewed or replaced by other leases; thus it is anticipated that future lease payments will not be less than the commitments for 2015.

(7) Related party transactions

The Organization shares certain staff with the medical practice of its Medical Director. These staff members are paid separately for their time devoted to each entity.

LATTIMORE BLACK MORGAN & CAIN, PC
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Directors
National Embryo Adoption Center
d/b/a National Embryo Donation Center

We have audited, in accordance with the 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, the financial statements of National Embryo Adoption Center d/b/a National Embryo Donation Center (the "Organization"), which are comprised of the statement of financial position as of June 30, 2014, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 5, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified a deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described below to be a material weakness.

2014-001: Segregation of Duties

The Grant Manager makes deposits, signs checks, records the bank activity in the general ledger and reconciles the bank statements. We recognize that due to limited personnel it is difficult to maintain proper segregation of duties; however, we recommend that separate personnel who do not have responsibility for reconciling the bank statements, be utilized for making or reviewing deposits, signing checks and reviewing activity in the general ledger. The Grant Manager should reconcile the bank statements on a monthly basis and the reconciliations be reviewed monthly. Someone, independent of the Grant Manager, should review check registers, and/or copies of all checks clearing the bank, to determine that only authorized payments are being made.

Management Response

Management agrees and is looking at delegating some of the duties to other personnel.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 the following instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

2014-002: Grant Fund Requests

The Organization received a grant in a prior year which was extended during the current year to assist with the acquisition of donated embryos to be adopted. Certain expenditures made by the Organization are allowed to be reimbursed with the grant funds. The Organization's "Clinic" portion works to match donors of embryos to recipients in an adoption process. In certain instances there are expenses that benefit both the Adoption Grant and the Clinic. In these instances, the Clinic will reimburse the Adoption Grant for expenses that the Clinic benefited from and then the net expense is requested as a reimbursement from the Adoption Grant. During the year, the Organization made a request to be reimbursed from the Adoption Grant for the total amount of the expenses instead of the net expenses after reimbursement from the Clinic. This resulted in the Organization requesting $25,689 from the Adoption Grant in error. Additionally, due to turnover at the Grant Manager position, management was unable to locate support for certain reimbursements. Management identified the error, discussed the error with the grantor, and the grantor will allow the Organization to offset the amount with authorized expenditures in the coming year. It is evident that the Grant Manager role has had opportunity to submit grant reimbursement requests with limited supervision. The Organization should have someone independent of the Grant Manager to review requests for reimbursement to ensure requests are for expenditures incurred in accordance with the grant.

Management Response

The Medical Director or other member of the Organization will review all requests for reimbursement to ensure that the proper amount is requested and that documentation supporting the request is maintained.

National Embryo Adoption Center's Response to Findings

National Embryo Adoption Center d/b/a National Embryo Donation Center's response to the findings identified in our audit is described previously. The Organization's responses were not subject to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lattimore Black Morgan & Cain, PC

Knoxville, Tennessee
January 5, 2015