

**PLANNED PARENTHOOD
ORANGE AND SAN BERNARDINO COUNTIES**

**FINANCIAL STATEMENTS,
SUPPLEMENTAL SCHEDULE,
and
ADDITIONAL INFORMATION**

JUNE 30, 2014

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Certified Public Accountants, LLP

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Planned Parenthood Orange and San Bernardino Counties

Report on the Financial Statements

We have audited the accompanying financial statements of Planned Parenthood Orange and San Bernardino Counties (a nonprofit corporation), which comprise the Statement of Financial Position as of June 30, 2014, and the related Statements of Activities, Functional Expenses, 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 contained 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 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 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 auditors consider 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 Orange and San Bernardino Counties 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.

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INDEPENDENT AUDITORS' REPORT

continued

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget Circular A-133, "*Audit of States, Local Government, and Non-profit Organizations*" is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Summarized Comparative Information

We have previously audited Planned Parenthood Orange and San Bernardino Counties' 2013 financial statements, and we have expressed an unmodified opinion on those audited financial statements in our report dated October 18, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2014 on our consideration of Planned Parenthood Orange and San Bernardino Counties' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Planned Parenthood Orange and San Bernardino Counties' internal control over financial reporting and compliance.

Harrington Group

Pasadena, California

November 7, 2014

PLANNED PARENTHOOD ORANGE AND SAN BERNARDINO COUNTIES

STATEMENT OF FINANCIAL POSITION

June 30, 2014

With comparative totals at June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2014</u>	<u>2013</u>
Assets				
Current assets				
Cash and cash equivalents (Note 2)	\$ 4,522,952	\$ 107,617	\$ 4,630,569	\$ 3,578,194
Investments in securities (Note 3)	7,379,607		7,379,607	7,485,810
Accounts receivable - net (Note 4)	8,591,289		8,591,289	5,546,601
Inventory (Note 2)	926,553		926,553	803,431
Prepaid expenses	443,865		443,865	610,364
Total current assets	<u>21,864,266</u>	<u>107,617</u>	<u>21,971,883</u>	<u>18,024,400</u>
Non-current assets				
Property and equipment (Note 7)	10,238,768		10,238,768	9,667,335
Property held for sale (Note 7)	2,550,000		2,550,000	2,550,000
Other investment (Note 5)	250,000		250,000	250,000
Annuity receivable - net (Note 6)	169,806		169,806	169,387
Deposits	138,040		138,040	109,406
Total non-current assets	<u>13,346,614</u>		<u>13,346,614</u>	<u>12,746,128</u>
Total assets	<u>\$ 35,210,880</u>	<u>\$ 107,617</u>	<u>\$ 35,318,497</u>	<u>\$ 30,770,528</u>
Liabilities and net assets				
Current liabilities				
Accounts payable	\$ 1,548,515	\$ -	\$ 1,548,515	\$ 1,810,028
Accrued liabilities (Note 8)	3,811,657		3,811,657	4,038,264
Annuity liability (Note 6)	89,340		89,340	93,621
Current portion of notes payable (Note 10)	1,439,566		1,439,566	131,394
	<u>6,889,078</u>		<u>6,889,078</u>	<u>6,073,307</u>
Non-current liabilities				
Notes payable, less current portion (Note 10)	852,665		852,665	2,543,322
Total liabilities	<u>7,741,743</u>	<u>-</u>	<u>7,741,743</u>	<u>8,616,629</u>
Net assets				
Unrestricted	27,469,137		27,469,137	21,947,466
Temporarily restricted (Note 14)		107,617	107,617	206,433
Total net assets	<u>27,469,137</u>	<u>107,617</u>	<u>27,576,754</u>	<u>22,153,899</u>
Total liabilities and net assets	<u>\$ 35,210,880</u>	<u>\$ 107,617</u>	<u>\$ 35,318,497</u>	<u>\$ 30,770,528</u>

The accompanying notes are an integral part of these financial statements.

PLANNED PARENTHOOD ORANGE AND SAN BERNARDINO COUNTIES

STATEMENT OF ACTIVITIES

For the year ended June 30, 2014

With comparative totals for the year ended June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2014</u>	<u>2013</u>
Revenue and support				
Patient service revenue, net of contractual allowances and discounts (Note 12)	\$ 41,273,915	\$ -	\$ 41,273,915	\$ 35,136,812
Less: provision for bad debt	<u>(1,800,977)</u>		<u>(1,800,977)</u>	<u>(1,682,450)</u>
Net patient service revenue less provision for bad debt	39,472,938		39,472,938	33,454,362
Government grants and contracts	4,215,364		4,215,364	4,356,321
Contributions and grants	1,811,607	70,000	1,881,607	1,836,227
In-kind contributions (Note 2)	842,934		842,934	1,572,821
Gain on investments	774,025	4,700	778,725	295,885
Electronic health record incentive program	250,750		250,750	221,000
Interest and dividends, net of fees of \$31,751	144,066		144,066	150,635
Other income	244,826		244,826	30,276
Net assets released from program restrictions	<u>173,516</u>	<u>(173,516)</u>	<u>-</u>	
Total revenue and support	<u>47,930,026</u>	<u>(98,816)</u>	<u>47,831,210</u>	<u>41,917,527</u>
Expenses				
Program services	41,678,619		41,678,619	39,668,767
Support services	<u>729,736</u>		<u>729,736</u>	<u>647,392</u>
Total expenses	<u>42,408,355</u>	<u>-</u>	<u>42,408,355</u>	<u>40,316,159</u>
Change in net assets before other changes	5,521,671	(98,816)	5,422,855	1,601,368
Other changes				
Patient services reimbursement adjustments - prior year			<u>-</u>	<u>(1,910,992)</u>
Change in net assets	5,521,671	(98,816)	5,422,855	(309,624)
Net assets, beginning of year	<u>21,947,466</u>	<u>206,433</u>	<u>22,153,899</u>	<u>22,463,523</u>
Net assets, end of year	<u>\$ 27,469,137</u>	<u>\$ 107,617</u>	<u>\$ 27,576,754</u>	<u>\$ 22,153,899</u>

The accompanying notes are an integral part of these financial statements.

PLANNED PARENTHOOD ORANGE AND SAN BERNARDINO COUNTIES

STATEMENT OF FUNCTIONAL EXPENSES
 For the year ended June 30, 2014
 With comparative totals for the year ended June 30, 2013

	Program Services				Total Program Services	Support Services			Total Support Services	Total Expenses	
	Clinical Healthcare	Public Affairs	WIC	Education		General and Administrative	Marketing	Fundraising		2014	2013
Salaries and wages	\$ 12,145,893	\$ 250,124	\$ 1,660,228	\$ 724,518	\$ 14,780,763	\$ 3,248,264	\$ 476,207	\$ 373,749	\$ 4,098,220	\$ 18,878,983	\$ 17,616,034
Payroll taxes and employee benefits	2,500,503	60,997	397,848	173,388	3,132,736	620,099	82,633	66,009	768,741	3,901,477	3,983,507
Total personnel costs	14,646,396	311,121	2,058,076	897,906	17,913,499	3,868,363	558,840	439,758	4,866,961	22,780,460	21,599,541
Medical supplies	9,946,660				9,946,660				-	9,946,660	8,853,650
Occupancy	1,412,128	12,385	487,621	65,052	1,977,186	338,554	1,710	11,501	351,765	2,328,951	2,232,254
Other operating expenses	257,826	24,068	345,336	58,061	685,291	665,844	167,872	12,376	846,092	1,531,383	1,393,557
Consultant fees	580,781		186	18,025	598,992	788,359	2,675	63,502	854,536	1,453,528	2,219,584
Depreciation	655,501	1,966	80,586	19,884	757,937	308,623			308,623	1,066,560	746,890
Outside services	350,381	1,407	20,741	108	372,637	343,122	217,291	40,407	600,820	973,457	777,893
Expendable furniture and equipment	373,192	3,419	25,582	7,370	409,563	330,122	19,015	9,299	358,436	767,999	826,410
Communications and mailing	305,664	5,380	56,111	36,809	403,964	104,221	8,573	13,878	126,672	530,636	535,482
Insurance	379,277		4,650		383,927	2,660			2,660	386,587	359,070
Office supplies	151,613	5,686	29,927	34,034	221,260	112,794	2,428	709	115,931	337,191	430,706
Travel and transportation	73,125	4,357	20,727	19,293	117,502	57,828	14,259	2,282	74,369	191,871	189,784
Printing	37,228	162	669	4,621	42,680	7,713	49,938	12,741	70,392	113,072	151,338
Functional allocation before indirect	29,169,772	369,951	3,130,212	1,161,163	33,831,098	6,928,203	1,042,601	606,453	8,577,257	42,408,355	40,316,159
Indirect costs allocation	6,899,938	75,206	636,329	236,048	7,847,521	(6,928,203)	(1,042,601)	123,283	(7,847,521)	-	-
Total 2014 functional expenses	\$ 36,069,710	\$ 445,157	\$ 3,766,541	\$ 1,397,211	\$ 41,678,619	\$ -	\$ -	\$ 729,736	\$ 729,736	\$ 42,408,355	
Total 2013 functional expenses	\$ 33,666,197	\$ 857,412	\$ 3,614,069	\$ 1,531,089	\$ 39,668,767	\$ -	\$ -	\$ 647,392	\$ 647,392		\$ 40,316,159

The accompanying notes are an integral part of these financial statements.

PLANNED PARENTHOOD ORANGE AND SAN BERNARDINO COUNTIES

STATEMENT OF CASH FLOWS

For the year ended June 30, 2014
With comparative totals for the year ended June 30, 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Change in net assets	\$ 5,422,855	\$ (309,624)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,066,560	746,890
Change in allowance for doubtful accounts	1,156,688	(1,063,190)
(Gain) on investments	(778,725)	(295,885)
Change in capitalized asset obsolescence reserve	-	(55,558)
Change in inventory reserve	-	(104,895)
Reinvested interest and dividends, net	(115,072)	(128,097)
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(4,201,376)	1,646,835
(Increase) decrease in annuity receivable	(419)	4,652
Decrease (increase) in prepaid expenses	166,499	(170,422)
(Increase) decrease in deposits	(28,634)	2,072
(Increase) decrease in inventory	(123,122)	116,431
(Decrease) increase in accounts payable	(261,513)	829,932
(Decrease) increase in accrued liabilities	(226,607)	2,513,082
(Decrease) in annuity obligations	(4,281)	(4,434)
Net cash provided by operating activities	<u>2,072,853</u>	<u>3,727,789</u>
Cash flows used in investing activities:		
Proceeds from sale of investments	1,000,000	-
Purchase of property and equipment	(1,637,994)	(3,477,083)
Net cash (used) by investing activities	<u>(637,994)</u>	<u>(3,477,083)</u>
Cash flows used in financing activities:		
Principal payments on notes payable	(382,484)	(331,162)
Net cash (used) by financing activities	<u>(382,484)</u>	<u>(331,162)</u>
Net increase (decrease) in cash and cash equivalents	1,052,375	(80,456)
Cash and cash equivalents, beginning of year	<u>3,578,194</u>	<u>3,658,650</u>
Cash and cash equivalents, end of year	<u>\$ 4,630,569</u>	<u>\$ 3,578,194</u>
Supplemental disclosure of cash flow information:		
Operating activities reflects interest paid of:	<u>\$ 91,405</u>	<u>\$ 102,758</u>

The accompanying notes are an integral part of these financial statements.

PLANNED PARENTHOOD ORANGE AND SAN BERNARDINO COUNTIES

NOTES TO FINANCIAL STATEMENTS

1. **Organization**

Planned Parenthood Orange and San Bernardino Counties (“Planned Parenthood”) is a not-for-profit California corporation whose primary purpose is to provide leadership, education, and health care in the area of women’s health services. Planned Parenthood is an affiliate member of the Planned Parenthood Federation of America, Inc. (“PPFA”) and Planned Parenthood Affiliates of California, and is assessed dues accordingly.

During the year ended June 30, 2014, Planned Parenthood received funding from the U.S. Department of Health and Human Services, the California Department of Health Services, and other granting agencies amounting to approximately 17% of Planned Parenthood’s total revenue and support.

2. **Summary of Significant Accounting Policies**

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements is as follows:

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting.

Accounting

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of Planned Parenthood are maintained in accordance with the principles of net asset accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

Unrestricted. These generally result from revenues generated by receiving unrestricted contributions, providing services, and receiving interest from investments less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

Temporarily Restricted. Planned Parenthood reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the 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 program or capital restrictions.

**PLANNED PARENTHOOD
ORANGE AND SAN BERNARDINO COUNTIES**

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Permanently Restricted. These net assets are restricted by donors who stipulate that resources are to be maintained permanently, but permit Planned Parenthood to expend all of the income (or other economic benefits) derived from the donated assets. Planned Parenthood had no permanently restricted net assets at June 30, 2014.

Cash and Cash Equivalents

Planned Parenthood has defined cash and cash equivalents as cash in banks and money market funds in securities institutions not held for investment purposes.

Accounts Receivable

Receivables are recorded when billed or accrued and represent claims against third parties that will be settled in cash. The carrying value of receivables, net of the allowance for doubtful accounts, represents their estimated net realizable value. The allowance for doubtful accounts is estimated based on historical collection trends, type of customer, the age of outstanding receivables, and existing economic conditions. If events or changes in circumstances indicate that specific receivable balances may be impaired, further consideration is given to the collectability of those balances and the allowance is adjusted accordingly. As of June 30, 2014, Planned Parenthood had an allowance for uncollectible accounts of \$3,222,516 (see Note 4).

Inventory

Inventory consists of medical and contraceptive supplies maintained for the use and benefit of, or sale to, patients throughout the year. Supplies inventory is stated at the lower of cost or fair value, cost being determined on a first-in, first-out basis.

Investments in Securities

Planned Parenthood values its investments at fair value. Unrealized gains or losses (including investments bought, sold and held during the year) are reflected in the Statement of Activities as gain or loss on investments. Short-term highly liquid money market deposits are treated as cash and cash equivalents.

Property and Equipment

Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets.

**PLANNED PARENTHOOD
ORANGE AND SAN BERNARDINO COUNTIES**

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Maintenance and repair costs are charged to expense as incurred. Property and equipment are capitalized if the cost of an asset is greater than or equal to two-thousand five-hundred dollars and the useful life is greater than one year.

Fair Value Measurements

Generally accepted accounting principles provide guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the inputs used with each level:

Level 1 inputs - quoted prices in active markets for identical assets

Level 2 inputs - quoted prices in active or inactive markets for the same or similar assets

Level 3 inputs - estimates using the best information available when there is little or no market

Planned Parenthood is required to measure its investments in securities, the charitable gift annuity, the other investment and non-cash contributions at fair value. The specific techniques used to measure fair value for these financial statement elements are described in the notes below that relate to each element.

Net Patient Service Revenue Recognition

Patient service is reported as services that are performed and is net of contractual allowances. Planned Parenthood provides medical services to patients covered by various third party programs, including State Medi-Cal and sliding fee scale programs. Billings for services under these third party programs are included in the patient service revenues, net of an allowance for estimated differences between charge list prices and allowable or agreed-upon billing rates (contractual allowances). Adjustments to the allowances based on final settlement with the programs are recorded upon settlement.

Donated Materials and Services

Contributions of donated non-cash assets are measured on a non-recurring basis and recorded at fair value in the period received. 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 fair value in the period received. For the year ended June 30, 2014 Planned Parenthood recorded total in-kind contributions of \$842,934, of which \$370,245 represents donated medical supplies and \$472,689 represents donated professional services (see Note 13).

**PLANNED PARENTHOOD
ORANGE AND SAN BERNARDINO COUNTIES**

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Concentration of Credit Risks

Planned Parenthood places its temporary cash investments with high-credit, quality financial institutions. At times, such investments may be in excess of the Federal Deposit Insurance Corporation insurance limit. Planned Parenthood has not incurred losses related to these investments.

The primary receivable balance outstanding at June 30, 2014 consists of patient receivables due from State agencies and other third parties. Concentration of credit risks with respect to trade receivables is limited, as the majority of Planned Parenthood's receivables consist of earned fees from contract programs.

Planned Parenthood holds investments in the form of equities, money market funds, bond funds, equity funds, and fixed income. The Board of Directors routinely reviews market values of such investments.

Approximately 83% of Planned Parenthood's revenue is derived from net patient service revenue.

Income Taxes

Planned Parenthood is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d.

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by Planned Parenthood in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. Planned Parenthood's returns are subject to examination by federal and state taxing authorities, generally for three and four years, respectively, after they are filed.

Functional Allocation of Expenses

Costs of providing Planned Parenthood's programs and other activities have been presented in the Statement of Functional Expenses. During the year, shared costs are allocated among various programs and support services by a method that best measures the relative degree of benefit. Planned Parenthood uses expenses, revenue, headcount, and number of visits to allocate indirect costs.

**PLANNED PARENTHOOD
ORANGE AND SAN BERNARDINO COUNTIES**

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, and expenses as of the date and for the period presented. Actual results could differ from those estimates.

Comparative Totals

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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Planned Parenthood's financial statements for the year ended June 30, 2013 from which the summarized information was derived.

Subsequent Events

Management has evaluated subsequent events through November 7, 2014, the date the financial statements were available.

3. Investments in Securities

Planned Parenthood has investments at various securities institutions. All investment earnings and market value changes, less expenses, are reported to Planned Parenthood on a monthly basis. Significant information about investments is summarized as follows:

Equities	\$2,199,334
Equity funds	1,733,308
Other assets	1,596,053
Bond funds	728,562
Fixed income	695,028
Money market funds	<u>427,322</u>
	<u>\$7,379,607</u>

continued

**PLANNED PARENTHOOD
ORANGE AND SAN BERNARDINO COUNTIES**

NOTES TO FINANCIAL STATEMENTS

3. Investments in Securities, continued

Changes in investments for the year ended June 30, 2014 are as follows:

Balance at July 1, 2013	\$ 7,485,810
Transfer to operating account	(1,000,000)
Gain on investments	778,725
Reinvested interest and dividends, net	<u>115,072</u>
Balance at June 30, 2014	<u>\$ 7,379,607</u>

4. Accounts Receivable

Account receivable at June 30, 2014 consists of the following:

Patient fees receivable	\$10,824,300
Government grants and contracts receivable	923,247
Other receivables	<u>66,258</u>
	11,813,805
Less: allowance for doubtful accounts	<u>(3,222,516)</u>
	<u>\$ 8,591,289</u>

5. Other Investment

Other investment in the amount of \$250,000 as of June 30, 2014 consists of 2,500 shares of Series A preferred stock, par value \$0.01 per share issued by Afaxys, Inc. Planned Parenthood's holding represents 4.2% of \$5,895,000 Series A preferred stock issued by Afaxys, Inc. in December 2010. This investment is the result of an exchange of a note receivable for the preferred stock. The investment is accounted for on the cost method.

6. Annuity Receivable and Liability

On September 26, 2006, a charitable gift annuity was received to support the work of Planned Parenthood. The annuity agreement provides for periodic distributions to the grantor over the trust's terms at an agreed rate. Upon maturity, the remaining trust assets will be transferred for Planned Parenthood's general purposes.

Contributed assets were recorded at their value at the date of the initial gift. The present value of the future benefits to be received by Planned Parenthood is recorded as temporarily restricted revenue in the Statement of Activities. The liability portion, measured at the present value of the expected future payments to the beneficiaries based on the terms of the trust, is revalued annually based on changes in actuarial assumptions.

**PLANNED PARENTHOOD
ORANGE AND SAN BERNARDINO COUNTIES**

NOTES TO FINANCIAL STATEMENTS

6. Annuity Receivable and Liability, continued

The charitable remainder trust assets, which are administered by PPFA, are \$169,806 as of June 30, 2014. These are carried in the Statement of Financial Position at their fair value. The present value of estimated future payments to designated beneficiaries is \$89,340 as of June 30, 2014, and is shown as an annuity liability in the Statement of Financial Position.

7. Property and Equipment

Property and equipment at June 30, 2014 consist of the following:

Land	\$ 719,728
Buildings	2,661,418
Building improvements	7,683,068
Furniture and equipment	2,988,744
Leasehold improvements	2,298,096
Computer and software	<u>1,284,577</u>
	17,635,631
Less: accumulated depreciation	<u>(7,396,863)</u>
	10,238,768
Fullerton property, net – held for sale	<u>2,550,000</u>
	<u>\$12,788,768</u>

Depreciation expense for the year ended June 30, 2014 was \$1,066,560.

8. Accrued Liabilities

Accrued liabilities at June 30, 2014 consist of the following:

Medi-cal repayment reserve	\$2,154,039
Accrued vacation	686,710
Accrued payroll	748,934
Other accrued liabilities	<u>221,974</u>
	<u>\$3,811,657</u>

9. Lines of Credit

Planned Parenthood has a \$2,000,000 line of credit, with a commercial bank, which is collateralized by its investments, maturing in February 2015, at the higher of 5.0% or the Wall Street Journal prime rate. The interest rate at June 30, 2014 was 2.323% per annum. There was no amount outstanding on the line of credit at June 30, 2014.

continued

**PLANNED PARENTHOOD
ORANGE AND SAN BERNARDINO COUNTIES**

NOTES TO FINANCIAL STATEMENTS

9. Lines of Credit, continued

Planned Parenthood also has a \$2,380,000 line of credit, with another commercial bank, secured by property, due June 2015, at the higher of 4.25% or 0.25% points over the Wall Street Journal prime rate. The interest rate at June 30, 2014 was 4.25% per annum. There was no amount outstanding on the line of credit at June 30, 2014.

10. Notes Payable

Notes payable at June 30, 2014 consist of the following:

Note payable to a bank, secured by a deed of trust on real property, monthly principal payments of \$9,000, plus accrued interest, maturing in September 2016. The note bears interest at a variable annualized rate, adjusted using the 6-month London Interbank Offered Rate plus a margin of 2.00%, currently at 2.32%. The note was paid in full in August 2014. \$ 1,413,000

Note payable to a bank, secured by a deed of trust on real property, monthly payments of \$6,188, including interest at 5.50% per annum, fixed for five years, due December 2018. 879,231

Less: current portion \$ 2,292,231
 Non-current portion (1,439,566)

\$ 852,665

Maturities for notes payable are as follows:

<u>Year ended June 30,</u>	
2015	\$1,439,566
2016	28,064
2017	29,647
2018	31,320
2019	33,086
Thereafter	<u>730,548</u>
	<u>\$2,292,231</u>

**PLANNED PARENTHOOD
ORANGE AND SAN BERNARDINO COUNTIES**

NOTES TO FINANCIAL STATEMENTS

11. Commitments and Contingencies

Obligations Under Operating Leases

Planned Parenthood leases real property under operating leases with various terms. Future minimum payments, by year and in the aggregate, under these leases with initial or remaining terms of one year or more, consist of the following:

<u>Year ended June 30,</u>	
2015	\$1,299,061
2016	1,359,011
2017	1,365,704
2018	1,020,635
2019	657,366
Thereafter	<u>207,890</u>
	<u>\$5,909,666</u>

Rent expense under operating leases for the year ended June 30, 2014 was \$1,295,046.

Contracts

Planned Parenthood's grants and contracts are subject to inspection and audit by the appropriate governmental funding agency. The purpose is to determine whether program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously funded program costs.

12. Patient Service Revenue, net

For the period ended June 30, 2014, the patient service revenue, net of contract allowances and discounts consists of the following:

Third party billings	\$ 51,204,372
Laboratory billings	6,445,600
Patient self pay	<u>2,382,603</u>
	60,032,575
Less: Charity care and sliding fee scale adjustments	(676,058)
Reserve	(2,194,192)
Contractual adjustments	<u>(15,888,410)</u>
	<u>\$ 41,273,915</u>

continued

**PLANNED PARENTHOOD
ORANGE AND SAN BERNARDINO COUNTIES**

NOTES TO FINANCIAL STATEMENTS

13. Fair Value Measurements

The table below presents the balance of assets measured at fair value at June 30, 2014 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Securities				
Equities:				
Growth	\$1,316,146	\$ -	\$ -	\$1,316,146
Blend	636,496			636,496
Core	584,254			584,254
Value	297,682			297,682
Other	1,253			1,253
Fixed income:				
Corporate bond	743,783			743,783
Short government	67,648			67,648
US Treasuries	276,299			276,299
Municipal bonds	209,841			209,841
Agency securities	208,888			208,888
Equity funds:				
Stock	307,932			307,932
Blend	450,148			450,148
Global real estate	233,329			233,329
Bond funds:				
High yield bond	371,280			371,280
Bank loan	205,992			205,992
Liquid alternatives:				
Tactical allocation	335,955			335,955
Long/short equity	231,111			231,111
Multi-alternative	174,832			174,832
Non-traditional bond	151,290			151,290
Commodities broad	83,790			83,790
Holding company	64,336			64,336
Other investment			250,000	250,000
Gift annuity (net)			<u>80,466</u>	<u>80,466</u>
Fair value at June 30, 2014	<u>\$6,952,285</u>	<u>\$ -</u>	<u>\$330,466</u>	<u>\$7,282,751</u>

The fair values of securities have been measured on a recurring basis using quoted prices for identical assets in active markets (Level 1 inputs).

The fair value of the other investment has been measured on a recurring basis using the best financial information available from Afaxys, Inc. Due to the limited nature of information available on this start-up entity, management determined to use their cost as the best information available at June 30, 2014 (Level 3 inputs).

The fair value of the gift annuity is measured on a recurring basis by calculating the change in value of Planned Parenthood's beneficial interest in the annuity (Level 3 inputs).

continued

**PLANNED PARENTHOOD
ORANGE AND SAN BERNARDINO COUNTIES**

NOTES TO FINANCIAL STATEMENTS

13. Fair Value Measurements, continued

The following table sets forth a summary of changes in the fair value of financial instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2014:

<u>Other investment</u>	
Balance at July 1, 2013	\$250,000
Gain on investments	-
Reinvested interest and dividends	-
Balance at June 30, 2014	<u>\$250,000</u>
 <u>Gift annuity, net</u>	
Balance at July 1, 2013	\$75,766
Gain on investments	4,700
Released	-
Balance at June 30, 2014	<u>\$80,466</u>

Planned Parenthood has received significant contributions of professional services and medical supplies during the fiscal year. The fair value of contributed services and medical supplies, of \$842,934, has been measured on a non-recurring basis using quoted prices for similar assets in inactive markets (Level 2 inputs).

14. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2014 consist of the following:

Annuity gift (time restriction)	\$ 80,466
Komen community grant	<u>27,151</u>
	<u>\$107,617</u>

During the year ended June 30, 2014, net assets amounting to \$173,516 were released from program restrictions.

15. Employee Benefit Plan

Planned Parenthood has a voluntary defined contribution plan. Planned Parenthood makes a discretionary contribution of 2% of the “eligible employees” (as defined) annual salary. The discretionary percentage is established annually. Planned Parenthood also makes a safe-harbor contribution of 3% of the “eligible employees” (as defined) annual salary. In addition, Planned Parenthood makes matching contribution on a 50% basis up to a maximum of 6% of an employee’s annual salary.

Planned Parenthood’s contributions to this plan for the year ended June 30, 2014 were \$866,248.

SUPPLEMENTAL SCHEDULE

PLANNED PARENTHOOD ORANGE AND SAN BERNARDINO COUNTIES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2014

<u>Program Name</u>	<u>Contract Number</u>	<u>Federal CFDA No.</u>	<u>Contract Term</u>	<u>Total Program Award</u>	<u>Program Expenditures</u>
Federal Award					
U.S. Department of Agriculture ("USDA"):					
Pass-through, State of California Department of Public Health:					
Special Supplemental Nutrition Program for Women, Infants and Children (WIC) (a)	11-10482	10.557	10/01/12-09/30/13	\$ 3,716,000	\$ 802,173
Special Supplemental Nutrition Program for Women, Infants and Children (WIC) (a)	11-10482	10.557	10/01/13-09/30/14	4,011,000	2,253,136
				<u>7,727,000</u>	<u>3,055,309</u>
Total USDA					
U.S. Department Health and Human Services ("DHHS"):					
Pass-through, State of California Family Health Council, Inc.:					
Family Planning Services (Title X)	1250-5320-71209-13	93.217	01/01/13-12/31/13	534,692	243,671
Family Planning Services (Title X)	1250-5320-71209-14	93.217	01/01/14-12/31/14	663,020	238,414
				<u>1,197,712</u>	<u>482,085</u>
Subtotal pass-through, State of California Family Health Council, Inc.					
Pass-through, California Department of Public Health:					
Maternal, Child and Adolescent Health					
Affordable Care Act (ACA) California Personal Responsibility Education Program (CA PREP)	12-10232	93.092	07/01/2013-6/30/2014	525,807	510,834
				<u>1,723,519</u>	<u>992,919</u>
Total DHHS					
Total Federal Awards				<u>\$ 9,450,519</u>	<u>\$ 4,048,228</u>

(a) Audited as a major program

Summary of Significant Accounting Policies:

- 1) Basis of Accounting - The Schedule of Expenditures of Federal Awards has been reported on the accrual basis of accounting.
- 2) Planned Parenthood is exempt from income taxation under Internal Revenue Code Section 501(c)(3) and California Revenue Taxation Code Section 23701d.

See independent auditor's report.

ADDITIONAL INFORMATION



Certified Public Accountants, LLP

**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***

To the Board of Directors
Planned Parenthood Orange and San Bernardino Counties

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 Planned Parenthood Orange and San Bernardino Counties ("Planned Parenthood"), which comprise the Statement of Financial Position as of June 30, 2014, and the related Statements of Activities, 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 November 7, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Planned Parenthood'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 Planned Parenthood's internal control. Accordingly, we do not express an opinion on the effectiveness of Planned Parenthood's internal control.

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 entity'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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Planned Parenthood'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Planned Parenthood's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Harrington Group

Pasadena, California
November 7, 2014

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Certified Public Accountants, LLP

Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133

To the Board of Directors
Planned Parenthood Orange and San Bernardino Counties

Report on Compliance for Each Major Federal Program

We have audited Planned Parenthood Orange and San Bernardino Counties' ("Planned Parenthood") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Planned Parenthood's major federal programs for the year ended June 30, 2014. Planned Parenthood's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Planned Parenthood's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Planned Parenthood's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Planned Parenthood's compliance.

Opinion on Each Major Federal Program

In our opinion, Planned Parenthood complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

**Independent Auditors' Report on Compliance for Each Major Program
and on Internal Control Over Compliance Required by OMB Circular A-133**

continued

Report on Internal Control Over Compliance

Management of Planned Parenthood is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Planned Parenthood's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Planned Parenthood's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Harrington Group

Pasadena, California
November 7, 2014

**PLANNED PARENTHOOD
ORANGE AND SAN BERNARDINO COUNTIES**
Schedule of Findings and Questioned Costs
For the year ended June 30, 2014

Section I – Summary of Auditors’ Results

Financial Statements:

Type of auditors’ report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? No

Significant deficiencies identified? None Reported

Noncompliance material to financial statements noted? No

Federal Awards:

Internal control over major programs:

Material weakness(es) identified? No

Significant deficiencies identified? None Reported

Type of auditors’ report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? No

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes

Identification of Major Programs:

U.S. Department of Agriculture:

Special Supplemental Nutrition Program for Women, Infants and Children 10.557

Section II – Financial Statements Findings

There are no findings required to be reported in accordance with *Generally Accepted Government Auditing Standards*.

Section III – Federal Award Findings and Questioned Costs

There are neither findings nor questioned costs for Federal Awards as defined in OMB Circular A-133.

Section IV – Summary Schedule of Prior Year Findings

None.