

**PLANNED PARENTHOOD  
ORANGE AND SAN BERNARDINO COUNTIES, INC.**

---

**FINANCIAL STATEMENTS  
and  
ADDITIONAL INFORMATION**

**JUNE 30, 2019**

**PASADENA**  
234 E Colorado Blvd  
Suite M150  
Pasadena, CA 91101  
p: 626.403.6801

**A Trusted Nonprofit Partner**  
  
Main Fax: 626.403.6866  
  
[www.npocpas.com](http://www.npocpas.com)

**OAKLAND**  
1901 Harrison Street  
Suite 1150  
Oakland, CA 94612  
p: 510.379.1182

## CONTENTS

---

Independent Auditors' Report	1-2
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7-18
Additional Information:	
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 <i>Government Auditing Standards</i>	19-20

## INDEPENDENT AUDITORS' REPORT

---

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

### Report on the Financial Statements

We have audited the accompanying financial statements of Planned Parenthood Orange and San Bernardino Counties, Inc. (a nonprofit corporation), which comprise the Statement of Financial Position as of June 30, 2019, 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.

### 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 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 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, Inc. as of June 30, 2019, 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.

## INDEPENDENT AUDITORS' REPORT

continued

---

### Other Matter

#### *Report on Summarized Comparative Information*

We have previously audited Planned Parenthood Orange and San Bernardino Counties, Inc.'s 2018 financial statements, and we have expressed an unmodified audit opinion on those audited financial statements in our report dated November 12, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited 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 December 19, 2019 on our consideration of Planned Parenthood Orange and San Bernardino Counties, Inc.'s 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 solely 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 the effectiveness of Planned Parenthood Orange and San Bernardino Counties, Inc.'s 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, Inc.'s internal control over financial reporting and compliance.

*Harrington Group*

Pasadena, California  
December 19, 2019

**PLANNED PARENTHOOD ORANGE AND SAN BERNARDINO COUNTIES, INC.**

STATEMENT OF FINANCIAL POSITION

June 30, 2019

With comparative totals at June 30, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Note 2)	\$ 16,793,221	\$ -	\$ 16,793,221	\$ 15,057,101
Investments in securities (Note 4)	14,789,432		14,789,432	9,403,466
Accounts receivable, net (Note 5)	7,156,676		7,156,676	9,530,333
Pledges receivable (Note 6)		86,006	86,006	158,442
Inventory (Note 2)	1,327,042		1,327,042	1,150,990
Other assets receivable	138,728		138,728	99,146
Prepaid expenses	557,427		557,427	536,302
<b>TOTAL CURRENT ASSETS</b>	<u>40,762,526</u>	<u>86,006</u>	<u>40,848,532</u>	<u>35,935,780</u>
<b>NON-CURRENT ASSETS</b>				
Property and equipment (Note 7)	15,067,481		15,067,481	13,313,827
Other investment (Note 8)	250,000		250,000	250,000
Annuity receivable (Note 9)		99,961	99,961	115,750
Deposits	189,422		189,422	143,013
<b>TOTAL NON-CURRENT ASSETS</b>	<u>15,506,903</u>	<u>99,961</u>	<u>15,606,864</u>	<u>13,822,590</u>
<b>TOTAL ASSETS</b>	<u>\$ 56,269,429</u>	<u>\$ 185,967</u>	<u>\$ 56,455,396</u>	<u>\$ 49,758,370</u>
<b>LIABILITIES AND NET ASSETS</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	\$ 1,737,843	\$ -	\$ 1,737,843	\$ 1,978,445
Accrued liabilities (Note 11)	2,634,918		2,634,918	1,963,592
Annuity liability (Note 9)		63,795	63,795	68,101
Current portion of notes payable (Note 13)	146,045		146,045	139,305
	<u>4,518,806</u>	<u>63,795</u>	<u>4,582,601</u>	<u>4,149,443</u>
<b>NON-CURRENT LIABILITIES</b>				
Notes payable, less current portion (Note 13)	1,491,704		1,491,704	1,639,999
<b>TOTAL LIABILITIES</b>	<u>6,010,510</u>	<u>63,795</u>	<u>6,074,305</u>	<u>5,789,442</u>
<b>NET ASSETS</b>				
Without donor restrictions	50,258,919		50,258,919	43,762,837
With donor restrictions (Note 16)		122,172	122,172	206,091
<b>TOTAL NET ASSETS</b>	<u>50,258,919</u>	<u>122,172</u>	<u>50,381,091</u>	<u>43,968,928</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 56,269,429</u>	<u>\$ 185,967</u>	<u>\$ 56,455,396</u>	<u>\$ 49,758,370</u>

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

**PLANNED PARENTHOOD ORANGE AND SAN BERNARDINO COUNTIES, INC.**

STATEMENT OF ACTIVITIES  
 For the year ended June 30, 2019  
 With comparative totals for the year ended June 30, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2019</u>	<u>2018</u>
<b>REVENUE AND SUPPORT</b>				
Patient service revenue, net of contractual allowances and discounts (Note 15)	\$ 59,760,697	\$ -	\$ 59,760,697	\$ 58,052,198
Less: provision for bad debt	879,109		879,109	(1,627,547)
Net patient service revenue	<u>60,639,806</u>		<u>60,639,806</u>	<u>56,424,651</u>
Contributions and grants	3,879,784	57,589	3,937,373	1,737,249
Government grants and contracts	3,888,186		3,888,186	4,642,659
Other income	510,565		510,565	769,918
In-kind contributions (Note 2)	394,362		394,362	289,983
Interest and dividends, net of fees of \$44,006	262,315		262,315	270,500
Gain (loss) on investments	160,416	(11,483)	148,933	419,056
Electronic health record incentive program	136,000		136,000	329,537
Net assets released from restrictions (Note 16)	130,025	(130,025)	-	-
<b>TOTAL REVENUE AND SUPPORT</b>	<u>70,001,459</u>	<u>(83,919)</u>	<u>69,917,540</u>	<u>64,883,553</u>
<b>EXPENSES</b>				
Program services	62,752,782		62,752,782	55,932,684
Support services	752,595		752,595	777,713
<b>TOTAL EXPENSES</b>	<u>63,505,377</u>	<u>-</u>	<u>63,505,377</u>	<u>56,710,397</u>
<b>CHANGE IN NET ASSETS</b>	6,496,082	(83,919)	6,412,163	8,173,156
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>43,762,837</u>	<u>206,091</u>	<u>43,968,928</u>	<u>35,795,772</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 50,258,919</u>	<u>\$ 122,172</u>	<u>\$ 50,381,091</u>	<u>\$ 43,968,928</u>

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

PLANNED PARENTHOOD ORANGE AND SAN BERNARDINO COUNTIES, INC.

STATEMENT OF FUNCTIONAL EXPENSES  
For the year ended June 30, 2019  
With comparative totals for the year ended June 30, 2018

	Program Services				Total Program Services	Support Services			Total Support Services	Total Expenses	
	Clinical Healthcare	Public Affairs	WIC	Education		General and Administrative	Marketing	Fundraising		2019	2018
Salaries and wages	\$ 21,843,225	\$ 532,347	\$ 1,825,378	\$ 805,629	\$ 25,006,579	\$ 4,592,485	\$ 444,243	\$ 340,145	\$ 5,376,873	\$ 30,383,452	\$ 26,454,189
Payroll taxes and employee benefits	4,555,274	112,620	455,235	179,246	5,302,375	859,746	102,914	70,736	1,033,396	6,335,771	5,665,231
Total personnel costs	26,398,499	644,967	2,280,613	984,875	30,308,954	5,452,231	547,157	410,881	6,410,269	36,719,223	32,119,420
Medical supplies	14,648,800		158		14,648,958	148			148	14,649,106	13,188,045
Occupancy	1,886,544	44,147	447,902	128,210	2,506,803	276,699	30,277	30,494	337,470	2,844,273	2,667,096
Other operating expenses	1,158,959	822,572	8,567	21,965	2,012,063	299,529	243,304	163,599	706,432	2,718,495	2,741,109
Depreciation	1,074,495		11,592	45,136	1,131,223	345,734			345,734	1,476,957	1,388,894
Outside services	819,198	34	16,317	8,813	844,362	321,717	304,242	261	626,220	1,470,582	1,343,189
Consultant fees	568,178		1,049	7,250	576,477	416,721	6,688	26,188	449,597	1,026,074	755,507
Expendable furniture and equipment	426,416	4,696	31,571	9,256	471,939	472,830	15,835	7,618	496,283	968,222	1,008,470
Communications and mailing	370,010	9,695	87,436	27,820	494,961	70,249	5,219	12,545	88,013	582,974	524,792
Insurance	470,424		6,020		476,444	5,714			5,714	482,158	476,212
Office supplies	148,945	680	73,387	29,614	252,626	65,011	1,183	478	66,672	319,298	261,986
Travel and transportation	61,127	8,302	24,720	31,349	125,498	49,912	4,750	1,256	55,918	181,416	180,575
Printing	26,387	2,922	182	2,592	32,083	5,972	14,590	6,119	26,681	58,764	52,451
Library	1,642				1,642	4,269	1,924		6,193	7,835	2,651
Functional allocation before indirect	48,059,624	1,538,015	2,989,514	1,296,880	53,884,033	7,786,736	1,175,169	659,439	9,621,344	63,505,377	56,710,397
Indirect costs allocation	8,093,033	157,363	430,110	188,243	8,868,749	(7,786,736)	(1,175,169)	93,156	(8,868,749)	-	-
<b>TOTAL 2019 FUNCTIONAL EXPENSES</b>	<b>\$ 56,152,657</b>	<b>\$ 1,695,378</b>	<b>\$ 3,419,624</b>	<b>\$ 1,485,123</b>	<b>\$ 62,752,782</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 752,595</b>	<b>\$ 752,595</b>	<b>\$ 63,505,377</b>	
TOTAL 2018 FUNCTIONAL EXPENSES	\$ 49,300,456	\$ 1,646,574	\$ 3,471,462	\$ 1,514,192	\$ 55,932,684	\$ -	\$ -	\$ 777,713	\$ 777,713		\$ 56,710,397

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

**PLANNED PARENTHOOD ORANGE AND SAN BERNARDINO COUNTIES, INC.**

STATEMENT OF CASH FLOWS  
For the year ended June 30, 2019  
With comparative totals for the year ended June 30, 2018

	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 6,412,163	\$ 8,173,156
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,476,957	1,388,894
Change in allowance for doubtful accounts	721,673	(7,906)
(Gain) on investments	(160,415)	(426,569)
Donated stocks	(23,379)	(6,445)
Reinvested interest and dividends, net	(202,171)	(163,662)
(Increase) decrease in operating assets:		
Accounts receivable	1,651,984	(3,932,043)
Pledges receivable	72,436	505,486
Annuity receivable	15,789	11,733
Prepaid expenses	(21,125)	(13,520)
Deposits	(46,409)	(27,827)
Donated assets	(39,582)	(99,146)
Inventory	(176,052)	92,740
Increase (decrease) in operating liabilities:		
Accounts payable	(240,602)	482,578
Accrued liabilities	671,326	354,328
Annuity liability	(4,306)	(4,220)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>10,108,287</u>	<u>6,327,577</u>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(3,230,613)	(1,379,095)
Net (purchase) of investments	(5,000,000)	(1,677)
<b>NET CASH (USED) BY INVESTING ACTIVITIES</b>	<u>(8,230,613)</u>	<u>(1,380,772)</u>
<b>CASH FLOWS (USED) IN FINANCING ACTIVITIES:</b>		
Principal payments on notes payable	(141,554)	(923,911)
<b>NET CASH (USED) BY FINANCING ACTIVITIES</b>	<u>(141,554)</u>	<u>(923,911)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	1,736,120	4,022,894
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>15,057,101</u>	<u>11,034,207</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 16,793,221</u>	<u>\$ 15,057,101</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Operating activities reflects interest paid:	<u>\$ 79,885</u>	<u>\$ 124,893</u>
Non-cash financing activity:		
Re-financed note payable	<u>\$ -</u>	<u>\$ 915,000</u>

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



# PLANNED PARENTHOOD ORANGE AND SAN BERNARDINO COUNTIES, INC.

## NOTES TO FINANCIAL STATEMENTS

---

### 1. **Organization**

Planned Parenthood Orange and San Bernardino Counties, Inc. (“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. As such, in 2013 Planned Parenthood began utilizing the dba Melody Women’s Health to provide primary care to women. 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.

In addition to patient fees and reimbursement from third party programs, Planned Parenthood receives funding from the U.S. Department of Health and Human Services, the California Department of Public Health, and other local granting agencies to provide its services.

### 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.

#### **Net Assets**

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

**Without Donor Restrictions.** Net assets available for use in general operations and not subject to donor- (or certain grantor-) restrictions.

**With Donor Restrictions.** Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

**PLANNED PARENTHOOD  
ORANGE AND SAN BERNARDINO COUNTIES, INC.**

NOTES TO FINANCIAL STATEMENTS

---

**2. Summary of Significant Accounting Policies, continued**

**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, 2019, Planned Parenthood had an allowance for uncollectible accounts of \$1,475,790 (see Note 5).

**Pledges Receivable**

Pledges receivable of \$86,006 at June 30, 2019 are recorded at their realizable value and are due within one year and expected to be collected. Pledges receivable that are expected to be collected in future years are measured on a non-recurring basis at the date of the pledge, recorded at the present value of their estimates future cash flows and are deemed fully collectible. Accordingly, no allowance for uncollectible pledges has been recorded as of June 30, 2019. And, given the current rates of return, no discount on pledges has been recorded of future receivables as the amount has been deemed immaterial to the financial statements.

**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.

**PLANNED PARENTHOOD  
ORANGE AND SAN BERNARDINO COUNTIES, INC.**

NOTES TO FINANCIAL STATEMENTS

---

**2. Summary of Significant Accounting Policies, continued**

**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.

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 revenue is reported as services 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, 2019, Planned Parenthood recorded total in-kind contributions of \$394,362, of which \$385,732 represents donated medical supplies and \$8,630 represents donated professional services (see Note 10).

continued

**PLANNED PARENTHOOD  
ORANGE AND SAN BERNARDINO COUNTIES, INC.**

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, 2019 consists of patient receivables due from State agencies and other third parties. Concentration of credit risks with respect to these receivables is limited, as the majority of Planned Parenthood's receivables consist of earned fees from large, contract programs with third party providers.

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

Approximately 87% 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.

**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.

continued

**PLANNED PARENTHOOD  
ORANGE AND SAN BERNARDINO COUNTIES, INC.**

NOTES TO FINANCIAL STATEMENTS

---

**2. Summary of Significant Accounting Policies, continued**

**Reclassifications**

For comparability, certain June 30, 2018 amounts have been reclassified, where appropriate, to conform to the financial statement presentation used at June 30, 2019.

**Recently Adopted Accounting Pronouncement**

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now titled "without donor restrictions" and "with donor restrictions", (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed-in-service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The ASU is effective for fiscal years beginning after December 15, 2017. Early adoption is permitted. The provisions of the ASU must be applied on a retrospective basis for all years presented although certain optional practical expedients are available for the periods prior to adoption. Planned Parenthood's financial statements for year-ended June 30, 2019 are presented in accordance with ASU 2016-14.

**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, 2018, from which the summarized information was derived.

**3. Liquidity and Availability of Resources**

Planned Parenthood monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. Planned Parenthood's income is generated from receiving contributions, with or without donor restrictions, providing program services, and receiving interest from investments less expenses incurred in provided program-related expenses, raising contributions, and performing administrative functions.

continued

**PLANNED PARENTHOOD  
ORANGE AND SAN BERNARDINO COUNTIES, INC.**

NOTES TO FINANCIAL STATEMENTS

---

**3. Liquidity and Availability of Resources, continued**

As of June 30, 2019, the following financial assets could readily be made available within one year of the balance sheet date to meet general expenditures:

Cash	\$16,793,221
Investment in securities	14,789,432
Accounts receivable, net	7,156,676
Pledges receivable (due in one year)	<u>61,006</u>
	<u>\$38,800,335</u>

**4. 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	\$ 4,753,902
Money market funds	2,609,204
Exchange traded funds (ETFs)	2,282,097
Equity funds	2,076,013
Fixed income	1,410,620
Bond funds	1,402,084
Other assets	<u>255,512</u>
	<u>\$14,789,432</u>

Changes in investments for the year ended June 30, 2019 are as follows:

Balance at July 1, 2018	\$ 9,403,466
Purchases of investments	5,000,000
Donated stock	23,379
Reinvested interest and dividends, net	202,172
Gain on investments	<u>160,415</u>
Balance at June 30, 2019	<u>\$14,789,432</u>

**5. Accounts Receivable**

Account receivable at June 30, 2019 consists of the following:

Patient fees receivable	\$ 7,447,862
Government grants and contracts receivable	1,082,134
Other receivables	<u>102,470</u>
	8,632,466
Less: allowance for doubtful accounts	<u>(1,475,790)</u>
	<u>\$ 7,156,676</u>

continued

**PLANNED PARENTHOOD  
ORANGE AND SAN BERNARDINO COUNTIES, INC.**

NOTES TO FINANCIAL STATEMENTS

---

**6. Pledges Receivable**

The total amount of pledges receivable at June 30, 2019 \$86,006 is expected to be collected as follows:

<u>Year ending June 30,</u>	
2020	\$61,006
2021	5,000
2022	5,000
2023	5,000
2024	5,000
Thereafter	<u>5,000</u>
Pledges receivable at June 30, 2019	<u>\$86,006</u>

**7. Property and Equipment**

Property and equipment at June 30, 2019 consist of the following:

Land	\$ 719,728
Buildings	3,721,418
Building improvements	10,859,555
Furniture and equipment	3,286,950
Leasehold improvements	4,057,671
Computer and software	993,241
Construction in progress	<u>1,466,009</u>
	25,104,572
Less: accumulated depreciation	<u>(10,037,091)</u>
	<u>\$ 15,067,481</u>

Depreciation expense for the year ended June 30, 2019 was \$1,476,957.

**8. Other Investment**

Other investment in the amount of \$250,000 as of June 30, 2019 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.

**PLANNED PARENTHOOD  
ORANGE AND SAN BERNARDINO COUNTIES, INC.**

NOTES TO FINANCIAL STATEMENTS

---

**9. 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 "with donor restrictions" 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.

The charitable gift annuity, which is administered by PPFA, is valued at \$99,961 as of June 30, 2019. It is carried in the Statement of Financial Position at its fair value. The present value of estimated future payments to designated beneficiaries is \$63,795 as of June 30, 2019, and is shown as an annuity liability in the Statement of Financial Position.

**10. Fair Value Measurements**

The table below presents the balance of assets measured at fair value at June 30, 2019 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equities	\$ 4,753,902	\$ -	\$ -	\$ 4,753,902
ETFs	2,282,097			2,282,097
Equity funds	2,076,013			2,076,013
Bond funds	1,402,084			1,402,084
Fixed income	1,410,620			1,410,620
Other assets	255,512			255,512
Other investment			250,000	250,000
Gift annuity, net			<u>36,166</u>	<u>36,166</u>
Fair value at June 30, 2019	<u>\$12,180,228</u>	<u>\$ -</u>	<u>\$286,166</u>	<u>\$12,466,394</u>

The fair values of equities, ETFs, equity funds, bond funds, fixed income, and other assets have been measured on a recurring basis using quoted prices for identical assets in active markets (Level 1 inputs).



**PLANNED PARENTHOOD  
ORANGE AND SAN BERNARDINO COUNTIES, INC.**

NOTES TO FINANCIAL STATEMENTS

---

**10. Fair Value Measurements, continued**

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, 2019 (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).

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, 2019:

<u>Other investment</u>	
Balance at July 1, 2018	\$250,000
Gain on investments	-
Reinvested interest and dividends	-
Balance at June 30, 2019	<u>\$250,000</u>
<u>Gift annuity, net</u>	
Balance at July 1, 2018	\$ 47,649
Change in value of annuity	<u>(11,483)</u>
Balance at June 30, 2019	<u>\$ 36,166</u>

Planned Parenthood receives significant contributions of donated medical supplies and received donated professional services during the fiscal year ended June 30, 2019. The fair value of the contributed services and medical supplies, of \$394,362, has been measured on a non-recurring basis using quoted prices for similar assets in inactive markets (Level 2 inputs).

**11. Accrued Liabilities**

Accrued liabilities at June 30, 2019 consist of the following:

Accrued vacation	\$1,324,072
Accrued payroll	604,007
Pension payable (including discretionary contribution)	598,265
Other accrued liabilities	<u>108,574</u>
	<u>\$2,634,918</u>

**PLANNED PARENTHOOD  
ORANGE AND SAN BERNARDINO COUNTIES, INC.**

NOTES TO FINANCIAL STATEMENTS

---

**12. Line of Credit**

Planned Parenthood has a \$2,000,000 line of credit, with a commercial bank, which is collateralized by its investments, maturing in June 1, 2020, at the higher of 5.0% or the Wall Street Journal prime rate. The interest rate at June 30, 2019 was 4.25% per annum. There was no amount outstanding on the line of credit at June 30, 2019.

**13. Notes Payable**

Notes payable at June 30, 2019 consist of the following:

Note payable to a bank, secured by a deed of trust on real property, monthly payments of \$8,967, including interest at 4.750% per annum, fixed for fifteen years, due August 2029. \$ 774,886

Note payable to a bank, secured by a deed of trust on real property, monthly payments of \$9,486, including interest at 4.443% per annum, due August 2027. 862,863

Less: current portion 1,637,749  
Non-current portion (146,045)

\$1,491,704

Maturities for notes payable are as follows:

<u>Year ending June 30,</u>	
2020	\$ 146,045
2021	153,112
2022	160,523
2023	168,291
2024	176,436
Thereafter	<u>833,342</u>
	<u>\$1,637,749</u>

continued

**PLANNED PARENTHOOD  
ORANGE AND SAN BERNARDINO COUNTIES, INC.**

NOTES TO FINANCIAL STATEMENTS

---

**14. 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 ending June 30,</u>	
2020	\$1,556,902
2021	945,968
2022	807,133
2023	627,830
2024	356,322
Thereafter	<u>27,992</u>
	<u>\$4,322,147</u>

Rent expense under operating leases for the year ended June 30, 2019 was \$1,631,050.

**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.

**15. Patient Service Revenue, net**

For the period ended June 30, 2019, the patient service revenue, net of contract allowances and discounts consists of the following:

Third party billings	\$ 42,314,597
Laboratory billings	44,416,806
Patient self-pay	<u>4,914,254</u>
	91,645,657
Less: charity care and sliding fee scale adjustments	(2,258,341)
contractual adjustments	<u>(29,626,619)</u>
	<u>\$ 59,760,697</u>

continued

**PLANNED PARENTHOOD  
ORANGE AND SAN BERNARDINO COUNTIES, INC.**

NOTES TO FINANCIAL STATEMENTS

---

**16. Net Assets with Donor Restrictions**

Net assets with donor restrictions at June 30, 2019 consist of the following:

<u>Time Restrictions</u>	
Pledges – due 2020 through 2024	\$ 86,006
Annuity gift, net	<u>36,166</u>
	<u>\$122,172</u>

During the year ended June 30, 2019, net assets of \$130,025 were released from time restrictions.

**17. 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, 2019 was \$1,693,463.

**18. Subsequent Events**

In July 25, 2019, Planned Parenthood entered a 128-month office lease for a 43,611 square foot facility located in Anaheim, California. The monthly base rent is estimated to be \$85,139 with an expected 3% annual increase in the monthly base rent over the term of the lease. No adjustments have been reflected in these financial statements related to this transaction.

Management has evaluated subsequent events through December 19, 2019, the date which the financial statements were available for issue. No other events or transactions have occurred during this period that appear to require recognition or disclosure in the financial statements.

## ADDITIONAL INFORMATION

---

**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, Inc.

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, Inc. ("Planned Parenthood"), which comprise the Statement of Financial Position as of June 30, 2019, 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 December 19, 2019.

**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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described below as finding **2019-001**, that we consider to be a material weakness.

**Finding 2019-001**

**Criteria** – The accrued vacation hours report should be reviewed and analyzed on an interim basis to reconcile the vacation liability account in the general ledger. The liability is determined based on an employee's hourly rate in force at the time of calculation and unused hours for that same timeframe.

**Condition** – The current process for recording vacation earned does not fully take into consideration the change in rate of pay of employees. The process does consider the pay rate change on prospective hours earned, but it does not apply the rate change to the historically unused hours (prior to the rate change), which impacts the calculation of the cumulative liability.

**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***

continued

---

**Cause** – The accrued vacation hours report, to include current rates of pay, was not being analyzed and compared to the general ledger liability account on an interim basis.

**Effect** – The accrued vacation liability account has been progressively understated.

**Recommendation** – We recommend that management reconcile the accrued vacation report, which should include current rates of pay, to the general ledger account liability on an interim basis. Such a process would ensure that the general ledger account appropriately reflects Planned Parenthood's liability.

**Management Response and Corrective Action Plan** – Management agrees with this finding. See management's intended action as indicated in its corrective action plan.

### **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*.

### **Planned Parenthood's Response to Findings**

Planned Parenthood's response to the finding identified in our audit is described above. Planned Parenthood's response was not subjected 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 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 the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Harrington Group*

Pasadena, California  
December 19, 2019