



Certified Public Accountants, LLP

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

FINANCIAL STATEMENTS

JUNE 30, 2017

PASADENA
234 E Colorado Blvd
Suite M150
Pasadena, CA 91101
Tel: 626.403.6801
Fax: 626.403.6866

A Trusted Nonprofit Partner
Experience. Service. Respect.
www.npocpas.com

SAN FRANCISCO
50 Francisco St
Suite 160
San Francisco, CA 94133
Tel: 415.391.3131
Fax: 415.391.3233

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	7-16

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, 2017, 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, 2017, 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

Report on Summarized Comparative Information

We have previously audited Planned Parenthood Orange and San Bernardino Counties, Inc.'s 2016 financial statements, and we have expressed an unmodified audit opinion on those audited financial statements in our report dated September 29, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, 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 October 27, 2017, 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
October 27, 2017

PLANNED PARENTHOOD ORANGE AND SAN BERNARDINO COUNTIES, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2017

With comparative totals at June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2017</u>	<u>(Restated) 2016</u>
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents (Note 2)	\$ 10,370,279	\$ -	\$ 10,370,279	\$ 9,688,737
Investments in securities (Note 3)	8,805,113		8,805,113	8,073,677
Accounts receivable (Note 4)	6,254,312		6,254,312	7,565,726
Pledges receivable (Note 14)		663,928	663,928	335,000
Inventory (Note 2)	1,243,730		1,243,730	1,086,267
Prepaid expenses	522,782		522,782	322,624
TOTAL CURRENT ASSETS	<u>27,196,216</u>	<u>663,928</u>	<u>27,860,144</u>	<u>27,072,031</u>
NON-CURRENT ASSETS				
Property and equipment (Note 8)	13,323,626		13,323,626	12,143,562
Other investment (Note 5)	250,000		250,000	250,000
Annuity receivable (Note 6)		127,483	127,483	135,100
Deposits	115,186		115,186	108,959
TOTAL NON-CURRENT ASSETS	<u>13,688,812</u>	<u>127,483</u>	<u>13,816,295</u>	<u>12,637,621</u>
TOTAL ASSETS	<u>\$ 40,885,028</u>	<u>\$ 791,411</u>	<u>\$ 41,676,439</u>	<u>\$ 39,709,652</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	\$ 1,495,867	\$ -	\$ 1,495,867	\$ 943,608
Accrued liabilities (Note 9)	1,609,264		1,609,264	1,878,845
Annuity liability (Note 6)		72,321	72,321	76,834
Current portion of notes payable (Note 11)	156,051		156,051	95,533
	<u>3,261,182</u>	<u>72,321</u>	<u>3,333,503</u>	<u>2,994,820</u>
NON-CURRENT LIABILITIES				
Notes payable, less current portion (Note 11)	2,547,164		2,547,164	2,720,163
TOTAL LIABILITIES	<u>5,808,346</u>	<u>72,321</u>	<u>5,880,667</u>	<u>5,714,983</u>
NET ASSETS				
Unrestricted	35,076,682		35,076,682	33,601,403
Temporarily restricted (Note 14)		719,090	719,090	393,266
TOTAL NET ASSETS	<u>35,076,682</u>	<u>719,090</u>	<u>35,795,772</u>	<u>33,994,669</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 40,885,028</u>	<u>\$ 791,411</u>	<u>\$ 41,676,439</u>	<u>\$ 39,709,652</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, 2017
With comparative totals for the year ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2017</u>	<u>(Restated) 2016</u>
REVENUE AND SUPPORT				
Patient service revenue, net of contractual allowances and discounts (Note 13)	\$ 44,434,121	\$ -	\$ 44,434,121	\$ 46,552,272
Less: provision for bad debt	<u>(1,417,232)</u>		<u>(1,417,232)</u>	<u>(1,735,886)</u>
Net patient service revenue	43,016,889	-	43,016,889	44,816,386
Government grants and contracts	4,349,429		4,349,429	4,127,206
Contributions and grants	3,023,979	583,207	3,607,186	2,295,799
In-kind contributions (Note 2)	868,814		868,814	372,860
Gain (loss) on investments	594,380	(3,103)	591,277	(295,824)
Other income	262,623		262,623	135,829
Interest and dividends, net of fees of \$34,159	160,727		160,727	135,948
Electronic health record incentive program	17,000		17,000	174,824
Net assets released from program restrictions	<u>254,280</u>	<u>(254,280)</u>	<u>-</u>	<u>-</u>
TOTAL REVENUE AND SUPPORT	<u>52,548,121</u>	<u>325,824</u>	<u>52,873,945</u>	<u>51,763,028</u>
EXPENSES				
Program services	50,287,947		50,287,947	46,403,871
Support services	<u>784,895</u>		<u>784,895</u>	<u>1,064,758</u>
TOTAL EXPENSES	<u>51,072,842</u>	<u>-</u>	<u>51,072,842</u>	<u>47,468,629</u>
CHANGE IN NET ASSETS	1,475,279	325,824	1,801,103	4,294,399
NET ASSETS, BEGINNING OF YEAR RESTATED (NOTE 16)	<u>33,601,403</u>	<u>393,266</u>	<u>33,994,669</u>	<u>29,700,270</u>
NET ASSETS, END OF YEAR	<u>\$ 35,076,682</u>	<u>\$ 719,090</u>	<u>\$ 35,795,772</u>	<u>\$ 33,994,669</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, 2017
 With comparative totals for the year ended June 30, 2016

	Program Services				Total Program Services	Support Services			Total Support Services	Total Expenses	
	Clinical Healthcare	Public Affairs	WIC	Education		General and Administrative	Marketing	Fundraising		2017	2016
Salaries and wages	\$ 16,070,144	\$ 323,903	\$ 1,736,122	\$ 718,799	\$ 18,848,968	\$ 3,553,564	\$ 305,969	\$ 329,925	\$ 4,189,458	\$ 23,038,426	\$ 21,975,381
Payroll taxes and employee benefits	3,574,911	64,479	450,595	155,220	4,245,205	701,003	56,216	75,165	832,384	5,077,589	4,544,300
Total personnel costs	19,645,055	388,382	2,186,717	874,019	23,094,173	4,254,567	362,185	405,090	5,021,842	28,116,015	26,519,681
Medical supplies	12,219,597				12,219,597				-	12,219,597	10,779,401
Occupancy	1,632,187	24,427	425,589	149,217	2,231,420	264,625	40,041	31,931	336,597	2,568,017	2,533,996
Other operating expenses	556,275	450,254	35,436	56,599	1,098,564	464,009	85,914	102,566	652,489	1,751,053	2,105,384
Outside services	774,510	100	30,870	8,352	813,832	278,778	296,151	45,251	620,180	1,434,012	1,191,540
Consultant fees	484,916		1,180	23,353	509,449	850,807	10,422	31,163	892,392	1,401,841	1,000,327
Depreciation	852,393		20,813	20,307	893,513	483,286			483,286	1,376,799	1,070,230
Expendable furniture and equipment	320,558	1,858	28,354	11,396	362,166	361,834	7,423	20,631	389,888	752,054	843,634
Insurance	458,868				458,868	4,911			4,911	463,779	456,212
Communications and mailing	294,513	3,117	60,259	32,407	390,296	49,809	2,351	17,301	69,461	459,757	497,232
Office supplies	122,678	227	67,961	19,705	210,571	66,859	423	649	67,931	278,502	231,793
Travel and transportation	52,794	261	38,413	27,599	119,067	48,870	417	3,123	52,410	171,477	160,514
Printing	39,496		6,103	5,139	50,738	9,863	7,779	4,954	22,596	73,334	67,746
Library	4,149				4,149	313	2,143		2,456	6,605	10,939
Functional allocation before indirect	37,457,989	868,626	2,901,695	1,228,093	42,456,403	7,138,531	815,249	662,659	8,616,439	51,072,842	47,468,629
Indirect costs allocation	6,909,534	160,227	535,249	226,534	7,831,544	(7,138,531)	(815,249)	122,236	(7,831,544)	-	-
TOTAL 2017 FUNCTIONAL EXPENSES	\$ 44,367,523	\$ 1,028,853	\$ 3,436,944	\$ 1,454,627	\$ 50,287,947	\$ -	\$ -	\$ 784,895	\$ 784,895	\$ 51,072,842	
TOTAL 2016 FUNCTIONAL EXPENSES	\$ 40,819,839	\$ 870,672	\$ 3,289,155	\$ 1,424,205	\$ 46,403,871	\$ -	\$ -	\$ 1,064,758	\$ 1,064,758		\$ 47,468,629

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, 2017
With comparative totals for the year ended June 30, 2016

	2017	(Restated) 2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,801,103	\$ 4,294,399
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,376,795	1,070,230
Change in allowance for doubtful accounts	(1,579,938)	(3,142,944)
(Gain) loss on investments	(591,277)	295,824
Donated stocks	(11,770)	-
Reinvested interest and dividends, net	(120,113)	(113,958)
(Increase) decrease in operating assets:		
Accounts receivable	2,891,352	546,416
Pledges receivable	(328,928)	(145,650)
Annuity receivable	7,617	18,737
Prepaid expenses	(200,158)	413,148
Deposits	(6,227)	(3,093)
Inventory	(157,463)	59,034
Increase (decrease) in operating liabilities:		
Accounts payable	552,259	(207,470)
Accrued liabilities	(269,581)	(362,047)
Annuity liability	(4,513)	(8,378)
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,359,158	2,714,248
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Purchase of property and equipment	(2,556,859)	(1,681,244)
Proceeds from sale of investments	1,026,245	-
Purchase of investments	(1,034,520)	-
NET CASH (USED) BY INVESTING ACTIVITIES	(2,565,134)	(1,681,244)
CASH FLOWS USED IN FINANCING ACTIVITIES:		
Principal payments on notes payable	(112,482)	(106,806)
NET CASH (USED) BY FINANCING ACTIVITIES	(112,482)	(106,806)
NET INCREASE IN CASH AND CASH EQUIVALENTS	681,542	926,198
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	9,688,737	8,762,539
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 10,370,279	\$ 9,688,737
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Operating activities reflects interest paid	\$ 132,237	\$ 137,911

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.

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.

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, 2017.

**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, 2017, Planned Parenthood had an allowance for uncollectible accounts of \$762,023 (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.

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:

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

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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, 2017, Planned Parenthood recorded total in-kind contributions of \$868,814, of which \$250,020 represents donated medical supplies and \$618,794 represents donated professional services (see Note 13).

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, 2017 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 81% of Planned Parenthood's revenue is derived from net patient service revenue.

continued

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

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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.

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, 2016, from which the summarized information was derived.

Subsequent Events

Management has evaluated subsequent events through October 27, 2017, the date which the financial statements were available for issue. No events or transactions have occurred during this period that appear to require recognition or disclosure in the financial statements.

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.

continued

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

NOTES TO FINANCIAL STATEMENTS

3. Investments in Securities, continued

Significant information about investments is summarized as follows:

Exchange traded funds (ETFs)	\$2,831,170
Equities	1,811,414
Money market funds	1,646,001
Equity funds	1,390,728
Bond funds	689,003
Fixed income	319,088
Other assets	<u>117,709</u>
	<u>\$8,805,113</u>

Changes in investments for the year ended June 30, 2017 are as follows:

Balance at July 1, 2016	\$ 8,073,678
Purchases of investments	1,034,520
Sales of investments	(1,026,245)
Donated stock	11,770
Reinvested interest and dividends, net	120,113
Gain on investments	<u>591,277</u>
Balance at June 30, 2017	<u>\$ 8,805,113</u>

4. Accounts Receivable

Account receivable at June 30, 2017 consists of the following:

Patient fees receivable	\$5,208,284
Government grants and contracts receivable	1,099,151
Other receivables	<u>708,900</u>
	7,016,335
Less: allowance for doubtful accounts	<u>(762,023)</u>
	<u>\$6,254,312</u>

5. Other Investment

Other investment in the amount of \$250,000 as of June 30, 2017 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.

continued

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

NOTES TO FINANCIAL STATEMENTS

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.

The charitable remainder trust assets, which are administered by PPFA, are \$127,483 as of June 30, 2017. These are carried in the Statement of Financial Position at their fair value. The present value of estimated future payments to designated beneficiaries is \$72,321 as of June 30, 2017, and is shown as an annuity liability in the Statement of Financial Position.

7. Fair Value Measurements

The table below presents the balance of assets measured at fair value at June 30, 2017 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
ETF	\$2,831,170	\$ -	\$ -	\$2,831,170
Other assets	117,709			117,709
Equities	1,811,414			1,811,414
Equity funds	1,390,728			1,390,728
Bond funds	689,003			689,003
Fixed income	319,088			319,088
Other investment			250,000	250,000
Gift annuity (net)			55,162	55,162
Fair value at June 30, 2017	<u>\$7,159,112</u>	<u>\$ -</u>	<u>\$305,162</u>	<u>\$7,464,274</u>

The fair values of ETFs, equities, 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).

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, 2017 (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).

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

NOTES TO FINANCIAL STATEMENTS

7. 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, 2017:

<u>Other investment</u>	
Balance at July 1, 2016	\$250,000
Gain on investments	-
Reinvested interest and dividends	-
Balance at June 30, 2017	<u>\$250,000</u>
 <u>Gift annuity, net</u>	
Balance at July 1, 2016	\$58,266
Change in value of annuity	<u>(3,104)</u>
Balance at June 30, 2017	<u>\$55,162</u>

Donation Services and Materials

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 \$618,794, has been measured on a non-recurring basis using quoted prices for similar assets in inactive markets (Level 2 inputs).

8. Property and Equipment

Property and equipment at June 30, 2017 consist of the following:

Land	\$ 719,728
Buildings	3,721,418
Building improvements	10,804,264
Furniture and equipment	3,544,211
Leasehold improvements	3,525,898
Computer and software	<u>1,711,645</u>
	24,027,164
Less: accumulated depreciation	<u>(10,703,538)</u>
	<u>\$ 13,323,626</u>

Depreciation expense for the year ended June 30, 2017 was \$1,376,795.

9. Accrued Liabilities

Accrued liabilities at June 30, 2017 consist of the following:

Accrued vacation	\$ 695,614
Other accrued liabilities	482,114
Accrued payroll	<u>431,536</u>
	<u>\$1,609,264</u>

continued

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

NOTES TO FINANCIAL STATEMENTS

10. 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 June 1, 2020, at the higher of 5.0% or the Wall Street Journal prime rate. The interest rate at June 30, 2017 was 5% per annum. There was no amount outstanding on the line of credit at June 30, 2017.

Planned Parenthood also has a \$3,250,000 line of credit, with another commercial bank, secured by property, due June 2017, at the higher of 4.25% or 0.25% points over the Wall Street Journal prime rate. The interest rate at June 30, 2017 was 4.25% per annum. There was no amount outstanding on the line of credit at June 30, 2017.

11. Notes Payable

Notes payable at June 30, 2017 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.	\$ 988,553
---	------------

Note payable to a bank, secured by a deed of trust on real property, monthly payments of \$5,238, including interest at 4.00% per annum, fixed for two years, due August 2017. Subsequent to the year-end, Planned Parenthood refinanced this note for a ten-year term with monthly payments of \$9,486, including interest at 4.443% per annum. Maturities below reflect the maturities under the refinance.	917,474
---	---------

Note payable to a bank, secured by a deed of trust on real property, monthly payments of \$6,188, including interest at 5.500% per annum, fixed for three years, due December 2018.	797,188
	<u>2,703,215</u>
Less: current portion	<u>(156,051)</u>
Non-current portion	<u>\$2,547,164</u>

Maturities for notes payable are as follows:

<u>Year ended June 30,</u>	
2018	\$ 156,051
2019	906,827
2020	147,562
2021	154,819
2022	162,041
Thereafter	<u>1,175,915</u>
	<u>\$2,703,215</u>

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

NOTES TO FINANCIAL STATEMENTS

12. 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>	
2018	\$1,486,222
2019	1,259,647
2020	502,120
2021	330,670
2022	235,944
Thereafter	<u>34,730</u>
	<u>\$3,849,333</u>

Rent expense under operating leases for the year ended June 30, 2017 was \$1,452,935.

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.

13. Patient Service Revenue, net

For the period ended June 30, 2017, the patient service revenue, net of contract allowances and discounts consists of the following:

Third party billings	\$ 62,140,049
Laboratory billings	6,422,070
Patient self-pay	<u>4,053,084</u>
	72,615,203
Less: Charity care and sliding fee scale adjustments	(1,341,792)
Contractual adjustments	<u>(26,839,290)</u>
	<u>\$ 44,434,121</u>

14. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2017 consist of the following:

Pledges - various	\$663,928
Annuity gift (time restriction)	<u>55,162</u>
	<u>\$719,090</u>

continued

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

NOTES TO FINANCIAL STATEMENTS

14. Temporarily Restricted Net Assets, continued

During the year ended June 30, 2017, net assets amounting to \$257,382 were released from 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, 2017 was \$1,278,232.

16. Prior Period Adjustment

Beginning net assets as of July 1, 2016 have been restated to adjust prior year receivables. The comparative information for the year ended June 30, 2016 has been restated to reflect the following:

	<u>Previously Reported</u>	<u>Adjustment</u>	<u>As Restated</u>
<u>Statement of Financial Position</u>			
Accounts receivable Ending, unrestricted	\$3,935,794	\$3,629,932	\$7,565,726
net assets	\$29,971,471	\$3,629,932	\$33,601,403
Total net assets	\$30,364,737	\$3,629,932	\$33,994,669
<u>Statement of Activities</u>			
Patient service revenue, net of contractual allowances and discounts	\$43,803,557	\$2,748,715	\$46,552,272
Change in net assets Beginning, unrestricted	\$1,545,684	\$2,748,715	\$4,292,399
net assets	\$28,819,053	\$881,217	\$29,700,270
Ending, unrestricted	\$29,971,471	\$3,629,932	\$33,601,403
net assets	\$29,971,471	\$3,629,932	\$33,601,403
Total net assets	\$30,364,737	\$3,629,932	\$33,994,669
<u>Statement of Cash Flows</u>			
Change in accounts receivable, net	\$3,295,131	\$(2,748,715)	\$546,416
Change in net assets	\$1,545,684	\$2,748,715	\$4,292,399