

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

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**FINANCIAL STATEMENTS**

**JUNE 30, 2018**

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## INDEPENDENT AUDITORS' REPORT

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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, 2018, 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, 2018, 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

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### **Other Matter**

#### *Report on Summarized Comparative Information*

We have previously audited Planned Parenthood Orange and San Bernardino Counties, Inc.'s 2017 financial statements, and we have expressed an unmodified audit opinion on those audited financial statements in our report dated October 27, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, 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 November 12, 2018, 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  
November 12, 2018

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

STATEMENT OF FINANCIAL POSITION

June 30, 2018

With comparative totals at June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Note 2)	\$ 15,057,101	\$ -	\$ 15,057,101	\$ 11,034,207
Investments in securities (Note 3)	9,403,466		9,403,466	8,805,113
Accounts receivable (Note 4)	9,530,333		9,530,333	5,590,384
Pledges receivable (Note 2)		158,442	158,442	663,928
Inventory (Note 2)	1,150,990		1,150,990	1,243,730
Prepaid expenses	536,302		536,302	522,782
<b>TOTAL CURRENT ASSETS</b>	<u>35,678,192</u>	<u>158,442</u>	<u>35,836,634</u>	<u>27,860,144</u>
<b>NON-CURRENT ASSETS</b>				
Property and equipment (Note 8)	13,313,827		13,313,827	13,323,626
Other investment (Note 5)	250,000		250,000	250,000
Annuity receivable (Note 6)		115,750	115,750	127,483
Deposits	143,013		143,013	115,186
<b>TOTAL NON-CURRENT ASSETS</b>	<u>13,706,840</u>	<u>115,750</u>	<u>13,822,590</u>	<u>13,816,295</u>
<b>TOTAL ASSETS</b>	<u>\$ 49,385,032</u>	<u>\$ 274,192</u>	<u>\$ 49,659,224</u>	<u>\$ 41,676,439</u>
<b>LIABILITIES AND NET ASSETS</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	\$ 1,978,445	\$ -	\$ 1,978,445	\$ 1,495,867
Accrued liabilities (Note 9)	1,864,446		1,864,446	1,609,264
Annuity liability (Note 6)		68,101	68,101	72,321
Current portion of notes payable (Note 11)	139,305		139,305	156,051
	<u>3,982,196</u>	<u>68,101</u>	<u>4,050,297</u>	<u>3,333,503</u>
<b>NON-CURRENT LIABILITIES</b>				
Notes payable, less current portion (Note 11)	1,639,999		1,639,999	2,547,164
<b>TOTAL LIABILITIES</b>	<u>5,622,195</u>	<u>68,101</u>	<u>5,690,296</u>	<u>5,880,667</u>
<b>NET ASSETS</b>				
Unrestricted	43,762,837		43,762,837	35,076,682
Temporarily restricted (Note 14)		206,091	206,091	719,090
<b>TOTAL NET ASSETS</b>	<u>43,762,837</u>	<u>206,091</u>	<u>43,968,928</u>	<u>35,795,772</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 49,385,032</u>	<u>\$ 274,192</u>	<u>\$ 49,659,224</u>	<u>\$ 41,676,439</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, 2018  
 With comparative totals for the year ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2018</u>	<u>2017</u>
<b>REVENUE AND SUPPORT</b>				
Patient service revenue, net of contractual allowances and discounts (Note 13)	\$ 58,052,198	\$ -	\$ 58,052,198	\$ 44,434,121
Less: provision for bad debt	<u>(1,627,547)</u>		<u>(1,627,547)</u>	<u>(1,417,232)</u>
Net patient service revenue	56,424,651	-	56,424,651	43,016,889
Government grants and contracts	4,642,659		4,642,659	4,349,429
Contributions and grants	1,302,249	435,000	1,737,249	3,607,186
In-kind contributions (Note 2)	289,983		289,983	868,814
Gain on investments	426,569	(7,513)	419,056	591,277
Other income	769,918		769,918	262,623
Interest and dividends, net of fees of \$37,548	270,500		270,500	160,727
Electronic health record incentive program	329,537		329,537	17,000
Net assets released from restrictions	940,486	(940,486)	-	-
<b>TOTAL REVENUE AND SUPPORT</b>	<u>65,396,552</u>	<u>(512,999)</u>	<u>64,883,553</u>	<u>52,873,945</u>
<b>EXPENSES</b>				
Program services	55,932,684		55,932,684	50,287,947
Support services	<u>777,713</u>		<u>777,713</u>	<u>784,895</u>
<b>TOTAL EXPENSES</b>	<u>56,710,397</u>	<u>-</u>	<u>56,710,397</u>	<u>51,072,842</u>
<b>CHANGE IN NET ASSETS</b>	8,686,155	(512,999)	8,173,156	1,801,103
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>35,076,682</u>	<u>719,090</u>	<u>35,795,772</u>	<u>33,994,669</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 43,762,837</u>	<u>\$ 206,091</u>	<u>\$ 43,968,928</u>	<u>\$ 35,795,772</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, 2018  
 With comparative totals for the year ended June 30, 2017

	Program Services				Total Program Services	Support Services			Total Support Services	Total Expenses	
	Clinical Healthcare	Public Affairs	WIC	Education		General and Administrative	Marketing	Fundraising		2018	2017
Salaries and wages	\$ 18,941,229	\$ 393,583	\$ 1,832,058	\$ 820,310	\$ 21,987,180	\$ 3,772,982	\$ 350,364	\$ 343,663	\$ 4,467,009	\$ 26,454,189	\$ 23,038,426
Payroll taxes and employee benefits	4,025,476	83,945	466,570	182,394	4,758,385	770,449	69,570	66,827	906,846	5,665,231	5,077,589
Total personnel costs	22,966,705	477,528	2,298,628	1,002,704	26,745,565	4,543,431	419,934	410,490	5,373,855	32,119,420	28,116,015
Medical supplies	13,188,045				13,188,045				-	13,188,045	12,219,597
Other operating expenses	576,227	914,758	24,973	40,463	1,556,421	809,903	215,724	159,061	1,184,688	2,741,109	1,751,053
Occupancy	1,713,986	31,857	448,162	136,820	2,330,825	277,767	29,362	29,142	336,271	2,667,096	2,568,017
Depreciation	995,019		12,403	12,577	1,019,999	368,895			368,895	1,388,894	1,376,799
Outside services	704,300	16	37,251	300	741,867	296,429	300,643	4,250	601,322	1,343,189	1,434,012
Expendable furniture and equipment	397,625	6,418	46,683	21,966	472,692	514,182	7,812	13,784	535,778	1,008,470	752,054
Consultant fees	461,003	60	1,051	12,721	474,835	228,709	10,800	41,163	280,672	755,507	1,401,841
Communications and mailing	327,310	4,839	82,206	30,955	445,310	58,794	2,464	18,224	79,482	524,792	459,757
Insurance	458,585		10,741		469,326	6,886			6,886	476,212	463,779
Office supplies	125,169	1,508	43,911	20,657	191,245	70,040	399	302	70,741	261,986	278,502
Travel and transportation	50,697	4,020	29,017	38,583	122,317	55,455	2,206	597	58,258	180,575	171,477
Printing	21,621	2,100	1,089	6,596	31,406	6,735	10,666	3,644	21,045	52,451	73,334
Library	1,592		53		1,645	63	943		1,006	2,651	6,605
Functional allocation before indirect	41,987,884	1,443,104	3,036,168	1,324,342	47,791,498	7,237,289	1,000,953	680,657	8,918,899	56,710,397	51,072,842
Indirect costs allocation	7,312,572	203,470	435,294	189,850	8,141,186	(7,237,289)	(1,000,953)	97,056	(8,141,186)	-	-
<b>TOTAL 2018 FUNCTIONAL EXPENSES</b>	<b>\$ 49,300,456</b>	<b>\$ 1,646,574</b>	<b>\$ 3,471,462</b>	<b>\$ 1,514,192</b>	<b>\$ 55,932,684</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 777,713</b>	<b>\$ 777,713</b>	<b>\$ 56,710,397</b>	
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

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, 2018  
With comparative totals for the year ended June 30, 2017

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 8,173,156	\$ 1,801,103
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,388,894	1,376,799
Change in allowance for doubtful accounts	(7,906)	(1,579,938)
(Gain) on investments	(426,569)	(591,277)
Donated stocks	(6,445)	(11,770)
Reinvested interest and dividends, net	(163,662)	(120,113)
(Increase) decrease in operating assets:		
Accounts receivable	(3,932,043)	3,555,280
Pledges receivable	505,486	(328,928)
Annuity receivable	11,733	7,617
Prepaid expenses	(13,520)	(200,158)
Deposits	(27,827)	(6,227)
Inventory	92,740	(157,463)
Increase (decrease) in operating liabilities:		
Accounts payable	482,578	552,259
Accrued liabilities	255,182	(269,581)
Annuity liability	(4,220)	(4,513)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>6,327,577</u>	<u>4,023,090</u>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(1,379,095)	(2,556,863)
Net (purchase) of investments	(1,677)	(8,275)
<b>NET CASH (USED) BY INVESTING ACTIVITIES</b>	<u>(1,380,772)</u>	<u>(2,565,138)</u>
<b>CASH FLOWS USED IN FINANCING ACTIVITIES:</b>		
Principal payments on notes payable	(923,911)	(112,482)
<b>NET CASH (USED) BY FINANCING ACTIVITIES</b>	<u>(923,911)</u>	<u>(112,482)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	4,022,894	1,345,470
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>11,034,207</u>	<u>9,688,737</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 15,057,101</u>	<u>\$ 11,034,207</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Operating activities reflects interest paid	<u>\$ 124,893</u>	<u>\$ 132,237</u>
Non-cash financing activity:		
Re-financed note payable	<u>\$ 915,000</u>	<u>\$ -</u>

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

# PLANNED PARENTHOOD ORANGE AND SAN BERNARDINO COUNTIES, INC.

## NOTES TO FINANCIAL STATEMENTS

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### 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 time 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, 2018.

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

NOTES TO FINANCIAL STATEMENTS

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**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, 2018, Planned Parenthood had an allowance for uncollectible accounts of \$754,117 (see Note 4).

**Pledges Receivable**

Pledges receivable of \$158,442 at June 30, 2018 are recorded at their realizable value and are due within one year and expected to be collected. As such, no allowance for doubtful pledges has been recorded and no discount on pledges has been recorded.

**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.

continued

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

NOTES TO FINANCIAL STATEMENTS

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

**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, 2018, Planned Parenthood recorded total in-kind contributions of \$289,983, of which \$201,001 represents donated medical supplies and \$88,982 represents donated professional services (see Note 7).

**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, 2018 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.

continued

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

NOTES TO FINANCIAL STATEMENTS

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

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.

**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, 2017, from which the summarized information was derived.

**Reclassifications**

For comparability, certain June 30, 2017 amounts have been reclassified, where appropriate, to conform to the financial statement presentation used at June 30, 2018.

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

NOTES TO FINANCIAL STATEMENTS

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

**Subsequent Events**

Management has evaluated subsequent events through November 12, 2018, 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.

Significant information about investments is summarized as follows:

Exchange traded funds (ETFs)	\$2,432,963
Equities	2,285,645
Equity funds	1,628,721
Money market funds	1,277,789
Fixed income	889,208
Bond funds	735,651
Other assets	<u>153,489</u>
	<u>\$9,403,466</u>

Changes in investments for the year ended June 30, 2018 are as follows:

Balance at July 1, 2017	\$8,805,113
Purchases of investments	1,677
Donated stock	6,445
Reinvested interest and dividends, net	163,662
Gain on investments	<u>426,569</u>
Balance at June 30, 2018	<u>\$9,403,466</u>

**4. Accounts Receivable**

Account receivable at June 30, 2018 consists of the following:

Patient fees receivable	\$ 9,090,902
Government grants and contracts receivable	1,141,550
Other receivables	<u>51,998</u>
	10,284,450
Less: allowance for doubtful accounts	<u>(754,117)</u>
	<u>\$ 9,530,333</u>

continued

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

NOTES TO FINANCIAL STATEMENTS

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**5. Other Investment**

Other investment in the amount of \$250,000 as of June 30, 2018 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.

The charitable remainder trust assets, which are administered by PPFA, are \$115,750 as of June 30, 2018. These are carried in the Statement of Financial Position at their fair value. The present value of estimated future payments to designated beneficiaries is \$68,101 as of June 30, 2018, 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, 2018 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
ETF	\$2,432,963	\$ -	\$ -	\$2,432,963
Other assets	153,489			153,489
Equities	2,285,645			2,285,645
Equity funds	1,628,721			1,628,721
Bond funds	735,651			735,651
Fixed income	889,208			889,208
Other investment			250,000	250,000
Gift annuity (net)			47,649	47,649
Fair value at June 30, 2018	<u>\$8,125,677</u>	<u>\$ -</u>	<u>\$297,649</u>	<u>\$8,423,326</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).

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NOTES TO FINANCIAL STATEMENTS

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**7. 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, 2018 (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, 2018:

<u>Other investment</u>	
Balance at July 1, 2017	\$250,000
Gain on investments	-
Reinvested interest and dividends	-
Balance at June 30, 2018	<u>\$250,000</u>

<u>Gift annuity, net</u>	
Balance at July 1, 2017	\$55,162
Change in value of annuity	<u>(7,513)</u>
Balance at June 30, 2018	<u>\$47,649</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 \$289,983, 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, 2018 consist of the following:

Land	\$ 719,728
Buildings	3,721,418
Building improvements	10,536,799
Furniture and equipment	3,192,250
Leasehold improvements	2,855,238
Computer and software	<u>848,525</u>
	21,873,958
Less: accumulated depreciation	<u>(8,560,131)</u>
	<u>\$13,313,827</u>

Depreciation expense for the year ended June 30, 2018 was \$1,388,892.

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**9. Accrued Liabilities**

Accrued liabilities at June 30, 2018 consist of the following:

Accrued vacation	\$ 713,090
Accrued payroll	579,545
Pension payable	530,923
Other accrued liabilities	<u>40,888</u>
	<u>\$1,864,446</u>

**10. 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, 2018 was 4.25% per annum. There was no amount outstanding on the line of credit at June 30, 2018.

**11. Notes Payable**

Notes payable at June 30, 2018 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.	\$ 927,212
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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.	<u>852,092</u>
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Less: current portion	<u>(139,305)</u>
Non-current portion	<u>\$1,639,999</u>

Maturities for notes payable are as follows:

<u>Year ended June 30,</u>	
2019	\$ 139,305
2020	146,597
2021	153,693
2022	161,131
2023	168,929
Thereafter	<u>1,009,649</u>
	<u>\$1,779,304</u>

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NOTES TO FINANCIAL STATEMENTS

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**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>	
2019	\$1,531,606
2020	976,689
2021	720,668
2022	370,389
2023	195,308
Thereafter	<u>49,185</u>
	<u>\$3,843,845</u>

Rent expense under operating leases for the year ended June 30, 2018 was \$1,466,913.

**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, 2018, the patient service revenue, net of contract allowances and discounts consists of the following:

Third party billings	\$ 74,558,525
Laboratory billings	7,945,084
Patient self-pay	<u>4,570,042</u>
	87,073,651
Less: Charity care and sliding fee scale adjustments	(2,008,444)
Contractual adjustments	<u>(27,013,009)</u>
	<u>\$ 58,052,198</u>

**14. Temporarily Restricted Net Assets**

Temporarily restricted net assets at June 30, 2018 consist of the following:

Pledges – various, due in 2019	\$158,442
Annuity gift (time restriction)	<u>47,649</u>
	<u>\$206,091</u>

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**14. Temporarily Restricted Net Assets, continued**

During the year ended June 30, 2018, net assets amounting to \$940,486 were released from time 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, 2018 was \$1,465,100.