

**Planned Parenthood League
of
Massachusetts, Inc. and Subsidiaries**

Consolidated Financial Statements
and
Independent Auditors' Report

June 30, 2018

Planned Parenthood League of Massachusetts, Inc.
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DANIEL DENNIS & Co
Certified Public Accountants

Independent Auditors' Report

To the Board of Directors of
Planned Parenthood League of Massachusetts, Inc. and Subsidiaries

We have audited the accompanying consolidated financial statements of Planned Parenthood League of Massachusetts, Inc. and Subsidiaries (the Organization), which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities, changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Planned Parenthood League of Massachusetts, Inc. and Subsidiaries as of June 30, 2018, and the changes in the consolidated net assets and the consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The *Consolidating Schedule of Financial Position* and the *Consolidating Schedule of Activities* on pages 21 and 22 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Daniel Dennis & Company LLP

November 6, 2018

Planned Parenthood League of Massachusetts, Inc. and Subsidiaries

Consolidated Statement of Financial Position

June 30, 2018

*Assets**Current Assets:*

| | |
|--------------------------------------|--------------|
| Cash | \$ 3,851,906 |
| Investments | 18,029,059 |
| Accounts receivable, net | 1,369,577 |
| Contributions and pledges receivable | 2,000 |
| Inventory | 458,500 |
| Prepaid expenses | 212,444 |

Total current assets 23,923,486

Noncurrent Assets:

| | |
|---|-------------------|
| Split interest agreements | 30,519 |
| Contributions and pledges receivable, net | 1,829 |
| Permanently restricted investment | 1,007,519 |
| Due from related party | 249,416 |
| Land, building and equipment less accumulated depreciation of \$11,222,686 | <u>10,883,346</u> |

Total noncurrent assets 12,172,629

Total assets \$ 36,096,115

*Liabilities and Net Assets**Current Liabilities:*

| | |
|--------------------------------|------------|
| Accounts payable | \$ 689,855 |
| Accrued expenses | 1,230,747 |
| Deferred revenue | 169,476 |
| Notes payable, current portion | 53,453 |

Total current liabilities 2,143,531

Noncurrent Liabilities:

| | |
|---------------|------------------|
| Notes payable | <u>1,818,517</u> |
|---------------|------------------|

Total liabilities 3,962,048

Net Assets:

Unrestricted:

| | |
|------------------|-------------------|
| Plant | 9,011,376 |
| Board designated | 1,948,592 |
| Undesignated | <u>19,169,881</u> |

Total unrestricted 30,129,849

Temporarily restricted 960,385

Permanently restricted 1,043,833

Total net assets 32,134,067

Total liabilities and net assets \$ 36,096,115

See accompanying notes to consolidated financial statements.

Planned Parenthood League of Massachusetts, Inc. and Subsidiaries

Consolidated Statement of Activities

For the Year Ended June 30, 2018

| | <i>Unrestricted</i> | <i>Temporarily Restricted</i> | <i>Permanently Restricted</i> | <i>Total</i> |
|--|-----------------------|-----------------------------------|-----------------------------------|-----------------------|
| <i>Support and Revenue:</i> | | | | |
| Patient Service revenue (net of contractual allowances and discounts): | | | | |
| Greater Boston Medical Services | \$ 7,820,881 | \$ - | \$ - | \$ 7,820,881 |
| Central Massachusetts Medical Services | 2,968,232 | - | - | 2,968,232 |
| Western Massachusetts Medical Services | 2,121,708 | - | - | 2,121,708 |
| Laboratory Services | <u>1,256,165</u> | <u>-</u> | <u>-</u> | <u>1,256,165</u> |
| | 14,166,986 | - | - | 14,166,986 |
| Provision for bad debts | <u>(249,581)</u> | <u>-</u> | <u>-</u> | <u>(249,581)</u> |
| Net patient service revenue less provision for bad debts | 13,917,405 | - | - | 13,917,405 |
| Contract revenue | 1,530,373 | - | - | 1,530,373 |
| Other program service revenue | 461,367 | - | - | 461,367 |
| Contributions | 6,169,620 | 469,519 | - | 6,639,139 |
| Research grants | 386,047 | - | - | 386,047 |
| Contributed goods and services | 97,738 | - | - | 97,738 |
| Interest and dividends | 420,371 | - | 22,451 | 442,822 |
| Realized/unrealized gain/(loss) on investments | 870,261 | - | 137,785 | 1,008,046 |
| Other income | 1,205,003 | - | - | 1,205,003 |
| Net assets released from restrictions | <u>101,600</u> | <u>(93,588)</u> | <u>(8,012)</u> | <u>-</u> |
| Total support and revenue | <u>25,159,785</u> | <u>375,931</u> | <u>152,224</u> | <u>25,687,940</u> |
| <i>Expenses:</i> | | | | |
| Program services: | | | | |
| Medical services | 14,950,473 | - | - | 14,950,473 |
| Research center | 487,552 | - | - | 487,552 |
| Public affairs and communications | 741,401 | - | - | 741,401 |
| Education | 1,293,646 | - | - | 1,293,646 |
| Business development | <u>1,565,915</u> | <u>-</u> | <u>-</u> | <u>1,565,915</u> |
| Total program services | <u>19,038,987</u> | <u>-</u> | <u>-</u> | <u>19,038,987</u> |
| Supporting services: | | | | |
| Management and general | 2,776,488 | - | - | 2,776,488 |
| Fundraising | <u>1,472,485</u> | <u>-</u> | <u>-</u> | <u>1,472,485</u> |
| Total supporting services | <u>4,248,973</u> | <u>-</u> | <u>-</u> | <u>4,248,973</u> |
| Total expenses | <u>23,287,960</u> | <u>-</u> | <u>-</u> | <u>23,287,960</u> |
| Change in net assets | <u>1,871,825</u> | <u>375,931</u> | <u>152,224</u> | <u>2,399,980</u> |

See accompanying notes to consolidated financial statements.

Planned Parenthood League of Massachusetts, Inc. and Subsidiaries

Consolidated Statement of Changes in Net Assets

For the Year Ended June 30, 2018

| | <i>Unrestricted</i> | <i>Temporarily Restricted</i> | <i>Permanently Restricted</i> | <i>Total</i> |
|-----------------------------|----------------------|-----------------------------------|-----------------------------------|----------------------|
| Net assets at July 1, 2017 | \$ 26,307,264 | \$ 584,454 | \$ 891,609 | \$ 27,783,327 |
| Change in reporting entity | 1,950,760 | - | - | 1,950,760 |
| Change in net assets | <u>1,871,825</u> | <u>375,931</u> | <u>152,224</u> | <u>2,399,980</u> |
| Net assets at June 30, 2018 | <u>\$ 30,129,849</u> | <u>\$ 960,385</u> | <u>\$ 1,043,833</u> | <u>\$ 32,134,067</u> |

See accompanying notes to consolidated financial statements.

Planned Parenthood League of Massachusetts, Inc. and Subsidiaries
Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2018

| | <i>Medical Services</i> | <i>Research Center</i> | <i>Public Affairs & Communications</i> | <i>Education</i> | <i>Business Development</i> | <i>Total Program Expense</i> | <i>Fundraising Expense</i> | <i>General and Administration</i> | <i>Total</i> |
|---|-----------------------------|----------------------------|--|---------------------|---------------------------------|--------------------------------------|--------------------------------|---------------------------------------|----------------------|
| Salary | \$ 5,732,019 | \$ 195,449 | \$ 360,262 | \$ 769,071 | \$ 655,148 | \$ 7,711,949 | \$ 791,476 | \$ 1,814,831 | \$ 10,318,256 |
| Fringe | 690,299 | 23,538 | 43,386 | 92,618 | 78,899 | 928,740 | 95,316 | 218,558 | 1,242,614 |
| Payroll taxes | 488,958 | 16,672 | 30,731 | 65,604 | 55,886 | 657,851 | 67,515 | 154,810 | 880,176 |
| Contracted services and professional fees | 2,543,245 | 204,217 | 72,875 | 155,208 | 413,269 | 3,388,814 | 227,113 | 423,816 | 4,039,743 |
| Office supplies | 78,961 | 2,306 | 2,974 | 11,385 | 2,474 | 98,100 | 28,265 | 12,857 | 139,222 |
| Program supplies | 2,976,702 | 6,241 | 2,067 | 54,514 | 12,560 | 3,052,084 | 3,624 | 11,412 | 3,067,120 |
| Equipment rental and maintenance | 43,165 | 502 | 1,402 | (199) | 2,408 | 47,278 | 4,128 | 3,422 | 54,828 |
| Occupancy | 376,382 | 4,654 | 7,426 | 7,174 | 7,552 | 403,188 | 7,026 | - | 410,214 |
| Telephone | 112,521 | 4,780 | 7,382 | 7,876 | 74,149 | 206,708 | 7,005 | 382 | 214,095 |
| Depreciation | 603,314 | 11,063 | 27,755 | 69,910 | 33,308 | 745,350 | 28,971 | 17,725 | 792,046 |
| Conferences and meetings | 12,519 | 1,767 | 1,781 | 1,754 | 20,617 | 38,438 | 64,289 | 36,479 | 139,206 |
| Dues and fees | 42,931 | 931 | 164,265 | 8,369 | 9,186 | 225,682 | 8,824 | 35,056 | 269,562 |
| Travel | 31,599 | 6,461 | 5,158 | 33,947 | 24,345 | 101,510 | 8,094 | 27,198 | 136,802 |
| Insurance | 313,532 | 2,426 | 3,878 | 3,747 | 3,345 | 326,928 | 3,662 | - | 330,590 |
| Interest and fees | 404,362 | 7 | 10 | 1,993 | 9 | 406,381 | 10,506 | 16,926 | 433,813 |
| Advertising | - | 376 | - | 365 | 163,468 | 164,209 | - | - | 164,209 |
| Printing | 4,367 | 65 | 277 | 903 | 851 | 6,463 | 107,457 | 1,211 | 115,131 |
| Loss on disposals | 15,354 | 548 | 874 | 844 | 755 | 18,375 | 827 | - | 19,202 |
| Repairs and maintenance | 478,231 | 5,549 | 8,862 | 8,563 | 7,674 | 508,879 | 8,387 | 481 | 517,747 |
| Miscellaneous | 2,012 | - | 36 | - | 12 | 2,060 | - | 1,324 | 3,384 |
| Total | \$ 14,950,473 | \$ 487,552 | \$ 741,401 | \$ 1,293,646 | \$ 1,565,915 | \$ 19,038,987 | \$ 1,472,485 | \$ 2,776,488 | \$ 23,287,960 |

See accompanying notes to consolidated financial statements.

Planned Parenthood League of Massachusetts, Inc. and Subsidiaries

Consolidated Statement of Cash Flows

For the Year Ended June 30, 2018

Cash Flows From Operating Activities

| | |
|--|--------------|
| Changes in net assets | \$ 2,399,980 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | |
| Depreciation | 792,046 |
| Amortization of debt issuance costs | 344,666 |
| Change in allowance for uncollectible pledges | (2,397) |
| Change in discounts of pledges | (5,267) |
| Bad debt | 249,581 |
| Loss on disposals | 19,202 |
| Net unrealized gain on investment | (1,597,298) |

Change in operating assets and liabilities:

| | |
|---------------------------------------|----------------|
| Accounts receivable | (19,152) |
| Unconditional promises to give | 105,862 |
| Prepays | (130,340) |
| Inventory | (46,309) |
| Other assets | (2,317) |
| Deferred revenue | (11,390) |
| Accounts payable and accrued expenses | <u>231,415</u> |

Net cash provided by operating activities 2,328,282

Cash Flows From Investing Activities

| | |
|--|--------------------|
| Purchase of investments | (19,858,060) |
| Proceeds from sale of investments | 18,624,683 |
| Increase in amounts due from related party | 86,010 |
| Purchase of fixed assets | <u>(1,002,739)</u> |

Net cash used in investing activities (2,150,106)

Cash Flows From Financing Activities

| | |
|---------------------------|-----------------|
| Payments on notes payable | <u>(56,031)</u> |
|---------------------------|-----------------|

Net cash used in financing activities (56,031)

Net change in cash 122,145

Cash at beginning of year 3,729,761

Cash at end of year \$ 3,851,906

Supplementary Disclosure of Cash Flow Information

Cash paid for interest \$ 55,071

See accompanying notes to consolidated financial statements.

Planned Parenthood League of Massachusetts, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

June 30, 2018

1. *The Organization*

Planned Parenthood League of Massachusetts, Inc. (PPLM) is a not-for-profit organization whose mission is to protect and promote sexual and reproductive health and freedom of choice by providing clinical services, education and advocacy. The PPLM operates out of five locations in Massachusetts, with its most significant location in Boston, Massachusetts. PPLM was established in January 1979 as a Massachusetts not-for-profit corporation while predecessor organizations date back to 1928.

PPLM's operations are funded largely by contributions from the general public, government contracts and revenues for services.

PPLM operates the following programs:

Medical Services – Provides medical reproductive health services and offers counseling, medical advice and referrals for health care.

Research Center – Conducts independent as well as collaborative clinical research on unintended pregnancy, family planning and abortion care methods.

Public Affairs and Communications – Leads coordinated strategies to build an environment among policymakers, donors and general public that supports Planned Parenthood services, programs and policy goals.

Education – Provides organization-based sex education curriculum, parent education programs and professional training.

Business Development – Focuses on new patient acquisition and strategic partnership development and includes marketing/advertising, stakeholder engagement, community outreach, brand/image alignment and shared services.

2. *Summary of Significant Accounting Policies*

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of PPLM and its wholly owned subsidiaries 470 Pleasant Street Holdings Company, Inc. (470 Pleasant Street) and PPLM Investment Fund, LLC (the Fund) (hereinafter the "Organization"). All material intercompany transactions have been eliminated in these consolidated financial statements.

470 Pleasant Street was formed as a not-for-profit organization under the laws of the Commonwealth of Massachusetts on December 28, 2009 for the purpose of owning land and a building in Worcester, Massachusetts, which is exclusively rented to PPLM.

The Fund was formed on July 8, 2010 to facilitate the new market tax credit financing of the land and building owned by 470 Pleasant Street. During July 2017, as a result of the unwinding of the New Market Tax Credits, the Fund became a wholly owned subsidiary of PPLM. This is reported as a change in reporting entity in the accompanying *Consolidated Statement of Changes in Net Assets* as an increase to the consolidated unrestricted net assets.

Planned Parenthood League of Massachusetts, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements – *Continued*

June 30, 2018

2. *Summary of Significant Accounting Policies - continued*

Cash and Cash Equivalents

For the purposes of the consolidated statement of financial position and the consolidated statement of cash flows, the Organization considers all short-term investments with an original maturity of three months or less to be cash equivalents. There were no cash equivalents as of June 30, 2018.

Net Asset Classification

Accounting standards require classification of an entity's net assets, revenues, expenses, gains and losses into three classes of net assets as follows:

Unrestricted Net Assets - consist of assets, public support and program revenues, which are available and used for operations and programs. Contributions are considered available for unrestricted use unless specifically restricted by the donor. Unrestricted net assets represent funds available for current operations and includes plant and equipment.

Temporarily Restricted Net Assets - include the Organization's funds with donor-imposed restrictions relevant to time or purpose. These resources are released upon meeting the purpose restrictions or the passage of time and are then reflected as "net assets released from restrictions." Resources of this nature originate from gifts, grants, bequests and investment income earned on restricted funds.

Permanently Restricted Net Assets - include resources with a permanent donor-imposed restriction, which stipulates that the assets are to be maintained permanently, but permits the Organization to expend part or all of the income derived from the donated assets. In certain cases, donors have stipulated that accumulated unspent gains are considered permanently restricted. Accordingly, such amounts have been reflected as permanently restricted net assets.

Accounts Receivable

Accounts receivables are presented net of the allowance for doubtful accounts. The Organization's periodic evaluation of the adequacy of the allowance is based on its past experience. Accounts receivable are charged off when all efforts to collect the account have been exhausted and the amounts have been sent to collection agencies. Any recovery is recorded when received.

Inventories

Inventories purchased for use in program and supporting services are carried at the lower of cost or market. Cost is determined using the first-in, first-out method.

Investments

The Organization carries investments in marketable securities at fair value in the *Consolidated Statement of Financial Position*. Realized and unrealized gains and losses are reflected in the *Consolidated Statement of Activities*. Investment income and gains and losses are recorded as increases or decreases in unrestricted net assets unless a donor or law temporarily or permanently restricts their use.

Planned Parenthood League of Massachusetts, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements – *Continued*

June 30, 2018

2. *Summary of Significant Accounting Policies - continued*

Fair Value Measurements

Investments are reported using a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are as follows:

- Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets and liabilities in active markets.
- Level 2 - Inputs to the valuation methodology include:
 - Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets or liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the asset or liability;
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Land, Buildings and Equipment

Land, buildings and equipment are recorded at cost or at fair market value at the date of donation. The Organization capitalizes all fixed assets costing greater than \$2,000. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Estimated useful lives are 40 years for buildings, 20 years or the remaining life of the lease for building/leasehold improvements and 3 to 10 years for equipment.

Long lived assets, such as buildings are reviewed on an ongoing basis for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to the future net undiscounted cash flow expected to be generated by the asset including any estimated proceeds from the eventual disposition of the asset. If the asset is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the asset exceeds its fair value. As of June 30, 2018, management has determined that there has been no impairment of its long lived assets.

Revenue and Expenses

The Organization prepares its consolidated financial statements on the accrual basis of accounting. Accordingly, revenue is recorded when earned and expenses are recorded when goods are received or services rendered.

Deferred Revenue

Revenue is recognized when earned. Funds received that are not earned as of year-end are recorded under liabilities in the *Consolidated Statement of Financial Position* as deferred revenue.

Planned Parenthood League of Massachusetts, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements – *Continued*

June 30, 2018

2. *Summary of Significant Accounting Policies - continued*

Medical Services Revenue

The Organization recognizes medical services revenue at its standard charges with a reduction for contractual allowances for those patients with third party payer coverage. For uninsured patients, the Organization recognizes revenue on the basis of its standard rates for services provided with a reduction for a self-pay discount. On the basis of historical experience a significant portion of the Organization's uninsured patients will be unable or unwilling to pay for the services provided. Therefore, the Organization records a significant allowance for doubtful accounts related to uninsured patients in the period the services are provided. Medical service revenue, net of contractual allowances and discounts, but before the allowance for doubtful accounts, recognized in fiscal year 2018 is as follows:

| | <i>Third Party Payors</i> | <i>Self Pay</i> | <i>Total</i> |
|--|---------------------------|-----------------|---------------|
| Medical Service Revenue, net of contractual allowances | \$ 12,210,780 | \$ 1,956,206 | \$ 14,166,986 |

Contributions

The Organization distinguishes between contributions received for each net asset category in accordance with donor imposed restrictions. Contributions may include gifts of cash, collection items or promises to give. Such contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increase those net asset classes.

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows.

Donated Services and Materials

The Organization records various types of in-kind support including professional services, advertising and materials. Contributed professional services are recognized if the services received (a) create or enhance long-lived assets, or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not donated. Such donations are recorded as contributions in the consolidated financial statements. Donated materials are recorded at the fair value at the date of the gift. For the fiscal year ended June 30, 2018, the value of donated services and materials recognized was \$97,738.

Additionally, the Organization receives a significant amount of skilled contributed services, which does not meet the two recognition criteria described above. Accordingly, the value of these contributed services is not reflected in the accompanying consolidated financial statements. For the year ended June 30, 2018, the Organization received \$51,678 in non-professional volunteer services.

Planned Parenthood League of Massachusetts, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements – *Continued*

June 30, 2018

2. *Summary of Significant Accounting Policies - continued*

Income Tax Status

PPLM and 470 Pleasant Street are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. PPLM and 470 Pleasant Street are also exempt from Massachusetts income taxes. Unrelated business income, of which there was none for the fiscal year ended June 30, 2018, would be subject to Federal and state income taxes. Consequently, the accompanying financial statements do not reflect any provision for income taxes.

As of June 30, 2018, PPLM and 470 Pleasant Street have evaluated the tax positions taken in its previously filed returns and those expected to be taken in its 2018 returns, and believes they are *more-likely-than-not* of being sustained if examined by Federal or state tax authorities. PPLM and 470 Pleasant Street's 2015 through 2017 tax years remain subject to examination by Federal and state tax authorities.

The Fund is a wholly owned LLC and as such is reported as a disregarded entity within PPLM's federal and state income tax returns.

Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Functional Expenses

The costs of providing the Organization's programs and other activities have been summarized on a functional basis in the *Consolidated Statement of Functional Expenses*. Direct expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and the supporting services benefitted.

3. *Significant Concentrations*

Credit Risk

Cash balances at the financial institutions with which the Organization maintains its accounts are insured by the Federal Deposit Insurance Corporation (FDIC). At times these accounts exceed the FDIC insurance limit. The Organization has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk on cash.

4. *Investments*

As of June 30, 2018, the Organization's investment accounts are maintained at one financial institution. The investments are subject to market fluctuations and due to the level of risk associated with investments, it is at least reasonably possible that changes in the value of investments will occur in the near term and that such changes could materially affect the consolidated financial statements.

Planned Parenthood League of Massachusetts, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements – *Continued*
June 30, 2018

4. Investments - continued

At June 30, 2018, investments are measured at fair value on a recurring basis and consisted of the following:

| <i>Description</i> | <i>Level 1</i> |
|------------------------|----------------------|
| <i>Mutual funds:</i> | |
| Corporate Bond | \$ 956,427 |
| Mid-Cap Growth | 526,511 |
| Large Growth | 1,320,742 |
| Short Term Bond | 1,340,648 |
| Mid-Cap Blend | 523,551 |
| World Bond | 1,734,652 |
| Foreign Large Blend | 4,780,637 |
| Intermediate-Term Bond | 2,686,515 |
| Large Blend | 3,864,997 |
| Large Value | <u>1,301,898</u> |
| Total | <u>\$ 19,036,578</u> |

The following schedule summarizes the investment returns for the year ended June 30, 2018:

| <i>Description</i> | <i>Unrestricted</i> | <i>Permanently Restricted</i> | <i>Total</i> |
|--|---------------------|-----------------------------------|---------------------|
| Interest and dividends | \$ 401,778 | \$ 22,451 | \$ 424,229 |
| Realized gain/Unrealized loss on investments | <u>870,261</u> | <u>137,785</u> | <u>1,008,046</u> |
| Total | <u>\$ 1,272,039</u> | <u>\$ 160,236</u> | <u>\$ 1,432,275</u> |

5. Accounts Receivable

Accounts receivable consisted of the following at June 30:

| <i>Description</i> | <i>Amount</i> |
|---------------------------------------|---------------------|
| Medical services | \$ 826,146 |
| Contracts | 93,759 |
| Other | <u>630,656</u> |
| Total accounts receivable | 1,550,561 |
| Less: Allowance for doubtful accounts | <u>(180,984)</u> |
| Net accounts receivable | <u>\$ 1,369,577</u> |

Planned Parenthood League of Massachusetts, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements – *Continued*

June 30, 2018

6. Note Receivable

During fiscal year 2011, PPLM entered into a note agreement with the Fund, who in fiscal year 2011 was an unrelated entity, in the amount of \$6,761,240. The proceeds were used by the Fund to finance their capital contribution to MassDevelopment New Markets CDE #4, LLC, who in turn loaned the funds to the 470 Pleasant Street, a related entity. During fiscal year 2018, subsequent to the Fund becoming a wholly owned subsidiary of PPLM, PPLM forgave the note receivable and the balance at June 30, 2018 was \$0.

7. Property and Equipment

Property and equipment consisted of the following at June 30:

| <i>Description</i> | <i>Amount</i> |
|--------------------------------|----------------------|
| Land | \$ 1,595,669 |
| Buildings and improvements | 14,550,945 |
| Leasehold improvements | 1,580,124 |
| Equipment | <u>4,379,294</u> |
| Total | 22,106,032 |
| Less: accumulated depreciation | <u>(11,222,686)</u> |
| Net | <u>\$ 10,883,346</u> |

Depreciation expense was \$792,046 for the year ended June 30, 2018.

8. Inventory

Inventories are comprised of supplies in the amount of \$458,500 at June 30, 2018.

9. Notes Payable

During fiscal year 2011, the Organization refinanced its note payable with Massachusetts Development Finance Agency (MDFA). The original note proceeds were used to fund the renovation and expansion of the facility located in Worcester, Massachusetts. The Organization used New Market Tax Credits to refinance the original note payable which resulted in that debt being reduced from \$6,050,000 to \$4,400,000 and, in accordance with the terms of the refinance, executed three additional loans with MDFA totaling \$8,712,000.

As of June 30, 2018 the outstanding loans are as follows:

PPLM had a \$4,400,000 loan payable with Eastern Bank which was refinanced during fiscal year 2017 to extend the maturity date from July 1, 2017 to June 26, 2027. The note bears interest at 3.07% per annum. The loan is secured by the Worcester facility and is guaranteed by 470 Pleasant Street. As of June 30, 2018, the outstanding balance was \$1,871,970 and interest expense for the year ended June 30, 2018 was \$55,071.

Planned Parenthood League of Massachusetts, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements – *Continued*

June 30, 2018

9. Notes Payable - continued

470 Pleasant Street had three note payables totaling \$8,712,000 with a maturity date of July 8, 2050 and each loan bore interest at a rate of 1.53% per annum. The loans required interest only payments for the first eight years with principal and interest payments thereafter. In July 2017, as part of the unwinding of the new market tax credit deal the three notes payable were assigned to the Fund. Subsequent to the Fund becoming a wholly owned subsidiary of PPLM, the Fund forgave the three notes payable resulting in a zero balance at June 30, 2018.

Aggregate maturities of the long-term debt for the next five years and thereafter are as follows:

| <i>Fiscal Year</i> | <i>Amount</i> |
|--------------------|---------------------|
| 2019 | \$ 53,453 |
| 2020 | 54,992 |
| 2021 | 56,882 |
| 2022 | 58,678 |
| 2023 | 62,308 |
| Thereafter | <u>1,585,657</u> |
| Total | <u>\$ 1,871,970</u> |

10. Commitments

Operating Leases

The Organization leases office space in Springfield, Massachusetts under a non-cancelable operating lease agreement expiring in November 2019. Under the terms of the operating lease, the Organization pays for certain pass through costs associated with the operation of the building.

The Organization leases office space in Marlborough, Massachusetts under a non-cancelable operating lease agreement expiring in May 2020.

The Organization leases office space in Fitchburg, Massachusetts under a non-cancelable operating lease agreement expiring in June 2020.

Rent expense for the year ended June 30, 2018 was \$176,539. The minimum payments due over the remaining terms of the leases are as follows:

| <i>Fiscal Year</i> | <i>Amount</i> |
|--------------------|-------------------|
| 2019 | \$ 177,882 |
| 2020 | <u>104,800</u> |
| Total | <u>\$ 282,682</u> |

Planned Parenthood League of Massachusetts, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements – *Continued*

June 30, 2018

11. Tax Deferred Savings

The Organization offers a tax-deferred savings plan, which qualifies as a voluntary contribution savings plan under Internal Revenue Code Section 403(b). The plan is administered by a financial institution. Employees may provide tax-deferred contributions to fully vested individual retirement accounts up to the Internal Revenue Code limit. The plan covers all employees over age of eighteen and employees are eligible to contribute from the date of hire. The Board of Directors approved a 100% match of participants contributions up to 3% of their compensation. Pension expense for the year ended June 30, 2018 was \$204,790.

12. Related Party Transactions

Planned Parenthood Advocacy Fund (“PPAF”) was incorporated on January 6, 1984 as a social welfare organization whose purpose includes studying aspects of family planning, promoting public interest in comprehensive reproductive health services and conducting lobbying efforts related to issues of reproductive health. PPAF and the Organization have overlapping members of their boards of directors, however the Organization does not have control over PPAF. The Organization purchases services on behalf of PPAF and is reimbursed for these services. In addition, the Organization provides PPAF with certain support services. During fiscal year 2018 the Organization provided a grant to PPAF in the amount \$150,000 to continue its advocacy activities. As of June 30, 2018, the Organization had an amount receivable from PPAF of \$249,416.

13. Endowment

On July 2, 2009, the Uniform Prudent Management of Institutional Funds Act (UPMIFA) was signed into law in Massachusetts and was effective for endowments held as of June 30, 2009. UPMIFA requires the historical dollar amount of a donor-restricted endowment fund to be preserved. In the absence of donor restrictions, the net appreciation on a donor-restricted endowment fund is spendable under UPMIFA. However, one of the Organization’s donors provided the following restriction on the net appreciation; a portion of interest and dividends earned on the permanently restricted net assets, not to exceed 5% annually, may be used to support the operations of the Organization.

The Board Designated Endowment may be used for operations at the Board of Director’s discretion. The endowment activity for fiscal year 2018 is as follows:

| | <i>Donor Restricted Endowment</i> | <i>Board-Designated Endowment</i> | <i>Total</i> |
|--|---------------------------------------|---------------------------------------|---------------------|
| Endowment net assets - beginning of year | \$ 891,609 | \$ 604,176 | \$ 1,495,785 |
| Investment return: | | | |
| Investment income | 22,451 | - | 22,451 |
| Net appreciation (realized and unrealized) | <u>137,785</u> | <u>-</u> | <u>137,785</u> |
| Total investment return | <u>160,236</u> | <u>-</u> | <u>160,236</u> |
| Contributions to the endowment | - | 1,354,416 | 1,354,416 |
| Appropriation of endowment assets for expenses | <u>(8,012)</u> | <u>(10,000)</u> | <u>(18,012)</u> |
| Endowment net assets - end of year | <u>\$ 1,043,833</u> | <u>\$ 1,948,592</u> | <u>\$ 2,992,425</u> |

Planned Parenthood League of Massachusetts, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements – *Continued*

June 30, 2018

14. Net Assets

Temporarily Restricted

At June 30, 2018, temporarily restricted net assets were restricted for the following:

| <i>Description</i> | <i>Amount</i> |
|-----------------------------|-------------------|
| Program/purpose restriction | \$ 956,385 |
| Time restriction | <u>4,000</u> |
| Total | <u>\$ 960,385</u> |

Permanently Restricted

The Organization has received public gifts with specific donor stipulations requiring that the principal be held inviolate and that only a portion of the income therefrom be used for operations. These resources are, by act of Congress, under the control of the board of directors who are required to maintain and invest the funds. The balance of permanently restricted net assets was \$1,043,833 at June 30, 2018.

Unrestricted – Board Designated

The Board of Directors has designated a portion of the unrestricted net assets for future capital needs and operations at their discretion. The balance on the board designated net assets was \$1,948,592 at June 30, 2018.

15. Insurance Captive

Planned Parenthood League of Massachusetts Inc. is a participant in Affiliated Risk Management Services, Inc. (“ARMS”) which is a self-insurance fund for the PPFA family of affiliates. ARMS provides comprehensive, stable, and affordable insurance, risk management, and quality management services to Planned Parenthood entities so they can better advance their mission. The program offers a wide range of insurance coverages formulated to meet the needs of those participating Planned Parenthood entities. An entity must participate in all coverages provided by the program and cannot opt for selective coverages.

The Organization purchases its professional liability insurance, excess professional liability insurance, general liability, non-owned and hired automobile liability, umbrella liability, directors and officers insurance, employment practices liability, media special perils policy, and group travel accident insurance from ARMS through PPFA.

16. Contingencies

Grant Funding

The Organization’s various grants and contracts are subject to audit by appropriate governmental agencies. Acceptance of final costs incurred under these grants and contracts resides with these grantor agencies. As of the date of these financial statements, the materiality of adjustments to final costs, if any, cannot be determined although management does not anticipate any. Therefore, no adjustment has been made to the consolidated financial statements.

Planned Parenthood League of Massachusetts, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements – *Continued*

June 30, 2018

16. Contingencies – continued

Legal

The Organization's is a defendant in three legal cases. While the final outcome cannot be determine at this time, management is of the opinion that the ultimate liability, if any, from the final resolution of these matters will not have a material effect on the Organization's consolidated financial statements. Accordingly, no provision has been made in the accompanying consolidated financial statements since the ultimate liability cannot be reasonably estimated.

17. Line of Credit

The Organization has a \$1,000,000 line of credit with a financial institution with an interest rate of prime. As of June 30, 2018, there was no outstanding balance on the line.

18. Subsequent Events

Subsequent to year end, in August 2018, PPLM Investment Fund was dissolved. The Organization has performed an evaluation of subsequent events through November 6, 2018.

SUPPLEMENTAL INFORMATION

Planned Parenthood League of Massachusetts, Inc. and Subsidiaries
Consolidating Schedule of Financial Position
June 30, 2018

| | <i>Planned Parenthood</i> | <i>470 Pleasant Street</i> | <i>PPLM Investment Fund, LLC</i> | <i>Eliminations</i> | <i>Consolidated</i> |
|---|-------------------------------|--------------------------------|--|---------------------|----------------------|
| Assets: | | | | | |
| <i>Current Assets:</i> | | | | | |
| Cash | \$ 3,851,906 | \$ - | \$ - | \$ - | \$ 3,851,906 |
| Investments | 18,029,059 | - | - | - | 18,029,059 |
| Accounts receivable | 1,369,577 | - | - | - | 1,369,577 |
| Contributions and pledges receivable | 2,000 | - | - | - | 2,000 |
| Inventory | 458,500 | - | - | - | 458,500 |
| Prepaid expenses | 212,444 | - | - | - | 212,444 |
| | <u>23,923,486</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>23,923,486</u> |
| <i>Noncurrent Assets:</i> | | | | | |
| Split interest agreements | 30,519 | - | - | - | 30,519 |
| Contributions and pledges receivable, net | 1,829 | - | - | - | 1,829 |
| Permanently restricted investment | 1,007,519 | - | - | - | 1,007,519 |
| Due from related party | 249,416 | 128,730 | - | (128,730) | 249,416 |
| Land, building and equipment less accumulated depreciation | 4,746,101 | 6,321,751 | - | (184,506) | 10,883,346 |
| | <u>6,035,384</u> | <u>6,450,481</u> | <u>-</u> | <u>(313,236)</u> | <u>12,172,629</u> |
| Total noncurrent assets | | | | | |
| | <u>6,035,384</u> | <u>6,450,481</u> | <u>-</u> | <u>(313,236)</u> | <u>12,172,629</u> |
| Total assets | <u>\$ 29,958,870</u> | <u>\$ 6,450,481</u> | <u>\$ -</u> | <u>\$ (313,236)</u> | <u>\$ 36,096,115</u> |
| Liabilities and Net Assets: | | | | | |
| <i>Current Liabilities:</i> | | | | | |
| Accounts payable | \$ 689,855 | \$ - | \$ - | \$ - | \$ 689,855 |
| Accrued expenses | 1,230,747 | - | - | - | 1,230,747 |
| Deferred revenue | 169,476 | - | - | - | 169,476 |
| Notes payable, current portion | 53,453 | - | - | - | 53,453 |
| | <u>2,143,531</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>2,143,531</u> |
| Total current liabilities | | | | | |
| | <u>2,143,531</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>2,143,531</u> |
| <i>Noncurrent Liabilities:</i> | | | | | |
| Due to related party | 128,730 | - | - | (128,730) | - |
| Notes payable | 1,818,517 | - | - | - | 1,818,517 |
| | <u>1,947,247</u> | <u>-</u> | <u>-</u> | <u>(128,730)</u> | <u>1,818,517</u> |
| Total noncurrent liabilities | | | | | |
| | <u>1,947,247</u> | <u>-</u> | <u>-</u> | <u>(128,730)</u> | <u>1,818,517</u> |
| Total liabilities | <u>4,090,778</u> | <u>-</u> | <u>-</u> | <u>(128,730)</u> | <u>3,962,048</u> |
| <i>Net Assets:</i> | | | | | |
| Total unrestricted | 23,863,874 | 6,450,481 | - | (184,506) | 30,129,849 |
| Temporarily restricted | 960,385 | - | - | - | 960,385 |
| Permanently restricted | 1,043,833 | - | - | - | 1,043,833 |
| | <u>25,868,092</u> | <u>6,450,481</u> | <u>-</u> | <u>(184,506)</u> | <u>32,134,067</u> |
| Total net assets | | | | | |
| | <u>25,868,092</u> | <u>6,450,481</u> | <u>-</u> | <u>(184,506)</u> | <u>32,134,067</u> |
| Total liabilities and net assets | <u>\$ 29,958,870</u> | <u>\$ 6,450,481</u> | <u>\$ -</u> | <u>\$ (313,236)</u> | <u>\$ 36,096,115</u> |

Planned Parenthood League of Massachusetts, Inc. and Subsidiaries
Consolidating Schedule of Activities
For the Year Ended June 30, 2018

| | <i>Planned Parenthood</i> | <i>470 Pleasant Street</i> | <i>PPLM Investment Fund, LLC</i> | <i>Eliminations</i> | <i>Consolidated</i> |
|--|-------------------------------|--------------------------------|--|---------------------|---------------------|
| <i>Support and Revenue:</i> | | | | | |
| Patient Service revenue (net of contractual allowances and discounts): | | | | | |
| Greater Boston Medical Services | \$ 7,820,881 | \$ - | \$ - | \$ - | \$ 7,820,881 |
| Central Massachusetts Medical Services | 2,968,232 | - | - | - | 2,968,232 |
| Western Massachusetts Medical Services | 2,121,708 | - | - | - | 2,121,708 |
| Laboratory Services | 1,256,165 | - | - | - | 1,256,165 |
| | <u>14,166,986</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>14,166,986</u> |
| Provision for bad debts | (249,581) | - | - | - | (249,581) |
| Net patient service revenue less provision for bad debts | 13,917,405 | - | - | - | 13,917,405 |
| Contract revenue | 1,530,373 | - | - | - | 1,530,373 |
| Other program service revenue | 461,367 | - | - | - | 461,367 |
| Contributions | 6,639,139 | - | - | - | 6,639,139 |
| Research grants | 386,047 | - | - | - | 386,047 |
| Contributed goods and services | 97,738 | - | - | - | 97,738 |
| Interest and dividends | 442,822 | - | - | - | 442,822 |
| Realized/unrealized gain on investments | 1,008,046 | - | - | - | 1,008,046 |
| Rental income | - | 150,000 | - | (150,000) | - |
| Other income | 1,205,003 | - | - | - | 1,205,003 |
| | <u>25,687,940</u> | <u>150,000</u> | <u>-</u> | <u>(150,000)</u> | <u>25,687,940</u> |
| Total support and revenue | | | | | |
| <i>Expenses:</i> | | | | | |
| Program services: | | | | | |
| Medical services | 14,458,056 | 648,094 | - | (155,677) | 14,950,473 |
| Research center | 487,552 | - | - | - | 487,552 |
| Public affairs and communications | 741,401 | - | - | - | 741,401 |
| Education | 1,293,646 | - | - | - | 1,293,646 |
| Business development | 1,565,915 | - | - | - | 1,565,915 |
| | <u>18,546,570</u> | <u>648,094</u> | <u>-</u> | <u>(155,677)</u> | <u>19,038,987</u> |
| Total program services | | | | | |
| Supporting services: | | | | | |
| Management and general | 2,776,488 | - | - | - | 2,776,488 |
| Fundraising | 1,472,485 | - | - | - | 1,472,485 |
| | <u>4,248,973</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>4,248,973</u> |
| Total supporting services | | | | | |
| Total expenses | <u>22,795,543</u> | <u>648,094</u> | <u>-</u> | <u>(155,677)</u> | <u>23,287,960</u> |
| Changes in net assets from operations | 2,892,397 | (498,094) | - | 5,677 | 2,399,980 |
| <i>Nonoperating activity:</i> | | | | | |
| Debt forgiveness income | - | 8,712,000 | 6,761,240 | (15,473,240) | - |
| Bad debt expense | (6,761,240) | - | (8,712,000) | 15,473,240 | - |
| Changes in net assets from non operating activity | <u>(6,761,240)</u> | <u>8,712,000</u> | <u>(1,950,760)</u> | <u>-</u> | <u>-</u> |
| Change in net assets | <u>\$ (3,868,843)</u> | <u>\$ 8,213,906</u> | <u>\$ (1,950,760)</u> | <u>\$ 5,677</u> | <u>\$ 2,399,980</u> |