



*Kindness and Care for Animals®*

**MASSACHUSETTS SOCIETY FOR THE PREVENTION  
OF CRUELTY TO ANIMALS**

**FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

**MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS**

Contents  
December 31, 2016 and 2015

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## Independent Auditor's Report

To the Board of Directors of  
Massachusetts Society for the Prevention of Cruelty to Animals:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Massachusetts Society for the Prevention of Cruelty to Animals (a Massachusetts corporation, not for profit) which comprise the statement of financial position as of December 31, 2016, and the related statements of activities and changes in net assets 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.

### ***Auditor's 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 Massachusetts Society for the Prevention of Cruelty to Animals as of December 31, 2016, 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.

**Prior Period Financial Statements**

The financial statements of Massachusetts Society for the Prevention of Cruelty to Animals as of December 31, 2015, were audited by other auditors whose report dated April 5, 2016, expressed an unmodified opinion on those statements.

*Alexander, Crossen, Penning & Co., P.C.*  
Boston, Massachusetts  
April 5, 2017

**MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS**

Statements of Financial Position  
December 31, 2016 and 2015

<b>Assets</b>	<b>2016</b>	<b>2015</b>
Current Assets:		
Cash and cash equivalents	\$ 2,591,477	\$ 3,000,729
Accounts receivable from hospital operations, net	262,117	208,902
Current portion of contributions receivable	1,676,959	1,962,568
Prepaid expenses and other assets	<u>2,038,071</u>	<u>1,530,234</u>
Total current assets	6,568,624	6,702,433
Contributions Receivable, net of current portion and discount	1,732,804	2,466,368
Investments	75,165,768	65,827,053
Beneficial Interest in Perpetual Trusts	12,832,769	12,403,551
Property and Equipment, net	<u>34,394,288</u>	<u>28,802,796</u>
Total assets	<u><u>\$ 130,694,253</u></u>	<u><u>\$ 116,202,201</u></u>
<b>Liabilities and Net Assets</b>		
Current Liabilities:		
Current portion of bonds payable	\$ 654,400	\$ 455,000
Current portion of accrued pension, postretirement and other retirement agreements	649,642	644,738
Current portion of charitable gift annuity liability	85,120	72,309
Accounts payable, accrued expenses and other liabilities	2,529,378	1,826,136
Accrued salaries, vacation and other benefits	2,234,331	1,862,323
Deferred revenue	161,469	241,564
Due to related society	<u>44,463</u>	<u>72,591</u>
Total current liabilities	6,358,803	5,174,661
Accrued Pension, Postretirement and Other Retirement Agreements, net of current portion	21,548,539	20,444,852
Charitable Gift Annuity Liability, net of current portion	775,636	646,920
Bonds Payable, net of current portion and unamortized debt issuance costs	<u>8,625,139</u>	<u>2,360,000</u>
Total liabilities	<u>37,308,117</u>	<u>28,626,433</u>
Net Assets:		
Unrestricted	38,053,375	34,024,154
Temporarily restricted	12,550,397	12,714,900
Permanently restricted	<u>42,782,365</u>	<u>40,836,714</u>
Total net assets	<u>93,386,137</u>	<u>87,575,768</u>
Total liabilities and net assets	<u><u>\$ 130,694,253</u></u>	<u><u>\$ 116,202,201</u></u>

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Statements of Activities and Changes in Net Assets  
For the Years Ended December 31, 2016 and 2015

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Operating Revenue:</b>								
Revenue from health and hospital services	\$ 43,333,715	\$ -	\$ -	\$ 43,333,715	\$ 38,092,422	\$ -	\$ -	\$ 38,092,422
Annual giving, hospital and adoption center donations	9,584,544	762,001	-	10,346,545	9,407,131	501,959	-	9,909,090
Other income	1,547,500	-	-	1,547,500	1,509,759	-	-	1,509,759
Investment returns appropriated for operations	943,905	-	-	943,905	789,480	-	-	789,480
Distributions from outside managed trusts	623,400	8,731	-	632,131	652,037	9,075	-	661,112
Net assets released from program restrictions	870,903	(870,903)	-	-	838,694	(832,879)	(5,815)	-
Total operating revenue	<u>56,903,967</u>	<u>(100,171)</u>	<u>-</u>	<u>56,803,796</u>	<u>51,289,523</u>	<u>(321,845)</u>	<u>(5,815)</u>	<u>50,961,863</u>
<b>Operating Expenses:</b>								
Program:								
Health and hospital services	43,663,310	-	-	43,663,310	40,286,829	-	-	40,286,829
Humane services, adoption centers, animal advocacy legislative affairs and humane education	7,772,954	-	-	7,772,954	7,635,228	-	-	7,635,228
Publications, communications and public relations	1,048,005	-	-	1,048,005	987,982	-	-	987,982
Total program expenses	<u>52,484,269</u>	<u>-</u>	<u>-</u>	<u>52,484,269</u>	<u>48,910,039</u>	<u>-</u>	<u>-</u>	<u>48,910,039</u>
Development, membership, annual and planned giving expenses	1,883,478	-	-	1,883,478	1,776,317	-	-	1,776,317
General administration and support expenses	4,663,455	-	-	4,663,455	4,675,442	-	-	4,675,442
Total operating expenses	<u>59,031,202</u>	<u>-</u>	<u>-</u>	<u>59,031,202</u>	<u>55,361,798</u>	<u>-</u>	<u>-</u>	<u>55,361,798</u>
Changes in net assets from operations	<u>(2,127,235)</u>	<u>(100,171)</u>	<u>-</u>	<u>(2,227,406)</u>	<u>(4,072,275)</u>	<u>(321,845)</u>	<u>(5,815)</u>	<u>(4,399,935)</u>
<b>Non-Operating Activities:</b>								
Bequests	5,515,704	-	-	5,515,704	4,683,372	-	138,462	4,821,834
Investment returns, net of amounts appropriated	1,473,037	729,066	148,120	2,350,223	(554,394)	(1,562,888)	-	(2,117,282)
Capital campaign contributions	-	961,612	1,274,988	2,236,600	-	2,862,028	1,767,779	4,629,807
Change in fair value of outside managed trusts	-	-	429,218	429,218	-	-	(1,271,224)	(1,271,224)
Endowment contributions	-	-	93,325	93,325	-	-	-	-
Gain on interest rate swap contract	-	-	-	-	90,736	-	-	90,736
Capital campaign fundraising expenses	(463,882)	-	-	(463,882)	(851,248)	-	-	(851,248)
Current year impact of change in pension obligations	(991,188)	-	-	(991,188)	875,521	-	-	875,521
Pension plan and postretirement benefits normal costs	(1,132,225)	-	-	(1,132,225)	(296,459)	-	-	(296,459)
Net assets released from capital campaign restriction	1,755,010	(1,755,010)	-	-	3,032,049	(3,032,049)	-	-
Total non-operating activities	<u>6,156,456</u>	<u>(64,332)</u>	<u>1,945,651</u>	<u>8,037,775</u>	<u>6,979,577</u>	<u>(1,732,909)</u>	<u>635,017</u>	<u>5,881,685</u>
Changes in net assets	4,029,221	(164,503)	1,945,651	5,810,369	2,907,302	(2,054,754)	629,202	1,481,750
<b>Net Assets:</b>								
Beginning of year	<u>34,024,154</u>	<u>12,714,900</u>	<u>40,836,714</u>	<u>87,575,768</u>	<u>31,116,852</u>	<u>14,769,654</u>	<u>40,207,512</u>	<u>86,094,018</u>
End of year	<u>\$ 38,053,375</u>	<u>\$ 12,550,397</u>	<u>\$ 42,782,365</u>	<u>\$ 93,386,137</u>	<u>\$ 34,024,154</u>	<u>\$ 12,714,900</u>	<u>\$ 40,836,714</u>	<u>\$ 87,575,768</u>

The accompanying notes are an integral part of these statements.

**MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS**

Statements of Cash Flows

For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Cash Flows from Operating Activities:</b>		
Changes in net assets	\$ 5,810,369	\$ 1,481,750
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	2,243,866	2,153,371
Interest - amortization	4,984	-
Gain on sale of property and equipment	-	(2,500)
Realized and unrealized (gains) losses on investments	(3,024,199)	2,736,534
Change in fair value of beneficial interest in perpetual trusts	(429,218)	1,271,224
Contributions restricted for long-term purposes	(2,329,925)	(4,629,807)
Donated debt issuance costs	(20,745)	-
Changes in operating assets and liabilities:		
Accounts receivable from hospital operations, net	(53,215)	(48,076)
Contributions receivable	1,019,173	926,812
Prepaid expenses and other assets	(507,837)	483,637
Accrued pension, postretirement and other retirement agreements	1,108,591	(1,248,616)
Charitable gift annuity liability	141,527	(225,175)
Accounts payable, accrued expenses and other liabilities	703,242	11,947
Accrued salaries, vacation and other benefits	372,008	226,351
Deferred revenue	(80,095)	178,618
Due to related society	(28,128)	(867,303)
	<u>4,930,398</u>	<u>2,448,767</u>
<b>Net cash provided by operating activities</b>		
<b>Cash Flows from Investing Activities:</b>		
Cash paid for property and equipment	(7,835,360)	(1,413,657)
Proceeds from sale of property and equipment	-	2,500
Purchase of investments	(85,133,113)	(45,227,599)
Sales of investments	78,818,598	43,344,873
	<u>(14,149,875)</u>	<u>(3,293,883)</u>
<b>Net cash used in investing activities</b>		
<b>Cash Flows from Financing Activities:</b>		
Payments on bonds and note payable	(455,000)	(2,260,000)
Proceeds from bond payable	6,935,300	-
Contributions restricted for long-term purposes	2,329,925	4,629,807
	<u>8,810,225</u>	<u>2,369,807</u>
<b>Net cash provided by financing activities</b>		
<b>Net Change in Cash and Cash Equivalents</b>	(409,252)	1,524,691
<b>Cash and Cash Equivalents:</b>		
Beginning of year	<u>3,000,729</u>	<u>1,476,038</u>
End of year	<u>\$ 2,591,477</u>	<u>\$ 3,000,729</u>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash paid for interest, net of capitalized interest	<u>\$ 49,923</u>	<u>\$ 158,178</u>
Debt issuance costs financed through note payable	<u>\$ 64,700</u>	<u>\$ -</u>

The accompanying notes are an integral part of these statements.

## MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements  
December 31, 2016 and 2015

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### 1. OPERATIONS

The accompanying financial statements include the assets, liabilities, net assets, and financial activities of Massachusetts Society for the Prevention of Cruelty to Animals (referred to as the "Society"). The Society operates two veterinary hospitals with facilities in Boston and Waltham, Massachusetts that are open twenty four hours a day, seven days a week, a new day clinic in Westford, Massachusetts, three animal care and adoption centers, a farm that houses a variety of animals including sheep, goats, chickens, pigs, and horses, an equine rescue program, and provides legislative and community advocacy for humane care of animals on the local, regional and national level.

The new Westford day clinic is a collaboration with the Nashoba Valley Technical High School ("NVTHS") to support their educational training programs and serves companion pets of school families and low-income clients in the communities served by NVTHS. The facility opened for operations in February 2016.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Presentation

The financial statements of the Society have been prepared on the accrual basis of accounting. Net assets and revenues, expenses, gains and losses are classified based upon the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

#### *Unrestricted*

Represents net assets that are not subject to donor-imposed restrictions or for which restrictions have expired in the current reporting period. Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor restrictions or law. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or law.

#### *Temporarily Restricted*

Represents net assets subject to donor-imposed restrictions that permit the Society to use or expend the donated assets as specified and are satisfied by either the passage of time or by actions of the Society. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions. In addition, temporarily restricted net assets include accumulated unspent gains on permanently restricted funds that have not yet been appropriated for expenditure.

#### *Permanently Restricted*

Net assets subject to donor-imposed stipulations that the principal be maintained in perpetuity by the Society and the income be available to support specific or general operations of the Society, depending on donor restrictions. In addition, changes in fair value of outside managed trusts are included in permanently restricted as the use of such funds is not under the discretion or control of the Society's Board.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Statements of Activities and Changes in Net Assets**

The statements of activities and changes in net assets report the changes in unrestricted, temporarily restricted and permanently restricted assets from operating and non-operating activities. Non-operating activities consist of investment returns in excess of or below amounts appropriated, amounts added to corpus under donor instruments, changes in fair value of outside managed trusts, bequests and related expenses, transactions associated with the pension plan and postretirement benefits, changes in value of an interest rate swap contract, endowment and capital campaign activities. All other activities are considered operating.

**Fair Value Measurements**

The Society reports certain assets and liabilities at fair value on a recurring and nonrecurring basis depending on the underlying accounting policy for the particular item. Recurring fair value measures include the Society's investments and beneficial interest in perpetual trusts. Nonrecurring measures include contributions receivable and charitable gift annuity liabilities. Fair value accounting standards require an entity to maximize the use of observable inputs (such as quoted market prices in active markets) and minimize the use of unobservable inputs (such as appraisals or valuation techniques) to determine fair value or to use the net asset value ("NAV") per share when permitted as a practical expedient of fair value under the standards.

Fair value standards require the Society to classify its financial instruments (but for those accounted for under the NAV approach) into a three level hierarchy, based on the priority of inputs used to value the assets, while disclosing certain information about investments valued under the NAV method. For investments required to be accounted for under the three-level hierarchy, those categories are as follows:

- Level 1: Quoted prices are available in active markets for identical instruments as of the reporting date. Instruments which are generally included in this category include listed equity and debt securities publically traded on a stock exchange.
- Level 2: Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.
- Level 3: Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation.

In some instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, an instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that any changes in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in these financial statements. In addition, certain funds provide for restricted distributions under certain circumstances such as market dislocations. For more information on the fair value of the Society's financial instruments, see Note 5 - Fair Value of Financial Instruments/Investments.

## MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements  
December 31, 2016 and 2015

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Cash and Cash Equivalents

All highly liquid debt instruments with a maturity of three months or less when purchased are classified as cash equivalents. The Society maintains its cash in interest-bearing bank deposit accounts that are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). Balances at times exceed insured limits. The Society monitors its exposure associated with cash and cash equivalents and has not experienced any losses in such accounts. Cash and cash equivalents held by investment managers are considered part of investments.

#### Donated Goods and Services

Donated goods are recorded at their estimated fair value as of the date of donation. Donated services are recognized if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by individuals with those skills, and would otherwise be purchased by the Society. During the years ended December 31, 2016 and 2015, the Society recorded \$805,620 and \$697,717, respectively, in donated goods and services, which are included in annual giving, hospital and adoption center donations, operating expenses, and debt issuance costs.

#### Accounts Receivable

Accounts receivable are carried at their net realizable value. Management estimates the allowance for doubtful accounts by identifying troubled accounts and using historical experience applied to an aging of accounts. Accounts are written off when deemed uncollectible. Recoveries of amounts previously written off are recorded as revenue when received. Reserves were approximately \$227,000 and \$269,000 in 2016 and 2015, respectively.

#### Contributions Receivable

Unconditional promises to give are reported as revenue and assets in the appropriate net asset category at fair value on the date the promise is verifiably committed using a Level 3 market approach. Under this approach, unconditional promises to give that are expected to be collected within one year are recorded at net realizable value and unconditional promises to give that are expected to be collected in future years are recorded at present value of the estimated future cash flows. Present values are computed using a risk adjusted interest rate applicable to the duration of the gift. Amortization of present value discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

#### Investments

Investments are carried at fair value as described earlier. Investments are managed in a pooled fund along with a related organization (see Note 13) with each participating in the relative returns generated by the underlying funds. Investment returns are presented net of investment management and custodial fees.

## MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements  
December 31, 2016 and 2015

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Investment Objectives and Spending Policy

Investment returns are reported as increases or decreases in unrestricted net assets or:

- as increases in permanently restricted net assets, if the terms of the gift require that they be added to the principal of a permanent endowment fund.
- as increases in temporarily restricted net assets, if the terms of the gift or state law impose restrictions on the current use of the income or net gains or as decreases, up to any existing unrealized appreciation.

The Society has adopted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). UPMIFA requires the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. Therefore, permanently restricted net assets are recorded at the fair value on the original gift date. Any appreciation on gifts (net of amounts expended) is recorded in temporarily restricted net assets. Any depreciation of net assets below the original corpus, also known as an underwater fund, is recognized in the unrestricted net assets, as to preserve the original corpus of the endowment fund. In accordance with the state laws, the Society develops its spending policy considering several factors which include the following considerations:

- The duration and preservation of its permanently restricted assets and those temporarily restricted assets that consist of excess earnings ("Spending Policy Assets"),
- the purposes of the Society and its Spending Policy Assets,
- the general economic conditions affecting the Society,
- the possible effects of inflation and deflation,
- the expected total return from income and appreciation of invested funds,
- the other resources of the Society,
- and the Investment Policy of the Society.

The Society has adopted investment and spending policies for the endowment to provide a reliable source of funds to support the Society's operating budget, while achieving an investment return sufficient to maintain or grow the long-term investment assets (the "Investment Portfolio") purchasing power in perpetuity. Under this policy, the Investment Portfolio shall be invested in a manner that is expected to preserve its purchasing power in real terms after spending and maximize its long-term total return with reasonable and acceptable levels of investment risk. Investment risk is defined in two ways: (i) the possibility of investments declining in value, and (ii) the expected performance volatility of the investments in the portfolio. The Investment Portfolio will comprise investments made in multiple asset categories in order to safeguard the Investment Portfolio's capital and to lower overall portfolio risk.

The performance objective is to achieve a real total annualized return greater than the combined total of the spending policy and investment expenses, on average, over a typical market cycle (generally considered to be five to ten years). Real total return shall be defined as all realized and unrealized capital changes, plus all interest, rent, dividend, and other income earned by the portfolio, adjusted for inflation.

## MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements  
December 31, 2016 and 2015

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Investment Objectives and Spending Policy (Continued)

The Society uses a spending policy in determining use of restricted endowment resources to support operations subject to donor stipulations which otherwise direct use of these funds. The amount released from the Society's endowment funds each year is based on a moving average spending policy, whereby the amount available for current spending during a fiscal year (starting on January 1) will be based on the average market value of the Spending Policy Assets for the last twelve (12) quarters as of the preceding June 30th. On an annual basis, the utilization and execution of the spending policy will be discussed with the Society's Audit and Risk Management Committee. Any changes to the spending policy itself are to be approved by the Society's Board of Directors. The spending policy rate was approved at 4.0% and 3.5% for 2016 and 2015, respectively.

#### Split-Interest Agreements

The Society is the beneficiary of various beneficial interests in perpetual trusts and split-interest planned giving arrangements. Assets under these arrangements are recorded at fair value as per Note 5, with the corresponding net assets of such based on donor stipulation. Assets under split-interest agreements are included in investments. Contributions are recognized as revenue initially at fair value based on the present value of future benefits expected to be received or in the case of gift annuities and certain other gift instruments as the difference between fair value of donated investments less the liability for amounts payable to the donor or the donor's designee.

The initially recorded fair value of these gifts is determined based on the nature of interests received which have generally represented Level 3 measurements, while the initial measurement of the related obligations for charitable gift annuities is a Level 3 measure.

Annual distributions from the perpetual trusts are reported as revenue upon receipt as distributions from outside managed trusts with the major portion of such funds being unrestricted. Annual changes to the fair value of the interests in these trusts are recognized as changes in fair value of outside managed trusts as permanently restricted.

The Society invests resources obtained in connection with charitable gift annuities and establishes a liability equal to the present value of future cash flows expected to be paid to the beneficiaries, with the difference reflected as contribution revenue. The initial amounts are recorded at fair value with subsequent adjustments made to invested assets based on fair value, while the obligations are measured based on changes in life expectancy. The Society has also included in contributions receivable the present value of the anticipated residual interest in a trust.

#### Accounting Principle Adoption

During 2016, the Society adopted the FASB's Accounting Standards Update (ASU) 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, which requires that debt issuance costs be reported in the statements of financial position as a direct reduction from the face amount of the related notes payable. The adoption of this ASU did not impact the Society's net assets, changes in net assets or cash flows for the years ended December 31, 2016 and 2015.

## MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements  
December 31, 2016 and 2015

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Unamortized Debt Issuance Costs**

Unamortized debt issuance costs are amortized to interest expense over the period the related obligation is outstanding using the straight-line method, which approximates the effective interest method.

#### **Property and Equipment**

Property and equipment are recorded at cost, including capitalized interest cost incurred during the period of asset construction and/or preparation for use, less accumulated. Expenditures for maintenance and repairs are charged to expense, whereas major betterments are capitalized as additions to property and equipment. Depreciation is provided for using the straight-line method over the estimated useful lives of these assets in periods ranging from three to forty years. Property and equipment are recorded at fair value when donated. Fair value is determined as per the fair value policies described earlier in this section. Fair value of donated property and equipment is effectively recorded using a Level 2 market approach.

Construction in progress relates to projects that are not yet in service. These assets are not depreciated until they are placed in service (see Note 7).

The Society recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which the obligation is incurred if a reasonable estimate of the fair value of the obligation can be made. As of December 31, 2016 and 2015, the Society was unable to estimate the range of legal obligation for future asset retirements for certain asbestos remediation; therefore, the Society cannot develop a reasonable estimate of their fair values. The Society will continue to assess its ability to estimate fair values at each future reporting date. Any related liability will be recognized once necessary information becomes available.

#### **Self-Insurance**

The Society self-insures for employee healthcare claims, unemployment and short-term disability on a claims made basis. The Society utilizes "stop-loss" premium based coverage for individual healthcare claims in excess of \$100,000 and for projected aggregate claims in excess of \$1,000,000. The current "stop-loss" policy period for employee healthcare is March 1, 2016 - February 28, 2017. The plan subsequently has been renewed through February 2018.

Short-term disability benefits amount to six months or less of exposure; claims in excess of six months convert to long-term disability which is covered under third-party insurance. Unemployment claims present exposure up to thirty weeks on an individual basis.

The Society accrues for claims reported but not yet paid and estimated claims incurred but not yet reported. To the extent "stop-loss" limits are exceeded during the current policy year, the Society reduces accrued amounts by the estimated insurance receivable.

#### **Pension Plan**

The Society recognizes the overfunded or underfunded status of a benefit plan as an asset or liability in its statement of financial position, and to recognize changes in that funded status in the year in which the changes occur using standard actuarial methods.

## MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements  
December 31, 2016 and 2015

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Angell Animal Medical Center Revenue**

Revenue from health and hospital services is recorded based on established charges when the service is performed.

#### **Deferred Revenue**

Charges for health and hospital services collected in advance have been included in deferred revenue in the accompanying statements of financial position, and are recognizable within one year.

#### **Bequests**

Bequests are reported as income when the Society is notified of its interest in an estate at such time that amounts can be reasonably estimated.

#### **Functional Allocation of Expenses**

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on square footage and other measures that correlate to the related function.

#### **Income Taxes**

The Society is recognized by the Internal Revenue Service (IRC) as an organization described in Section 501(c)(3) of the Internal Revenue Code (IRC), and is generally exempt from Federal and state income taxes on related income. Given the limited taxable activities of the Society, management concluded that disclosures relative to tax provisions are not necessary.

#### **Uncertain Tax Positions**

The Society accounts for the effect of any uncertain tax positions based on a “more-likely-than-not” threshold to the recognition of the tax positions being sustained based on the technical merits of the position under scrutiny by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a “cumulative probability assessment” that aggregates the estimated tax liability for all uncertain tax positions. Interest and penalties assessed, if any, are accrued as income tax expense.

The Society has identified its tax status as a tax exempt entity and its treatment of related and unrelated income as its only significant tax positions and has determined that such tax positions do not result in an uncertainty requiring recognition. The Society’s information and tax returns are subject to examination by the Federal and state jurisdictions.

## MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements  
December 31, 2016 and 2015

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates and assumptions. Significant management estimates included in the financial statements relate to the valuation of alternative investments and actuarial obligations of pension and postretirement agreements.

#### Subsequent Events

The Society has evaluated subsequent events through April 5, 2017, the date the financial statements were issued. See Note 16 for disclosure of a loan agreement entered into in February 2017.

### 3. CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following at December 31:

	<u>2016</u>	<u>2015</u>
Amounts due in:		
Less than one year	\$ 1,676,959	\$ 1,962,568
One to five years	<u>1,826,393</u>	<u>2,623,886</u>
	3,503,352	4,586,454
Less - current portion	1,676,959	1,962,568
Less - net present value discount	<u>93,589</u>	<u>157,518</u>
Net contributions receivable	<u>\$ 1,732,804</u>	<u>\$ 2,466,368</u>

Net present value discounts are computed using discount rates ranging from 3.1% to 3.6%. The Society's Board of Directors provided 15% and 18% of the contributions receivable as December 31, 2016 and 2015, respectively.

**MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS**

Notes to Financial Statements  
December 31, 2016 and 2015

**4. INVESTMENTS**

Investment returns consisted of the following for the years ended December 31:

	<b>2016</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
Investment returns:				
Realized and unrealized gains	\$ 1,348,529	\$ 1,539,972	\$ 135,698	\$ 3,024,199
Interest and dividends	319,058	363,133	33,501	715,692
Investment fees	<u>(194,550)</u>	<u>(230,134)</u>	<u>(21,079)</u>	<u>(445,763)</u>
Sub-total of investment returns	1,473,037	1,672,971	148,120	3,294,128
Investment returns appropriated:				
Unrestricted	<u>-</u>	<u>(943,905)</u>	<u>-</u>	<u>(943,905)</u>
Total investment returns, net of amounts appropriated	<u>\$ 1,473,037</u>	<u>\$ 729,066</u>	<u>\$ 148,120</u>	<u>\$ 2,350,223</u>
Investment returns appropriated	<u>\$ 943,905</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 943,905</u>
	<b>2015</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>	
Investment returns:				
Realized and unrealized losses	\$ (1,143,633)	\$ (1,592,901)	\$ (2,736,534)	
Interest and dividends	713,725	973,935	1,687,660	
Investment fees	<u>(124,486)</u>	<u>(154,442)</u>	<u>(278,928)</u>	
Sub-total of investment returns	(554,394)	(773,408)	(1,327,802)	
Investment returns appropriated:				
Unrestricted	<u>-</u>	<u>(789,480)</u>	<u>(789,480)</u>	
Total investment returns, net of amounts appropriated	<u>\$ (554,394)</u>	<u>\$ (1,562,888)</u>	<u>\$ (2,117,282)</u>	
Investment returns appropriated	<u>\$ 789,480</u>	<u>\$ -</u>	<u>\$ 789,480</u>	

**MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS**

Notes to Financial Statements  
December 31, 2016 and 2015

**5. FAIR VALUE OF FINANCIAL INSTRUMENTS/INVESTMENTS**

The valuation of the Society's instruments using the fair value hierarchy consisted of the following at December 31, 2016:

	<b>Investments Measuring Fair Value Using Net Asset Value Per Share</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Investments:					
U.S. equity	\$ 10,204,331	\$ 3,073,935	\$ -	\$ -	\$ 13,278,266
Multi-regional equity	9,352,116	4,039,136	-	-	13,391,252
Multi-strategy hedge funds	11,871,985	-	-	-	11,871,985
Cash and cash equivalents	-	9,256,697	-	-	9,256,697
Global Ex. U.S. equity	5,616,562	538,928	-	-	6,155,490
U.S. core bonds	-	-	5,429,637	-	5,429,637
U.S. government nominal bonds	-	-	4,602,292	-	4,602,292
Emerging market equity	956,086	1,954,751	-	-	2,910,837
U.S. TIPS	-	2,529,895	-	-	2,529,895
Opportunistic inflation hedging	2,271,536	-	-	-	2,271,536
Opportunistic diversification	-	1,074,575	-	-	1,074,575
Opportunistic deflation hedging	-	838,710	-	-	838,710
Private investments	241,272	-	-	-	241,272
Charitable gift annuities:					
Mutual funds:					
Equity	-	831,404	-	-	831,404
Fixed income	-	451,081	-	-	451,081
Cash and cash equivalents	-	30,839	-	-	30,839
Total investments	40,513,888	24,619,951	10,031,929	-	75,165,768
Beneficial interest in perpetual trusts	-	-	-	12,832,769	12,832,769
Total assets at fair value	<u>\$ 40,513,888</u>	<u>\$ 24,619,951</u>	<u>\$ 10,031,929</u>	<u>\$ 12,832,769</u>	<u>\$ 87,998,537</u>

**MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS**

Notes to Financial Statements  
December 31, 2016 and 2015

**5. FAIR VALUE OF FINANCIAL INSTRUMENTS/INVESTMENTS (Continued)**

The valuation of the Society's instruments using the fair value hierarchy consisted of the following at December 31, 2015:

	<b>Investments Measuring Fair Value Using Net Asset Value Per Share</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Investments:					
Cash and cash equivalents	\$ -	\$ 5,194,642	\$ -	\$ -	\$ 5,194,642
Fixed income	-	-	15,566,016	-	15,566,016
Mutual funds:					
Equity	-	12,251,594	-	-	12,251,594
Fixed income	-	11,953,828	-	-	11,953,828
Multi-strategy	7,952,001	9,058,129	-	-	17,010,130
Hedge funds	2,774,932	-	-	-	2,774,932
Charitable gift annuities:					
Mutual funds:					
Equity	-	647,123	-	-	647,123
Fixed income	-	398,054	-	-	398,054
Cash and cash equivalents	-	<u>30,734</u>	-	-	<u>30,734</u>
Total investments	10,726,933	39,534,104	15,566,016	-	65,827,053
Beneficial interest in perpetual trust	-	-	-	<u>12,403,551</u>	<u>12,403,551</u>
Total assets at fair value	<u>\$ 10,726,933</u>	<u>\$ 39,534,104</u>	<u>\$ 15,566,016</u>	<u>\$ 12,403,551</u>	<u>\$ 78,230,604</u>

In 2016, the Society updated its Investment Policy Statement (IPS) and hired an investment advisor to manage its portfolio resulting in a change in portfolio asset allocations from 2015 to 2016.

## MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements  
December 31, 2016 and 2015

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### 5. FAIR VALUE OF FINANCIAL INSTRUMENTS/INVESTMENTS (Continued)

The fair value of the beneficial interest in perpetual trusts is based on the Society's percent interest of the trust's assets. Due to the trust provisions, the Society does not have the ability to redeem the investments at net asset value per share nor will the Society ever receive the trust corpus. Therefore, the assets have been recorded as Level 3. Investment securities that underlie the trusts have readily determinable fair values.

Certain funds, as described above, are reported at NAV per share. Management has no intentions or plans to liquidate any NAV practical expedient investments at other than NAV per share. As of December 31, 2016, the Society is committed to contribute an additional \$2,042,496 in capital to partnerships in which the Society is a limited partner. Certain investments in partnerships cannot be liquidated for stated periods, which range from eight to ten years from the investment date. All remaining investments are fully liquid.

The changes in assets measured at fair value for which the Society has used Level 3 inputs to determine fair value of beneficial interest in perpetual trust are as follows:

	<u>2016</u>	<u>2015</u>
Beginning balance	\$ 12,403,551	\$ 13,674,775
Unrealized gain (loss)	<u>429,218</u>	<u>(1,271,224)</u>
Ending balance	<u>\$ 12,832,769</u>	<u>\$ 12,403,551</u>

Management has determined that fair value approximates carrying value for cash and cash equivalents, accounts receivable, certain contributions receivable, obligations under certain charitable gift annuities, and accounts payable, given the short-term nature of these instruments. Certain portions of contributions receivable and obligations under charitable gift annuities have longer terms and management did not feel it was practical to assess the fair value. In addition, management has not assessed the fair value of its debt instruments, as some of these instruments have special features that make them inherently costly or impractical to assess fair values. Management did not believe the cost of obtaining such information justified the benefit of such data. Different assumptions could significantly affect these estimated fair values. Accordingly, the net realizable values could be materially different from the estimates. In addition, the estimates are only indicative of the value of the individual financial instruments and should not be considered an indication of the fair value of the Society.

### 6. DERIVATIVE INSTRUMENTS

The Society entered into an interest rate swap to manage its exposure to interest rate risk associated with the Society's variable rate debt that expired in 2015 (see Note 9). The swap was recorded at fair value in the accompanying statements of financial position as part of the accrued expenses and other liabilities, with changes in fair value being reflected as non-operating items in the accompanying statements of activities and changes in net assets. Gains associated with the swap were \$90,736 for 2015. The interest rate swap was cross defaulted with the letter of credit. The Society does not enter into derivative instruments for trading or speculative purposes.

**MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS**Notes to Financial Statements  
December 31, 2016 and 2015

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**7. PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at December 31:

	<u>2016</u>	<u>2015</u>
Land	\$ 285,510	\$ 285,510
Land improvements	255,291	255,291
Buildings	36,612,194	36,612,194
Building improvements	2,827,355	1,520,162
Leasehold improvements	51,769	47,163
Furniture and fixtures	532,983	532,983
Equipment	9,635,960	9,301,186
Major medical equipment	5,450,024	4,988,684
Construction in progress	<u>5,661,816</u>	<u>-</u>
	61,312,902	53,543,173
Less - accumulated depreciation	<u>26,918,614</u>	<u>24,740,377</u>
Net property and equipment	<u>\$ 34,394,288</u>	<u>\$ 28,802,796</u>

Construction in progress at December 31, 2016, consists of energy efficiency initiatives, construction of a new shelter at the Society's animal care and adoption center located in Centerville, Massachusetts, and other renovation projects. All of projects included in construction in progress are expected to be completed during the year ending December 31, 2017.

**8. PENSION PLAN AND POSTRETIREMENT HEALTH BENEFITS**

Pension and postretirement benefit liabilities are as follows at December 31:

	<u>2016</u>	<u>2015</u>
Defined benefit plan	\$ 17,796,814	\$ 17,075,646
Postretirement health benefits	3,710,393	3,296,580
Supplemental employee retirement 457(b) Plan	<u>468,093</u> <u>222,881</u>	<u>579,859</u> <u>137,505</u>
	22,198,181	21,089,590
Less - current portion	<u>649,642</u>	<u>644,738</u>
	<u>\$ 21,548,539</u>	<u>\$ 20,444,852</u>

**MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS**

Notes to Financial Statements  
December 31, 2016 and 2015

**8. PENSION PLAN AND POSTRETIREMENT HEALTH BENEFITS (Continued)**

**Pension Plan**

The Society has a defined benefit plan (the Plan) that has been fully frozen for all participants. The following table sets forth the Plan's funded status and amounts recognized at the Plan's year end of December 31:

	<u>2016</u>	<u>2015</u>
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 60,221,894	\$ 63,201,942
Service cost	-	72,000
Interest cost	2,588,560	2,486,583
Unrecognized effect of change in actuarial assumptions	1,387,499	(3,606,008)
Expenses paid	-	(10,159)
Benefits paid *	<u>(4,391,419)</u>	<u>(1,922,464)</u>
Projected benefit obligation at end of year	<u>59,806,534</u>	<u>60,221,894</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	43,146,248	45,262,720
Actual return on plan assets	2,792,391	(446,349)
Employer contributions	462,500	262,500
Expenses paid	-	(10,159)
Benefits paid *	<u>(4,391,419)</u>	<u>(1,922,464)</u>
Fair value of plan assets at end of year	<u>42,009,720</u>	<u>43,146,248</u>
Funded status at end of year	<u>\$ (17,796,814)</u>	<u>\$ (17,075,646)</u>
Net periodic pension cost included the following components:		
Service cost	\$ -	\$ 72,000
Interest cost	2,588,560	2,486,583
Expected return on assets	(3,058,928)	(3,201,702)
Amortization of actuarial loss/gain	<u>1,151,382</u>	<u>1,190,872</u>
Net periodic pension cost	<u>\$ 681,014</u>	<u>\$ 547,753</u>
Projected benefit obligation	<u>\$ 59,806,534</u>	<u>\$ 60,221,894</u>
Accumulated benefit obligation	<u>\$ 59,806,534</u>	<u>\$ 60,221,894</u>

\*During 2016, certain eligible participants were permitted to voluntarily elect to receive lump-sum payments from the Plan. Eligible participants had the option to roll-over the lump-sum payment to another qualified plan, receive cash, or purchase an annuity. The total amount of lump-sum payments made from the Plan in 2016 totaled approximately \$2,382,000. The lump-sum payments did not require any additional contribution to the Plan from the Society.

## MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements  
December 31, 2016 and 2015

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### 8. PENSION PLAN AND POSTRETIREMENT HEALTH BENEFITS (Continued)

#### Pension Plan (Continued)

The Plan includes certain benefits for an outside employer that are charged to the other organization by the service provider. Included in the current year employer contributions noted on page 18 was \$5,387 which was contributed by the other organization.

The following pension benefit payments, which reflect expected future service, as appropriate, are expected to be paid to the Plan for years beginning on January 1 of the year indicated:

2017	\$ 2,471,000
2018	2,533,000
2019	2,679,000
2020	2,856,000
2021	2,889,000
Thereafter	<u>15,746,000</u>
	<u>\$ 29,174,000</u>

The Society expects to contribute approximately \$350,000 to the Plan in the fiscal year beginning January 1, 2017, for the Plan year ending December 31, 2016.

Assumptions used to determine benefit obligation and net periodic benefit cost are as follows:

	<u>2016</u>	<u>2015</u>
Long-term rate of investment return	7.25%	7.25%
Discount rate	4.14%	4.34%

The Society considers various factors in estimating the expected long-term rate of investment return. Among the factors considered are historical long-term investment returns, the current and expected allocation of plan investments, input from actuaries and investment consultants, and long-term inflation assumptions.

The Plan's assets are invested through a financial institution under a group annuity contract. While the Plan does not own individual positions in the investments, the estimated value of the funds underlying the pension assets are as follows at December 31:

	<u>2016</u>	<u>2015</u>
Vanguard 500 Index	\$ 13,758,687	\$ 13,411,563
SAGIC Diversified Bond II	12,029,797	12,846,473
Premier Babson Capital High Yield Bond	4,281,382	4,082,227
American Funds Europacific Growth	3,922,537	4,287,160
Blackrock Health Sciences Opportunities	3,585,109	4,243,523
Victory Sycamore Established Value	2,364,768	2,135,336
Select Mid Cap Growth Equity II	<u>2,067,440</u>	<u>2,139,966</u>
	<u>\$ 42,009,720</u>	<u>\$ 43,146,248</u>

**MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS**

Notes to Financial Statements  
December 31, 2016 and 2015

**8. PENSION PLAN AND POSTRETIREMENT HEALTH BENEFITS (Continued)**

**Pension Plan - Fair Value Measurements**

The target allocation mix for the group annuity contract calls for an equity-based investment deployment target of 60% of total portfolio assets. The remainder of the portfolio is allocated to fixed income securities with a target range of 40%. The overall investment objective is to diversify investments across a spectrum of investment types and styles.

The fair values of the Society's pension assets at December 31, 2016 and 2015, by asset category, are as follows:

<b>2016</b>					
<u>Asset Category</u>	<u>Investments Measuring Fair Value Using Net Asset Value Per Share</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Group annuity contract	\$ 42,009,720	\$ -	\$ -	\$ -	\$ 42,009,720
<b>2015</b>					
<u>Asset Category</u>	<u>Investments Measuring Fair Value Using Net Asset Value Per Share</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Group annuity contract	\$ 43,146,248	\$ -	\$ -	\$ -	\$ 43,146,248

Certain funds, as described above, are reported at NAV per share. Management has no intentions or plans to liquidate any NAV practical expedient investments at other than NAV per share.

**Postretirement Health Benefits**

While the Society no longer provides postretirement health benefits to employees hired after January 1, 2003, there is a diminishing group of employees that are grandfathered and can potentially retain benefits under the program in place prior to 2003. For this remaining group of employees, the eligibility requirements are as follows: date of hire prior to 2003, employed by the Society for fifteen years, retirement from the Society at the attainment of or after age 55, and participation in the Medicare program upon reaching the age of 65. Upon reaching Medicare eligibility, this plan acts as a supplemental insurance plan to Medicare up to a benefit cap of \$350 per month. All eligibility requirements must be met in order to qualify for the plan.

**MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS**Notes to Financial Statements  
December 31, 2016 and 2015**8. PENSION PLAN AND POSTRETIREMENT HEALTH BENEFITS (Continued)****Postretirement Health Benefits (Continued)**

The following table sets forth the Postretirement Plan's funded status and amounts recognized as of December 31 (the most recent actuarial valuation date):

	<u>2016</u>	<u>2015</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 3,296,580	\$ 3,670,044
Service cost	63,467	75,398
Interest cost	139,335	143,807
Unrecognized effect of change in actuarial assumptions	358,368	(470,499)
Benefits paid	<u>(147,357)</u>	<u>(122,170)</u>
Accumulated postretirement benefit obligation	<u>\$ 3,710,393</u>	<u>\$ 3,296,580</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ -	\$ -
Employer contributions	147,357	122,170
Benefits paid	<u>(147,357)</u>	<u>(122,170)</u>
Fair value of plan assets at end of year	<u>\$ -</u>	<u>\$ -</u>
Net periodic benefit cost included the following components:		
Service cost	\$ 63,467	\$ 75,398
Interest cost	139,335	143,807
Amortization of net loss/(gain)	<u>-</u>	<u>18,543</u>
Net periodic benefit cost	<u>\$ 202,802</u>	<u>\$ 237,748</u>

The discount rate used to determine the benefit obligation as of December 31, 2016 and 2015, was 4.14% and 4.34%, respectively. In measuring the projected postretirement benefit obligations as of December 31, 2016 and 2015, the Society assumed a health care cost trend rate of 7%, trending downward to 3.8%. A 1% increase in the assumed health care cost trend rate for each year would increase the accumulated postretirement benefit obligation as of December 31, 2016, and net postretirement health care cost by \$3,588 (this assumption is subject to the benefit cap). As the Society has not set aside any assets to fund the postretirement benefit obligations, it will pay the postretirement benefit obligations from current operations as they come due.

## MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements  
December 31, 2016 and 2015

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### 8. PENSION PLAN AND POSTRETIREMENT HEALTH BENEFITS (Continued)

#### Postretirement Health Benefits (Continued)

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid for years beginning on January 1 of the year indicated:

2017	\$ 207,000
2018	209,000
2019	218,000
2020	222,000
2021	224,000
Thereafter	<u>1,127,000</u>
	<u>\$ 2,207,000</u>

#### Supplemental Employee Retirement Plan

The Society provides supplemental pension benefits to certain key former officers and executives. These benefits are based on individually negotiated contracts, primarily consisting of fixed annuity payments. The Society accrues the actuarial present value of these benefits using a Group Annuity Mortality Table and an assumed discount rate.

#### Defined Contribution Plan

The Society offers a qualified tax-deferred savings plan under IRC Section 403(b) for eligible employees. The Society matches the first 3.5% of employee contributions with the option for added employee deferrals subject to IRS limits. The match is on a graduated vesting period over three years; employee is 100% vested upon completion of three years of service. For the year ending December 31, 2017, the Society will increase the matching provision to 4% of employee contributions.

Expenses under this plan, including costs of operating the plan, were \$879,460 and \$828,446 for the years ended December 31, 2016 and 2015, respectively.

#### Section 457(b) Deferred Compensation Plan

The Society has an executive retirement plan that is designed in accordance with Section 457(b) of the IRC. Participants are designated by the Board of Directors. Participants may elect to defer a portion of their compensation up to the maximum amount permitted under Section 457 of the IRC for each plan year. The employer may, in its sole discretion, contribute to the plan on behalf of any participant. The participants are responsible for making investment selections within their designated accounts; however, the accounts remain the assets of the Society until such time as the participant withdraws the funds in accordance with the plan's provisions. Assets held for the plan were \$222,881 and \$137,505 in 2016 and 2015, respectively, and are reported in investments. A corresponding liability to plan participants is reported in accrued pension, postretirement and other retirement agreements.

**MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS**

Notes to Financial Statements  
December 31, 2016 and 2015

**9. BONDS PAYABLE**

Bonds payable consists of the following at December 31:

	<u>2016</u>	<u>2015</u>
\$11,700,000 in tax-exempt variable rate revenue bonds for various capital outlays. The interest rate is determined by a bond remarketing agent and cannot exceed a rate of 12% per annum. Interest on the bonds is currently reset weekly (for an actual rate of .72% and .01% at December 31, 2016 and 2015, respectively) and is payable monthly. The bonds are payable in annual installments, with a final payment on August 1, 2027, however, given prepayments, the bonds will be retired prior to that date. Bonds are secured by an irrevocable letter of credit from a bank in the amount of \$2,395,691. The letter of credit expires on August 1, 2021.	\$ 2,360,000	\$ 2,815,000
\$7,000,000 in tax-exempt revenue bonds to finance multiple energy efficiency capital projects at its facilities in Boston. The interest rate is fixed at 2.62% and is payable monthly. The bonds are payable in monthly installments (commencing October 2017), with a final payment on June 8, 2026. Bonds are secured by a first priority interest in the assets of the Society.	<u>7,000,000</u>	<u>-</u>
	9,360,000	2,815,000
Less - unamortized debt issuance costs	(80,461)	-
Less - current portion	<u>(654,400)</u>	<u>(455,000)</u>
	<u>\$ 8,625,139</u>	<u>\$ 2,360,000</u>

The Society has incurred debt issuance costs related to the bond payable borrowings. These costs are being expensed over ten years, which is the life of the bond payable associated with these costs.

Future minimum principal payments relating to bonds payable over the next five years are as follows:

2017	\$ 654,400
2018	1,217,700
2019	1,263,100
2010	1,303,500
2021	1,114,200
Thereafter	<u>3,807,100</u>
	<u>\$ 9,360,000</u>

The bonds are subject to financial covenants as defined in the agreements. The Society was in compliance with these covenants at December 31, 2016 and 2015.

Interest expense, including letter of credit and amortization of debt issuance costs, totaled \$61,641 and \$158,178 for the years ended December 31, 2016 and 2015, respectively. Interest capitalized at December 31, 2016, was \$104,946. There was no capitalized interest for the year ended December 31, 2015.

**MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS**

Notes to Financial Statements  
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**10. NET ASSETS AND ENDOWMENT MATTERS**

The following represents required disclosure relative to the composition and activities of endowment and funds functioning as endowment for the years ended December 31, 2016 and 2015:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment assets, beginning of year	\$ 5,688,033	\$ 26,532,737	\$ 32,220,770
Gifts and additions	-	1,906,241	1,906,241
Releases from restrictions	(4,149)	(5,815)	(9,964)
Investment returns:			
Interest and dividends, net of investment expenses	549,182	-	549,182
Net realized and unrealized losses	(1,054,200)	-	(1,054,200)
Total investment returns	(505,018)	-	(505,018)
Change in investments	(505,018)	1,906,241	1,401,223
Investment income appropriated:			
Total return spending unrestricted	(789,480)	-	(789,480)
Endowment assets, December 31, 2015	4,389,386	28,433,163	32,822,549
Gifts and additions	-	1,368,313	1,368,313
Releases from restrictions	(2,961)	-	(2,961)
Investment returns:			
Interest and dividends, net of investment expenses	98,002	12,422	110,424
Net realized and unrealized gains	1,139,934	135,698	1,275,632
Total investment returns	1,237,936	148,120	1,386,056
Change in investments	1,237,936	1,516,433	2,754,369
Investment income appropriated:			
Total return spending unrestricted	(943,905)	-	(943,905)
Endowment assets, December 31, 2016	\$ 4,680,456	\$ 29,949,596	\$ 34,630,052

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**11. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS**

Temporarily restricted net assets were available for the following purposes at December 31:

	<u>2015</u>	<u>New Gifts</u>	<u>Investment Returns, net of Amounts Appropriated</u>	<u>Releases from Restrictions</u>	<u>2016</u>
Program services	\$ 2,687,538	\$ 781,818	\$ 260,862	\$ (867,942)	\$ 2,862,276
Acquisition of property and equipment	5,637,976	950,526	174,173	(1,755,010)	5,007,665
Accumulated investment earnings appreciation of permanently restricted assets	<u>4,389,386</u>	<u>-</u>	<u>294,031</u>	<u>(2,961)</u>	<u>4,680,456</u>
	<u>\$ 12,714,900</u>	<u>\$ 1,732,344</u>	<u>\$ 729,066</u>	<u>\$ (2,625,913)</u>	<u>\$ 12,550,397</u>
	<u>2014</u>	<u>New Gifts</u>	<u>Investment Returns, net of Amounts Appropriated</u>	<u>Releases from Restrictions</u>	<u>2015</u>
Program services	\$ 3,198,302	\$ 512,651	\$ (194,685)	\$ (828,730)	\$ 2,687,538
Acquisition of property and equipment	5,883,319	2,860,411	(73,705)	(3,032,049)	5,637,976
Accumulated investment earnings appreciation of permanently restricted assets	<u>5,688,033</u>	<u>-</u>	<u>(1,294,498)</u>	<u>(4,149)</u>	<u>4,389,386</u>
	<u>\$ 14,769,654</u>	<u>\$ 3,373,062</u>	<u>\$ (1,562,888)</u>	<u>\$ (3,864,928)</u>	<u>\$ 12,714,900</u>

**MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS**

Notes to Financial Statements  
December 31, 2016 and 2015

**11. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS (Continued)**

Permanently restricted net assets have been restricted by the donors to be maintained by the Society in perpetuity. The income from such is expandable to support program services of the Society. Permanently restricted net assets consisted of the following at December 31:

<u>Fund Name</u>	<u>Restriction</u>	<u>2016</u>	<u>2015</u>
Beneficial Interest in Perpetual Trusts	Total return is unrestricted for various programs and distributions are at the discretion of third-party trustees	\$ 12,832,769	\$ 12,403,551
Frances Rust O'Mara Fund	1/2 of the total return is to be used to prevent cruelty to animals and improve their quality of life	6,523,689	6,375,569
MSPCA General Fund	Total return used for general operations	5,991,671	5,981,671
Angell Memorial Hospital General Fund	Total return to support the Angell operations	4,947,606	4,828,513
Cape Cod Shelter Fund	Total return to be used in the Cape Cod District	717,471	717,471
Edward Cox Animal Hall of Fame	Total return to fund expenses of Edward H. Cox Award and remainder for general purposes of the Society	500,000	500,000
Everett S. Jodrey Endowment Fund	Total return to support the Law Enforcement operations	1,026,903	1,026,903
Pet Care Assistance Fund	Total return to be used for the pet care assistance program	2,904,740	2,194,440
Other	Total return supports various programs and locations of the Society	<u>7,337,516</u>	<u>6,808,596</u>
		<u>\$ 42,782,365</u>	<u>\$ 40,836,714</u>

The Society holds approximately three million dollars in a permanent endowment which the donor has stipulated can be released if "absolutely necessary for the preservation" of Angell, which the Society currently believes is remote. Accordingly, such amounts have been presented as permanently restricted.

During the year ended December 31, 2015, the O'Mara Fund experienced a net loss and, therefore, there were no earnings allocated to permanently restricted net assets or any returns appropriated for operations. During the year ended December 31, 2016, the O'Mara Fund experienced a net gain of \$148,120, which offset the cumulative loss experienced in 2015; however, no returns were appropriated for operations as the excess return was not substantial.

## MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements  
December 31, 2016 and 2015

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### 12. ALLOCATION OF JOINT COSTS

The Society incurred joint costs of \$821,681 and \$806,696 for the years ended December 31, 2016 and 2015, respectively, for informational materials and activities that included fundraising appeals. Joint costs were allocated as follows at December 31:

	<u>2016</u>	<u>2015</u>
Publications, communications and public program expenses	\$ 358,530	\$ 353,437
Development, membership, annual and planned giving expenses	<u>463,151</u>	<u>453,259</u>
Total joint costs	<u>\$ 821,681</u>	<u>\$ 806,696</u>

### 13. RELATED PARTY TRANSACTIONS

The Society provides certain accounting, fundraising, management, and investment services to the American Fondouk Maintenance Committee, Inc. (The Fondouk), a not-for-profit organization that provides services to working animals in Morocco where proper treatment is not otherwise readily available, and charges The Fondouk fees for these services. The Society acts as a fiscal agent on behalf of The Fondouk for certain fundraising and administrative activities. The Fondouk is considered a related party as The Fondouk shares certain Board members with the Society. The Society had the following transactions on behalf of The Fondouk during the years ended December 31:

	<u>2016</u>	<u>2015</u>
Contributions and grants received	\$ 263,000	\$ 1,423,000
Fundraising and administrative costs paid	\$ 182,000	\$ 201,000
Fees charged	\$ 109,000	\$ 107,000
Funds transferred	\$ -	\$ 1,983,000

The amounts due to Fondouk are included in due to related society in the accompanying statements of financial position. Amounts due at December 31, 2016 and 2015, were \$44,463 and \$72,591, respectively, and do not include interest.

### 14. COMMITMENTS

#### Facilities

The Society conducts a portion of its operations and programs in a leased facility under an amended and extended operating lease expiring on December 31, 2027. Effective January 1, 2018, the amended lease agreement calls for a base annual rent of \$300,000, with subsequent annual adjustments for the Consumer Price Index (CPI) in the Boston, Brockton, and Nashua area as published in the US Department of Labor Statistics commencing in 2019. Included in occupancy expenses for the years ended December 31, 2016 and 2015, was rental expense of \$218,064 and \$211,059, respectively, under the terms of the original lease agreement.

#### Equipment Rental

The Society leases various copiers, computer equipment, and other medical equipment under operating leases expiring at various dates through 2020. Equipment and other rental expense for the years ended December 31, 2016 and 2015, totaled \$183,350 and \$194,279, respectively.

## MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements  
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### 14. COMMITMENTS (Continued)

#### Equipment Rental (Continued)

Future minimum rental payments over the next five years and in the aggregate under non-cancelable operating leases having remaining terms in excess of one year as of December 31, 2016, are as follows:

2017	\$ 390,264
2018	394,450
2019	330,360
2020	306,992
2021	300,000
Thereafter	<u>1,800,000</u>
	<u>\$ 3,522,066</u>

#### Construction Contracts

The Society is in the process of certain energy efficiency initiatives and renovation projects. At December 31, 2016, the unbilled portion on the related contracts totaled approximately \$1,808,000. Work on the contracts is expected to be completed during the year ending December 31, 2017.

### 15. CONTINGENCIES

In conducting its activities, the Society, from time-to-time, is subject of various legal claims. Management believes that the ultimate resolution of such legal claims will not have a material effect on the financial statements of the Society.

### 16. SUBSEQUENT EVENT

In February 2017, the Society entered into a \$2,300,000 term loan agreement with a bank for the purpose for financing the acquisition, transportation and commissioning costs related to the installation of a new linear accelerator machine to be used by the veterinary hospital at the Society's Boston facility. The term loan interest rate is fixed at 3.79% and is payable monthly. Principal on the term loan is payable in monthly installments (commencing June 2017), with escalating amounts ranging from \$17,000 to \$43,000. The term loan matures in February 2024 and is secured by a first priority interest in the assets of the Society along with the \$7 million bond disclosed in Note 9.

### 17. RECLASSIFICATIONS

Certain amounts in the December 31, 2015 financial statements have been reclassified to conform to the December 31, 2016 presentation. The reclassifications had no impact on total assets, total revenues or changes in net assets.