



Kindness and Care for Animals®

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

**FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Contents
December 31, 2017 and 2016

	<u>Pages</u>
Independent Auditor’s Report	1
Financial Statements:	
Statements of Financial Position	2
Statements of Activities and Changes in Net Assets	3
Statements of Cash Flows	4
Notes to Financial Statements	5 - 30

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 statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and changes in net assets and cash flows for the years 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

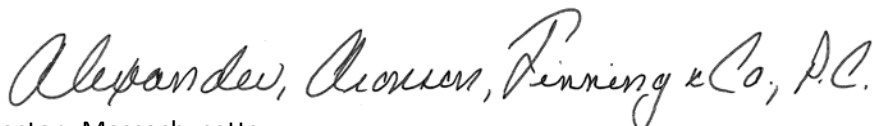
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about 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, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Boston, Massachusetts
April 18, 2018

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Statements of Financial Position
December 31, 2017 and 2016

Assets	2017	2016
Current Assets:		
Cash and cash equivalents	\$ 2,592,717	\$ 2,591,477
Accounts receivable from hospital operations, net	223,462	262,117
Current portion of contributions receivable	1,144,150	1,676,959
Prepaid expenses and other assets	<u>2,115,670</u>	<u>2,038,071</u>
Total current assets	6,075,999	6,568,624
Contributions Receivable, net of current portion and discount	1,244,264	1,732,804
Investments	82,870,814	75,165,768
Beneficial Interest in Perpetual Trusts	14,265,047	12,832,769
Property and Equipment, net	<u>39,833,181</u>	<u>34,394,288</u>
Total assets	<u>\$ 144,289,305</u>	<u>\$ 130,694,253</u>
Liabilities and Net Assets		
Current Liabilities:		
Current portion of bonds and note payable	\$ 1,346,539	\$ 654,400
Current portion of accrued pension, postretirement and other retirement agreements	1,208,868	649,642
Current portion of charitable gift annuity liability	92,434	85,120
Accounts payable, accrued expenses and other liabilities	2,151,408	2,529,377
Accrued salaries, vacation and other benefits	2,697,264	2,234,331
Deferred revenue	170,451	161,469
Due to related society	<u>112,323</u>	<u>44,463</u>
Total current liabilities	7,779,287	6,358,802
Accrued Pension, Postretirement and Other Retirement Agreements, net of current portion	20,007,248	21,548,539
Charitable Gift Annuity Liability, net of current portion	753,125	775,636
Bonds and Note Payable, net of current portion and unamortized debt issuance costs	<u>8,463,073</u>	<u>8,625,139</u>
Total liabilities	<u>37,002,733</u>	<u>37,308,116</u>
Net Assets:		
Unrestricted	46,232,853	38,053,375
Temporarily restricted	15,398,866	12,550,397
Permanently restricted	<u>45,654,853</u>	<u>42,782,365</u>
Total net assets	<u>107,286,572</u>	<u>93,386,137</u>
Total liabilities and net assets	<u>\$ 144,289,305</u>	<u>\$ 130,694,253</u>

The accompanying notes are an integral part of these statements.

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Statements of Activities and Changes in Net Assets
For the Years Ended December 31, 2017 and 2016

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Revenue:								
Revenue from health and hospital services	\$ 46,116,127	\$ -	\$ -	\$ 46,116,127	\$ 43,333,715	\$ -	\$ -	\$ 43,333,715
Annual giving, hospital and adoption center donations	10,505,531	722,512	-	11,228,043	9,584,544	762,001	-	10,346,545
Other income	1,768,236	-	-	1,768,236	1,547,500	-	-	1,547,500
Investment returns appropriated for operations	970,685	-	-	970,685	943,905	-	-	943,905
Distributions from outside managed trusts	621,339	8,731	-	630,070	623,400	8,731	-	632,131
Investment returns appropriated - O'Mara	-	505,603	-	505,603	-	-	-	-
Net assets released from program restrictions	1,217,297	(1,217,297)	-	-	870,903	(870,903)	-	-
Total operating revenue	61,199,215	19,549	-	61,218,764	56,903,967	(100,171)	-	56,803,796
Operating Expenses:								
Program:								
Health and hospital services	46,603,855	-	-	46,603,855	43,663,310	-	-	43,663,310
Humane services, adoption centers, animal advocacy legislative affairs and humane education	8,919,735	-	-	8,919,735	7,772,954	-	-	7,772,954
Publications, communications and public relations	1,097,621	-	-	1,097,621	1,048,005	-	-	1,048,005
Total program expenses	56,621,211	-	-	56,621,211	52,484,269	-	-	52,484,269
Development, membership, annual and planned giving expenses	1,950,630	-	-	1,950,630	1,883,478	-	-	1,883,478
General administration and support expenses	4,703,211	-	-	4,703,211	4,663,455	-	-	4,663,455
Total operating expenses	63,275,052	-	-	63,275,052	59,031,202	-	-	59,031,202
Changes in net assets from operations	(2,075,837)	19,549	-	(2,056,288)	(2,127,235)	(100,171)	-	(2,227,406)
Non-Operating Activities:								
Investment returns, net of amounts appropriated	4,955,292	4,001,736	501,010	9,458,038	1,473,037	729,066	148,120	2,350,223
Bequests	3,744,318	-	42,474	3,786,792	5,515,704	-	-	5,515,704
Capital campaign contributions	-	1,083,036	747,825	1,830,861	-	961,612	1,274,988	2,236,600
Change in fair value of outside managed trusts	-	-	1,432,278	1,432,278	-	-	429,218	429,218
Current year impact of change in pension obligations	798,037	-	-	798,037	(991,188)	-	-	(991,188)
Endowment contributions	-	-	148,901	148,901	-	-	93,325	93,325
Pension plan and postretirement benefits normal costs	(1,210,100)	-	-	(1,210,100)	(1,132,225)	-	-	(1,132,225)
Capital campaign fundraising expenses	(288,084)	-	-	(288,084)	(463,882)	-	-	(463,882)
Net assets released from capital campaign restriction	2,255,852	(2,255,852)	-	-	1,755,010	(1,755,010)	-	-
Total non-operating activities	10,255,315	2,828,920	2,872,488	15,956,723	6,156,456	(64,332)	1,945,651	8,037,775
Changes in net assets	8,179,478	2,848,469	2,872,488	13,900,435	4,029,221	(164,503)	1,945,651	5,810,369
Net Assets:								
Beginning of year	38,053,375	12,550,397	42,782,365	93,386,137	34,024,154	12,714,900	40,836,714	87,575,768
End of year	\$ 46,232,853	\$ 15,398,866	\$ 45,654,853	\$ 107,286,572	\$ 38,053,375	\$ 12,550,397	\$ 42,782,365	\$ 93,386,137

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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ 13,900,435	\$ 5,810,369
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	2,275,480	2,243,866
Interest - amortization	10,345	4,984
Realized and unrealized gains on investments	(10,930,902)	(3,024,199)
Change in fair value of beneficial interest in perpetual trusts	(1,432,278)	(429,218)
Contributions restricted for long-term purposes	(1,979,762)	(2,329,925)
Donated debt issuance costs	-	(20,745)
Changes in operating assets and liabilities:		
Accounts receivable from hospital operations, net	38,655	(53,215)
Contributions receivable	1,021,349	1,019,173
Prepaid expenses and other assets	(77,599)	(507,837)
Accrued pension, postretirement and other retirement agreements	(982,065)	1,108,591
Charitable gift annuity liability	(15,197)	141,527
Accounts payable, accrued expenses and other liabilities	(1,138,665)	(482,484)
Accrued salaries, vacation and other benefits	462,933	372,008
Deferred revenue	8,982	(80,095)
Due to related society	67,860	(28,128)
	<u>1,229,571</u>	<u>3,744,672</u>
Net cash provided by operating activities		
Cash Flows from Investing Activities:		
Cash paid for property and equipment	(6,953,677)	(6,649,634)
Purchase of investments	(14,101,582)	(85,133,113)
Sales of investments	17,327,438	78,818,598
	<u>(3,727,821)</u>	<u>(12,964,149)</u>
Net cash used in investing activities		
Cash Flows from Financing Activities:		
Payments on bonds and note payable	(747,296)	(455,000)
Redemption of bond payable	(1,018,576)	-
Cash paid for debt issuance costs	(14,400)	-
Proceeds from bonds and note payable	2,300,000	6,935,300
Contributions restricted for long-term purposes	1,979,762	2,329,925
	<u>2,499,490</u>	<u>8,810,225</u>
Net cash provided by financing activities		
Net Change in Cash and Cash Equivalents	1,240	(409,252)
Cash and Cash Equivalents:		
Beginning of year	<u>2,591,477</u>	<u>3,000,729</u>
End of year	<u>\$ 2,592,717</u>	<u>\$ 2,591,477</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest, net of capitalized interest	<u>\$ 164,852</u>	<u>\$ 49,923</u>
Debt issuance costs financed through note payable	<u>\$ -</u>	<u>\$ 64,700</u>
Property and equipment financed with accounts payable	<u>\$ 760,696</u>	<u>\$ 1,185,726</u>
Reissuance of bond payable	<u>\$ 5,981,424</u>	<u>\$ -</u>

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2017 and 2016

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 (the Society or MSPCA-Angell). 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 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.

One of the first humane organizations in America—founded in 1868—the Society has seen vast changes in American culture, the environment, and the roles of animals in families. The MSPCA–Angell has helped enact the laws and set the standards that have fundamentally shaped the sense of kindness and compassion for animals—and for one another. Today the MSPCA–Angell continues to rescue, shelter, protect, heal, and advocate for many thousands of animals every year in our adoption centers and hospitals, and via our successful programs. The Society also provides emergency assistance and strategic-planning support for animal protection groups across the country and around the globe. Through the Society’s legislative work, humane-education efforts, and community-based assistance initiatives, lasting change is created for animals and people. The MSPCA–Angell, an independent nonprofit, receives donations not only from Massachusetts, but from all over the United States and more than 25 foreign countries. More than 1,500 volunteers faithfully provided their support in 2017.

More than 82,000 sick and injured animals received treatment last year at Angell Animal Medical Center (Angell) in Boston, at the emergency/critical care facility in Waltham, and at the low-income pet clinic and veterinary technician training program in Westford. Pet owners who cannot afford routine or emergency care for their companion animals may apply to the Pet Care Assistance Fund for financial aid. As a charitable organization, the MSPCA–Angell provides medical care for abused animals and homeless animals, as well as animals whose owners need financial assistance in order to meet their animals’ medical needs. In 2017, the MSPCA–Angell spent approximately \$2,980,000 on those animals needing special support.

The largest facility, Angell Animal Medical Center in Boston, founded in 1915, is a comprehensive specialty hospital serving companion animals. This year there were 80 veterinarians on staff. Angell is a teaching hospital; veterinarians from all over the country compete for the intern and resident positions that complete the staff roster. In 2017, an endowed position, Veterinary Social Worker, was newly created. Pet owners and hospital staff are now able to take advantage of the emotional support they need as they deal with issues like making difficult decisions, the loss of a pet, and caring for oneself. A position like this is new in the field of social work, and fits precisely into Angell’s cutting-edge profile.

Dedicated staff members throughout the state of Massachusetts care directly for the thousands of homeless animals that come to our adoption centers each year, including the farm animals and horses cared for at the MSPCA–Angell’s large-animal adoption center at Nevins Farm in Methuen. Adoption centers for small animals are located in Boston, Methuen, and Centerville. The adoption center staff members work diligently to find creative ways to make animals available to homes that might not otherwise be able to make a donation as part of their adoption. The implementation of progressive, innovative spay/neuter programs has facilitated a significant decline in the number of kittens and adult cats coming into the centers.

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2017 and 2016

1. OPERATIONS (Continued)

In 2017, more than 9,500 dogs, cats, and small animals were sterilized. Continual thought and strategic planning go into realizing other ways to help reduce the homeless animal population and educate the public about kindness and care for animals. Hillside Acre Animal Cemetery, located at Nevins Farm, offers a lasting tribute to beloved animal companions, bringing support and peace of mind to bereaved pet owners.

Massachusetts State-commissioned humane law enforcement officers, funded exclusively by the Society, investigate reports of animal cruelty, exceeding 1,700 complaints in 2017. More than 28,700 animals were inspected by our law enforcement officers in 2017. Education is a large piece of the work of these officers, who seek to prevent cruelty in addition to stopping cruelty already in progress.

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 of Directors.

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2017 and 2016

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, 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, 2017 and 2016

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, 2017 and 2016, the Society recorded \$1,103,137 and \$805,620, 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 \$211,000 and \$227,000 in 2017 and 2016, 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 on page 7. Investments are managed in a pooled fund along with a related organization (see Note 12) 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, 2017 and 2016

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.
- As decreases in temporarily restricted net assets, for investment losses, up to any existing cumulative appreciation. Losses in excess of cumulative appreciation, if any, are reported as unrestricted changes in net assets.

The Society follows 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, 2017 and 2016

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 Investment Committee. The spending policy rate of 4.0% was approved by the Society's Board of Directors for 2017 and 2016.

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 and discount rates.

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. Debt issuance costs are reported in the statements of financial position as a direct reduction from the face amount of the related bonds and note payable.

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 depreciation. 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 on page 7. 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 Notes 6 and 13).

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, 2017 and 2016, 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, 2017 - February 28, 2018. The plan has been renewed through February 2019.

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, 2017 and 2016

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 (IRS) 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, 2017 and 2016

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 18, 2018, the date the financial statements were issued.

3. CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Amounts due in:		
Less than one year	\$ 1,144,150	\$ 1,676,959
One to five years	<u>1,325,259</u>	<u>1,826,393</u>
	2,469,409	3,503,352
Less - current portion	1,144,150	1,676,959
Less - net present value discount	<u>80,995</u>	<u>93,589</u>
Net contributions receivable	<u>\$ 1,244,264</u>	<u>\$ 1,732,804</u>

Net present value discounts are computed using discount rates ranging from 3.1% to 4.2%. The Society's Board of Directors accounted for 13% and 15% of the contributions receivable as December 31, 2017 and 2016, respectively.

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2017 and 2016

4. INVESTMENTS

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

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Investment returns:				
Realized and unrealized gains	\$ 4,944,280	\$ 5,485,061	\$ 501,561	\$ 10,930,902
Interest and dividends	193,186	185,605	16,959	395,750
Investment fees	<u>(182,174)</u>	<u>(192,642)</u>	<u>(17,510)</u>	<u>(392,326)</u>
Sub-total of investment returns	4,955,292	5,478,024	501,010	10,934,326
Investment returns appropriated:				
Unrestricted	-	(970,685)	-	(970,685)
O'Mara	<u>-</u>	<u>(505,603)</u>	<u>-</u>	<u>(505,603)</u>
Total investment returns, net of amounts appropriated	<u>\$ 4,955,292</u>	<u>\$ 4,001,736</u>	<u>\$ 501,010</u>	<u>\$ 9,458,038</u>
Investment returns appropriated	<u>\$ 970,685</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 970,685</u>
Investment returns appropriated – O'Mara	<u>\$ -</u>	<u>\$ 505,603</u>	<u>\$ -</u>	<u>\$ 505,603</u>
	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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>

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2017 and 2016

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, 2017:

	Investments Measuring Fair Value Using Net Asset Value Per Share	Level 1	Level 2	Level 3	Total
Investments:					
Multi-regional equity	\$ 12,996,039	\$ 4,696,298	\$ -	\$ -	\$ 17,692,337
U.S. equity	12,076,577	3,371,573	-	-	15,448,150
Multi-strategy hedge funds	12,296,308	-	-	-	12,296,308
U.S. core bonds	-	-	6,463,549	-	6,463,549
Developed Ex. U.S. equity	4,766,781	1,082,599	-	-	5,849,380
U.S. government nominal bonds	-	-	5,556,742	-	5,556,742
Cash and cash equivalents	-	4,842,069	-	-	4,842,069
U.S. TIPS	-	3,628,784	-	-	3,628,784
Emerging market equity	892,723	1,839,797	-	-	2,732,520
Opportunistic diversification	1,292,023	1,276,132	-	-	2,568,155
Opportunistic inflation hedging	1,923,160	-	-	-	1,923,160
Private investments	1,345,785	-	-	-	1,345,785
Opportunistic deflation hedging	-	1,047,713	-	-	1,047,713
Charitable gift annuities:					
Mutual funds:					
Equity	-	912,995	-	-	912,995
Fixed income	-	484,633	-	-	484,633
Inflation hedges	-	44,600	-	-	44,600
Cash and cash equivalents	-	33,934	-	-	33,934
Total investments	47,589,396	23,261,127	12,020,291	-	82,870,814
Beneficial interest in perpetual trusts	-	-	-	14,265,047	14,265,047
Total assets at fair value	<u>\$ 47,589,396</u>	<u>\$ 23,261,127</u>	<u>\$ 12,020,291</u>	<u>\$ 14,265,047</u>	<u>\$ 97,135,861</u>

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2017 and 2016

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, 2016:

	Investments Measuring Fair Value Using Net Asset Value Per Share	Level 1	Level 2	Level 3	Total
Investments:					
Multi-regional equity	\$ 9,352,116	\$ 4,039,136	\$ -	\$ -	\$ 13,391,252
U.S. equity	10,204,331	3,073,935	-	-	13,278,266
Multi-strategy hedge funds	11,871,985	-	-	-	11,871,985
U.S. core bonds	-	-	5,429,637	-	5,429,637
Developed Ex. U.S. equity	5,616,562	538,928	-	-	6,155,490
U.S. government nominal bonds	-	-	4,602,292	-	4,602,292
Cash and cash equivalents	-	9,256,697	-	-	9,256,697
U.S. TIPS	-	2,529,895	-	-	2,529,895
Emerging market equity	956,086	1,954,751	-	-	2,910,837
Opportunistic diversification	-	1,074,575	-	-	1,074,575
Opportunistic inflation hedging	2,271,536	-	-	-	2,271,536
Private investments	241,272	-	-	-	241,272
Opportunistic deflation hedging	-	838,710	-	-	838,710
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, 2017 and 2016

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.

In accordance with Accounting Standards Codification Topic, *Fair Value Measurements*, certain funds, as listed 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, 2017, the Society is committed to contribute an additional \$1,070,706 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 trusts are as follows:

	<u>2017</u>	<u>2016</u>
Beneficial interest in perpetual trusts beginning balance	\$ 12,832,769	\$ 12,403,551
Change in fair value of outside managed trusts	<u>1,432,278</u>	<u>429,218</u>
Beneficial interest in perpetual trusts ending balance	<u>\$ 14,265,047</u>	<u>\$ 12,832,769</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.

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2017 and 2016

6. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2017</u>	<u>2016</u>
Land	\$ 259,310	\$ 285,510
Land improvements	255,291	255,291
Buildings	36,612,194	36,612,194
Building improvements	10,197,445	2,827,355
Leasehold improvements	51,769	51,769
Furniture and fixtures	532,983	532,983
Equipment and vehicles	10,022,040	9,635,960
Major medical equipment	7,159,480	5,450,024
Construction in progress	<u>3,278,100</u>	<u>5,661,816</u>
	68,368,612	61,312,902
Less - accumulated depreciation	<u>28,535,431</u>	<u>26,918,614</u>
Net property and equipment	<u>\$ 39,833,181</u>	<u>\$ 34,394,288</u>

Construction in progress at December 31, 2017, consists of construction of a new shelter at the Society's animal care and adoption center located in Centerville, Massachusetts. This project is expected to be completed during the year ending December 31, 2018.

Construction in progress at December 31, 2016, consisted of energy efficiency initiatives, construction of the shelter at the animal care and adoption center in Centerville and other renovation projects. During the year ended December 31, 2017, construction in progress totaling \$4,871,448 consisting of the energy efficiency initiatives and other renovation projects were completed and placed in service.

7. PENSION PLAN AND POSTRETIREMENT HEALTH BENEFITS

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

	<u>2017</u>	<u>2016</u>
Defined benefit plan	\$ 16,450,998	\$ 17,796,814
Postretirement health benefits	4,204,414	3,710,393
Supplemental employee retirement	222,215	468,093
457(b) Plan	<u>338,489</u>	<u>222,881</u>
	21,216,116	22,198,181
Less - current portion	<u>1,208,868</u>	<u>649,642</u>
	<u>\$ 20,007,248</u>	<u>\$ 21,548,539</u>

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2017 and 2016

7. 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>2017</u>	<u>2016</u>
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 59,806,534	\$ 60,221,894
Interest cost	2,398,296	2,588,560
Unrecognized effect of change in actuarial assumptions	3,452,193	1,387,499
Benefits paid *	<u>(3,783,517)</u>	<u>(4,391,419)</u>
Projected benefit obligation at end of year	<u>61,873,506</u>	<u>59,806,534</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	42,009,720	43,146,248
Actual return on plan assets	6,331,259	2,792,391
Employer contributions	865,046	462,500
Benefits paid *	<u>(3,783,517)</u>	<u>(4,391,419)</u>
Fair value of plan assets at end of year	<u>45,422,508</u>	<u>42,009,720</u>
Funded status at end of year	<u>\$ (16,450,998)</u>	<u>\$ (17,796,814)</u>
Net periodic pension cost included the following components:		
Interest cost	\$ 2,398,296	\$ 2,588,560
Expected return on assets	(2,959,099)	(3,058,928)
Amortization of actuarial loss	<u>1,205,580</u>	<u>1,151,382</u>
Net periodic pension cost	<u>\$ 644,777</u>	<u>\$ 681,014</u>
Accumulated benefit obligation	<u>\$ 61,873,506</u>	<u>\$ 59,806,534</u>

* During 2017 and 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 2017 and 2016 totaled approximately \$1,646,000 and \$2,382,000, respectively. 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, 2017 and 2016

7. 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 December 31, 2017 and 2016 employer contributions noted on page 19 was \$13,581 and \$5,387, respectively, which was contributed by the other organization.

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

2018	\$ 2,651,000
2019	2,718,000
2020	2,881,000
2021	2,915,000
2022	2,960,000
2023 - 2027	<u>16,226,000</u>
	<u>\$ 30,351,000</u>

The Society expects to contribute approximately \$900,000 to the Plan in the fiscal year beginning January 1, 2018, for the Plan year ending December 31, 2018.

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

	<u>2017</u>	<u>2016</u>
Long-term rate of investment return	7.25%	7.25%
Discount rate	3.60%	4.14%

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>2017</u>	<u>2016</u>
Vanguard 500 Index	\$ 15,745,647	\$ 13,758,687
SAGIC Diversified Bond II	11,468,445	12,029,797
Premier Babson Capital High Yield Bond	4,290,012	4,281,382
American Funds Europacific Growth	4,799,125	3,922,537
Blackrock Health Sciences Opportunities	4,140,721	3,585,109
Victory Sycamore Established Value	2,569,017	2,364,768
Select Mid Cap Growth Equity II	<u>2,409,541</u>	<u>2,067,440</u>
	<u>\$ 45,422,508</u>	<u>\$ 42,009,720</u>

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2017 and 2016

7. 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, 2017 and 2016, by asset category, are as follows:

		2017			
<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	\$ 45,422,508	\$ -	\$ -	\$ -	\$ 45,422,508

		2016			
<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

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 (\$500 per month for pre-2003 retirees). All eligibility requirements must be met in order to qualify for the plan.

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALSNotes to Financial Statements
December 31, 2017 and 2016**7. 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>2017</u>	<u>2016</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 3,710,393	\$ 3,296,580
Service cost	61,794	63,467
Interest cost	148,976	139,335
Unrecognized effect of change in actuarial assumptions	446,702	358,368
Benefits paid	<u>(163,451)</u>	<u>(147,357)</u>
Accumulated postretirement benefit obligation	<u>\$ 4,204,414</u>	<u>\$ 3,710,393</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ -	\$ -
Employer contributions	163,451	147,357
Benefits paid	<u>(163,451)</u>	<u>(147,357)</u>
Fair value of plan assets at end of year	<u>\$ -</u>	<u>\$ -</u>
Net periodic benefit cost included the following components:		
Service cost	\$ 61,794	\$ 63,467
Interest cost	148,976	139,335
Amortization of net loss	<u>20,595</u>	<u>-</u>
Net periodic benefit cost	<u>\$ 231,365</u>	<u>\$ 202,802</u>

The discount rate used to determine the benefit obligation as of December 31, 2017 and 2016, was 3.6% and 4.14%, respectively. In measuring the projected postretirement benefit obligations as of December 31, 2017 and 2016, the Society assumed a health care cost trend rate of 6.5%, 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, 2017, and net postretirement health care cost by \$5,205 (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, 2017 and 2016

7. 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:

2018	\$ 226,000
2019	234,000
2020	236,000
2021	238,000
2022	234,000
2023 - 2027	<u>1,191,000</u>
	<u>\$ 2,359,000</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 4% 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; employees are 100% vested upon completion of three years of service. For the year ending December 31, 2018, the Society will increase the matching provision to 4.5% of employee contributions.

Expenses under this plan, including costs of operating the plan, were \$1,017,627 and \$879,460 for the years ended December 31, 2017 and 2016, 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 \$338,489 and \$222,881 in 2017 and 2016, 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, 2017 and 2016

8. BONDS AND NOTE PAYABLE

Bonds and note payable consists of the following at December 31:

	<u>2017</u>	<u>2016</u>
\$5,981,424 in tax-exempt revenue replacement bond 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, with a final payment on June 8, 2026. Bonds are secured by a first priority interest in the assets of the Society.	\$ 5,828,128	\$ -
\$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, with a final payment on June 8, 2026. Bonds are secured by a first priority interest in the assets of the Society. During the year ended December 31, 2017, the Society redeemed \$1,018,576 of bonds resulting in a revised principal amount and execution of a replacement bond in the amount of \$5,981,424 at the time of the redemption described above.	-	7,000,000
\$2,300,000 note payable agreement with a bank to finance 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 interest rate is fixed at 3.79% and is payable monthly. The term loan is payable in monthly installments, with a final payment on February 17, 2024. The term loan is secured by a first priority interest in the assets of the Society along with the \$5,981,424 million bond described above.	2,181,000	-
\$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 1.71% and .72% at December 31, 2017 and 2016, 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 \$1,913,507. The letter of credit expires on August 1, 2021.	1,885,000	2,360,000
	9,894,128	9,360,000
Less - unamortized debt issuance costs	(84,516)	(80,461)
Less - current portion	(1,346,539)	(654,400)
	<u>\$ 8,463,073</u>	<u>\$ 8,625,139</u>

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2017 and 2016

8. BONDS AND NOTE PAYABLE (Continued)

The Society has incurred debt issuance costs related to the bond and note payable borrowings. These costs are being expensed over a period ranging from seven to ten years, based on the life of the bond or note payable associated with these costs.

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

2018	\$ 1,346,539
2019	1,424,971
2020	1,498,402
2021	1,362,090
2022	1,110,547
Thereafter	<u>3,151,579</u>
	<u>\$ 9,894,128</u>

The bonds and note payable are subject to financial covenants as defined in the agreements. The Society was in compliance with these covenants at December 31, 2017 and 2016.

Interest expense, including letter of credit and amortization of debt issuance costs, totaled \$162,891 and \$61,641 for the years ended December 31, 2017 and 2016, respectively. Interest capitalized at December 31, 2017 and 2016, was \$156,927 and \$104,946, respectively.

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2017 and 2016

9. 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, 2017 and 2016:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment assets, December 31, 2015	\$ <u>4,389,386</u>	\$ <u>28,433,163</u>	\$ <u>32,822,549</u>
Gifts and additions	<u>-</u>	<u>1,368,313</u>	<u>1,368,313</u>
Releases from restrictions	<u>(2,961)</u>	<u>-</u>	<u>(2,961)</u>
Investment returns:			
Interest and dividends, net of investment expenses	98,002	12,422	110,424
Net realized and unrealized gains	<u>1,139,934</u>	<u>135,698</u>	<u>1,275,632</u>
Total investment returns	<u>1,237,936</u>	<u>148,120</u>	<u>1,386,056</u>
Investment income appropriated	<u>(943,905)</u>	<u>-</u>	<u>(943,905)</u>
Endowment assets, December 31, 2016	<u>4,680,456</u>	<u>29,949,596</u>	<u>34,630,052</u>
Gifts and additions	<u>-</u>	<u>939,200</u>	<u>939,200</u>
Releases from restrictions	<u>(1,715)</u>	<u>-</u>	<u>(1,715)</u>
Investment returns:			
Interest and dividends, net of investment expenses	(5,307)	(551)	(5,858)
Net realized and unrealized gains	<u>4,116,869</u>	<u>501,561</u>	<u>4,618,430</u>
Total investment returns	<u>4,111,562</u>	<u>501,010</u>	<u>4,612,572</u>
Investment income appropriated	<u>(970,685)</u>	<u>-</u>	<u>(970,685)</u>
Endowment assets, December 31, 2017	<u>\$ 7,819,618</u>	<u>\$ 31,389,806</u>	<u>\$ 39,209,424</u>

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2017 and 2016

10. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

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

	<u>2016</u>	<u>New Gifts</u>	<u>Investment Returns, net of Amounts Appropriated</u>	<u>Releases from Restrictions</u>	<u>2017</u>
Program services	\$ 2,862,276	\$ 740,793	\$ 830,048	\$ (1,223,420)	\$ 3,209,697
Acquisition of property and equipment	5,007,665	1,073,486	536,414	(2,248,014)	4,369,551
Accumulated investment earnings appreciation of permanently restricted assets	<u>4,680,456</u>	<u>-</u>	<u>3,140,877</u>	<u>(1,715)</u>	<u>7,819,618</u>
	<u>\$ 12,550,397</u>	<u>\$ 1,814,279</u>	<u>\$ 4,507,339</u>	<u>\$ (3,473,149)</u>	<u>\$ 15,398,866</u>
	<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>

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2017 and 2016

10. 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 expendable 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>2017</u>	<u>2016</u>
Beneficial Interest in Perpetual Trusts	Total return is unrestricted for various programs and distributions are at the discretion of third-party trustees	\$ 14,265,047	\$ 12,832,769
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	7,024,698	6,523,689
MSPCA General Fund	Total return used for general operations	6,001,671	5,991,671
Angell Memorial Hospital General Fund	Total return to support the Angell operations	4,982,739	4,947,606
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	3,653,432	2,904,740
Other	Total return supports various programs and locations of the Society	<u>7,482,892</u>	<u>7,337,516</u>
		<u>\$ 45,654,853</u>	<u>\$ 42,782,365</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.

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2017 and 2016

11. ALLOCATION OF JOINT COSTS

The Society incurred joint costs of \$851,747 and \$821,681 for the years ended December 31, 2017 and 2016, respectively, for informational materials and activities that included fundraising appeals. Joint costs were allocated as follows at December 31:

	<u>2017</u>	<u>2016</u>
Publications, communications and public program expenses	\$ 372,855	\$ 358,530
Development, membership, annual and planned giving expenses	<u>478,892</u>	<u>463,151</u>
Total joint costs	<u>\$ 851,747</u>	<u>\$ 821,681</u>

12. 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>2017</u>	<u>2016</u>
Contributions and grants received	\$ 396,000	\$ 263,000
Fundraising and administrative costs paid	\$ 217,000	\$ 182,000
Fees charged	\$ 112,000	\$ 109,000

The amounts due to Fondouk are included in due to related society in the accompanying statements of financial position. Amounts due at December 31, 2017 and 2016, were \$112,323 and \$44,463, respectively, and do not include interest.

13. 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 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, 2017 and 2016, was rental expense of \$214,851 and \$218,064, 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, 2017 and 2016, totaled \$193,868 and \$183,350, respectively.

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2017 and 2016

13. COMMITMENTS (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, 2017, are as follows:

2018	\$ 426,527
2019	362,437
2020	331,050
2021	300,000
2022	300,000
Thereafter	<u>1,500,000</u>
	<u>\$ 3,220,014</u>

Construction Contracts

The Society is in the process of constructing a new shelter at the Society's animal care and adoption center located in Centerville, Massachusetts. At December 31, 2017, the unbilled portion on the related construction contract totaled approximately \$3,566,000. Work on the construction contract is expected to be completed during the year ending December 31, 2018.

14. 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.

15. SUBSEQUENT EVENT

In April 2018, the Society entered into a \$4,000,000 term loan agreement with a bank for the purpose of financing the construction of a new shelter at the Society's animal care and adoption center located in Centerville, Massachusetts. The term loan interest rate is fixed at 4.54% and is payable monthly. Principal on the term loan is payable in monthly installments (commencing October 2018), with escalation amounts ranging from \$5,000 to \$171,000. The term loan matures April 2025 and is secured by a first priority interest in the assets of the Society, along with the \$5,981,424 and \$2,300,000 note payable as disclosed in Note 8.

16. RECLASSIFICATIONS

Certain amounts in the December 31, 2016 financial statements have been reclassified to conform to the December 31, 2017 presentation. The reclassifications had no impact on total assets, total revenues or changes in net assets.