



Kindness and Care for Animals®

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

**FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

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December 31, 2018 and 2017

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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 statements of financial position as of December 31, 2018 and 2017, and the related statements of activities and changes in net assets and cash flows for the years then ended, the statement of functional expenses for the year ended December 31, 2018, 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, 2018 and 2017, 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.

Alexander, Brown, Pinning & Co., P.C.

Boston, Massachusetts
April 24, 2019

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Statements of Financial Position
December 31, 2018 and 2017

Assets	2018	2017
Current Assets:		
Cash and cash equivalents	\$ 2,543,685	\$ 2,592,717
Accounts receivable from hospital operations, net	194,828	223,462
Current portion of contributions receivable	1,529,631	1,144,150
Prepaid expenses and other assets	2,146,438	2,115,670
Total current assets	6,414,582	6,075,999
Contributions Receivable, net of current portion and discount	901,927	1,244,264
Investments	78,205,415	82,870,814
Beneficial Interest in Perpetual Trusts	12,365,509	14,265,047
Property and Equipment, net	43,476,031	39,833,181
Total assets	\$ 141,363,464	\$ 144,289,305
Liabilities and Net Assets		
Current Liabilities:		
Current portion of bonds and note payable	\$ 1,522,971	\$ 1,346,539
Current portion of accrued pension, postretirement and other retirement agreements	1,725,666	1,208,868
Current portion of charitable gift annuity liability	91,663	92,434
Accounts payable, accrued expenses and other liabilities	1,744,574	2,151,408
Accrued salaries, vacation and other benefits	2,765,793	2,697,264
Deferred revenue	228,584	170,451
Due to related society	34,312	112,323
Total current liabilities	8,113,563	7,779,287
Accrued Pension, Postretirement and Other Retirement Agreements, net of current portion	18,218,712	20,007,248
Charitable Gift Annuity Liability, net of current portion	659,552	753,125
Bonds and Note Payable, net of current portion and unamortized debt issuance costs	10,915,132	8,463,073
Total liabilities	37,906,959	37,002,733
Net Assets:		
Without donor restrictions	46,326,871	46,232,853
With donor restrictions	57,129,634	61,053,719
Total net assets	103,456,505	107,286,572
Total liabilities and net assets	\$ 141,363,464	\$ 144,289,305

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, 2018 and 2017

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenue:						
Revenue from health and hospital services	\$ 49,121,568	\$ -	\$ 49,121,568	\$ 46,116,127	\$ -	\$ 46,116,127
Annual giving, hospital and adoption center donations	10,107,116	1,035,029	11,142,145	10,505,531	722,512	11,228,043
Other income	1,792,090	-	1,792,090	1,768,236	-	1,768,236
Investment returns appropriated for operations	1,403,929	-	1,403,929	970,685	-	970,685
Distributions from outside managed trusts	699,458	8,731	708,189	621,339	8,731	630,070
Investment returns appropriated - O'Mara	-	-	-	-	505,603	505,603
Net assets released from program restrictions	1,122,133	(1,122,133)	-	1,217,297	(1,217,297)	-
Total operating revenue	64,246,294	(78,373)	64,167,921	61,199,215	19,549	61,218,764
Operating Expenses:						
Program services:						
Health and hospital services	51,005,198	-	51,005,198	46,603,855	-	46,603,855
Humane services, adoption centers, animal advocacy legislative affairs and humane education	9,768,282	-	9,768,282	8,919,735	-	8,919,735
Publications, communications and public relations	1,143,764	-	1,143,764	1,097,621	-	1,097,621
Total program services	61,917,244	-	61,917,244	56,621,211	-	56,621,211
General administration and support expenses	4,634,620	-	4,634,620	4,703,211	-	4,703,211
Development, annual and planned giving expenses	1,977,873	-	1,977,873	1,950,630	-	1,950,630
Total operating expenses	68,529,737	-	68,529,737	63,275,052	-	63,275,052
Changes in net assets from operations	(4,283,443)	(78,373)	(4,361,816)	(2,075,837)	19,549	(2,056,288)
Non-Operating Activities:						
Bequests	5,681,871	-	5,681,871	3,744,318	42,474	3,786,792
Capital campaign contributions	-	1,618,409	1,618,409	-	1,040,562	1,040,562
Current year impact of change in pension obligations	939,219	-	939,219	798,037	-	798,037
Endowment contributions	-	313,499	313,499	-	939,200	939,200
Net assets released from capital campaign restriction	656,910	(656,910)	-	2,255,852	(2,255,852)	-
Capital campaign fundraising expenses	(340,225)	-	(340,225)	(288,084)	-	(288,084)
Pension plan and postretirement benefits normal costs	(984,629)	-	(984,629)	(1,210,100)	-	(1,210,100)
Change in fair value of outside managed trusts	-	(1,899,538)	(1,899,538)	-	1,432,278	1,432,278
Investment returns, net of amounts appropriated	(1,575,685)	(3,221,172)	(4,796,857)	4,955,292	4,502,746	9,458,038
Total non-operating activities	4,377,461	(3,845,712)	531,749	10,255,315	5,701,408	15,956,723
Changes in net assets	94,018	(3,924,085)	(3,830,067)	8,179,478	5,720,957	13,900,435
Net Assets:						
Beginning of year	46,232,853	61,053,719	107,286,572	38,053,375	55,332,762	93,386,137
End of year	\$ 46,326,871	\$ 57,129,634	\$ 103,456,505	\$ 46,232,853	\$ 61,053,719	\$ 107,286,572

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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ (3,830,067)	\$ 13,900,435
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	2,634,240	2,275,480
Interest - amortization	12,556	10,345
Realized and unrealized losses (gains) on investments	3,588,908	(10,930,902)
Change in fair value of beneficial interest in perpetual trusts	1,899,538	(1,432,278)
Contributions restricted for long-term purposes	(1,931,908)	(1,979,762)
Changes in operating assets and liabilities:		
Accounts receivable from hospital operations, net	28,634	38,655
Contributions receivable	1,231,190	1,021,349
Prepaid expenses and other assets	(30,768)	(77,599)
Accrued pension, postretirement and other retirement agreements	(1,271,738)	(982,065)
Charitable gift annuity liability	(94,344)	(15,197)
Accounts payable, accrued expenses and other liabilities	214,513	(1,138,665)
Accrued salaries, vacation and other benefits	68,529	462,933
Deferred revenue	58,133	8,982
Due to related society	(78,011)	67,860
Net cash provided by operating activities	<u>2,499,405</u>	<u>1,229,571</u>
Cash Flows from Investing Activities:		
Cash paid for property and equipment	(6,898,437)	(6,953,677)
Purchase of investments	(34,606,815)	(14,101,582)
Sales of investments	35,683,307	17,327,438
Net cash used in investing activities	<u>(5,821,945)</u>	<u>(3,727,821)</u>
Cash Flows from Financing Activities:		
Payments on bonds and note payable	(1,363,540)	(747,296)
Redemption of bond payable	-	(1,018,576)
Cash paid for debt issuance costs	(20,526)	(14,400)
Proceeds from bonds and note payable	4,000,000	2,300,000
Contributions restricted for long-term purposes	657,574	1,979,762
Net cash provided by financing activities	<u>3,273,508</u>	<u>2,499,490</u>
Net Change in Cash and Cash Equivalents	(49,032)	1,240
Cash and Cash Equivalents:		
Beginning of year	<u>2,592,717</u>	<u>2,591,477</u>
End of year	<u>\$ 2,543,685</u>	<u>\$ 2,592,717</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest, net of capitalized interest	<u>\$ 387,094</u>	<u>\$ 164,852</u>
Property and equipment financed with accounts payable	<u>\$ 139,349</u>	<u>\$ 760,696</u>
Reissuance of bond payable	<u>\$ -</u>	<u>\$ 5,981,424</u>

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Statement of Functional Expenses
For the Year Ended December 31, 2018

	Program Services			Supporting Services			Total
	Health and Hospital Services	Humane Services, Adoption Centers, Animal Advocacy Legislative Affairs and Humane Education	Publications, Communications and Public Relations	Total Program Services	General Administration and Support Services	Development, Annual and Planned Giving Expenses	
Employee compensation and related	\$ 35,408,866	\$ 5,733,180	\$ -	\$ 41,142,046	\$ 3,328,894	\$ 1,301,682	\$ 45,772,622
Other operating expenses	12,451,569	2,797,140	1,143,764	16,392,473	792,093	596,695	17,781,261
Depreciation	1,819,373	510,453	-	2,329,826	260,673	43,741	2,634,240
Occupancy	1,133,145	596,896	-	1,730,041	172,449	30,386	1,932,876
Interest expense	192,245	130,613	-	322,858	80,511	5,369	408,738
Total expenses	<u>\$ 51,005,198</u>	<u>\$ 9,768,282</u>	<u>\$ 1,143,764</u>	<u>\$ 61,917,244</u>	<u>\$ 4,634,620</u>	<u>\$ 1,977,873</u>	<u>\$ 68,529,737</u>

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2018 and 2017

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 technician training program 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, and investigates complaints of animal cruelty within Massachusetts.

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 1,400 volunteers faithfully provided their support in 2018.

Approximately 98,000 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 a technician training program in Westford. In 2018, the Waltham location expanded in both physical space and services offered and now include a physical rehabilitation practice and behavior and training classes.

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 2018, the MSPCA-Angell spent approximately \$3,160,000 on charitable veterinary care.

The largest facility, Angell Animal Medical Center in Boston, founded in 1915, is a comprehensive specialty hospital serving companion animals. This year there were 90 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, 2018 and 2017

1. OPERATIONS (Continued)

In 2018, construction of the all new adoption center facility in Centerville was completed and placed in service. The Centerville adoption center now includes space for medical and behavioral evaluations; a modern treatment and spay and neuter clinic for homeless animals; and a multi-purpose training and education room for greater collaboration with local schools and community groups.

In 2018, more than 9,400 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 1,500 complaints in 2018. More than 23,900 animals were inspected by our law enforcement officers in 2018. Education is a large piece of the work of these officers, who seek to prevent cruelty in addition to stopping cruelty already in progress.

In addition to its work in Massachusetts, the Society also promotes the cause of humane education and prevention of cruelty to animals internationally. During 2018, the Society provided operating grants to international animal welfare organizations in Africa, Turkey, and other locations in the Middle East totaling approximately \$54,000.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Society prepares its financial statements in accordance with generally accepted accounting standards and principles (U.S. GAAP) established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these footnotes are to the FASB Accounting Standards Codification (ASC).

Recently Adopted Accounting Standards

In fiscal year 2018, the Society adopted FASB's Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This ASU addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources and the lack of consistency in the type of information provided about expenses and investment return. The Society has adjusted the presentation of these statements accordingly. The adoption of this ASU did not impact the Society's net asset classes, results of operations or cash flows for the year ended December 31, 2018. This ASU has been applied retrospectively to all periods presented. As allowed by this ASU, the Society has elected to omit the analysis of expense by both natural classification and functional classification and disclosures about liquidity and availability of resources for the December 31, 2017 financial statements.

On January 1, 2018, the Society adopted FASB's ASU 2014-09, *Revenue from Contracts with Customers*. This ASU superseded existing revenue recognition standards with a single model unless those contracts are within the scope of other standards (e.g. not-for-profit contributions). The standard's core principle is that an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Society adopted the new standards using the retrospective approach. The adoption of this ASU did not have a material impact on the Society's financial position, results of operations or cash flows as of the adoption date or the year ended December 31, 2018.

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Adopted Accounting Standards (Continued)

The Society also adopted ASU 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The standard assists entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions. Distinguishing between contributions and exchange transactions determines which revenue or expense recognition guidance is to be applied. Exchange transactions entered into by entities are accounted within the scope of ASU 2014-09 (see above) or other applicable guidance, while the guidance related to accounting for contributions received is included in Subtopic 958-605, *Not-for-Profit Entities – Revenue Recognition*. The adoption of this ASU did not have a material impact on the Society's financial position, results of operations or cash flows for the year ended December 31, 2018.

In fiscal year 2018, the Society adopted ASU 2017-07, *Compensation – Retirement Benefits (Topic 715)*. This ASU was issued primarily to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost in the financial statements. The standard requires that employers report the service cost component of these financial arrangements in the same line item as other compensation costs arising from services rendered by the pertinent employees during the period. The remaining components of net benefit cost are required to be presented separately in the statement of activities outside of changes in net assets from operations. This ASU has been applied retrospectively to all periods presented. The adoption of this ASU did not have a material impact on the Society's financial position, results of operations or cash flows for the years ended December 31, 2018 or 2017.

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:

Without donor restrictions

Represents net assets available for use in general operations 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 net assets without donor restrictions unless use of the related assets is limited by donor restrictions or law. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or law.

With donor restrictions

Represents net assets subject to donor-imposed restrictions. These restrictions may be temporary in nature, such as those that are satisfied by either the passage of time or by other events or actions stipulated by the donor. Other donor-imposed restrictions are perpetual in nature where the donor stipulates that resources be maintained in perpetuity and the income be available to support specific or general operations of the Society. Accumulated unspent gains on donor restricted endowment funds are included in net assets with donor restrictions until appropriated for expenditure in accordance with donor-imposed restrictions or through board of director action. In addition, changes in fair value of outside managed trusts are included in net assets with donor restrictions 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, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

With donor restrictions (Continued)

When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and changes in net assets as net assets released from donor restrictions.

Statements of Activities and Changes in Net Assets

The statements of activities and changes in net assets report the changes in net assets from operating and non-operating activities. Non-operating activities consist of investment returns net of 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 publicly 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.

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

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.

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, 2018 and 2017, the Society recorded \$872,485 and \$1,103,137, respectively, in donated goods and services, which are included in annual giving, hospital and adoption center donations and operating expenses.

Accounts Receivable

Accounts receivable from services rendered 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 \$157,000 and \$211,000 in 2018 and 2017, respectively. The Society recognized bad debt expense of approximately \$150,000 and \$225,000 during 2018 and 2017, 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 donor-imposed conditions are substantially met.

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments are carried at fair value as described in Note 5 and on pages 9 and 10. 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.

Investment Objectives and Spending Policy

Investment returns are reported in net assets without donor restriction or in net assets with donor restrictions if the terms of the gift require that returns be added to the principal of a donor restricted fund or if the terms of the gift or state law impose restrictions on the current use of the returns.

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 date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. Therefore, net assets with donor restrictions are recorded at the fair value on the original gift date. Any appreciation on gifts (net of amounts expended) or depreciation of net assets below the original corpus (also known as an underwater fund) is recorded in net assets with donor restrictions. 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 the donor-restricted endowment fund (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, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Objectives and Spending Policy (Continued)

The Society uses a spending policy in determining use of donor 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. The spending policy rate of 5.5% and 4.0% was approved by the Society's Board of Directors for 2018 and 2017, 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 having no donor restriction. Annual changes to the fair value of the interests in these trusts are recognized as changes in fair value of outside managed trusts as net assets with donor restriction.

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, 2018 and 2017

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 in Note 5. Fair value of donated property and equipment is effectively recorded using a Level 2 market approach.

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, 2018 and 2017, 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, 2018 - February 28, 2019. The plan has been renewed through February 2020.

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 recognizes changes in that funded status in the year in which the changes occur using standard actuarial methods.

Angell Animal Medical Center Revenue

The Society has analyzed the provisions of ASU 2014-09, *Revenue from Contracts with Customers* (see page 7) and has concluded that no changes are necessary to conform with the new standard. Revenue from services provided to customers contains a single delivery element and is recognized at a single point in time when ownership, risks and rewards transfer.

Revenue from health and hospital services is recognized based on established charges. All services are transferred to customers at a point in time and payment is due at the completion of the services provided. Accordingly, there are no unbilled receivables (contract assets) reported in the accompanying statements of financial position.

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Revenue

Charges for health and hospital services collected in advance of services being provided have been included in deferred revenue in the accompanying statements of financial position and are recognizable within one year. The balance in deferred revenue as of December 31, 2017, was recognized as revenue in 2018.

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 financial statements contain certain categories of operating expenses that are attributable to various programs and supporting services. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated among programs and supporting services include employee compensation and related costs, which are allocated based on time and level of effort, and occupancy, depreciation and interest, which are allocated based on square footage utilized by a 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.

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.

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

The Society has evaluated subsequent events through April 24, 2019, the date the financial statements were issued. There were no events that met the criteria for recognition or disclosure in the financial statements.

Recently Issued Accounting Pronouncement Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, *Leases*. The standard requires all leases with lease terms over twelve months to be capitalized as a right-of-use asset and lease liability on the statement of financial position at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the statement of activities. This standard will be effective for the calendar year ending December 31, 2019.

3. CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
Amounts due in:		
Less than one year	\$ 1,529,631	\$ 1,144,150
One to five years	<u>965,600</u>	<u>1,325,259</u>
	2,495,231	2,469,409
Less - current portion	1,529,631	1,144,150
Less - net present value discount	<u>63,673</u>	<u>80,995</u>
Net contributions receivable	<u>\$ 901,927</u>	<u>\$ 1,244,264</u>

Net present value discounts are computed using discount rates ranging from 3.1% to 5.3%. The Society's Board of Directors accounted for 9% and 13% of the contributions receivable as of December 31, 2018 and 2017, respectively.

4. INVESTMENTS

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

	<u>2018</u>		
	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Investment returns:			
Realized and unrealized losses	\$ (1,680,612)	\$ (1,908,296)	\$ (3,588,908)
Interest and dividends	285,043	286,491	571,534
Investment fees	<u>(180,116)</u>	<u>(195,438)</u>	<u>(375,554)</u>
Sub-total of investment returns	(1,575,685)	(1,817,243)	(3,392,928)
Investment returns appropriated:			
Without donor restrictions	<u>-</u>	<u>(1,403,929)</u>	<u>(1,403,929)</u>
Total investment returns, net of amounts appropriated	<u>\$ (1,575,685)</u>	<u>\$ (3,221,172)</u>	<u>\$ (4,796,857)</u>
Investment returns appropriated	<u>\$ 1,403,929</u>	<u>\$ -</u>	<u>\$ 1,403,929</u>

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2018 and 2017

4. INVESTMENTS (Continued)

From time to time, the fair value of assets associated with donor restricted funds may fall below the level that the donor or UPMIFA requires the Society to retain. At December 31, 2018, excluding the Frances Rust O'Mara Fund (the "O'Mara fund"), funds with original gift values of \$403,379, fair values of \$385,942, and deficiencies of \$17,437 were reported in net assets with donor restrictions. The Society's spending policy permits spending from underwater endowment funds, unless otherwise precluded by donor intent or relevant laws and regulations. At December 31, 2018, the O'Mara fund, with an original gift value of \$7,024,698 (including one half total investment return added to the fund corpus annually), fair value of \$6,876,919 and deficiency of \$147,779 was reported in net assets with donor restrictions. The deficiency in the O'Mara fund was a result of unfavorable market fluctuations. Accordingly, the O'Mara fund did not appropriate investment returns to general operations during the year ended December 31, 2018.

	2017		
	Without Donor Restriction	With Donor Restriction	Total
Investment returns:			
Realized and unrealized gains	\$ 4,944,280	\$ 5,986,622	\$ 10,930,902
Interest and dividends	193,186	202,564	395,750
Investment fees	<u>(182,174)</u>	<u>(210,152)</u>	<u>(392,326)</u>
Sub-total of investment returns	4,955,292	5,979,034	10,934,326
Investment returns appropriated:			
Without donor restrictions	-	(970,685)	(970,685)
O'Mara	<u>-</u>	<u>(505,603)</u>	<u>(505,603)</u>
Total investment returns, net of amounts appropriated	<u>\$ 4,955,292</u>	<u>\$ 4,502,746</u>	<u>\$ 9,458,038</u>
Investment returns appropriated	<u>\$ 970,685</u>	<u>\$ -</u>	<u>\$ 970,685</u>
Investment returns appropriated: O'Mara	<u>\$ -</u>	<u>\$ 505,603</u>	<u>\$ 505,603</u>

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2018 and 2017

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, 2018:

	Investments Measuring Fair Value Using Net Asset Value Per Share	Level 1	Level 2	Level 3	Total
Investments:					
Multi-regional equity	\$ 15,547,145	\$ 4,562,427	\$ -	\$ -	\$ 20,109,572
U.S. equity	8,519,119	2,655,930	-	-	11,175,049
Multi-strategy hedge funds	13,809,837	-	-	-	13,809,837
U.S. core bonds	-	-	6,190,408	-	6,190,408
Developed Ex. U.S. equity	3,110,893	833,983	-	-	3,944,876
U.S. government nominal bonds	-	-	5,542,215	-	5,542,215
Cash and cash equivalents	-	3,753,476	-	-	3,753,476
U.S. TIPS	-	1,899,150	-	-	1,899,150
Emerging market equity	1,545,017	1,239,282	-	-	2,784,299
Opportunistic diversification	1,234,583	549,264	-	-	1,783,847
Opportunistic inflation hedging	2,002,115	-	-	-	2,002,115
Private investments	2,901,448	-	-	-	2,901,448
Opportunistic deflation hedging	-	1,065,418	-	-	1,065,418
Charitable gift annuities:					
Mutual funds:					
Equity	-	741,386	-	-	741,386
Fixed income	-	415,311	-	-	415,311
Real assets	-	57,584	-	-	57,584
Cash and cash equivalents	-	29,424	-	-	29,424
Total investments	48,670,157	17,802,635	11,732,623	-	78,205,415
Beneficial interest in perpetual trusts	-	-	-	12,365,509	12,365,509
Total assets at fair value	<u>\$ 48,670,157</u>	<u>\$ 17,802,635</u>	<u>\$ 11,732,623</u>	<u>\$ 12,365,509</u>	<u>\$ 90,570,924</u>

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2018 and 2017

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, 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, 2018 and 2017

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 ASC 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, 2018, the Society is committed to contribute an additional \$2,675,811 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>2018</u>	<u>2017</u>
Beneficial interest in perpetual trusts beginning balance	\$ 14,265,047	\$ 12,832,769
Change in fair value of outside managed trusts	<u>(1,899,538)</u>	<u>1,432,278</u>
Beneficial interest in perpetual trusts ending balance	<u>\$ 12,365,509</u>	<u>\$ 14,265,047</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, 2018 and 2017

6. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2018</u>	<u>2017</u>
Land	\$ 259,310	\$ 259,310
Land improvements	255,291	255,291
Buildings	44,096,951	36,612,194
Building improvements	10,856,684	10,197,445
Leasehold improvements	576,934	51,769
Furniture and fixtures	532,983	532,983
Equipment and vehicles	10,373,411	10,022,040
Major medical equipment	7,647,559	7,159,480
Construction in progress	-	3,278,100
	<u>74,599,123</u>	<u>68,368,612</u>
Less - accumulated depreciation	<u>31,123,092</u>	<u>28,535,431</u>
Net property and equipment	<u>\$ 43,476,031</u>	<u>\$ 39,833,181</u>

Construction in progress at December 31, 2017, consisted of construction of a new shelter at the Society's animal care and adoption center located in Centerville, Massachusetts. This project was completed and placed in service during the year ended December 31, 2018.

Depreciation expense for the years ended December 31, 2018 and 2017, was \$2,634,240 and \$2,275,480, respectively.

7. PENSION PLAN AND POSTRETIREMENT HEALTH BENEFITS

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

	<u>2018</u>	<u>2017</u>
Defined benefit plan	\$ 14,599,579	\$ 16,450,998
Postretirement health benefits	4,882,764	4,204,414
Supplemental employee retirement 457(b) Plan	78,576	222,215
	<u>383,459</u>	<u>338,489</u>
	19,944,378	21,216,116
Less - current portion	<u>1,725,666</u>	<u>1,208,868</u>
	<u>\$ 18,218,712</u>	<u>\$ 20,007,248</u>

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2018 and 2017

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>2018</u>	<u>2017</u>
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 61,873,506	\$ 59,806,534
Interest cost	2,166,336	2,398,296
Unrecognized effect of change in actuarial assumptions	(5,041,991)	3,452,193
Benefits paid *	<u>(2,361,493)</u>	<u>(3,783,517)</u>
Projected benefit obligation at end of year	<u>56,636,358</u>	<u>61,873,506</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	45,422,508	42,009,720
Actual return on plan assets	(1,797,980)	6,331,259
Employer contributions	773,744	865,046
Benefits paid *	<u>(2,361,493)</u>	<u>(3,783,517)</u>
Fair value of plan assets at end of year	<u>42,036,779</u>	<u>45,422,508</u>
Funded status at end of year	<u>\$ (14,599,579)</u>	<u>\$ (16,450,998)</u>
Net periodic pension cost included the following components:		
Interest cost	\$ 2,166,336	\$ 2,398,296
Expected return on assets	(3,207,912)	(2,959,099)
Amortization of actuarial loss	<u>1,115,991</u>	<u>1,205,580</u>
Net periodic pension cost	<u>\$ 74,415</u>	<u>\$ 644,777</u>
Accumulated benefit obligation	<u>\$ 56,636,358</u>	<u>\$ 61,873,506</u>

* During 2017, 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 totaled approximately \$1,646,000. The lump-sum payments did not require any additional contribution to the Plan from the Society.

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, 2018 and 2017, employer contributions noted on page 19 was \$12,535 and \$13,581, respectively, which was contributed by the other organization.

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2018 and 2017

7. PENSION PLAN AND POSTRETIREMENT HEALTH BENEFITS (Continued)

Pension Plan (Continued)

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:

2019	\$ 2,769,000
2020	2,923,000
2021	2,932,000
2022	2,955,000
2023	3,038,000
2024 - 2028	<u>16,340,000</u>
	<u>\$ 30,957,000</u>

The Society expects to contribute approximately \$1,528,000 to the Plan in the fiscal year beginning January 1, 2019, for the Plan year ending December 31, 2019.

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

	<u>2018</u>	<u>2017</u>
Long-term rate of investment return	7.25%	7.25%
Discount rate	4.22%	3.60%

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>2018</u>	<u>2017</u>
Vanguard 500 Index	\$ 12,515,777	\$ 15,745,647
SAGIC Diversified Bond II	11,401,328	11,468,445
Premier Barings Capital High Yield Bond	2,173,123	4,290,012
T. Rowe Price Blue Chip Growth	4,112,607	-
American Funds Europacific Growth	3,689,894	4,799,125
Oppenheimer Senior Floating Rate	2,174,947	-
Blackrock Health Sciences Opportunities	-	4,140,721
Victory Sycamore Established Value	1,990,395	2,569,017
American Funds New World	1,917,569	-
Select Mid Cap Growth Equity II	<u>2,061,139</u>	<u>2,409,541</u>
	<u>\$ 42,036,779</u>	<u>\$ 45,422,508</u>

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2018 and 2017

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, 2018 and 2017, by asset category, are as follows:

		2018			
<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	\$ 42,036,779	\$ -	\$ -	\$ -	\$ 42,036,779
		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

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 ANIMALS

Notes to Financial Statements
December 31, 2018 and 2017

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>2018</u>	<u>2017</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 4,204,414	\$ 3,710,393
Service cost	66,487	61,794
Interest cost	146,944	148,976
Unrecognized effect of change in actuarial assumptions	628,926	446,702
Benefits paid	<u>(164,007)</u>	<u>(163,451)</u>
Accumulated postretirement benefit obligation	<u>\$ 4,882,764</u>	<u>\$ 4,204,414</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ -	\$ -
Employer contributions	164,007	163,451
Benefits paid	<u>(164,007)</u>	<u>(163,451)</u>
Fair value of plan assets at end of year	<u>\$ -</u>	<u>\$ -</u>
Funded status at end of year	<u>\$ -</u>	<u>\$ -</u>
Net periodic benefit cost included the following components:		
Service cost	\$ 66,487	\$ 61,794
Interest cost	146,944	148,976
Amortization of net loss	<u>58,668</u>	<u>20,595</u>
Net periodic benefit cost	<u>\$ 272,099</u>	<u>\$ 231,365</u>

The discount rate used to determine the benefit obligation as of December 31, 2018 and 2017, was 4.22% and 3.6%, respectively. In measuring the projected postretirement benefit obligations as of December 31, 2018 and 2017, the Society assumed a health care cost trend rate of 6%, trending downward to 5.5%. 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, 2018, and net postretirement health care cost by \$94,695 (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, 2018 and 2017

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:

2019	\$ 335,000
2020	307,000
2021	287,000
2022	317,000
2023	326,000
2024 - 2028	<u>1,673,000</u>
	<u>\$ 3,245,000</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 4.5% (4% for the year ended December 31, 2017) 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. Expenses under this plan, including costs of operating the plan, were \$1,290,088 and \$1,017,627 for the years ended December 31, 2018 and 2017, 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 \$383,459 and \$338,489 in 2018 and 2017, 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, 2018 and 2017

8. BONDS AND NOTE PAYABLE

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

	<u>2018</u>	<u>2017</u>
\$5,981,424 in tax-exempt revenue 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.	\$ 5,210,589	\$ 5,828,128
\$4,000,000 note payable agreement with a bank for the purpose of financing the construction of the new shelter at the Society's animal care and adoption center located on Centerville, Massachusetts. The note payable interest rate is fixed at 4.54% and is payable monthly. Principal on the note is payable in monthly installments, with escalation amounts ranging from \$5,000 to \$171,000. The note payable matures April 2025 and is secured by a first priority interest in the assets of the Society, along with the \$5,981,424 bond described above and the \$2,300,000 note described below.	3,983,000	-
\$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 bond and \$4,000,000 note described above.	1,947,000	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% at December 31, 2018 and 2017) 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 \$1,411,002. The letter of credit expires on August 1, 2021.	<u>1,390,000</u>	<u>1,885,000</u>
	12,530,589	9,894,128
Less - unamortized debt issuance costs	(92,486)	(84,516)
Less - current portion	<u>(1,522,971)</u>	<u>(1,346,539)</u>
	<u>\$ 10,915,132</u>	<u>\$ 8,463,073</u>

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2018 and 2017

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:

2019	\$ 1,522,971
2020	1,665,402
2021	1,647,090
2022	1,602,547
2023	2,052,261
Thereafter	<u>4,040,318</u>
	<u>\$ 12,530,589</u>

The bonds and notes payable are subject to financial covenants as defined in the agreements. The Society was in compliance with these covenants at December 31, 2018 and 2017.

Interest expense, including letter of credit and amortization of debt issuance costs, totaled \$408,738 and \$162,891 for the years ended December 31, 2018 and 2017, respectively. Interest capitalized at December 31, 2018 and 2017, was \$30,771 and \$156,927, respectively.

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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Endowment assets, beginning of year	\$ <u>39,209,424</u>	\$ <u>34,630,052</u>
Gifts and additions	<u>313,499</u>	<u>939,200</u>
Releases from restrictions	<u>(16,300)</u>	<u>(1,715)</u>
Investment returns:		
Interest and dividends, net of investment expenses	71,199	(5,858)
Net realized and unrealized gains (losses)	<u>(1,489,628)</u>	<u>4,618,430</u>
Total investment returns	<u>(1,418,429)</u>	<u>4,612,572</u>
Investment returns appropriated	<u>(1,403,929)</u>	<u>(970,685)</u>
Endowment assets, end of year	<u>\$ 36,684,265</u>	<u>\$ 39,209,424</u>

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2018 and 2017

10. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes at December 31:

	<u>2017</u>	<u>New Gifts</u>	<u>Investment Returns, net of Amounts Appropriated</u>	<u>Releases from Restrictions</u>	<u>2018</u>
Program services	\$ 3,209,697	\$ 1,052,860	\$ (237,313)	\$ (1,115,224)	\$ 2,910,020
Acquisition of property and equipment	4,369,551	1,609,309	(161,498)	(647,522)	5,169,840
Accumulated investment earnings appreciation of donor restricted assets	<u>7,819,618</u>	<u>-</u>	<u>(2,674,577)</u>	<u>(16,300)</u>	<u>5,128,741</u>
	<u>\$ 15,398,866</u>	<u>\$ 2,662,169</u>	<u>\$ (3,073,388)</u>	<u>\$ (1,779,046)</u>	<u>\$ 13,208,601</u>
	<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 donor 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>

Certain 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. Net assets donor restricted in perpetuity consisted of the following at December 31:

<u>Fund Name</u>	<u>Restriction</u>	<u>2018</u>	<u>2017</u>
Beneficial Interest in Perpetual Trusts	Total return for various programs and distributions are at the discretion of third-party trustees	\$ 12,365,509	\$ 14,265,047
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	6,876,919	7,024,698
MSPCA General Fund	Total return used for general operations	6,055,716	6,001,671
Angell Memorial Hospital General Fund	Total return to support the Angell operations	5,019,671	4,982,739

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2018 and 2017

10. NET ASSETS WITH DONOR RESTRICTIONS (Continued)

<u>Fund Name</u>	<u>Restriction</u>	<u>2018</u>	<u>2017</u>
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	3,851,033	3,653,432
Other	Total return supports various programs and locations of the Society	<u>7,507,811</u>	<u>7,482,892</u>
		<u>\$ 43,921,033</u>	<u>\$ 45,654,853</u>

The Society holds approximately three million dollars in an endowment that 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 donor-restricted endowment.

Net assets reconciliation

As reported in the statements of financial position, net assets with donor restrictions consisted of the following at December 31:

<u>Restriction</u>	<u>2018</u>	<u>2017</u>
Purpose restrictions	\$ 13,208,601	\$ 15,398,866
Restricted in perpetuity	31,555,524	31,389,806
Beneficial interest in perpetual trusts	<u>12,365,509</u>	<u>14,265,047</u>
Net assets with donor restrictions	<u>\$ 57,129,634</u>	<u>\$ 61,053,719</u>

11. ALLOCATION OF JOINT COSTS

The Society incurred joint costs of \$851,629 and \$851,747 for the years ended December 31, 2018 and 2017, respectively, for informational materials and activities that included fundraising appeals. Joint costs were allocated as follows at December 31:

	<u>2018</u>	<u>2017</u>
Publications, communications and public program expenses	\$ 375,124	\$ 372,855
Development, membership, annual and planned giving expenses	<u>476,505</u>	<u>478,892</u>
Total joint costs	<u>\$ 851,629</u>	<u>\$ 851,747</u>

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2018 and 2017

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>2018</u>	<u>2017</u>
Contributions and grants received	\$ 751,000	\$ 396,000
Fundraising and administrative costs paid	\$ 235,000	\$ 217,000
Fees charged	\$ 95,000	\$ 112,000
Intercompany transfer	\$ 500,000	\$ -

The amounts due to Fondouk are included in due to related society in the accompanying statements of financial position. Amounts due at December 31, 2018 and 2017, were \$34,312 and \$112,323, 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, 2018 and 2017, was rental expense of \$311,238 and \$214,851, 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 2022. Equipment and other rental expense for the years ended December 31, 2018 and 2017, totaled \$265,080 and \$193,868, respectively.

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, 2018, are as follows:

2019	\$ 569,100
2020	484,495
2021	380,818
2022	310,020
2023	309,600
Thereafter	<u>1,238,400</u>
	<u>\$ 3,292,433</u>

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2018 and 2017

14. LIQUIDITY AND AVAILABILITY

The Society's financial assets available within one year from the statement of financial position date for general expenses are as follows:

Cash and cash equivalents	\$ 1,555,695
Accounts receivable from hospital operations, net	194,828
Prepaid expenses and other assets	1,852,670
Investments	<u>32,171,974</u>
	<u>\$ 35,775,167</u>

The Society has a policy to maintain financial assets on hand equal to thirty days of operating expenses, which totaled approximately \$5,633,000 for the year ended December 31, 2018. In addition to the Society's liquidity policy, the Society's bonds and notes payable agreements, as fully described in Note 8, contain a requirement that the Society maintain a liquidity ratio (total funded debt to cash and investments without donor restrictions) equal to or greater than one to one. At December 31, 2018, the liquidity ratio required the Society to maintain cash and investments without donor restrictions of \$12,530,589. The Society was in compliance with this liquidity requirement at December 31, 2018.

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. RECLASSIFICATION

Certain amounts in the 2017 financial statements have been reclassified to conform with the 2018 presentation.