



Kindness and Care for Animals®

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

**FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

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December 31, 2019 and 2018

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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, 2019 and 2018, and the related statements of activities and changes in net assets, cash flows and functional expenses 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, 2019 and 2018, 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.

AAFCPAs, Inc.

Westborough, Massachusetts
April 23, 2020

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Statements of Financial Position
December 31, 2019 and 2018

| Assets | 2019 | 2018 |
|---|------------------------------|------------------------------|
| Current Assets: | | |
| Cash and cash equivalents | \$ 4,310,822 | \$ 2,543,685 |
| Accounts receivable from hospital operations, net | 175,928 | 194,828 |
| Current portion of contributions receivable | 1,302,872 | 1,529,631 |
| Prepaid expenses and other assets | 2,225,496 | 2,146,438 |
| Total current assets | <u>8,015,118</u> | <u>6,414,582</u> |
| Contributions Receivable, net of current portion and discount | 1,304,078 | 901,927 |
| Investments | 100,985,936 | 78,205,415 |
| Beneficial Interest in Perpetual Trusts | 14,460,358 | 12,365,509 |
| Property and Equipment, net | <u>44,110,495</u> | <u>43,476,031</u> |
| Total assets | <u><u>\$ 168,875,985</u></u> | <u><u>\$ 141,363,464</u></u> |
| Liabilities and Net Assets | | |
| Current Liabilities: | | |
| Current portion of bonds and note payable | \$ 774,972 | \$ 1,522,971 |
| Current portion of accrued pension, postretirement and other retirement agreements | 889,483 | 1,725,666 |
| Current portion of charitable gift annuity liability | 116,554 | 91,663 |
| Accounts payable, accrued expenses and other liabilities | 2,672,182 | 1,744,574 |
| Accrued salaries, vacation and other benefits | 3,124,075 | 2,765,793 |
| Deferred revenue | 157,481 | 228,584 |
| Due to related society | 94,455 | 34,312 |
| Total current liabilities | <u>7,829,202</u> | <u>8,113,563</u> |
| Accrued Pension, Postretirement and Other Retirement Agreements, net of current portion | 18,232,206 | 18,218,712 |
| Charitable Gift Annuity Liability, net of current portion | 684,329 | 659,552 |
| Bonds and Note Payable, net of current portion and unamortized debt issuance costs | <u>19,750,643</u> | <u>10,915,132</u> |
| Total liabilities | <u>46,496,380</u> | <u>37,906,959</u> |
| Net Assets: | | |
| Without donor restrictions | 55,900,583 | 46,326,871 |
| With donor restrictions | <u>66,479,022</u> | <u>57,129,634</u> |
| Total net assets | <u>122,379,605</u> | <u>103,456,505</u> |
| Total liabilities and net assets | <u><u>\$ 168,875,985</u></u> | <u><u>\$ 141,363,464</u></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, 2019 and 2018

| | 2019 | | | 2018 | | |
|---|----------------------------|-------------------------|-----------------------|----------------------------|-------------------------|-----------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | Without Donor Restrictions | With Donor Restrictions | Total |
| Operating Revenue: | | | | | | |
| Revenue from health and hospital services | \$ 52,674,213 | \$ - | \$ 52,674,213 | \$ 49,121,568 | \$ - | \$ 49,121,568 |
| Annual giving, hospital and adoption center donations | 10,737,233 | 1,160,411 | 11,897,644 | 10,107,116 | 1,035,029 | 11,142,145 |
| Other income | 2,010,420 | - | 2,010,420 | 1,792,090 | - | 1,792,090 |
| Investment returns appropriated for operations | 1,519,218 | - | 1,519,218 | 1,403,929 | - | 1,403,929 |
| Distributions from outside managed trusts | 673,095 | 7,748 | 680,843 | 699,458 | 8,731 | 708,189 |
| Investment returns appropriated - O'Mara | - | 409,435 | 409,435 | - | - | - |
| Net assets released from program restrictions | 1,547,309 | (1,547,309) | - | 1,122,133 | (1,122,133) | - |
| Total operating revenue | <u>69,161,488</u> | <u>30,285</u> | <u>69,191,773</u> | <u>64,246,294</u> | <u>(78,373)</u> | <u>64,167,921</u> |
| Operating Expenses: | | | | | | |
| Program services: | | | | | | |
| Health and hospital services | 54,793,559 | - | 54,793,559 | 51,005,198 | - | 51,005,198 |
| Humane services, adoption centers, animal advocacy legislative affairs and humane education | 10,125,773 | - | 10,125,773 | 9,768,282 | - | 9,768,282 |
| Publications, communications and public relations | 1,105,283 | - | 1,105,283 | 1,143,764 | - | 1,143,764 |
| Total program services | <u>66,024,615</u> | <u>-</u> | <u>66,024,615</u> | <u>61,917,244</u> | <u>-</u> | <u>61,917,244</u> |
| General administration and support expenses | 4,940,334 | - | 4,940,334 | 4,634,620 | - | 4,634,620 |
| Development, annual and planned giving expenses | 2,038,085 | - | 2,038,085 | 1,977,873 | - | 1,977,873 |
| Total operating expenses | <u>73,003,034</u> | <u>-</u> | <u>73,003,034</u> | <u>68,529,737</u> | <u>-</u> | <u>68,529,737</u> |
| Changes in net assets from operations | <u>(3,841,546)</u> | <u>30,285</u> | <u>(3,811,261)</u> | <u>(4,283,443)</u> | <u>(78,373)</u> | <u>(4,361,816)</u> |
| Non-Operating Activities: | | | | | | |
| Investment returns, net of amounts appropriated | 5,944,808 | 4,902,654 | 10,847,462 | (1,575,685) | (3,221,172) | (4,796,857) |
| Bequests | 7,984,510 | 5,400 | 7,989,910 | 5,681,871 | - | 5,681,871 |
| Capital campaign contributions | - | 2,876,917 | 2,876,917 | - | 1,618,409 | 1,618,409 |
| Change in fair value of outside managed trusts | - | 2,094,849 | 2,094,849 | - | (1,899,538) | (1,899,538) |
| Endowment contributions | - | 158,194 | 158,194 | - | 313,499 | 313,499 |
| Net assets released from capital campaign restriction | 718,911 | (718,911) | - | 656,910 | (656,910) | - |
| Current year impact of change in pension obligations | (210,403) | - | (210,403) | 939,219 | - | 939,219 |
| Capital campaign fundraising expenses | (325,670) | - | (325,670) | (340,225) | - | (340,225) |
| Pension plan and postretirement benefits normal costs | (696,898) | - | (696,898) | (984,629) | - | (984,629) |
| Total non-operating activities | <u>13,415,258</u> | <u>9,319,103</u> | <u>22,734,361</u> | <u>4,377,461</u> | <u>(3,845,712)</u> | <u>531,749</u> |
| Changes in net assets | 9,573,712 | 9,349,388 | 18,923,100 | 94,018 | (3,924,085) | (3,830,067) |
| Net Assets: | | | | | | |
| Beginning of year | <u>46,326,871</u> | <u>57,129,634</u> | <u>103,456,505</u> | <u>46,232,853</u> | <u>61,053,719</u> | <u>107,286,572</u> |
| End of year | <u>\$ 55,900,583</u> | <u>\$ 66,479,022</u> | <u>\$ 122,379,605</u> | <u>\$ 46,326,871</u> | <u>\$ 57,129,634</u> | <u>\$ 103,456,505</u> |

The accompanying notes are an integral part of these statements.

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

 Statements of Cash Flows
 For the Years Ended December 31, 2019 and 2018

| | <u>2019</u> | <u>2018</u> |
|--|---------------------|---------------------|
| Cash Flows from Operating Activities: | | |
| Changes in net assets | \$ 18,923,100 | \$ (3,830,067) |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities: | | |
| Depreciation | 2,739,319 | 2,634,240 |
| Interest - amortization | 14,185 | 12,556 |
| Gain on sale of property and equipment | (6,171) | (3,800) |
| Realized and unrealized losses (gains) on investments | (12,629,963) | 3,588,908 |
| Change in fair value of beneficial interest in perpetual trusts | (2,094,849) | 1,899,538 |
| Contributions restricted for long-term purposes | (3,035,111) | (1,931,908) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable from hospital operations, net | 18,900 | 28,634 |
| Contributions receivable | 2,140,808 | 1,231,190 |
| Prepaid expenses and other assets | (79,058) | (30,768) |
| Accrued pension, postretirement and other retirement agreements | (822,689) | (1,271,738) |
| Charitable gift annuity liability | 49,668 | (94,344) |
| Accounts payable, accrued expenses and other liabilities | 176,440 | 214,513 |
| Accrued salaries, vacation and other benefits | 342,805 | 68,529 |
| Deferred revenue | (71,103) | 58,133 |
| Due to related society | 60,143 | (78,011) |
| Net cash provided by operating activities | <u>5,726,424</u> | <u>2,495,605</u> |
| Cash Flows from Investing Activities: | | |
| Cash paid for property and equipment | (2,619,767) | (6,898,437) |
| Proceeds from sale of property and equipment | 18,800 | 3,800 |
| Purchase of investments | (41,407,659) | (34,606,815) |
| Sales of investments | 31,257,101 | 35,683,307 |
| Net cash used in investing activities | <u>(12,751,525)</u> | <u>(5,818,145)</u> |
| Cash Flows from Financing Activities: | | |
| Payments on bonds and note payable | (1,862,304) | (1,363,540) |
| Cash paid for debt issuance costs | (64,369) | (20,526) |
| Proceeds from bonds and note payable | 10,000,000 | 4,000,000 |
| Contributions restricted for long-term purposes | 718,911 | 657,574 |
| Net cash provided by financing activities | <u>8,792,238</u> | <u>3,273,508</u> |
| Net Change in Cash and Cash Equivalents | 1,767,137 | (49,032) |
| Cash and Cash Equivalents: | | |
| Beginning of year | <u>2,543,685</u> | <u>2,592,717</u> |
| End of year | <u>\$ 4,310,822</u> | <u>\$ 2,543,685</u> |
| Supplemental Disclosure of Cash Flow Information: | | |
| Cash paid for interest, net of capitalized interest | <u>\$ 424,655</u> | <u>\$ 387,094</u> |
| Property and equipment financed with accounts payable | <u>\$ 905,994</u> | <u>\$ 139,349</u> |
| Reissuance of bond payable | <u>\$ 8,417,299</u> | <u>\$ -</u> |

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Statement of Functional Expenses

For the Year Ended December 31, 2019

(With Summarized Comparative Totals for the Year Ended December 31, 2018)

| | 2019 | | | | 2018 | | | |
|-----------------------------------|------------------------------------|--|--|------------------------------|--|--|----------------------|----------------------|
| | Program Services | | | Supporting Services | | | | |
| | 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 | Total | Total |
| Employee compensation and related | \$ 37,948,602 | \$ 6,288,049 | \$ - | \$ 44,236,651 | \$ 3,448,570 | \$ 1,315,778 | \$ 49,000,999 | \$ 45,772,622 |
| Other operating expenses | 13,750,196 | 2,502,921 | 1,105,283 | 17,358,400 | 996,478 | 640,590 | 18,995,468 | 17,781,261 |
| Depreciation | 1,788,100 | 622,575 | - | 2,410,675 | 283,421 | 45,223 | 2,739,319 | 2,634,240 |
| Occupancy | 1,152,415 | 519,249 | - | 1,671,664 | 141,739 | 32,305 | 1,845,708 | 1,932,876 |
| Interest expense | 154,246 | 192,979 | - | 347,225 | 70,126 | 4,189 | 421,540 | 408,738 |
| Total expenses | <u>\$ 54,793,559</u> | <u>\$ 10,125,773</u> | <u>\$ 1,105,283</u> | <u>\$ 66,024,615</u> | <u>\$ 4,940,334</u> | <u>\$ 2,038,085</u> | <u>\$ 73,003,034</u> | <u>\$ 68,529,737</u> |

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

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

| | <u>Program Services</u> | | | <u>Supporting Services</u> | | <u>Total</u> | |
|-----------------------------------|---|--|--|---------------------------------------|--|---------------------|--|
| | <u>Health and Hospital Services</u> | <u>Humane Services, Adoption Centers, Animal Advocacy Legislative Affairs and Humane Education</u> | <u>Publications, Communications and Public Relations</u> | <u>Total Program Services</u> | <u>General Administration and Support Services</u> | | <u>Development, Annual and Planned Giving Expenses</u> |
| 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, 2019 and 2018

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, two technician training programs in Westford and Danvers, 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 1,350 volunteers faithfully provided their support in 2019.

Approximately 102,000 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 programs in Westford and Danvers. 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 2019, the MSPCA-Angell spent approximately \$3,435,000 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 over 100 veterinarians, including 46 board-certified specialists, 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.

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2019 and 2018

1. OPERATIONS (Continued)

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. 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 2019, more than 10,120 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 1,299 complaints in 2019. More than 27,619 animals were inspected by our law enforcement officers in 2019. 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 2019, the Society provided operating grants to international animal welfare organizations in Africa, Turkey, and other locations in the Middle East totaling approximately \$41,500.

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).

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.

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

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.

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.

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

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.

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, 2019 and 2018, the Society recorded \$843,607 and \$872,485, 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 \$101,000 and \$157,000 in 2019 and 2018, respectively. The Society recognized bad debt expense of approximately \$143,000 and \$150,000 during 2019 and 2018, respectively.

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Investments

Investments are carried at fair value as described in Note 5 and on pages 17 and 18. 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.

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Objectives and Spending Policy (Continued)

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.

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% was approved by the Society's Board of Directors.

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.

Debt Issuance Costs

Debt issuance costs are amortized to interest expense over the period the related obligation is outstanding using the effective interest method. Unamortized 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, 2019 and 2018

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, 2019 and 2018, 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, 2019-February 28, 2020. The plan has been renewed through February 2021.

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

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, 2019 and 2018

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, 2019 and 2018, is expected to be recognized within the following 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 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, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

The Society has evaluated subsequent events through April 23, 2020, the date the financial statements were issued. See Note 16 for subsequent events that meet 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, 2021.

3. CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following at December 31:

| | <u>2019</u> | <u>2018</u> |
|-----------------------------------|---------------------|-------------------|
| Amounts due in: | | |
| Less than one year | \$ 1,302,872 | \$ 1,529,631 |
| One to five years | <u>1,399,000</u> | <u>965,600</u> |
| | 2,701,872 | 2,495,231 |
| Less - current portion | 1,302,872 | 1,529,631 |
| Less - net present value discount | <u>94,922</u> | <u>63,673</u> |
| Net contributions receivable | <u>\$ 1,304,078</u> | <u>\$ 901,927</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 0% and 9% of the contributions receivable as of December 31, 2019 and 2018, respectively.

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2019 and 2018

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, 2019:

| | Investments Measuring Fair Value Using Net Asset Value Per Share | Level 1 | Level 2 | Level 3 | Total |
|--|---|----------------------|---------------------|----------------------|-----------------------|
| Investments: | | | | | |
| Multi-regional equity | \$ 22,078,311 | \$ 1,868,810 | \$ - | \$ - | \$ 23,947,121 |
| U.S. equity | 10,133,622 | 1,730,726 | - | - | 11,864,348 |
| Multi-strategy hedge funds | 14,936,541 | - | - | - | 14,936,541 |
| U.S. core bonds | 9,497,908 | - | 75,039 | - | 9,572,947 |
| Developed Ex. U.S. equity | 3,825,537 | 353,487 | - | - | 4,179,024 |
| U.S. government nominal bonds | - | - | 4,759,486 | - | 4,759,486 |
| Cash and cash equivalents | - | 13,460,250 | - | - | 13,460,250 |
| U.S. TIPS | - | 6,208,053 | - | - | 6,208,053 |
| Emerging market equity | 1,789,247 | 777,917 | - | - | 2,567,164 |
| Opportunistic diversification | 1,423,904 | 510,100 | - | - | 1,934,004 |
| Opportunistic inflation hedging | 52,109 | - | - | - | 52,109 |
| Private investments 456(b) plan assets: | 5,321,041 | - | - | - | 5,321,041 |
| Equity | - | 197,563 | - | - | 197,563 |
| Fixed income | - | 41,471 | - | - | 41,471 |
| Managed Asset Allocation Fund | - | 323,664 | - | - | 323,664 |
| Charitable gift annuities: | | | | | |
| Mutual funds: | | | | | |
| Equity | - | 864,177 | - | - | 864,177 |
| Fixed income | - | 426,238 | - | - | 426,238 |
| Real assets | - | 63,335 | - | - | 63,335 |
| Cash and cash equivalents | - | 267,400 | - | - | 267,400 |
| Total investments | 69,058,220 | 27,093,191 | 4,834,525 | - | 100,985,936 |
| Beneficial interest in perpetual trusts | - | - | - | 14,460,358 | 14,460,358 |
| Total assets at fair value | <u>\$ 69,058,220</u> | <u>\$ 27,093,191</u> | <u>\$ 4,834,525</u> | <u>\$ 14,460,358</u> | <u>\$ 115,446,294</u> |

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2019 and 2018

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, 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 | - | <u>29,424</u> | - | - | <u>29,424</u> |
| Total investments | 48,670,157 | 17,802,635 | 11,732,623 | - | 78,205,415 |
| Beneficial interest in perpetual trusts | <u>-</u> | <u>-</u> | <u>-</u> | <u>12,365,509</u> | <u>12,365,509</u> |
| 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> |

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.

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2019 and 2018

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

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, 2019, the Society is committed to contribute an additional \$6,246,312 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 three 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>2019</u> | <u>2018</u> |
|---|----------------------|----------------------|
| Beneficial interest in perpetual trusts beginning balance | \$ 12,365,509 | \$ 14,265,047 |
| Change in fair value of outside managed trusts | <u>2,094,849</u> | <u>(1,899,538)</u> |
| Beneficial interest in perpetual trusts ending balance | <u>\$ 14,460,358</u> | <u>\$ 12,365,509</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, 2019 and 2018

6. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

| | <u>2019</u> | <u>2018</u> |
|---------------------------------|----------------------|----------------------|
| Land | \$ 259,310 | \$ 259,310 |
| Land improvements | 255,291 | 255,291 |
| Buildings | 43,907,177 | 44,096,951 |
| Building improvements | 12,444,529 | 10,856,684 |
| Leasehold improvements | 995,253 | 576,934 |
| Furniture and fixtures | 532,983 | 532,983 |
| Equipment and vehicles | 10,394,378 | 10,373,411 |
| Major medical equipment | 8,422,830 | 7,647,559 |
| Construction in progress | 439,139 | - |
| | <u>77,650,890</u> | <u>74,599,123</u> |
| Less - accumulated depreciation | <u>33,540,395</u> | <u>31,123,092</u> |
| Net property and equipment | <u>\$ 44,110,495</u> | <u>\$ 43,476,031</u> |

Construction in progress at December 31, 2019, consisted of construction of a new critical care unit at the Society's hospital located in Boston, Massachusetts. This project is expected to be completed and placed in service during the year ended December 31, 2021.

Depreciation expense for the years ended December 31, 2019 and 2018, was \$2,739,319 and \$2,634,240, respectively.

7. PENSION PLAN AND POSTRETIREMENT HEALTH BENEFITS

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

| | <u>2019</u> | <u>2018</u> |
|---|----------------------|----------------------|
| Defined benefit plan | \$ 13,513,870 | \$ 14,599,579 |
| Postretirement health benefits | 4,975,002 | 4,882,764 |
| Supplemental employee retirement 457(b) Plan | 70,119 | 78,576 |
| | <u>562,698</u> | <u>383,459</u> |
| | 19,121,689 | 19,944,378 |
| Less - current portion | <u>889,483</u> | <u>1,725,666</u> |
| | <u>\$ 18,232,206</u> | <u>\$ 18,218,712</u> |

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2019 and 2018

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>2019</u> | <u>2018</u> |
|--|------------------------|------------------------|
| Change in projected benefit obligation: | | |
| Projected benefit obligation at beginning of year | \$ 56,636,358 | \$ 61,873,506 |
| Interest cost | 2,316,754 | 2,166,336 |
| Unrecognized effect of change in actuarial assumptions | 6,443,073 | (5,041,991) |
| Benefits paid * | <u>(3,880,999)</u> | <u>(2,361,493)</u> |
| Projected benefit obligation at end of year | <u>61,515,186</u> | <u>56,636,358</u> |
| Change in plan assets: | | |
| Fair value of plan assets at beginning of year | 42,036,779 | 45,422,508 |
| Actual return on plan assets | 8,395,376 | (1,797,980) |
| Employer contributions | 1,450,160 | 773,744 |
| Benefits paid * | <u>(3,880,999)</u> | <u>(2,361,493)</u> |
| Fair value of plan assets at end of year | <u>48,001,316</u> | <u>42,036,779</u> |
| Funded status at end of year | <u>\$ (13,513,870)</u> | <u>\$ (14,599,579)</u> |
| Net periodic pension cost included the following components: | | |
| Interest cost | \$ 2,316,754 | \$ 2,166,336 |
| Expected return on assets | (2,966,484) | (3,207,912) |
| Amortization of actuarial loss | <u>1,104,645</u> | <u>1,115,991</u> |
| Net periodic pension cost | <u>\$ 454,915</u> | <u>\$ 74,415</u> |
| Accumulated benefit obligation | <u>\$ 61,515,186</u> | <u>\$ 56,636,358</u> |

* During 2019, 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 2019 totaled approximately \$1,557,000. 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, 2019 and 2018, employer contributions noted in the table above was \$23,638 and \$12,535, respectively, which was contributed by the other organization.

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2019 and 2018

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:

| | |
|-------------|----------------------|
| 2020 | \$ 2,962,000 |
| 2021 | 2,955,000 |
| 2022 | 2,973,000 |
| 2023 | 3,055,000 |
| 2024 | 3,215,000 |
| 2025 - 2029 | <u>16,487,000</u> |
| | <u>\$ 31,647,000</u> |

The Society expects to contribute approximately \$700,000 to the Plan in the fiscal year beginning January 1, 2020, for the Plan year ending December 31, 2020.

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

| | <u>2019</u> | <u>2018</u> |
|-------------------------------------|-------------|-------------|
| Long-term rate of investment return | 7.25% | 7.25% |
| Discount rate | 3.22% | 4.22% |

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>2019</u> | <u>2018</u> |
|---|----------------------|----------------------|
| Vanguard 500 Index | \$ 15,610,276 | \$ 12,515,777 |
| SAGIC Diversified Bond II | 11,162,465 | 11,401,328 |
| Premier Barings Capital High Yield Bond | 2,332,944 | 2,173,123 |
| T. Rowe Price Blue Chip Growth | 5,052,364 | 4,112,607 |
| American Funds Europacific Growth | 4,423,409 | 3,689,894 |
| Oppenheimer Senior Floating Rate | 2,101,695 | 2,174,947 |
| Victory Sycamore Established Value | 2,416,823 | 1,990,395 |
| American Funds New World | 2,315,351 | 1,917,569 |
| Select Mid Cap Growth Equity II | <u>2,585,989</u> | <u>2,061,139</u> |
| | <u>\$ 48,001,316</u> | <u>\$ 42,036,779</u> |

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2019 and 2018

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, 2019 and 2018, by asset category, are as follows:

| | | 2019 | | | |
|------------------------|---|----------------|----------------|----------------|---------------|
| <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 | \$ 48,001,316 | \$ - | \$ - | \$ - | \$ 48,001,316 |

| | | 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 |

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, 2019 and 2018

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>2019</u> | <u>2018</u> |
|--|---------------------|---------------------|
| Change in benefit obligation: | | |
| Benefit obligation at beginning of year | \$ 4,882,764 | \$ 4,204,414 |
| Service cost | 94,223 | 66,487 |
| Interest cost | 198,406 | 146,944 |
| Unrecognized effect of change in actuarial assumptions | (45,255) | 628,926 |
| Benefits paid | <u>(155,136)</u> | <u>(164,007)</u> |
| Accumulated postretirement benefit obligation | <u>\$ 4,975,002</u> | <u>\$ 4,882,764</u> |
| Change in plan assets: | | |
| Fair value of plan assets at beginning of year | \$ - | \$ - |
| Employer contributions | 155,136 | 164,007 |
| Benefits paid | <u>(155,136)</u> | <u>(164,007)</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 | \$ 94,223 | \$ 66,487 |
| Interest cost | 198,406 | 146,944 |
| Amortization of net loss | <u>111,073</u> | <u>58,668</u> |
| Net periodic benefit cost | <u>\$ 403,702</u> | <u>\$ 272,099</u> |

The discount rate used to determine the benefit obligation as of December 31, 2019 and 2018, was 3.22% and 4.22%, respectively. In measuring the projected postretirement benefit obligations as of December 31, 2019 and 2018, the Society assumed a health care cost trend rate of 5.5%, trending downward to 3.84%. 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, 2019, and net postretirement health care cost by \$97,752 (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, 2019 and 2018

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:

| | |
|-------------|---------------------|
| 2020 | \$ 257,000 |
| 2021 | 249,000 |
| 2022 | 278,000 |
| 2023 | 292,000 |
| 2024 | 285,000 |
| 2025 - 2029 | <u>1,594,000</u> |
| | <u>\$ 2,955,000</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% 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 \$1,381,817 and \$1,290,088 for the years ended December 31, 2019 and 2018, 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 \$562,698 and \$383,459 in 2019 and 2018, 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, 2019 and 2018

8. BONDS AND NOTE PAYABLE

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

| | <u>2019</u> | <u>2018</u> |
|---|--------------|-------------|
| \$7,698,672 in tax-exempt revenue bond (Series 2019 A) to refinance the note payable agreements and a portion of the tax exempt revenue bonds described below. The interest rate is fixed at 3.41% and is payable monthly. The bonds are payable in monthly installments of principal and interest over a 10 year period based on a 20 year amortization schedule, with a final balloon payment due on November 15, 2029. Bonds are secured by a first priority interest in the assets of the Society along with the tax-exempt revenue bonds described below. | \$ 7,694,072 | \$ - |
| \$10,718,626 in tax-exempt revenue bond (Series 2019 B) to refinance the tax exempt revenue bonds described below and finance the construction, acquisition, furnishing and equipping of a Critical Care Unit to be used by the veterinary hospital at the Society's Boston facility (see Note 6). The interest rate is fixed at 3.12% and is payable monthly. The bonds are payable in monthly installments of principal and interest over a 10 year period based on a 20 year amortization schedule, with a final balloon payment due on November 15, 2029. Bonds are secured by a first priority interest in the assets of the Society along with the tax-exempt revenue bond described below. | 10,686,404 | - |
| \$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 of principal and interest, with a final payment on June 8, 2026. Bonds are secured by a first priority interest in the assets of the Society along with the tax-exempt revenue bonds described above. A portion of the tax-exempt revenue bond was refinanced during the year ended December 31, 2019 as part of the tax-exempt financings as fully described above. | 2,287,809 | 5,210,589 |
| \$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 was fixed at 4.54% and is payable monthly. Principal on the note was payable in monthly installments, with escalation amounts ranging from \$5,000 to \$171,000. The note payable was scheduled to mature April 2025 and was secured by a first priority interest in the assets of the Society. The note payable agreement was refinanced during the year ended December 31, 2019 as part of the tax-exempt financing as fully described above. | - | 3,983,000 |

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2019 and 2018

8. BONDS AND NOTE PAYABLE (Continued)

| | <u>2019</u> | <u>2018</u> |
|--|----------------------|----------------------|
| <p>\$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 was fixed at 3.79% and was payable monthly. The term loan was payable in monthly installments of principal and interest, with a final payment on February 17, 2024. The term loan was secured by a first priority interest in the assets of the Society. The note payable agreement was refinanced during the year ended December 31, 2019 as part of the tax-exempt financing as fully described on page 26.</p> | - | 1,947,000 |
| <p>\$11,700,000 in tax-exempt variable rate revenue bonds for various capital outlays. The interest rate was determined by a bond remarketing agent and was not to exceed a rate of 12% per annum. Interest on the bonds was reset weekly (for an actual rate of 1.12% and 1.71% at November 15, 2019, date of repayment, and December 31, 2018, respectively) and was payable monthly. The bonds were payable in annual installments, with a final scheduled payment on August 1, 2027. Bonds were secured by an irrevocable letter of credit from a bank that was scheduled to expire on August 1, 2021. The tax-exempt revenue bond was refinanced during the year ended December 31, 2019 as part of the tax-exempt financing as fully described on page 26.</p> | - | 1,390,000 |
| | 20,668,285 | 12,530,589 |
| Less - unamortized debt issuance costs | (142,670) | (92,486) |
| Less - current portion | <u>(774,972)</u> | <u>(1,522,971)</u> |
| | <u>\$ 19,750,643</u> | <u>\$ 10,915,132</u> |

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:

| | |
|------------|----------------------|
| 2020 | \$ 774,972 |
| 2021 | 797,763 |
| 2022 | 822,232 |
| 2023 | 847,236 |
| 2024 | 873,601 |
| Thereafter | <u>16,552,481</u> |
| | <u>\$ 20,668,285</u> |

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2019 and 2018

8. BONDS AND NOTE PAYABLE (Continued)

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, 2019 and 2018.

Interest expense, including letter of credit and amortization of debt issuance costs, totaled \$421,540 and \$408,738 for the years ended December 31, 2019 and 2018, respectively. Interest capitalized during the years ended December 31, 2019 and 2018, was \$40,614 and \$30,771, 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, 2019 and 2018:

| | <u>2019</u> | <u>2018</u> |
|--|----------------------|----------------------|
| Endowment assets, beginning of year | \$ 36,684,265 | \$ 39,209,424 |
| Gifts and additions | <u>653,594</u> | <u>313,499</u> |
| Releases from restrictions | <u>(4,698)</u> | <u>(16,300)</u> |
| Investment returns: | | |
| Interest and dividends, net of investment expenses | 54,172 | 71,199 |
| Net realized and unrealized gains (losses) | <u>5,165,849</u> | <u>(1,489,628)</u> |
| Total investment returns | <u>5,220,021</u> | <u>(1,418,429)</u> |
| Investment returns appropriated | <u>(1,519,218)</u> | <u>(1,403,929)</u> |
| Endowment assets, end of year | <u>\$ 41,033,964</u> | <u>\$ 36,684,265</u> |

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2019 and 2018

10. NET ASSETS WITH DONOR RESTRICTIONS

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

| | <u>2018</u> | <u>New Gifts</u> | <u>Investment Returns, net of Amounts Appropriated</u> | <u>Releases from Restrictions</u> | <u>2019</u> |
|--|----------------------|---------------------|--|---|----------------------|
| Program services | \$ 2,910,020 | \$ 1,179,359 | \$ 886,929 | \$ (1,551,677) | \$ 3,424,631 |
| Acquisition of property and equipment | 5,169,840 | 2,375,717 | 724,357 | (709,575) | 7,560,339 |
| Accumulated investment earnings appreciation of donor restricted assets | <u>5,128,741</u> | <u>-</u> | <u>3,143,589</u> | <u>(4,968)</u> | <u>8,267,362</u> |
| | <u>\$ 13,208,601</u> | <u>\$ 3,555,076</u> | <u>\$ 4,754,875</u> | <u>\$ (2,266,220)</u> | <u>\$ 19,252,332</u> |
| | | | | | |
| | <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> |

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>2019</u> | <u>2018</u> |
|---|---|---------------|---------------|
| Beneficial Interest in Perpetual Trusts | Total return for various programs and distributions are at the discretion of third-party trustees | \$ 14,460,358 | \$ 12,365,509 |
| 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 | 7,434,133 | 6,876,919 |
| MSPCA General Fund | Total return used for general operations | 6,065,716 | 6,055,716 |
| Angell Memorial Hospital General Fund | Total return to support the Angell operations | 5,072,130 | 5,019,671 |

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2019 and 2018

10. NET ASSETS WITH DONOR RESTRICTIONS (Continued)

| <u>Fund Name</u> | <u>Restriction</u> | <u>2019</u> | <u>2018</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 | 4,041,333 | 3,851,033 |
| Other | Total return supports various programs and locations of the Society | <u>7,908,646</u> | <u>7,507,811</u> |
| | | <u>\$ 47,226,690</u> | <u>\$ 43,921,033</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>2019</u> | <u>2018</u> |
|---|----------------------|----------------------|
| Purpose restrictions | \$ 19,252,332 | \$ 13,208,601 |
| Restricted in perpetuity | 32,766,332 | 31,555,524 |
| Beneficial interest in perpetual trusts | <u>14,460,358</u> | <u>12,365,509</u> |
| Net assets with donor restrictions | <u>\$ 66,479,022</u> | <u>\$ 57,129,634</u> |

11. ALLOCATION OF JOINT COSTS

The Society incurred joint costs of \$838,723 and \$851,629 for the years ended December 31, 2019 and 2018, respectively, for informational materials and activities that included fundraising appeals. Joint costs were allocated as follows at December 31:

| | <u>2019</u> | <u>2018</u> |
|---|-------------------|-------------------|
| Publications, communications and public program expenses | \$ 369,748 | \$ 375,124 |
| Development, membership, annual and planned giving expenses | <u>468,975</u> | <u>476,505</u> |
| Total joint costs | <u>\$ 838,723</u> | <u>\$ 851,629</u> |

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2019 and 2018

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>2019</u> | <u>2018</u> |
|---|-------------|-------------|
| Contributions and grants received | \$ 434,000 | \$ 751,000 |
| Fundraising and administrative costs paid | \$ 261,000 | \$ 235,000 |
| Fees charged | \$ 113,000 | \$ 95,000 |
| 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, 2019 and 2018, were \$94,455 and \$34,312, respectively, and does 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, 2019 and 2018, was rental expense of \$395,940 and \$311,238, respectively, which includes real estate taxes of \$80,200 and \$59,066, 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, 2019 and 2018, totaled \$246,088 and \$265,080, 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, 2019, are as follows:

| | |
|------------|---------------------|
| 2020 | \$ 582,121 |
| 2021 | 432,460 |
| 2022 | 361,662 |
| 2023 | 339,983 |
| 2024 | 316,344 |
| Thereafter | <u>948,305</u> |
| | <u>\$ 2,980,875</u> |

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2019 and 2018

14. LIQUIDITY AND AVAILABILITY

The Society's financial assets available within one year from the statements of financial position date for general expenses are as follows as of December 31:

| | <u>2019</u> | <u>2018</u> |
|---|----------------------|----------------------|
| Cash and cash equivalents | \$ 3,164,592 | \$ 1,555,695 |
| Accounts receivable from hospital operations, net | 175,928 | 194,828 |
| Prepaid expenses and other assets | 2,173,838 | 1,852,670 |
| Investments | <u>36,476,212</u> | <u>32,171,974</u> |
| | <u>\$ 41,990,570</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 \$6,001,000 and \$5,633,000 for the years ended December 31, 2019 and 2018, respectively. In addition to the Society's liquidity policy, the Society's bond 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, 2019 and 2018, the liquidity ratio required the Society to maintain cash and investments without donor restrictions of \$20,668,285 and \$12,530,589, respectively. The Society was in compliance with this liquidity requirement at December 31, 2019 and 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. SUBSEQUENT EVENT

The COVID-19 outbreak in the United States, beginning in March 2020, is unprecedented. It has had a significant impact on our economy and businesses and the future impact is unknown. Our management team has implemented various new protocols to greatly reduce the risk of COVID-19 exposure to our clients and employees. In addition, our management team is frequently evaluating the financial impact of COVID-19 in an effort to lessen the impact while continuing to achieve our charitable mission with minimal interruption. While this disruption is expected to be temporary there is considerable uncertainty around its duration. The impact on the Society's financial position and operating results cannot be reasonably estimated at this time.

17. RECLASSIFICATION

Certain amounts in the 2018 financial statements have been reclassified to conform with the 2019 presentation.