



Kindness and Care for Animals®

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

**FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

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December 31, 2020 and 2019

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50 Washington Street
Westborough, MA 01581
508.366.9100
aafcpa.com

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, 2020 and 2019, 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, 2020 and 2019, 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 30, 2021

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Statements of Financial Position
December 31, 2020 and 2019

Assets	2020	2019
Current Assets:		
Cash and cash equivalents	\$ 1,163,046	\$ 4,310,822
Accounts receivable from hospital operations, net	326,133	175,928
Current portion of contributions receivable	1,350,058	1,302,872
Prepaid expenses and other assets	2,180,333	2,225,496
Total current assets	<u>5,019,570</u>	<u>8,015,118</u>
Contributions Receivable, net of current portion and discount	1,175,753	1,304,078
Investments	119,755,180	100,985,936
Beneficial Interest in Perpetual Trusts	15,867,423	14,460,358
Property and Equipment, net	<u>49,718,323</u>	<u>44,110,495</u>
Total assets	<u>\$ 191,536,249</u>	<u>\$ 168,875,985</u>
Liabilities and Net Assets		
Current Liabilities:		
Current portion of bonds payable	\$ 797,763	\$ 774,972
Current portion of accrued pension, postretirement and other retirement agreements	348,982	889,483
Current portion of charitable gift annuity liability	108,391	116,554
Accounts payable, accrued expenses and other liabilities	6,203,403	2,672,182
Accrued salaries, vacation and other benefits	2,387,429	3,124,075
Deferred revenue	182,229	157,481
Due to related society	421,977	94,455
Total current liabilities	<u>10,450,174</u>	<u>7,829,202</u>
Accrued Pension, Postretirement and Other Retirement Agreements, net of current portion	18,987,290	18,232,206
Charitable Gift Annuity Liability, net of current portion	649,613	684,329
Bonds Payable, net of current portion and unamortized debt issuance costs	<u>18,970,358</u>	<u>19,750,643</u>
Total liabilities	<u>49,057,435</u>	<u>46,496,380</u>
Net Assets:		
Without donor restrictions	69,373,461	55,900,583
With donor restrictions	<u>73,105,353</u>	<u>66,479,022</u>
Total net assets	<u>142,478,814</u>	<u>122,379,605</u>
Total liabilities and net assets	<u>\$ 191,536,249</u>	<u>\$ 168,875,985</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, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenue:						
Revenue from health and hospital services	\$ 60,356,387	\$ -	\$ 60,356,387	\$ 52,674,213	\$ -	\$ 52,674,213
Annual giving, hospital and adoption center donations	11,883,421	895,944	12,779,365	10,478,511	927,638	11,406,149
Investment returns appropriated for operations	1,629,941	-	1,629,941	1,519,218	-	1,519,218
Other income	1,509,904	-	1,509,904	2,010,420	-	2,010,420
Distributions from outside managed trusts	670,525	7,123	677,648	673,095	7,748	680,843
Investment returns appropriated - O'Mara	-	523,220	523,220	-	409,435	409,435
Net assets released from program restrictions	1,427,285	(1,427,285)	-	1,546,985	(1,546,985)	-
Total operating revenue	<u>77,477,463</u>	<u>(998)</u>	<u>77,476,465</u>	<u>68,902,442</u>	<u>(202,164)</u>	<u>68,700,278</u>
Operating Expenses:						
Program services:						
Health and hospital services	57,712,754	-	57,712,754	54,793,559	-	54,793,559
Humane services, adoption centers, animal advocacy legislative affairs and humane education	9,164,132	-	9,164,132	10,125,773	-	10,125,773
Publications, communications and public relations	1,139,805	-	1,139,805	1,105,283	-	1,105,283
Total program services	<u>68,016,691</u>	<u>-</u>	<u>68,016,691</u>	<u>66,024,615</u>	<u>-</u>	<u>66,024,615</u>
General administration and support expenses	5,343,794	-	5,343,794	4,940,334	-	4,940,334
Development, annual and planned giving expenses	2,246,636	-	2,246,636	2,038,085	-	2,038,085
Total operating expenses	<u>75,607,121</u>	<u>-</u>	<u>75,607,121</u>	<u>73,003,034</u>	<u>-</u>	<u>73,003,034</u>
Changes in net assets from operations	<u>1,870,342</u>	<u>(998)</u>	<u>1,869,344</u>	<u>(4,100,592)</u>	<u>(202,164)</u>	<u>(4,302,756)</u>
Non-Operating Activities:						
Investment returns, net of amounts appropriated	6,272,421	4,406,458	10,678,879	5,944,808	4,902,654	10,847,462
Bequests	5,681,638	-	5,681,638	7,984,510	5,400	7,989,910
Change in fair value of outside managed trusts	-	1,407,065	1,407,065	-	2,094,849	2,094,849
Capital campaign contributions	-	1,258,584	1,258,584	-	3,368,412	3,368,412
Endowment contributions	-	67,400	67,400	-	158,194	158,194
Net assets released from capital campaign restriction	512,178	(512,178)	-	977,957	(977,957)	-
Capital campaign fundraising expenses	(1,148)	-	(1,148)	(325,670)	-	(325,670)
Current year impact of change in pension obligations	(523,085)	-	(523,085)	(210,403)	-	(210,403)
Pension plan and postretirement benefits normal costs	(339,468)	-	(339,468)	(696,898)	-	(696,898)
Total non-operating activities	<u>11,602,536</u>	<u>6,627,329</u>	<u>18,229,865</u>	<u>13,674,304</u>	<u>9,551,552</u>	<u>23,225,856</u>
Changes in net assets	<u>13,472,878</u>	<u>6,626,331</u>	<u>20,099,209</u>	<u>9,573,712</u>	<u>9,349,388</u>	<u>18,923,100</u>
Net Assets:						
Beginning 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>
End of year	<u>\$ 69,373,461</u>	<u>\$ 73,105,353</u>	<u>\$ 142,478,814</u>	<u>\$ 55,900,583</u>	<u>\$ 66,479,022</u>	<u>\$ 122,379,605</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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ 20,099,209	\$ 18,923,100
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	2,702,888	2,739,319
Bad debt	405,000	143,000
Interest - amortization	12,656	14,185
Gain on sale of property and equipment	(11,500)	(6,171)
Realized and unrealized losses on investments	(12,513,187)	(12,629,963)
Change in fair value of beneficial interest in perpetual trusts	(1,407,065)	(2,094,849)
Contributions restricted for long-term purposes	(1,325,984)	(3,526,606)
Changes in operating assets and liabilities:		
Accounts receivable from hospital operations	(555,205)	(124,100)
Contributions receivable	81,139	(175,392)
Prepaid expenses and other assets	45,163	(79,058)
Accrued pension, postretirement and other retirement agreements	214,583	(822,689)
Charitable gift annuity liability	(42,879)	49,668
Accounts payable, accrued expenses and other liabilities	2,166,945	176,440
Accrued salaries, vacation and other benefits	(727,878)	342,805
Deferred revenue	24,748	(71,103)
Due to related society	327,522	60,143
Net cash provided by operating activities	<u>9,496,155</u>	<u>2,918,729</u>
Cash Flows from Investing Activities:		
Cash paid for property and equipment	(6,950,387)	(2,619,767)
Proceeds from sale of property and equipment	11,500	18,800
Purchase of investments	(64,258,035)	(41,407,659)
Sales of investments	58,001,978	31,257,101
Net cash used in investing activities	<u>(13,194,944)</u>	<u>(12,751,525)</u>
Cash Flows from Financing Activities:		
Payments on bonds payable	(774,971)	(1,862,304)
Cash paid for debt issuance costs	-	(64,369)
Proceeds from bonds payable	-	10,000,000
Contributions restricted for long-term purposes	1,325,984	3,526,606
Net cash provided by financing activities	<u>551,013</u>	<u>11,599,933</u>
Net Change in Cash and Cash Equivalents	<u>(3,147,776)</u>	<u>1,767,137</u>
Cash and Cash Equivalents:		
Beginning of year	<u>4,310,822</u>	<u>2,543,685</u>
End of year	<u>\$ 1,163,046</u>	<u>\$ 4,310,822</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest, net of capitalized interest	<u>\$ 332,805</u>	<u>\$ 424,655</u>
Property and equipment financed with accounts payable	<u>\$ 1,355,508</u>	<u>\$ 905,994</u>
Amortization of debt issuance costs included in property and equipment	<u>\$ 4,821</u>	<u>\$ -</u>
Reissuance of bond payable	<u>\$ -</u>	<u>\$ 8,417,299</u>

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Statement of Functional Expenses

For the Year Ended December 31, 2020

(With Summarized Comparative Totals for the Year Ended December 31, 2019)

	2020						2019	
	Program Services				Supporting Services		Total	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	\$ 40,124,045	\$ 5,847,902	\$ -	\$ 45,971,947	\$ 3,872,318	\$ 1,741,401	\$ 51,585,666	\$ 49,000,999
Other operating expenses	14,646,932	2,020,696	1,139,805	17,807,433	1,028,941	426,353	19,262,727	18,995,468
Depreciation	1,745,594	655,828	-	2,401,422	255,638	45,828	2,702,888	2,739,319
Occupancy	1,045,851	493,151	-	1,539,002	141,537	28,417	1,708,956	1,845,708
Interest expense	150,332	146,555	-	296,887	45,360	4,637	346,884	421,540
Total expenses	\$ 57,712,754	\$ 9,164,132	\$ 1,139,805	\$ 68,016,691	\$ 5,343,794	\$ 2,246,636	\$ 75,607,121	\$ 73,003,034

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Statement of Functional Expenses
For the Year Ended December 31, 2019

	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	\$ 37,948,602	\$ 6,288,049	\$ -	\$ 44,236,651	\$ 3,448,570	\$ 1,315,778	\$ 49,000,999
Other operating expenses	13,750,196	2,502,921	1,105,283	17,358,400	996,478	640,590	18,995,468
Depreciation	1,788,100	622,575	-	2,410,675	283,421	45,223	2,739,319
Occupancy	1,152,415	519,249	-	1,671,664	141,739	32,305	1,845,708
Interest expense	154,246	192,979	-	347,225	70,126	4,189	421,540
Total expenses	\$ 54,793,559	\$ 10,125,773	\$ 1,105,283	\$ 66,024,615	\$ 4,940,334	\$ 2,038,085	\$ 73,003,034

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2020 and 2019

1. OPERATIONS

The accompanying financial statements include the assets, liabilities, net assets, and financial activities of the Massachusetts Society for the Prevention of Cruelty to Animals (the Society or the MSPCA).

The MSPCA operates two 24/7 emergency and specialty animal hospitals, Angell Animal Medical Center in Boston and the MSPCA-Angell West in Waltham, as well as two veterinary technician training programs located in Westford and Danvers, Mass. that also provide veterinary care to the regions' low income pet owners.

The MSPCA also operates three animal care and adoption centers—in Boston, Methuen and Centerville—that place approximately 6,000 animals into adoptive homes every year.

In addition to its animal hospitals and adoption centers, the MSPCA's Advocacy team lobbies Massachusetts lawmakers for stronger animal protection laws, while its Law Enforcement department investigated approximately 1,000 animal cruelty complaints in 2020.

The MSPCA is an independent nonprofit and receives donations from across the U.S. and from more than 25 countries across the world. In addition to its staff of approximately 650, the MSPCA relies on more than 700 unpaid volunteers to faithfully execute its mission.

Founded in 1868 as one of the first humane organizations established in the U.S., the MSPCA has witnessed vast and enduring cultural change which has dramatically changed our relationship to animals, from wildlife to pets. In many cases, the MSPCA has hastened and amplified this cultural evolution through the establishment of animal protection law, as well as its unending emphasis on humane education.

The MSPCA's commitment to building a more just and compassionate society does not end at the Massachusetts state line. Its legislative, humane education, animal relocation and adoption and community support have created positive and lasting change for animals across the U.S. and around the world. Throughout 2020, the MSPCA provided operating grants in excess of \$49,000 to international animal welfare organizations in Africa, Turkey and other locations in the Middle East.

Angell Animal Medical Center

More than 100,000 sick and injured animals were treated last year across the Angell network: from Angell Animal Medical Center in Boston, to the MSPCA-Angell West and its low-income clinics in Westford and Danvers.

Angell Animal Medical Center in Boston remains the organization's largest facility. In 2020, construction began on the all-new Critical Care Unit (CCU), which will feature state-of-the-art diagnostic and treatment technology as well as 6,000 more square feet of treatment area to keep pace with growing demand.

The new CCU will include dedicated areas for services that include hemodialysis and mechanical ventilation, as well as more comfortable areas in which patients can be bathed, and separate, species-specific wards for cats, dogs and avian and exotic patients. The CCU project is expected to be completed in 2022.

Presently, Angell Animal Medical Center in Boston employs more than 100 veterinarians, including 46 board certified specialists. A teaching hospital, Angell Animal Medical Center established the world's first veterinary internship program just after World War II, and a team of interns and residents round out its staff roster.

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2020 and 2019

1. OPERATIONS (Continued)

Angell Animal Medical Center (Continued)

A newly created and endowed veterinary social worker position was established in 2017 and, as a result, grieving pet owners (and hospital staff) receive best-in-class emotional support on an as-needed basis.

The MSPCA-Angell West continues to bring new specialty services online to support pet owners who live West of Boston. In 2018, the facility expanded in both size and services, and now offers physical rehabilitation and pet training and behavior services.

As an independent, publicly supported nonprofit organization, the MSPCA also provides aid to animals, and their families. In 2020, the MSPCA distributed approximately \$3.05 million to people who could not afford veterinary care for their pets. These funds were made available by way of the organization's Pet Care Assistance fund.

Animal Care and Adoption Centers

The MSPCA's three animal care and adoption centers are the temporary home for thousands of animals seeking shelter and medical care every year before they can be placed into adoptive homes. From dogs, cats and rabbits—to birds, horses, waterfowl and all manner of farm animals—the MSPCA's adoption centers shelter a variety of pets with a staff and volunteer base that sees to their every need.

The animal care and adoption centers also play a central role in reducing the population of homeless pets through progressive, innovative spay and neuter programs and related community-based pet wellness services. The MSPCA-Cape Cod in Centerville new facility, was completed in 2018, and includes space for medical and behavioral evaluations, a modern spay and neuter clinic for homeless animals, a multi-purpose training and education room and increased quarantine space.

The MSPCA spayed and neutered more than 7,000 dogs, cats and other animals in 2020 and continues to innovate new and expanded programming to reduce the population of unwanted pets.

In addition to the adoption centers, the MSPCA operates Hillside Acre Animal Cemetery, located in Methuen, which is the final resting ground for thousands of beloved animal companions.

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.

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2020 and 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Without Donor Restrictions (Continued)

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.

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 accompanying statements 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 outlined on page 10.

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2020 and 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

- 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.

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, 2020 and 2019, the Society recorded \$1,029,483 and \$843,607, respectively, in donated goods and services, which are included in annual giving, hospital and adoption center donations and operating expenses.

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2020 and 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 \$381,000 and \$101,000 as of December 31, 2020 and 2019, respectively. The Society recognized bad debt expense of approximately \$405,000 and \$143,000 during 2020 and 2019, 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.

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 13) 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 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.

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2020 and 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Objectives and Spending Policy (Continued)

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.

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.

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2020 and 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2020 and 2019, 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, 2020 to February 28, 2021. The plan has been renewed through February 2022.

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 statements of financial position and recognizes changes in that funded status in the year in which the changes occur using standard actuarial methods.

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2020 and 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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. The balance in deferred revenue as of December 31, 2020 and 2019, 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 (not a private foundation) described in Section 501(c)(3) of the Internal Revenue Code (IRC), and is generally exempt from Federal and state income taxes on related income. Given the limited taxable activities of the Society, management concluded that disclosures relative to tax provisions are not necessary.

Uncertain Tax Positions

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

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

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2020 and 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

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

Subsequent Events

The Society has evaluated subsequent events through April 30, 2021, the date the financial statements were issued. See Note 17 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 accompanying 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, 2022.

3. CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following at December 31:

	<u>2020</u>	<u>2019</u>
Amounts due in:		
Less than one year	\$ 1,350,058	\$ 1,302,872
One to five years	<u>1,243,515</u>	<u>1,399,000</u>
	2,593,573	2,701,872
Less - current portion	1,350,058	1,302,872
Less - net present value discount	<u>67,762</u>	<u>94,922</u>
Net contributions receivable	<u>\$ 1,175,753</u>	<u>\$ 1,304,078</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 \$280,000 of the contributions receivable as of December 31, 2020.

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2020 and 2019

4. INVESTMENTS RETURNS

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

	2020		Total
	Without Donor Restrictions	With Donor Restrictions	
Investment returns:			
Realized and unrealized gains	\$ 6,111,819	\$ 6,401,368	\$ 12,513,187
Interest and dividends	333,861	328,896	662,757
Investment fees	<u>(173,259)</u>	<u>(170,645)</u>	<u>(343,904)</u>
Sub-total of investment returns	6,272,421	6,559,619	12,832,040
Investment returns appropriated	<u>-</u>	<u>(2,153,161)</u>	<u>(2,153,161)</u>
Total investment returns, net of amounts appropriated	<u>\$ 6,272,421</u>	<u>\$ 4,406,458</u>	<u>\$ 10,678,879</u>
Investment returns appropriated	<u>\$ 1,629,941</u>	<u>\$ -</u>	<u>\$ 1,629,941</u>
Investment returns appropriated - O'Mara	<u>\$ -</u>	<u>\$ 523,220</u>	<u>\$ 523,220</u>
	2019		Total
	Without Donor Restrictions	With Donor Restrictions	
Investment returns:			
Realized and unrealized losses	\$ 5,870,091	\$ 6,759,872	\$ 12,629,963
Interest and dividends	251,315	256,468	507,783
Investment fees	<u>(176,598)</u>	<u>(185,033)</u>	<u>(361,631)</u>
Sub-total of investment returns	5,944,808	6,831,307	12,776,115
Investment returns appropriated	<u>-</u>	<u>(1,928,653)</u>	<u>(1,928,653)</u>
Total investment returns, net of amounts appropriated	<u>\$ 5,944,808</u>	<u>\$ 4,902,654</u>	<u>\$ 10,847,462</u>
Investment returns appropriated	<u>\$ 1,519,218</u>	<u>\$ -</u>	<u>\$ 1,519,218</u>
Investment returns appropriated - O'Mara	<u>\$ -</u>	<u>\$ 409,435</u>	<u>\$ 409,435</u>

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2020 and 2019

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, 2020:

	Investments Measuring Fair Value Using Net Asset Value Per Share	Level 1	Level 2	Level 3	Total
Investments:					
Multi-regional equity	\$ 20,619,664	\$ 2,734,689	\$ -	\$ -	\$ 23,354,353
U.S. equity	14,095,140	4,516,451	-	-	18,611,591
Multi-strategy hedge funds	19,106,261	-	-	-	19,106,261
U.S. core bonds	4,561,579	-	4,991,439	-	9,553,018
Developed Ex. U.S. equity	5,683,962	959,568	-	-	6,643,530
U.S. government nominal bonds	-	-	4,243,726	-	4,243,726
Cash and cash equivalents	-	19,914,570	-	-	19,914,570
U.S. TIPS	-	4,544,610	-	-	4,544,610
Emerging market equity	2,784,590	1,586,610	-	-	4,371,200
Opportunistic inflation hedging	380,935	-	-	-	380,935
Private investments	6,599,022	-	-	-	6,599,022
457(b) plan assets:					
Equity	-	263,497	-	-	263,497
Fixed income	-	50,373	-	-	50,373
Managed asset allocation fund	-	426,914	-	-	426,914
Charitable gift annuities:					
Mutual funds:					
Equity	-	1,123,819	-	-	1,123,819
Fixed income	-	499,631	-	-	499,631
Real assets	-	58,856	-	-	58,856
Cash and cash equivalents	-	9,274	-	-	9,274
Total investments	73,831,153	36,688,862	9,235,165	-	119,755,180
Beneficial interest in perpetual trusts	-	-	-	15,867,423	15,867,423
Total assets at fair value	<u>\$ 73,831,153</u>	<u>\$ 36,688,862</u>	<u>\$ 9,235,165</u>	<u>\$ 15,867,423</u>	<u>\$ 135,622,603</u>

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2020 and 2019

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, 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	5,321,041	-	-	-	5,321,041
457(b) plan assets:					
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>

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, 2020 and 2019

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, 2020, the Society is committed to contribute an additional \$7,364,178 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>2020</u>	<u>2019</u>
Beneficial interest in perpetual trusts beginning balance	\$ 14,460,358	\$ 12,365,509
Change in fair value of outside managed trusts	<u>1,407,065</u>	<u>2,094,849</u>
Beneficial interest in perpetual trusts ending balance	<u>\$ 15,867,423</u>	<u>\$ 14,460,358</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.

6. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2020</u>	<u>2019</u>
Land	\$ 259,310	\$ 259,310
Land improvements	255,291	255,291
Buildings	43,933,295	43,907,177
Building improvements	13,364,649	12,444,529
Leasehold improvements	995,253	995,253
Furniture and fixtures	532,983	532,983
Equipment and vehicles	10,966,321	10,394,378
Major medical equipment	8,666,374	8,422,830
Construction in progress	<u>6,894,734</u>	<u>439,139</u>
	85,868,210	77,650,890
Less - accumulated depreciation	<u>36,149,887</u>	<u>33,540,395</u>
Net property and equipment	<u>\$ 49,718,323</u>	<u>\$ 44,110,495</u>

Construction in progress at December 31, 2020 and 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, 2022.

Depreciation expense for the years ended December 31, 2020 and 2019, was \$2,702,888 and \$2,739,319, respectively.

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2020 and 2019

7. PENSION PLAN AND POSTRETIREMENT HEALTH BENEFITS

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

	<u>2020</u>	<u>2019</u>
Defined benefit plan	\$ 12,936,758	\$ 13,513,870
Postretirement health benefits	5,586,538	4,975,002
457(b) Plan	740,784	562,698
Supplemental employee retirement	<u>72,192</u>	<u>70,119</u>
	19,336,272	19,121,689
Less - current portion	<u>348,982</u>	<u>889,483</u>
	<u>\$ 18,987,290</u>	<u>\$ 18,232,206</u>

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>2020</u>	<u>2019</u>
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 61,515,186	\$ 56,636,358
Interest cost	1,912,497	2,316,754
Unrecognized effect of change in actuarial assumptions	4,837,751	6,443,073
Benefits paid *	<u>(3,202,491)</u>	<u>(3,880,999)</u>
Projected benefit obligation at end of year	<u>65,062,943</u>	<u>61,515,186</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	48,001,316	42,036,779
Actual return on plan assets	6,977,698	8,395,376
Employer contributions	349,662	1,450,160
Benefits paid *	<u>(3,202,491)</u>	<u>(3,880,999)</u>
Fair value of plan assets at end of year	<u>52,126,185</u>	<u>48,001,316</u>
Funded status at end of year	<u>\$ (12,936,758)</u>	<u>\$ (13,513,870)</u>
Net periodic pension cost included the following components:		
Interest cost	\$ 1,912,497	\$ 2,316,754
Expected return on assets	(3,377,901)	(2,966,484)
Amortization of actuarial loss	<u>1,025,921</u>	<u>1,104,645</u>
Net periodic pension cost	<u>\$ (439,483)</u>	<u>\$ 454,915</u>
Accumulated benefit obligation	<u>\$ 65,062,943</u>	<u>\$ 61,515,186</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.

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2020 and 2019

7. PENSION PLAN AND POSTRETIREMENT HEALTH BENEFITS (Continued)

Pension Plan (Continued)

The Plan includes certain benefits for an outside employer that are charged to the other organization by the service provider. Included in the December 31, 2020 and 2019, employer contributions noted in the table above was \$5,804 and \$23,638, respectively, which was contributed by the other organization.

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

2021	\$ 3,001,000
2022	3,015,000
2023	3,084,000
2024	3,231,000
2025	3,292,000
2026 - 2030	<u>16,401,000</u>
	<u>\$ 32,024,000</u>

The Society expects to contribute approximately \$160,000 to the Plan in the fiscal year beginning January 1, 2021, for the Plan year ending December 31, 2021.

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

	<u>2020</u>	<u>2019</u>
Long-term rate of investment return	7.25%	7.25%
Discount rate	2.52%	3.22%

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>2020</u>	<u>2019</u>
Vanguard 500 Index	\$ 17,407,997	\$ 15,610,276
SAGIC Diversified Bond II	10,786,953	11,162,465
Premier Barings Capital High Yield Bond	2,284,213	2,332,944
T. Rowe Price Blue Chip Growth	6,426,225	5,052,364
American Funds Europacific Growth	5,154,965	4,423,409
Oppenheimer Senior Floating Rate	1,855,641	2,101,695
Victory Sycamore Established Value	2,424,147	2,416,823
American Funds New World	2,709,985	2,315,351
Select Mid Cap Growth Equity II	<u>3,076,059</u>	<u>2,585,989</u>
	<u>\$ 52,126,185</u>	<u>\$ 48,001,316</u>

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2020 and 2019

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, 2020 and 2019, by asset category, are as follows:

2020					
<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	\$ 52,126,185	\$ -	\$ -	\$ -	\$ 52,126,185

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

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, 2020 and 2019

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>2020</u>	<u>2019</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 4,975,002	\$ 4,882,764
Service cost	101,270	94,223
Interest cost	155,707	198,406
Unrecognized effect of change in actuarial assumptions	509,016	(45,255)
Benefits paid	<u>(154,457)</u>	<u>(155,136)</u>
Accumulated postretirement benefit obligation	<u>\$ 5,586,538</u>	<u>\$ 4,975,002</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ -	\$ -
Employer contributions	154,457	155,136
Benefits paid	<u>(154,457)</u>	<u>(155,136)</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	\$ 101,270	\$ 94,223
Interest cost	155,707	198,406
Amortization of net loss	<u>97,543</u>	<u>111,073</u>
Net periodic benefit cost	<u>\$ 354,520</u>	<u>\$ 403,702</u>

The discount rate used to determine the benefit obligation as of December 31, 2020 and 2019, was 2.52% and 3.22%, respectively. In measuring the projected postretirement benefit obligations as of December 31, 2020 and 2019, the Society assumed a health care cost trend rate of 5.5%, trending downward to 4.04%. 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, 2020, and net postretirement health care cost by \$123,725 (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

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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:

2021	\$ 235,000
2022	287,000
2023	314,000
2024	308,000
2025	330,000
2026 - 2029	<u>1,813,000</u>
	<u>\$ 3,287,000</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 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 \$1,672,095 and \$1,381,817 for the years ended December 31, 2020 and 2019, 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 \$740,784 and \$562,698 in 2020 and 2019, 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
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8. BONDS PAYABLE

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

	<u>2020</u>	<u>2019</u>
\$7,698,672 in tax-exempt revenue bond (Series 2019 A) to refinance existing 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 ten-year period based on a twenty-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.	\$ 7,638,572	\$ 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 ten-year period based on a twenty-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.	10,293,133	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.	<u>1,961,608</u>	<u>2,287,809</u>
	19,893,313	20,668,285
Less - unamortized debt issuance costs	(125,192)	(142,670)
Less - current portion	<u>(797,763)</u>	<u>(774,972)</u>
	<u>\$ 18,970,358</u>	<u>\$ 19,750,643</u>

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

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2020 and 2019

8. BONDS PAYABLE (Continued)

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

2021	\$ 797,763
2022	822,233
2023	847,236
2024	873,601
2025	901,554
Thereafter	<u>15,650,926</u>
	<u>\$ 19,893,313</u>

The bonds payable are subject to financial covenants as defined in the agreements. The Society was in compliance with these covenants at December 31, 2020 and 2019.

Interest expense, including amortization of debt issuance costs, totaled \$677,270 and \$421,540 for the years ended December 31, 2020 and 2019, respectively. Interest capitalized during the years ended December 31, 2020 and 2019, was \$330,386 and \$40,614, respectively.

9. LINE OF CREDIT

The Society has a \$2,000,000 revolving line of credit which expires on July 15, 2021, and bears interest at the London Interbank Offered Rate (LIBOR) plus 1.75%, subject to a minimum interest rate floor of 2.5%. There is no outstanding debt in relation to the line of credit. The line of credit is cross defaulted with the bonds payable agreements as described in Note 8.

10. NET ASSETS AND ENDOWMENT MATTERS

The following represents required disclosure relative to the composition and activities of endowment for the years ended December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Endowment assets, beginning of year	\$ 41,033,694	\$ 36,684,265
Gifts and additions	<u>172,290</u>	<u>653,594</u>
Releases from restrictions	<u>(4,000)</u>	<u>(4,698)</u>
Investment returns:		
Interest and dividends, net of investment expenses	116,010	54,172
Net realized and unrealized gains	<u>4,692,355</u>	<u>5,165,849</u>
Total investment returns	<u>4,808,365</u>	<u>5,220,021</u>
Investment returns appropriated	<u>(1,629,941)</u>	<u>(1,519,218)</u>
Endowment assets, end of year	<u>\$ 44,380,408</u>	<u>\$ 41,033,694</u>

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, 2020 and 2019, no significant funds were considered to be underwater.

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2020 and 2019

11. NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2019</u>	<u>New Gifts</u>	<u>Investment Returns, net of Amounts Appropriated</u>	<u>Releases from Restrictions</u>	<u>2020</u>
Program services	\$ 3,078,541	\$ 915,817	\$ 821,123	\$ (1,434,267)	\$ 3,381,214
Acquisition of property and equipment	7,906,429	1,140,944	930,131	(501,196)	9,476,308
Accumulated investment earnings appreciation of donor restricted assets	<u>8,267,362</u>	<u>-</u>	<u>2,655,204</u>	<u>(4,000)</u>	<u>10,918,566</u>
	<u>\$ 19,252,332</u>	<u>\$ 2,056,761</u>	<u>\$ 4,406,458</u>	<u>\$ (1,939,463)</u>	<u>\$ 23,776,088</u>
	<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	\$ 2,796,378	\$ 946,586	\$ 886,929	\$ (1,551,352)	\$ 3,078,541
Acquisition of property and equipment	5,283,482	2,867,212	724,357	(968,622)	7,906,429
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>\$ 3,813,798</u>	<u>\$ 4,754,875</u>	<u>\$ (2,524,942)</u>	<u>\$ 19,252,332</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>2020</u>	<u>2019</u>
Beneficial Interest in Perpetual Trusts	Total return for various programs and distributions are at the discretion of third-party trustees	\$ 15,867,423	\$ 14,460,358
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	7,957,352	7,434,133
MSPCA General Fund	Total return used for general operations	6,075,716	6,065,716
Angell Memorial Hospital General Fund	Total return to support the Angell operations	5,111,228	5,072,130

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2020 and 2019

11. NET ASSETS WITH DONOR RESTRICTIONS (Continued)

<u>Fund Name</u>	<u>Restriction</u>	<u>2020</u>	<u>2019</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	4,278,125	4,041,333
Other	Total return supports various programs and locations of the Society	<u>7,795,047</u>	<u>7,908,646</u>
		<u>\$ 49,329,265</u>	<u>\$ 47,226,690</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>2020</u>	<u>2019</u>
Purpose restrictions	\$ 23,776,088	\$ 19,252,332
Restricted in perpetuity	33,461,842	32,766,332
Beneficial interest in perpetual trusts	<u>15,867,423</u>	<u>14,460,358</u>
Net assets with donor restrictions	<u>\$ 73,105,353</u>	<u>\$ 66,479,022</u>

12. ALLOCATION OF JOINT COSTS

The Society incurred joint costs of \$870,129 and \$838,723 for the years ended December 31, 2020 and 2019, respectively, for informational materials and activities that included fundraising appeals. Joint costs were allocated as follows at December 31:

	<u>2020</u>	<u>2019</u>
Publications, communications and public program expenses	\$ 383,738	\$ 369,748
Development, membership, annual and planned giving expenses	<u>486,391</u>	<u>468,975</u>
Total joint costs	<u>\$ 870,129</u>	<u>\$ 838,723</u>

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Notes to Financial Statements
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13. RELATED PARTY TRANSACTIONS

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

	<u>2020</u>	<u>2019</u>
Contributions and grants received	\$ 729,000	\$ 434,000
Fundraising and administrative costs paid	\$ 275,000	\$ 261,000
Fees charged	\$ 126,000	\$ 113,000

The amounts due to The Fondouk are included in due to related society in the accompanying statements of financial position. Amounts due at December 31, 2020 and 2019, were \$421,977 and \$94,455, respectively, and do not include interest.

14. COMMITMENTS

Facilities

The Society conducts a portion of its operations and programs in a leased facility under an amended and extended operating lease expiring on December 31, 2027. Effective January 1, 2018, the amended lease agreement calls for a base annual rent of \$300,000, with subsequent annual adjustments for the Consumer Price Index in the Boston and Brockton, Massachusetts and Nashua, New Hampshire areas, as published in the U.S. Department of Labor Statistics commencing in 2019. Included in occupancy expenses for the years ended December 31, 2020 and 2019, was rental expense of \$410,315 and \$395,940, respectively, which includes real estate taxes of \$86,595 and \$80,200, 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, 2020 and 2019, totaled \$269,074 and \$246,088, 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, 2020, are as follows:

2021	\$ 527,774
2022	456,976
2023	430,925
2024	377,313
2025	324,433
Thereafter	<u>632,203</u>
	<u>\$ 2,749,624</u>

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

Notes to Financial Statements
December 31, 2020 and 2019

14. COMMITMENTS (Continued)

Construction Contract

The Society is in the process of constructing a renovated and expanded critical care unit in Boston, Massachusetts. At December 31, 2020, the unbilled portion on the related construction contract totaled approximately \$8,500,000. Work on the construction contract is currently expected to be completed during the year ending December 31, 2022.

15. 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>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 264,771	\$ 3,164,592
Accounts receivable from hospital operations, net	326,133	175,928
Other assets	509,872	561,786
Investments	<u>47,810,040</u>	<u>36,476,212</u>
	<u>\$ 48,910,816</u>	<u>\$ 40,378,518</u>

The Society has a policy to maintain financial assets on hand equal to thirty days of operating expenses, which totaled approximately \$6,215,000 and \$6,001,000 for the years ended December 31, 2020 and 2019, 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, 2020 and 2019, the liquidity ratio required the Society to maintain cash and investments without donor restrictions of \$19,893,313 and \$20,668,285, respectively. The Society was in compliance with this liquidity requirement at December 31, 2020 and 2019. The Society has a \$2,000,000 revolving line of credit available at December 31, 2020 (see Note 9).

16. 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.

Beginning March 2020, the COVID-19 outbreak emerged in the United States. As a result, events have occurred including mandates from federal, state and local authorities leading to an overall decline in economic activity which could impact the Society's financial position and operating results. As of December 31, 2020, the global pandemic is still ongoing. The 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.

17. SUBSEQUENT EVENT

On January 6, 2021, the Society was elected the sole member of the Northeast Animal Shelter, Inc. (NEAS) by its Members and Board of Directors. As stated in the revised NEAS by-laws, the Society has the reserved power to appoint and remove members of the NEAS Board of Directors, in addition to other stated powers. On this date, the Society and NEAS also entered into an Administrative Services Agreement which calls for the Society to provide and charge NEAS for various administrative and program management services as outlined in the agreement.

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18. RECLASSIFICATION

Certain amounts in the 2019 financial statements have been reclassified to conform with the 2020 presentation. The reclassifications did not affect the previously reported assets, liabilities, net assets or changes in net assets as of December 31, 2019, and for the year then ended.