



FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO CHILDREN

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June 30, 2016 and 2015

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Independent Auditor's Report

To the Board of Directors of
Massachusetts Society for the Prevention of Cruelty to Children and
Eliot Community Human Services, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of Massachusetts Society for the Prevention of Cruelty to Children (a Massachusetts corporation, not for profit) (the Society), which comprise the statements of financial position as of June 30, 2016 and 2015, 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 the 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 Children as of June 30, 2016 and 2015, 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.

Emphasis of Matter

As described in Note 13 to financial statements, effective July 1, 2016, the Society combined with Eliot Community Human Services, Inc. (Eliot) and Eliot became the sole corporate member of the Society. The financial statements do not include any adjustments that might result from the outcome of this combination. Our opinion is not modified with respect to this matter.

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

Boston, Massachusetts
October 25, 2016

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO CHILDREN

Statement of Financial Position

June 30, 2016

Assets	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Current Assets:				
Cash and cash equivalents	\$ 553,451	\$ 386,439	\$ -	\$ 939,890
Client service fees receivable, net of allowance for doubtful accounts of approximately \$64,000	318,071	-	-	318,071
Contracts and other accounts receivable	1,352,846	-	-	1,352,846
Pledges receivable, net	35,794	52,920	-	88,714
Prepaid expenses and other	305,751	-	-	305,751
Total current assets	2,565,913	439,359	-	3,005,272
Investments	-	4,147,398	11,079,741	15,227,139
Beneficial Interests in Trusts	-	-	3,101,486	3,101,486
Due (to) from	(2,521,969)	2,521,969	-	-
Property and Equipment, net	984,169	-	-	984,169
Total assets	<u>\$ 1,028,113</u>	<u>\$ 7,108,726</u>	<u>\$ 14,181,227</u>	<u>\$ 22,318,066</u>
Liabilities and Net Assets				
Current Liabilities:				
Current portion of capital lease obligation	\$ 17,358	\$ -	\$ -	\$ 17,358
Accounts payable and other	321,114	-	-	321,114
Accrued expenses	410,105	-	-	410,105
Current portion of pension liability	260,000	-	-	260,000
Total current liabilities	1,008,577	-	-	1,008,577
Capital Lease Obligation, net of current portion	64,265	-	-	64,265
Pension Liability, net of current portion	4,203,177	-	-	4,203,177
Total liabilities	5,276,019	-	-	5,276,019
Net Assets:				
Unrestricted:				
Operating	(947,275)	-	-	(947,275)
Property and equipment	902,546	-	-	902,546
Pension plan	(4,203,177)	-	-	(4,203,177)
Total unrestricted	(4,247,906)	-	-	(4,247,906)
Temporarily restricted	-	7,108,726	-	7,108,726
Permanently restricted	-	-	14,181,227	14,181,227
Total net assets	(4,247,906)	7,108,726	14,181,227	17,042,047
Total liabilities and net assets	<u>\$ 1,028,113</u>	<u>\$ 7,108,726</u>	<u>\$ 14,181,227</u>	<u>\$ 22,318,066</u>

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO CHILDREN

Statement of Financial Position
June 30, 2015

Assets	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Current Assets:				
Cash and cash equivalents	\$ 651,596	\$ 556,143	\$ -	\$ 1,207,739
Client service fees receivable, net of allowance for doubtful accounts of approximately \$38,000	302,912	-	-	302,912
Contracts and other accounts receivable	1,161,776	-	-	1,161,776
Current portion of pledges receivable, net	110,792	150,160	-	260,952
Prepaid expenses and other	234,402	-	-	234,402
Total current assets	2,461,478	706,303	-	3,167,781
Pledges Receivable, net of current portion, discount and reserve	-	5,723	-	5,723
Investments	-	6,251,057	11,079,741	17,330,798
Beneficial Interests in Trusts	-	-	3,287,609	3,287,609
Due (to) from	(2,520,758)	2,520,758	-	-
Property and Equipment, net	848,258	-	-	848,258
Total assets	<u>\$ 788,978</u>	<u>\$ 9,483,841</u>	<u>\$ 14,367,350</u>	<u>\$ 24,640,169</u>
Liabilities and Net Assets				
Current Liabilities:				
Accounts payable and other	\$ 454,730	\$ -	\$ -	\$ 454,730
Accrued expenses	725,187	-	-	725,187
Current portion of pension liability	191,096	-	-	191,096
Total current liabilities	1,371,013	-	-	1,371,013
Pension Liability, net of current portion	3,134,572	-	-	3,134,572
Total liabilities	<u>4,505,585</u>	<u>-</u>	<u>-</u>	<u>4,505,585</u>
Net Assets:				
Unrestricted:				
Operating	(1,430,293)	-	-	(1,430,293)
Property and equipment	848,258	-	-	848,258
Pension plan	(3,134,572)	-	-	(3,134,572)
Total unrestricted	(3,716,607)	-	-	(3,716,607)
Temporarily restricted	-	9,483,841	-	9,483,841
Permanently restricted	-	-	14,367,350	14,367,350
Total net assets	<u>(3,716,607)</u>	<u>9,483,841</u>	<u>14,367,350</u>	<u>20,134,584</u>
Total liabilities and net assets	<u>\$ 788,978</u>	<u>\$ 9,483,841</u>	<u>\$ 14,367,350</u>	<u>\$ 24,640,169</u>

The accompanying notes are an integral part of these statements.

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO CHILDREN

 Statement of Activities and Changes in Net Assets
 For the Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Operating Revenue:				
State contracts	\$ 7,877,932	\$ -	\$ -	\$ 7,877,932
Client service fees, net	4,931,834	-	-	4,931,834
Investment return designated for current operations	2,015,000	-	-	2,015,000
Contributions	982,536	175,018	-	1,157,554
Fundraising events, net	632,780	-	-	632,780
United Way allocations	324,736	-	-	324,736
Other grants and contracts	302,662	-	-	302,662
Other	6,846	-	-	6,846
Net assets released from restrictions:				
Satisfaction of purpose restrictions	400,572	(400,572)	-	-
Satisfaction of time restrictions	47,113	(47,113)	-	-
Total operating revenue	<u>17,522,011</u>	<u>(272,667)</u>	<u>-</u>	<u>17,249,344</u>
Operating Expenses:				
Program services	13,773,935	-	-	13,773,935
Management and general	2,673,512	-	-	2,673,512
Fundraising	492,683	-	-	492,683
Total operating expenses	<u>16,940,130</u>	<u>-</u>	<u>-</u>	<u>16,940,130</u>
Changes in net assets from operations	<u>581,881</u>	<u>(272,667)</u>	<u>-</u>	<u>309,214</u>
Non-Operating Revenue (Expenses):				
Investment return	-	(87,448)	-	(87,448)
Change in carrying value of beneficial interests in trusts	-	-	(186,123)	(186,123)
Pension related changes other than net periodic pension cost	(1,113,180)	-	-	(1,113,180)
Investment return designated for current operations	<u>-</u>	<u>(2,015,000)</u>	<u>-</u>	<u>(2,015,000)</u>
Total non-operating revenue (expenses)	<u>(1,113,180)</u>	<u>(2,102,448)</u>	<u>(186,123)</u>	<u>(3,401,751)</u>
Changes in net assets	<u>(531,299)</u>	<u>(2,375,115)</u>	<u>(186,123)</u>	<u>(3,092,537)</u>
Net Assets:				
Beginning of year	<u>(3,716,607)</u>	<u>9,483,841</u>	<u>14,367,350</u>	<u>20,134,584</u>
End of year	<u>\$ (4,247,906)</u>	<u>\$ 7,108,726</u>	<u>\$ 14,181,227</u>	<u>\$ 17,042,047</u>

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO CHILDREN

 Statement of Activities and Changes in Net Assets
 For the Year Ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Operating Revenue:				
State contracts	\$ 8,035,793	\$ -	\$ -	\$ 8,035,793
Client service fees, net	4,954,910	-	-	4,954,910
Investment return designated for current operations	1,910,745	-	-	1,910,745
Contributions	874,593	401,966	-	1,276,559
Fundraising events, net	623,300	-	-	623,300
United Way allocations	346,075	-	-	346,075
Other grants and contracts	290,676	-	-	290,676
Other	4,954	-	-	4,954
Net assets released from restrictions:				
Satisfaction of purpose restrictions	149,195	(149,195)	-	-
Satisfaction of time restrictions	94,480	(94,480)	-	-
Total operating revenue	<u>17,284,721</u>	<u>158,291</u>	<u>-</u>	<u>17,443,012</u>
Operating Expenses:				
Program services	13,766,752	-	-	13,766,752
Management and general	2,837,896	-	-	2,837,896
Fundraising	501,116	-	-	501,116
Total operating expenses	<u>17,105,764</u>	<u>-</u>	<u>-</u>	<u>17,105,764</u>
Changes in net assets from operations	<u>178,957</u>	<u>158,291</u>	<u>-</u>	<u>337,248</u>
Non-Operating Revenue (Expenses):				
Investment return	-	276,498	-	276,498
Investment return designated for principal payments on note payable to a bank	149,255	(149,255)	-	-
Loss on disposal of property and equipment	(24,878)	-	-	(24,878)
Change in carrying value of beneficial interests in trusts	-	-	(129,847)	(129,847)
Pension related changes other than net periodic pension cost	(727,346)	-	-	(727,346)
Investment return designated for current operations	-	(1,910,745)	-	(1,910,745)
Total non-operating revenue (expenses)	<u>(602,969)</u>	<u>(1,783,502)</u>	<u>(129,847)</u>	<u>(2,516,318)</u>
Changes in net assets	<u>(424,012)</u>	<u>(1,625,211)</u>	<u>(129,847)</u>	<u>(2,179,070)</u>
Net Assets:				
Beginning of year	<u>(3,292,595)</u>	<u>11,109,052</u>	<u>14,497,197</u>	<u>22,313,654</u>
End of year	<u>\$ (3,716,607)</u>	<u>\$ 9,483,841</u>	<u>\$ 14,367,350</u>	<u>\$ 20,134,584</u>

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO CHILDREN

Statements of Cash Flows For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ (3,092,537)	\$ (2,179,070)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation	81,161	87,506
Bad debt	98,091	58,137
Change in carrying value of beneficial interests in trusts	186,123	129,847
Loss on disposal of property and equipment	-	24,878
Realized and unrealized (gains) losses on investments	119,379	(177,009)
Pension related changes other than net periodic pension cost	1,113,180	727,346
Subtotal	<u>(1,494,603)</u>	<u>(1,328,365)</u>
Changes in operating assets and liabilities:		
Client service fees receivable	(113,250)	196,368
Contracts and other accounts receivable	(191,070)	(116,002)
Pledges receivable	177,961	(29,522)
Prepaid expenses and other	(71,349)	199,141
Accounts payable and other	(133,616)	(53,948)
Accrued expenses	(315,082)	(153,262)
Other liabilities	-	(61,294)
Pension liability	24,329	(138,370)
Net cash used in operating activities	<u>(2,116,680)</u>	<u>(1,485,254)</u>
Cash Flows from Investing Activities:		
Acquisition of property and equipment	(121,324)	(9,070)
Purchases of investments	(2,041,089)	(160,452)
Proceeds from the sale of investments	4,025,369	2,096,718
Net cash provided by investing activities	<u>1,862,956</u>	<u>1,927,196</u>
Cash Flows from Financing Activities:		
Principal payments on capital lease obligation	(14,125)	-
Principal payments on note payable to a bank	-	(149,255)
Net cash used in financing activities	<u>(14,125)</u>	<u>(149,255)</u>
Net Change in Cash and Cash Equivalents	(267,849)	292,687
Cash and Cash Equivalents:		
Beginning of year	<u>1,207,739</u>	<u>915,052</u>
End of year	<u>\$ 939,890</u>	<u>\$ 1,207,739</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	<u>\$ 4,037</u>	<u>\$ 1,144</u>
Supplemental Disclosure of Non-Cash Transactions:		
Unrealized loss on investments	<u>\$ (814,748)</u>	<u>\$ (382,501)</u>
Acquisition of property and equipment via capital lease obligations	<u>\$ 93,968</u>	<u>\$ -</u>

The accompanying notes are an integral part of these statements.

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO CHILDREN

Statement of Functional Expenses

For the Year Ended June 30, 2016

(With Summarized Comparative Totals for the Year Ended June 30, 2015)

	2016								2015	
	Program Services									
	Child and Family Counseling	Pregnancy and Parenting Support	Foster Care and Adoption Support	Advocacy	Program Support	Total Program Services	Management and General	Fundraising	Total	Total
Salaries	\$ 4,048,163	\$ 2,941,549	\$ 807,784	\$ 151,786	\$ 286,387	\$ 8,235,669	\$ 893,507	\$ 325,401	\$ 9,454,577	\$ 9,299,365
Employee benefits	622,204	543,462	137,162	13,848	27,715	1,344,391	103,376	35,143	1,482,910	1,414,351
Subcontracted direct care	18,240	177,314	701,299	4,500	-	901,353	-	-	901,353	902,959
Payroll taxes	293,455	214,918	59,288	11,040	21,072	599,773	65,404	23,962	689,139	741,985
Total salaries and related	4,982,062	3,877,243	1,705,533	181,174	335,174	11,081,186	1,062,287	384,506	12,527,979	12,358,660
Occupancy	536,654	444,782	72,855	18,157	51,635	1,124,083	140,284	11,725	1,276,092	1,661,665
Professional fees	32,824	1,282	303,543	96,278	-	433,927	855,369	-	1,289,296	1,111,643
Meetings, conferences and travel	194,693	220,979	45,915	4,969	1,289	467,845	7,391	2,384	477,620	463,815
Communications	41,978	25,841	10,852	-	409	79,080	232,836	-	311,916	271,697
Processing services	-	-	-	5,437	-	5,437	220,058	25,669	251,164	227,957
Supplies	39,954	97,936	33,478	270	102	171,740	5,465	6,636	183,841	314,036
Equipment rental and maintenance	58,266	28,169	3,805	295	358	90,893	78,530	504	169,927	273,697
Other	36,947	22,921	9,496	758	1,283	71,405	23,135	7,508	102,048	97,600
Bad debt	98,089	-	-	-	-	98,089	2	-	98,091	58,137
Depreciation	39,215	11,973	965	1	49	52,203	23,851	5,107	81,161	87,506
Postage and shipping	22,698	15,512	4,908	-	-	43,118	2,481	8,501	54,100	60,783
Staff training	12,165	30,200	1,341	795	-	44,501	3,450	-	47,951	34,720
Printing and publications	270	89	75	7,120	-	7,554	75	40,093	47,722	68,047
Advertising and recruiting	-	1,458	-	1,416	-	2,874	14,261	50	17,185	14,657
Interest	-	-	-	-	-	-	4,037	-	4,037	1,144
Total operating expenses	\$ 6,095,815	\$ 4,778,385	\$ 2,192,766	\$ 316,670	\$ 390,299	\$ 13,773,935	\$ 2,673,512	\$ 492,683	\$ 16,940,130	\$ 17,105,764

The accompanying notes are an integral part of these statements.

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO CHILDREN

 Statement of Functional Expenses
 For the Year Ended June 30, 2015

	Program Services						Management and General	Fundraising	Total
	Child and Family Counseling	Pregnancy and Parenting Support	Foster Care and Adoption Support	Advocacy	Program Support	Total Program Services			
Salaries	\$ 3,979,872	\$ 2,901,200	\$ 846,934	\$ 115,706	\$ 290,098	\$ 8,133,810	\$ 852,863	\$ 312,692	\$ 9,299,365
Employee benefits	635,226	508,572	132,843	17,023	16,208	1,309,872	79,369	25,110	1,414,351
Subcontracted direct care	45,846	209,213	602,900	45,000	-	902,959	-	-	902,959
Payroll taxes	320,589	229,788	66,851	8,729	22,310	648,267	68,596	25,122	741,985
Total salaries and related	4,981,533	3,848,773	1,649,528	186,458	328,616	10,994,908	1,000,828	362,924	12,358,660
Occupancy	584,280	456,456	71,021	14,663	38,014	1,164,434	485,037	12,194	1,661,665
Professional fees	17,000	1,515	306,368	42,022	-	366,905	744,738	-	1,111,643
Meetings, conferences and travel	225,455	179,355	44,412	4,310	2,351	455,883	5,946	1,986	463,815
Communications	32,467	10,801	10,595	-	1,541	55,404	216,293	-	271,697
Processing services	6,000	-	-	2,580	-	8,580	196,750	22,627	227,957
Supplies	34,924	212,656	46,894	474	522	295,470	8,035	10,531	314,036
Equipment rental and maintenance	85,356	49,417	5,749	251	344	141,117	132,072	508	273,697
Other	36,104	22,051	9,863	646	1,278	69,942	22,631	5,027	97,600
Bad debt	54,953	3,184	-	-	-	58,137	-	-	58,137
Depreciation	44,956	15,911	8,041	1,402	1,643	71,953	12,849	2,704	87,506
Postage and shipping	19,759	10,928	11,426	558	12	42,683	1,239	16,861	60,783
Staff training	4,688	27,797	782	-	700	33,967	732	21	34,720
Printing and publications	75	-	-	7,067	167	7,309	-	60,738	68,047
Advertising and recruiting	-	-	-	60	-	60	9,602	4,995	14,657
Interest	-	-	-	-	-	-	1,144	-	1,144
Total operating expenses	<u>\$ 6,127,550</u>	<u>\$ 4,838,844</u>	<u>\$ 2,164,679</u>	<u>\$ 260,491</u>	<u>\$ 375,188</u>	<u>\$ 13,766,752</u>	<u>\$ 2,837,896</u>	<u>\$ 501,116</u>	<u>\$ 17,105,764</u>

The accompanying notes are an integral part of these statements.

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO CHILDREN

Notes to Financial Statements
June 30, 2016 and 2015

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES

OPERATIONS AND NONPROFIT STATUS

Massachusetts Society for the Prevention of Cruelty to Children (the Society) is a Massachusetts nonprofit corporation established in April 1878. The Society is a statewide social service agency focused on providing care and protection to children, enhancing family life, improving community standards affecting children and their families, and assisting in the enforcement and development of laws affecting children.

The Society is exempt from Federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC). The Society is also exempt from state income taxes. Donors may deduct contributions made to the Society within IRC requirements.

SIGNIFICANT ACCOUNTING POLICIES

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

Statements of Activities and Changes in Net Assets

Transactions deemed by management to be ongoing, major, or central to the provision of program services are reported as operating revenue and operating expenses on the accompanying statements of activities and changes in net assets. Non-operating revenue (expenses), include investment return, change in carrying value of beneficial interests in trusts, pension related changes other than net periodic pension cost, investment return designated for current operations, and designated for principal payments on note payable to a bank.

Net Assets

Unrestricted Net Assets

Unrestricted net assets are those net resources that bear no external restrictions and are generally available for use by the Society. The Society has grouped its unrestricted net assets into the following categories:

Operating net assets represent net assets which are available for operations and bear no external restrictions.

Property and equipment net assets represent amounts expended and resources available for property and equipment, net of related debt.

Pension plan net assets represent the long-term portion of the pension plan activity in accordance with ASC Topic, *Compensation – Retirement Benefits* (see Note 6).

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO CHILDREN

Notes to Financial Statements
June 30, 2016 and 2015

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets (Continued)

Temporarily Restricted Net Assets

Temporarily restricted net assets represent amounts received or committed with donor restrictions which have not yet been expended for their designated purpose (purpose restricted) or amounts for use in future periods (time restricted). Temporarily restricted net assets also include appreciation and investment earnings on permanently restricted net assets (endowment) in accordance with Massachusetts state law and the Society's spending policy (see page 13).

Temporarily restricted net assets consist of the following at June 30:

	<u>2016</u>	<u>2015</u>
Accumulated appreciation and earnings on permanently restricted investments (see Note 4)	\$ 6,669,367	\$ 8,771,815
Purpose restricted	388,570	652,626
Time restricted	<u>50,789</u>	<u>59,400</u>
	<u>\$ 7,108,726</u>	<u>\$ 9,483,841</u>

Permanently Restricted Net Assets

Permanently restricted net assets represent amounts received from donors with the stipulation that the principal will be held in perpetuity and only the investment income can be spent (see Note 4).

Revenue Recognition

State and other contract revenue is recorded over the contract period as services are provided. Client service fees are recorded as revenue when services are performed. Unrestricted grants and contributions and United Way allocations are recorded as revenue when received or unconditionally pledged. Restricted grants and contributions are recorded as temporarily restricted revenues and net assets when received or unconditionally pledged. Transfers are made to unrestricted net assets as costs are incurred or time restrictions or program restrictions have lapsed. Donor restricted grants and contributions received and satisfied in the same period are included in unrestricted net assets. All other revenues are recorded when earned.

Fundraising events, net in the accompanying statements of activities and changes in net assets include the results of annual special events and other fundraising efforts of the Society (see page 15).

Client service fees reflect the amounts to be collected after provisions for contractual allowances and free care. Contractual allowances are accrued on an estimated basis in the period the related services are rendered. Client service fees are adjusted as required based on final settlements. Contractual allowances were approximately \$445,000 and \$371,000 for the years ended June 30, 2016 and 2015, respectively. There were no material amounts of free care provided in fiscal year 2016 or 2015.

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO CHILDREN

Notes to Financial Statements
June 30, 2016 and 2015

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expense Allocation

Expenses related directly to a program are distributed to that program, while other expenses are allocated to programs based upon management's estimate of the percentage attributable to each program or function.

Cash and Cash Equivalents

Except for money market mutual fund accounts included in investments (see Note 4), management considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents for purposes of the statements of cash flows.

Property and Equipment and Depreciation

Purchased property and equipment are recorded at cost (see Note 5). Donated property and equipment are recorded at fair value at the time of donation. Renewals and betterments are capitalized, while repairs and maintenance are expensed as they are incurred.

Depreciation is computed using the straight-line method and the mid-month convention for capitalized additions over the following estimated useful lives:

Buildings	40 years
Building and leasehold improvements	7 - 20 years
Computers and software	5 years
Furniture and fixtures	7 years

Total depreciation expense was \$81,161 and \$87,506 for the years ended June 30, 2016 and 2015, respectively.

Fair Value Measurements

The Society follows the accounting and disclosure standards pertaining to ASC Topic, *Fair Value Measurements*, for qualifying assets and liabilities. Fair value is defined as the price that the Society would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

The Society uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of the Society. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available.

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO CHILDREN

Notes to Financial Statements
June 30, 2016 and 2015

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.

Level 2 - Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 - Inputs that are unobservable and which require significant judgment or estimation.

An asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement.

Cash and Equivalents

Cash and equivalents are considered Level 1 in the fair value hierarchy.

Investments

Investments are recorded in the financial statements at fair value. If an investment is directly held by the Society and an active market with quoted prices exists, the market price of an identical security is used to report fair value. Reported fair values of shares in mutual funds are based on share prices reported by the funds as of the last business day of the fiscal year. The Society's interests in hedge funds, limited partnerships and limited liability companies are generally reported at the net asset value (NAV) reported by fund managers, which is used as a practical expedient to estimate the fair value, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2016 and 2015, the Society had no plans to sell investments at amounts different from NAV.

Pension Benefit Obligations

The pension benefit obligation considers anticipated payout patterns as well as investment returns on available assets prior to payment. This obligation is measured using Level 1 inputs (market values of publicly traded investments), Level 2 inputs (discount rates, default rates, and other factors), and Level 3 inputs (actuarial assumptions, mortality expectancy and projected investment returns).

Beneficial Interests in Trusts

The Society has beneficial interests in perpetual trusts held by third party trustees on behalf of various not-for-profit organizations. The principal is restricted in perpetuity. The interest and dividend income generated by the investments is distributed each year to the beneficiaries, and is reported by the Society as unrestricted contributions. For the years ended June 30, 2016 and 2015, the Society recognized unrestricted contributions of \$128,723 and \$178,364, respectively, from these trusts, which are included in contributions in the accompanying statements of activities and changes in net assets. The Society has recorded \$3,101,486 and \$3,287,609 on its statements of financial position at June 30, 2016 and 2015, respectively, representing the fair value of its beneficial interests in the trusts as permanently restricted net assets.

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO CHILDREN

Notes to Financial Statements
June 30, 2016 and 2015

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Beneficial Interests in Trusts (Continued)

Gains and losses on investments are considered changes in the present value of expected cash flows and are recognized as permanently restricted gains or losses on perpetual trusts. These inputs to the fair value estimate are considered Level 3 in the fair value hierarchy (see Note 4).

The Society is named as the final beneficiary of an irrevocable charitable remainder trust (the Trust), which is controlled by a third party trustee on behalf of the donor. The Trust agreement requires its assets be used to provide support for its named beneficiaries over the course of their lives. Upon death of the beneficiaries and other financial disbursements being made as outlined in the agreement, the Society will receive the remainder of the Trust's assets. The Trust's assets are largely invested in equities and fixed income securities and have a market value of \$8,982,503 and \$8,982,203 as of June 30, 2016 and 2015, respectively. The amount to be received by the Society, if any, cannot be determined and, therefore, is not reflected in the accompanying financial statements.

All Other Assets and Liabilities

The carrying value of all other qualifying assets and liabilities does not differ materially from its estimated fair value. These qualifying assets and liabilities are considered Level 1 in the fair value hierarchy.

Investment Spending Policy

Subject to the intent of a donor, the Society may appropriate for expenditure or accumulate so much of an endowment fund as the Society determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established. The assets in an endowment fund are donor-restricted assets until appropriated for expenditure by the Society. The Society has adopted investment and spending policies for endowment assets that aim to safeguard the purchasing power of the endowment principal, generate an ongoing revenue source, and to provide for growth of the investment principal in accordance with Uniform Prudent Management of Institutional Funds Act. The amount of return available for spending during a fiscal year is expected to be set at a prudent level, and presented as part of the Society's annual budget proposal subject to the review and recommendation of the Finance and Audit Committee and the ultimate approval of the Board of Directors.

The Board of Directors of the Society originally voted to use approximately \$2,300,000 and \$2,100,000 of total investment return for operations and principal debt repayment for the years ended June 30, 2016 and 2015, respectively, with any additional amounts required at their discretion (see Note 4). Transfers to the operating net assets, in accordance with this policy, are reflected in the statements of activities and changes in net assets as investment return designated for current operations. Transfers to pay down the principal on the term note (see Note 7) are reflected as investment return designated for principal payments on note payable to a bank in the accompanying statement of activities and changes in net assets for the year ended June 30, 2015. The balance of this term note was paid off as of June 30, 2015.

Risk and diversification parameters have been established and the endowment is maintained and rebalanced, if necessary, according to the Society's investment policy. Under this policy, the endowment assets are invested to provide a competitive total rate of return commensurate with prudent diversification and moderate risk.

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO CHILDREN

Notes to Financial Statements
June 30, 2016 and 2015

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pledges Receivable

Pledges receivable at June 30, 2016 and 2015, consist of contributions committed to the Society. Pledges are recorded at their net present value when unconditionally committed (see Note 3).

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is based on management's best estimate of the amount of probable losses in accounts receivable. The allowance is based on specific identification of probable losses and an estimate of additional losses based on historical write-off experience. Management reviews the allowance for doubtful accounts monthly. Past due balances over 120 days and over a specified amount are reviewed individually for collectability. Account balances are applied against the allowance when it is probable the receivable will not be recovered.

Advertising Costs

The Society expenses advertising costs as incurred. Total advertising costs for the years ended June 30, 2016 and 2015, were \$13,106 and \$5,055, respectively, which are included in advertising and recruiting in the accompanying statements of functional expenses.

Donated Goods and Services

The Society receives services of volunteers in various aspects of its programs. The value of these services is not reflected in the accompanying financial statements, since the value assigned to these services by the donating volunteers is not ascertainable and does not meet the criteria recognition of *Accounting for Contributions Received and Contributions Made* standards.

The Society also receives donated goods and professional services, some of which are associated with its fundraising events. These goods and services are reflected in the accompanying financial statements based upon the estimated value assigned to them by the donating individuals, agencies, or by management. The value of these goods and services is as follows for the years ended June 30:

	<u>2016</u>	<u>2015</u>
Legal services	\$ 171,723	\$ 17,500
Silent auction items	7,555	11,815
Supplies	<u>5,600</u>	<u>1,525</u>
	<u>\$ 184,878</u>	<u>\$ 30,840</u>

These donated goods and services are included in contributions and fundraising events, net in the accompanying statements of activities and changes in net assets. In the accompanying statements of functional expenses, the donated services and supplies are included in professional fees and other expenses, respectively.

A Board member of the Society is employed by the legal firm that provided in-kind services in the amount of \$163,046. This Board member was part of the team that performed the legal services for the Society.

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO CHILDREN

Notes to Financial Statements
June 30, 2016 and 2015

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Bequests

The Society is and may be named a beneficiary of various trusts and wills. The amounts to be received, if any, cannot be determined and, therefore, are reflected in the Society's financial statements when the amounts are received or become known.

Fundraising Events

Included in fundraising events, net are the results of the annual special events, which are shown net of related expenses in the accompanying statements of activities and changes in net assets as follows for the years ended June 30:

	<u>2016</u>	<u>2015</u>
Special Events:		
Special events contributions and support	\$ 717,144	\$ 712,222
Special events revenue	\$ 44,535	\$ 28,100
Less - direct expenses	<u>(115,483)</u>	<u>(113,877)</u>
	(70,948)	(85,777)
Other:		
Other fundraising revenues	16,095	20,340
Other fundraising expenses	<u>(29,511)</u>	<u>(23,485)</u>
Total fundraising events, net	<u>\$ 632,780</u>	<u>\$ 623,300</u>

Estimates

The preparation of financial statements in accordance with U.S. GAAP 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The Society accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the financial statements regarding a tax position taken or expected to be taken in a tax return. The Society has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the financial statements at June 30, 2016 and 2015.

Subsequent Events

Subsequent events have been evaluated through October 25, 2016, which is the date the financial statements were available to be issued. See Note 13 for an event that met the criteria for recognition or disclosure in the financial statements.

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO CHILDREN

Notes to Financial Statements
June 30, 2016 and 2015

2. FUNDING

The Society receives income from various funding sources to compensate for services rendered under cost reimbursement and unit-rate contracts. Approximately 46% of operating revenues were received from various departments of the Commonwealth of Massachusetts during the years ended June 30, 2016 and 2015. These contracts are subject to possible audits by the appropriate government agencies. In the opinion of management, the results of such audits, if any, will not have a material effect on the financial position of the Society as of June 30, 2016 and 2015, or on its changes in net assets for the years then ended.

Approximately 94% and 93% of contracts and other accounts receivable at June 30, 2016 and 2015, respectively, are due from the various departments of the Commonwealth of Massachusetts. Approximately 83% and 59% of client service fees receivable are from two payors at June 30, 2016 and 2015, respectively.

Included in client service fees are charges to third party payors. These charges are periodically reviewed and adjusted based upon the submission of cost reports and possible subsequent audits. In the opinion of management, the results of such audits, if any, will not have a material effect on the financial position of the Society as of June 30, 2016 and 2015, or on the changes in its net assets for the years then ended.

3. PLEDGES RECEIVABLE

Pledges receivable are due as follows as of June 30:

	<u>2016</u>	<u>2015</u>
Due within one year	\$ 90,522	\$ 266,183
Due in one to two years	-	6,000
	<u>90,522</u>	<u>272,183</u>
Less - discount	-	157
Less - reserve for uncollectible pledges	<u>1,808</u>	<u>5,351</u>
	<u>88,714</u>	<u>266,675</u>
Less - current portion of pledges receivable, net	<u>88,714</u>	<u>260,952</u>
Long-term pledges receivable	<u>\$ -</u>	<u>\$ 5,723</u>

The pledges have been discounted using a 2.69% discount rate as of June 30, 2015. There was no discount as of June 30, 2016, as the entire balance is a current asset.

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO CHILDREN

Notes to Financial Statements
June 30, 2016 and 2015

4. INVESTMENTS

Investments (see Note 1) consist of the following at June 30:

Investment Type	2016			Total
	Level 1	Level 2	Level 3	
Absolute Return:				
Hedge funds*	\$ -	\$ -	\$ -	\$ 6,648,945
Limited partnerships*	-	-	-	4,624,145
Limited liability company*	-	-	-	9,493
Total absolute return	-	-	-	11,282,583
Other Investments:				
Mutual funds	3,886,336	-	-	3,886,336
Money market	39,700	-	-	39,700
Equities	18,520	-	-	18,520
Total other investments	3,944,556	-	-	3,944,556
Total investments	\$ 3,944,556	\$ -	\$ -	\$ 15,227,139
Investment Type	2015			Total
	Level 1	Level 2	Level 3	
Absolute Return:				
Hedge funds*	\$ -	\$ -	\$ -	\$ 8,945,727
Limited partnerships*	-	-	-	4,498,783
Limited liability company*	-	-	-	9,487
Total absolute return	-	-	-	13,453,997
Diversified Arbitrage:				
Hedge funds*	-	-	-	1,986,400
Other Investments:				
Mutual funds	1,852,898	-	-	1,852,898
Money market	19,483	-	-	19,483
Equities	18,020	-	-	18,020
Total other investments	1,890,401	-	-	1,890,401
Total investments	\$ 1,890,401	\$ -	\$ -	\$ 17,330,798

* In accordance with FASB ASC Subtopic 820-10, certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the accompanying statements of financial position (see Note 2).

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO CHILDREN

Notes to Financial Statements
June 30, 2016 and 2015

4. INVESTMENTS (Continued)

Investments are not insured and are subject to market fluctuations. All investment fair market values have been provided by investment managers.

The following schedule summarizes the investment return and its classification in the accompanying statements of activities and changes in net assets for the years ended June 30:

	<u>2016</u>	<u>2015</u>
Realized gain on sale of investments	\$ 695,369	\$ 559,510
Investment income	31,931	99,489
Unrealized loss on investments	<u>(814,748)</u>	<u>(382,501)</u>
	<u>\$ (87,448)</u>	<u>\$ 276,498</u>

The Society incurred investment management fees totaling \$87,869 and \$130,047 for the years ended June 30, 2016 and 2015, respectively, which are included in professional fees in the accompanying statements of functional expenses.

The following schedule summarizes the changes in the Society's donor restricted endowment:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment</u>
Endowment net assets, June 30, 2014	<u>\$ 10,555,317</u>	<u>\$ 11,079,741</u>	<u>\$ 21,635,058</u>
Investment returns:			
Net realized gains	559,510	-	559,510
Investment income	99,489	-	99,489
Net unrealized losses	<u>(382,501)</u>	<u>-</u>	<u>(382,501)</u>
Total investment returns	<u>276,498</u>	<u>-</u>	<u>276,498</u>
Appropriation of endowment assets for expenditure	<u>(1,910,745)</u>	<u>-</u>	<u>(1,910,745)</u>
Appropriation of endowment assets for principal payments on note payable to a bank	<u>(149,255)</u>	<u>-</u>	<u>(149,255)</u>
Endowment net assets, June 30, 2015	<u>8,771,815</u>	<u>11,079,741</u>	<u>19,851,556</u>
Investment returns:			
Net realized gains	695,369	-	695,369
Investment income	31,931	-	31,931
Net unrealized losses	<u>(814,748)</u>	<u>-</u>	<u>(814,748)</u>
Total investment returns	<u>(87,448)</u>	<u>-</u>	<u>(87,448)</u>
Appropriation of endowment assets for expenditure	<u>(2,015,000)</u>	<u>-</u>	<u>(2,015,000)</u>
Endowment net assets, June 30, 2016	<u>\$ 6,669,367</u>	<u>\$ 11,079,741</u>	<u>\$ 17,749,108</u>

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO CHILDREN

Notes to Financial Statements
June 30, 2016 and 2015

4. INVESTMENTS (Continued)

In accordance with the Society's investment spending policy, the Board of Directors approved draws up to \$2,300,000 and \$2,100,000 for fiscal years 2016 and 2015, respectively. During fiscal years 2016 and 2015, the Society designated \$2,015,000 and \$1,910,745, respectively, for operations and \$149,255 during fiscal year 2015 to fund principal payments on a note payable to a bank (see Note 7).

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of June 30:

	<u>2016</u>	<u>2015</u>
Land	\$ 370,605	\$ 370,605
Buildings	474,176	474,176
Building and leasehold improvements	323,452	323,452
Computers and software	741,641	620,317
Furniture and fixtures	<u>567,923</u>	<u>472,175</u>
	2,477,797	2,260,725
Less - accumulated depreciation	<u>1,493,628</u>	<u>1,412,467</u>
	<u>\$ 984,169</u>	<u>\$ 848,258</u>

The Society uses fully depreciated furniture and fixtures that were purchased with contract funds from the Commonwealth of Massachusetts. The cost of these assets was approximately \$155,000 as of June 30, 2016 and 2015. The Commonwealth of Massachusetts retains a reversionary interest for the remaining assets purchased with its funds.

6. PENSION PLANS

Defined Benefit Plan

The Society sponsors a noncontributory defined benefit plan (the Plan) which covers all employees who were participants prior to February 1, 2004. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

The Society froze the Plan as of February 1, 2004. The effect of this freeze is to eliminate new participants and the further accrual of benefits to participants.

Obligations, funded status and other information are as follows at June 30:

	<u>2016</u>	<u>2015</u>
Funded Status:		
Fair value of plan assets	\$ 3,955,099	\$ 4,233,335
Projected benefit obligation	<u>(8,418,276)</u>	<u>(7,559,003)</u>
Total pension liability	(4,463,177)	(3,325,668)
Less current portion	<u>260,000</u>	<u>191,096</u>
Pension Liability, net of current portion	<u>\$ (4,203,177)</u>	<u>\$ (3,134,572)</u>

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO CHILDREN

Notes to Financial Statements
June 30, 2016 and 2015

6. PENSION PLANS (Continued)**Defined Benefit Plan (Continued)**

Other disclosures:

	<u>2016</u>	<u>2015</u>
Interest cost	\$ 324,493	\$ 303,601
Expected return on plan assets	(235,208)	(293,118)
Amortization of net loss	<u>191,860</u>	<u>129,665</u>
Net periodic pension expense recognized	<u>\$ 281,154</u>	<u>\$ 140,148</u>
Benefits paid other than for settlement	<u>\$ 317,458</u>	<u>\$ 197,646</u>

Other changes in plan assets and benefit obligations recognized in non-operating revenue (expenses) on the accompanying statements of activities for the year ended June 30:

	<u>2016</u>	<u>2015</u>
Net loss	\$ 1,113,180	\$ 887,525
Effect of settlement	<u>-</u>	<u>(160,179)</u>
Total pension related changes	<u>\$ 1,113,180</u>	<u>\$ 727,346</u>

Future Plan Benefit Payments and Employer Contributions

During fiscal year 2015, a group of participants in the Plan elected to receive a lump-sum distribution which totaled \$419,440. This distribution from the Plan exceeded the sum of the interest and service cost, resulting in a settlement charge of \$160,179. No lump-sum distribution elections were made in fiscal year 2016. Net periodic pension expense recognized for the years ending June 30, 2016 and 2015 is included in employee benefits in the accompanying statements of functional expenses.

The following assumptions were used to determine net periodic benefit costs for the years ended June 30:

	<u>2016</u>	<u>2015</u>
Weighted average discount rate	4.34%	4.20%
Long-term return on plan assets	5.60%	6.10%

The following assumptions were used to determine benefit obligations as of and for the years ended June 30:

	<u>2016</u>	<u>2015</u>
Weighted average discount rate	3.53%	4.34%
Rate of compensation increase	N/A	N/A

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO CHILDREN

Notes to Financial Statements
June 30, 2016 and 2015

6. PENSION PLANS (Continued)

Defined Benefit Plan (Continued)

Future Plan Benefit Payments and Employer Contributions (Continued)

Future benefits expected to be paid are as follows:

2017	\$ 260,000
2018	\$ 315,000
2019	\$ 322,000
2020	\$ 340,000
2021	\$ 351,000
2022 - 2025	\$ 1,947,000

The Society made contributions of \$256,825 to the plan assets during fiscal year 2016. The Society made contributions of \$278,518 to the plan assets during fiscal year 2015, of which \$118,805 pertained to fiscal year 2015 and \$159,713 related to the prior year. The Society plans to make contributions totaling \$260,000 to the Plan during the fiscal year ending June 30, 2017.

Plan Assets

The Society holds its plan assets in a diversified portfolio allocation. The allocation in this portfolio was weighted 95% and 99% in a mutual fund and 5% and 1% in cash to minimize risk and maximize return as of June 30, 2016 and 2015, respectively.

403(b) Plan

The Society maintains a discretionary employer contribution retirement plan under IRC Section 403(b) covering all employees. Only those employees who have attained the age of twenty-one and have completed one-year of service with at least 1,000 hours are eligible to receive the employer match, if any. This matching contribution is discretionary and is decided on an annual basis by the Board of Directors. Employees' contributions to the plan vest immediately. Employer matching contributions vest over a period of one year. The Society made no contributions to this plan during fiscal years 2016 and 2015.

7. LINE OF CREDIT AND NOTE PAYABLE

The Society has available up to \$3,000,000 under a revolving line of credit agreement with a bank through January 31, 2017. Borrowings under the agreement bear interest at the prime lending rate (3.50% and 3.25% at June 30, 2016 and 2015, respectively) plus .25%, subject to a floor of 4.5%. The line of credit is cross-collateralized with the term note by a first lien on all assets of the Society, as well as the non-permanently restricted portion of its investments. The Society must meet certain non-financial covenants as specified in the agreement. The Society was in compliance with these covenants at June 30, 2016 and 2015. There was no balance outstanding at June 30, 2016 and 2015.

The Society had a five-year term note with a bank, bearing a simple interest rate of 4.5%. The note was payable in monthly installments of principal and interest of \$49,729 and was paid in full during fiscal year 2015.

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO CHILDREN

Notes to Financial Statements
June 30, 2016 and 2015

8. LEASES

Facility Leases

The Society leases space under various operating leases expiring through May 2023. The terms of these lease agreements are from one to ten years. Certain facility leases require the Society to maintain certain insurance coverage and pay for its proportionate share of real estate taxes and operating expenses. In addition, the Society rents other facilities as a tenant-at-will. Rent expense under the facility leases was approximately \$792,000 and \$1,165,000 for the years ended June 30, 2016 and 2015, respectively, which is included in occupancy on the accompanying statements of functional expenses. Future minimum lease payments under these agreements are as follows:

2017	\$ 783,743
2018	\$ 736,179
2019	\$ 427,040
2020	\$ 352,644
2021	\$ 352,644
Thereafter	\$ 530,847

Certain lease agreements contain renewal options which have not been exercised.

Equipment Lease

The Society has a five-year operating lease agreement for equipment, which requires the Society to make monthly payments of \$7,615 through September 2018. Lease expense for the years ended June 30, 2016 and 2015, was \$91,380, which is included in equipment rental and maintenance in the accompanying statements of functional expenses. Future minimum lease payments under this agreement are as follows:

2017	\$ 91,380
2018	\$ 91,380
2019	\$ 15,230

Capital Lease

In October 2015, the Society entered into a capital lease agreement with a financial institution to lease a phone system over a five-year term. This agreement met the criteria to be recorded as a capital lease. The cost of the phone system was approximately \$94,000, with a monthly lease payment of \$1,820, plus taxes, beginning October 2015. The interest rate under this agreement is 6.08%.

2017	\$ 21,842
2018	21,842
2019	21,842
2020	21,842
2021	<u>5,459</u>
Total future minimum payments	92,827
Less interest	11,204
Less - current portion	<u>17,358</u>
Long-term portion of capital lease	<u>\$ 64,265</u>

Depreciation expense on equipment purchased under capital leases was \$14,095 for the year ended June 30, 2016.

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO CHILDREN

Notes to Financial Statements
June 30, 2016 and 2015

9. CONTINGENCIES

In the ordinary course of the Society's business, from time-to-time, the Society is involved in disputes concerning individuals' employment with the Society. While the employees are seeking damages in connection with these disputes, the Society denies any wrongdoing in these cases and is taking the appropriate legal steps in defense of these disputes.

10. LABOR AGREEMENT

The Society has a bargaining agreement with Service Employees International Union Local 509 governing its metro Boston region and its western region. Both contracts were renewed effective June 30, 2014, and expire in June 2017. Approximately 28% and 22% of the Society's labor force was covered under these agreements as of June 30, 2016 and 2015, respectively.

11. CONCENTRATIONS

The Society maintains its cash balances in Massachusetts banks. The Federal Deposit Insurance Corporation (FDIC) insures balances at each bank up to certain amounts. At certain times during the year, cash balances exceeded the insured amounts. The Society has not experienced any losses in such accounts. The Society believes it is not exposed to any significant credit risk on its cash and cash equivalents.

12. CONTINUING OPERATIONS

The Society's unrestricted changes in net assets from operations was \$581,881 and \$178,957 for the years ended June 30, 2016 and 2015, respectively, including investment return designated for current operations of \$2,015,000 and \$1,910,745 for the years ended June 30, 2016 and 2015, respectively. Unrestricted operating net asset deficits were \$(947,275) and \$(1,430,293) as of June 30, 2016 and 2015, respectively. Management believes the actions outlined in Note 13 will not only stabilize the Society's operations, but will also provide the Society with the financial support necessary to carry on its mission for the foreseeable future.

13. SUBSEQUENT EVENTS

During fiscal year 2016, the Society entered into an agreement with Eliot Community Human Services, Inc. (Eliot) to combine effective July 1, 2016, at which time Eliot became the sole corporate member of the Society.

In September 2016, the Society received a bequest of approximately \$1,400,000.

14. RECLASSIFICATIONS

Certain amounts in the fiscal year 2015 financial statements have been reclassified to conform with the fiscal year 2016 presentation.