



**FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO CHILDREN

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June 30, 2015 and 2014

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Independent Auditor's Report

To the Board of Directors of
Massachusetts Society for the Prevention of Cruelty to Children:

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), which comprise the statements of financial position as of June 30, 2015 and 2014, 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, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

Boston, Massachusetts
November 12, 2015

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
Due (to) from	(2,520,758)	2,520,758	-	-
Total current assets	(59,280)	3,227,061	-	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
Property and Equipment, net	848,258	-	-	848,258
Total assets	\$ 788,978	\$ 9,483,841	\$ 14,367,350	\$ 24,640,169
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	4,505,585	-	-	4,505,585
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	(3,716,607)	9,483,841	14,367,350	20,134,584
Total liabilities and net assets	\$ 788,978	\$ 9,483,841	\$ 14,367,350	\$ 24,640,169

The accompanying notes are an integral part of these statements.

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO CHILDREN

Statement of Financial Position
June 30, 2014

Assets	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Current Assets:				
Cash and cash equivalents	\$ 545,622	\$ 369,430	\$ -	\$ 915,052
Client service fees receivable, net of allowance for doubtful accounts of approximately \$5,000	557,417	-	-	557,417
Contracts and other accounts receivable	1,045,774	-	-	1,045,774
Current portion of pledges receivable, net	52,848	127,229	-	180,077
Prepaid expenses and other	433,543	-	-	433,543
Due (to) from	<u>(2,545,003)</u>	<u>2,545,003</u>	<u>-</u>	<u>-</u>
Total current assets	90,201	3,041,662	-	3,131,863
Pledges Receivable, net of current portion, discount and reserve	-	57,076	-	57,076
Investments	-	8,010,314	11,079,741	19,090,055
Beneficial Interests in Trusts	-	-	3,417,456	3,417,456
Property and Equipment, net	<u>951,572</u>	<u>-</u>	<u>-</u>	<u>951,572</u>
Total assets	<u>\$ 1,041,773</u>	<u>\$ 11,109,052</u>	<u>\$ 14,497,197</u>	<u>\$ 26,648,022</u>
Liabilities and Net Assets				
Current Liabilities:				
Note payable to a bank	\$ 149,255	\$ -	\$ -	\$ 149,255
Accounts payable and other	508,678	-	-	508,678
Accrued expenses	878,449	-	-	878,449
Other liabilities	61,294	-	-	61,294
Current portion of pension liability	<u>365,262</u>	<u>-</u>	<u>-</u>	<u>365,262</u>
Total current liabilities	1,962,938	-	-	1,962,938
Pension Liability, net of current portion	<u>2,371,430</u>	<u>-</u>	<u>-</u>	<u>2,371,430</u>
Total liabilities	<u>4,334,368</u>	<u>-</u>	<u>-</u>	<u>4,334,368</u>
Net Assets:				
Unrestricted:				
Operating	(1,872,737)	-	-	(1,872,737)
Property and equipment	951,572	-	-	951,572
Pension plan	<u>(2,371,430)</u>	<u>-</u>	<u>-</u>	<u>(2,371,430)</u>
Total unrestricted	(3,292,595)	-	-	(3,292,595)
Temporarily restricted	-	11,109,052	-	11,109,052
Permanently restricted	<u>-</u>	<u>-</u>	<u>14,497,197</u>	<u>14,497,197</u>
Total net assets	<u>(3,292,595)</u>	<u>11,109,052</u>	<u>14,497,197</u>	<u>22,313,654</u>
Total liabilities and net assets	<u>\$ 1,041,773</u>	<u>\$ 11,109,052</u>	<u>\$ 14,497,197</u>	<u>\$ 26,648,022</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, 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	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)	-	-
	<u>17,284,721</u>	<u>158,291</u>	<u>-</u>	<u>17,443,012</u>
Total operating revenue				
Operating Expenses:				
Program services	13,766,561	-	-	13,766,561
Management and general	2,838,087	-	-	2,838,087
Fundraising	501,116	-	-	501,116
	<u>17,105,764</u>	<u>-</u>	<u>-</u>	<u>17,105,764</u>
Total operating expenses				
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)
	<u>(602,969)</u>	<u>(1,783,502)</u>	<u>(129,847)</u>	<u>(2,516,318)</u>
Total non-operating revenue (expenses)				
Changes in net assets	(424,012)	(1,625,211)	(129,847)	(2,179,070)
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>

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, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Operating Revenue:				
State contracts	\$ 8,058,153	\$ -	\$ -	\$ 8,058,153
Client service fees	6,244,319	-	-	6,244,319
Investment return designated for current operations	1,724,133	-	-	1,724,133
Contributions	943,076	346,296	-	1,289,372
Fundraising events, net	643,663	-	-	643,663
United Way allocations	328,353	-	-	328,353
Other grants and contracts	393,413	-	-	393,413
Other	8,818	-	-	8,818
Net assets released from restrictions:				
Satisfaction of purpose restrictions	40,945	(40,945)	-	-
Satisfaction of time restrictions	67,911	(67,911)	-	-
	<u>18,452,784</u>	<u>237,440</u>	<u>-</u>	<u>18,690,224</u>
Operating Expenses:				
Program services	15,389,476	-	-	15,389,476
Management and general	2,929,005	-	-	2,929,005
Fundraising	536,802	-	-	536,802
	<u>18,855,283</u>	<u>-</u>	<u>-</u>	<u>18,855,283</u>
Total operating expenses	<u>18,855,283</u>	<u>-</u>	<u>-</u>	<u>18,855,283</u>
Changes in net assets from operations	<u>(402,499)</u>	<u>237,440</u>	<u>-</u>	<u>(165,059)</u>
Non-Operating Revenue (Expenses):				
Investment return	-	1,138,906	-	1,138,906
Investment return designated for principal payments on note payable to a bank	622,345	(622,345)	-	-
Loss on disposal of property and equipment	(178,462)	-	-	(178,462)
Change in carrying value of beneficial interests in trusts	-	-	229,109	229,109
Pension related changes other than net periodic pension cost	(6,511)	-	-	(6,511)
Investment return designated for current operations	-	(1,724,133)	-	(1,724,133)
Other	186,938	-	-	186,938
	<u>624,310</u>	<u>(1,207,572)</u>	<u>229,109</u>	<u>(354,153)</u>
Total non-operating revenue (expenses)	<u>624,310</u>	<u>(1,207,572)</u>	<u>229,109</u>	<u>(354,153)</u>
Loss from Discontinued Operations	<u>(395,276)</u>	<u>-</u>	<u>-</u>	<u>(395,276)</u>
Changes in net assets	<u>(173,465)</u>	<u>(970,132)</u>	<u>229,109</u>	<u>(914,488)</u>
Net Assets:				
Beginning of year	<u>(3,119,130)</u>	<u>12,079,184</u>	<u>14,268,088</u>	<u>23,228,142</u>
End of year	<u>\$ (3,292,595)</u>	<u>\$ 11,109,052</u>	<u>\$ 14,497,197</u>	<u>\$ 22,313,654</u>

The accompanying notes are an integral part of these statements.

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO CHILDREN

Statements of Cash Flows
For the Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ (2,179,070)	\$ (914,488)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation	87,506	198,307
Bad debt	58,137	354,235
Change in carrying value of beneficial interests in trusts	129,847	(229,109)
Loss on disposal of property and equipment	24,878	178,462
Realized and unrealized gains on investments	(177,009)	(1,084,621)
Pension related changes other than net periodic pension cost	727,346	6,511
Subtotal	<u>(1,328,365)</u>	<u>(1,490,703)</u>
Changes in operating assets and liabilities:		
Client service fees receivable	196,368	(300,050)
Contracts and other accounts receivable	(116,002)	221,714
Pledges receivable	(29,522)	(10,037)
Prepaid expenses and other	199,141	(131,056)
Accounts payable and other	(53,948)	76,818
Accrued expenses	(153,262)	(137,268)
Other liabilities	(61,294)	(81,726)
Pension liability	<u>(138,370)</u>	<u>67,738</u>
Net cash used in operating activities	<u>(1,485,254)</u>	<u>(1,784,570)</u>
Cash Flows from Investing Activities:		
Acquisition of property and equipment	(9,070)	(13,050)
Purchases of investments	(160,452)	(629,176)
Proceeds from the sale of investments	<u>2,096,718</u>	<u>2,925,439</u>
Net cash provided by investing activities	<u>1,927,196</u>	<u>2,283,213</u>
Cash Flows from Financing Activities:		
Principal payments on note payable to a bank	<u>(149,255)</u>	<u>(622,345)</u>
Net Change in Cash and Cash Equivalents	292,687	(123,702)
Cash and Cash Equivalents:		
Beginning of year	<u>915,052</u>	<u>1,038,754</u>
End of year	<u>\$ 1,207,739</u>	<u>\$ 915,052</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	<u>\$ 1,144</u>	<u>\$ 24,133</u>
Supplemental Disclosure of Non-Cash Transactions:		
Unrealized gain (loss) on investments	<u>\$ (382,501)</u>	<u>\$ 41,516</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, 2015

(With Summarized Comparative Totals for the Year Ended June 30, 2014)

	2015						2014			
	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	\$ 3,979,872	\$ 2,901,200	\$ 846,934	\$ 115,706	\$ 290,098	\$ 8,133,810	\$ 852,863	\$ 312,692	\$ 9,299,365	\$ 10,465,113
Employee benefits	635,226	508,572	132,843	17,023	16,208	1,309,872	79,369	25,110	1,414,351	1,716,007
Subcontracted direct care	45,846	209,213	602,900	45,000	-	902,959	-	-	902,959	813,805
Payroll taxes	320,589	229,788	66,851	8,729	22,310	648,267	68,596	25,122	741,985	1,043,176
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	14,038,101
Occupancy	584,280	456,456	71,021	14,663	38,014	1,164,434	485,037	12,194	1,661,665	1,504,372
Professional fees	16,915	1,437	306,340	42,022	-	366,714	744,929	-	1,111,643	1,224,452
Meetings, conferences and travel	225,455	179,355	44,412	4,310	2,351	455,883	5,946	1,986	463,815	539,629
Supplies	34,924	212,656	46,894	474	522	295,470	8,035	10,531	314,036	224,540
Equipment rental and maintenance	85,356	49,417	5,749	251	344	141,117	132,072	508	273,697	182,045
Communications	32,467	10,801	10,595	-	1,541	55,404	216,293	-	271,697	280,438
Processing services	6,000	-	-	2,580	-	8,580	196,750	22,627	227,957	197,325
Other	36,104	22,051	9,863	646	1,278	69,942	22,631	5,027	97,600	119,345
Depreciation	44,956	15,911	8,041	1,402	1,643	71,953	12,849	2,704	87,506	194,809
Printing and publications	75	-	-	7,067	167	7,309	-	60,738	68,047	37,017
Postage and shipping	19,759	10,928	11,426	558	12	42,683	1,239	16,861	60,783	51,466
Bad debt	54,953	3,184	-	-	-	58,137	-	-	58,137	181,759
Staff training	4,688	27,797	782	-	700	33,967	732	21	34,720	49,819
Advertising and recruiting	-	-	-	60	-	60	9,602	4,995	14,657	9,023
Interest	-	-	-	-	-	-	1,144	-	1,144	21,143
Total operating expenses	<u>\$ 6,127,465</u>	<u>\$ 4,838,766</u>	<u>\$ 2,164,651</u>	<u>\$ 260,491</u>	<u>\$ 375,188</u>	<u>\$ 13,766,561</u>	<u>\$ 2,838,087</u>	<u>\$ 501,116</u>	<u>\$ 17,105,764</u>	<u>\$ 18,855,283</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, 2014

	Program Services					Total Program Services	Management and General	Fundraising	Total
	Child and Family Counseling	Pregnancy and Parenting Support	Foster Care and Adoption Support	Advocacy	Program Support				
Salaries	\$ 5,014,992	\$ 2,963,532	\$ 887,814	\$ 75,316	\$ 174,811	\$ 9,116,465	\$ 1,007,230	\$ 341,418	\$ 10,465,113
Employee benefits	820,308	598,011	130,150	14,426	12,656	1,575,551	111,464	28,992	1,716,007
Subcontracted direct care	67,075	200,023	546,707	-	-	813,805	-	-	813,805
Payroll taxes	503,289	293,080	88,114	7,887	17,615	909,985	100,037	33,154	1,043,176
Total salaries and related	6,405,664	4,054,646	1,652,785	97,629	205,082	12,415,806	1,218,731	403,564	14,038,101
Occupancy	641,061	388,438	103,741	19,349	55,273	1,207,862	249,031	47,479	1,504,372
Professional fees	11,050	1,374	308,736	50,093	72,050	443,303	778,663	2,486	1,224,452
Meetings, conferences and travel	239,857	216,912	52,783	3,914	2,770	516,236	18,369	5,024	539,629
Supplies	43,448	127,550	38,974	221	2,018	212,211	7,967	4,362	224,540
Equipment rental and maintenance	82,295	43,860	6,234	253	658	133,300	47,117	1,628	182,045
Communications	23,749	5,596	12,869	187	979	43,380	236,663	395	280,438
Processing services	-	-	-	-	-	-	197,325	-	197,325
Other	34,865	16,260	10,284	6,584	899	68,892	22,266	28,187	119,345
Depreciation	45,784	13,984	10,330	1,108	1,916	73,122	118,151	3,536	194,809
Printing and publications	-	751	18	9,023	-	9,792	-	27,225	37,017
Postage and shipping	17,702	11,047	6,737	-	232	35,718	8,151	7,597	51,466
Bad debt	182,609	(852)	-	-	-	181,757	2	-	181,759
Staff training	20,388	26,718	634	18	37	47,795	1,354	670	49,819
Advertising and recruiting	198	74	-	30	-	302	4,072	4,649	9,023
Interest	-	-	-	-	-	-	21,143	-	21,143
Total operating expenses	<u>\$ 7,748,670</u>	<u>\$ 4,906,358</u>	<u>\$ 2,204,125</u>	<u>\$ 188,409</u>	<u>\$ 341,914</u>	<u>\$ 15,389,476</u>	<u>\$ 2,929,005</u>	<u>\$ 536,802</u>	<u>\$ 18,855,283</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, 2015 and 2014

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).

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.

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, if any.

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).

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).

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO CHILDREN

Notes to Financial Statements
June 30, 2015 and 2014

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets (Continued)

Temporarily Restricted Net Assets (Continued)

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

	<u>2015</u>	<u>2014</u>
Accumulated appreciation and earnings on permanently restricted investments (see Note 4)	\$ 8,771,815	\$ 10,555,317
Purpose restricted	652,626	459,255
Time restricted	<u>59,400</u>	<u>94,480</u>
	<u>\$ 9,483,841</u>	<u>\$ 11,109,052</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.

Funds received in advance of the fiscal year in which the initiatives will take place, if any, are recorded as deferred revenue.

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 \$371,000 and \$705,000 for the years ended June 30, 2015 and 2014, respectively. There were no material amounts of free care provided in fiscal year 2015 or 2014.

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.

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO CHILDREN

Notes to Financial Statements
June 30, 2015 and 2014

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 \$87,506 and \$198,307 for the years ended June 30, 2015 and 2014, respectively. In the prior year, \$3,498 of depreciation expense was included in loss from discontinued operations in the accompanying statement of activities and changes in net assets for the year ended June 30, 2014.

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.

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.

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO CHILDREN

Notes to Financial Statements
June 30, 2015 and 2014

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

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 probably that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2015 and 2014, 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).

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.

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, 2015 and 2014, the Society recognized unrestricted contributions of \$178,364 and \$189,071, respectively, from these trusts, which are included in contributions in the accompanying statements of activities and changes in net assets. The Society has recorded \$3,287,609 and \$3,417,456 on its statements of financial position at June 30, 2015 and 2014, respectively, representing the fair value of its beneficial interests in the trusts as permanently restricted net assets. 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).

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO CHILDREN

Notes to Financial Statements
June 30, 2015 and 2014

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

Beneficial Interests in Trusts (Continued)

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 \$8,982,203 and \$8,742,296 as of June 30, 2015 and 2014, respectively. The amount to be received by the Society, if any, cannot be determined and, therefore, is not reflected in the accompanying financial statements.

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 \$2,100,000 and \$2,492,000 of total investment return for operations and principal debt repayment for the years ended June 30, 2015 and 2014, 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 statements of activities and changes in net assets.

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.

Pledges Receivable

Pledges receivable at June 30, 2015 and 2014, consist of contributions committed to the Society. Pledges are recorded at their net present value when unconditionally committed (see Note 3).

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO CHILDREN

Notes to Financial Statements
June 30, 2015 and 2014

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2015 and 2014, were \$5,055 and \$4,951, 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>2015</u>	<u>2014</u>
Legal services	\$ 17,500	\$ 35,306
Silent auction items	11,815	6,692
Supplies	<u>1,525</u>	<u>525</u>
	<u>\$ 30,840</u>	<u>\$ 42,523</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.

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.

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO CHILDREN

Notes to Financial Statements
June 30, 2015 and 2014

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

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>Special Events</u>	<u>2015</u>	<u>2014</u>
Special events contributions and support	\$ 712,222	\$ 754,965
Special events revenue	\$ 28,100	\$ 49,760
Less - direct expenses	<u>(113,877)</u>	<u>(133,366)</u>
	(85,777)	(83,606)
<u>Other</u>		
Other fundraising revenues	20,340	28,145
Other fundraising expenses	<u>(23,485)</u>	<u>(55,841)</u>
Total fundraising events, net	<u>\$ 623,300</u>	<u>\$ 643,663</u>

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, 2015 and 2014. The Society's information returns are subject to examination by the Federal and state jurisdictions and generally remain open for the most recent three years.

Subsequent Events

Subsequent events have been evaluated through November 12, 2015, which is the date the financial statements were available to be issued. There were no events that met the criteria for recognition and disclosure in the financial statements.

2. FUNDING

The Society receives income from various funding sources to compensate for services rendered under cost reimbursement and unit-rate contracts. Approximately 46% and 43% of operating revenues were received from various departments of the Commonwealth of Massachusetts during the years ended June 30, 2015 and 2014, respectively. 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, 2015 and 2014, or on its changes in net assets for the years then ended.

Approximately 93% and 92% of contracts and other accounts receivable at June 30, 2015 and 2014, respectively, are due from the various departments of the Commonwealth of Massachusetts.

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO CHILDREN

Notes to Financial Statements
June 30, 2015 and 2014

2. FUNDING (Continued)

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, 2015 and 2014, 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>2015</u>	<u>2014</u>
Due within one year	\$ 266,183	\$ 180,077
Due in one to two years	<u>6,000</u>	<u>63,601</u>
	272,183	243,678
Less - discount	157	1,724
Less - reserve for uncollectible pledges	<u>5,351</u>	<u>4,801</u>
	266,675	237,153
Less - current portion of pledges receivable, net	<u>260,952</u>	<u>180,077</u>
Long-term pledges receivable	<u>\$ 5,723</u>	<u>\$ 57,076</u>

The pledges have been discounted using a 2.69% discount rate.

4. INVESTMENTS

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

<u>Investment Type</u>	<u>2015</u>			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Absolute Return:				
Hedge funds	\$ -	\$ 3,458,604	\$ 5,487,123	\$ 8,945,727
Limited partnerships	-	-	4,498,783	4,498,783
Limited liability company	-	<u>9,487</u>	-	<u>9,487</u>
Total absolute return	-	<u>3,468,091</u>	<u>9,985,906</u>	<u>13,453,997</u>
Diversified Arbitrage:				
Hedge funds	-	<u>1,986,400</u>	-	<u>1,986,400</u>
Other Investments:				
Mutual funds	1,852,898	-	-	1,852,898
Money market	19,483	-	-	19,483
Equities	<u>18,020</u>	-	-	<u>18,020</u>
Total other investments	<u>1,890,401</u>	-	-	<u>1,890,401</u>
Total investments	<u>\$ 1,890,401</u>	<u>\$ 5,454,491</u>	<u>\$ 9,985,906</u>	<u>\$ 17,330,798</u>

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO CHILDREN

Notes to Financial Statements
June 30, 2015 and 2014

4. INVESTMENTS (Continued)

<u>Investment Type</u>	2014			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Absolute Return:				
Hedge funds	\$ -	\$ 3,142,535	\$ 5,007,918	\$ 8,150,453
Limited partnerships	-	-	4,881,751	4,881,751
Limited liability company	-	9,487	-	9,487
Total absolute return	-	3,152,022	9,889,669	13,041,691
Diversified Arbitrage:				
Hedge funds	-	-	2,953,071	2,953,071
Other Investments:				
Mutual funds	2,056,532	-	-	2,056,532
Money market	1,018,441	-	-	1,018,441
Equities	20,320	-	-	20,320
Total other investments	3,095,293	-	-	3,095,293
Total investments	<u>\$ 3,095,293</u>	<u>\$ 3,152,022</u>	<u>\$ 12,842,740</u>	<u>\$ 19,090,055</u>

The changes in investments measured at fair value for which the Society has used Level 3 inputs to determine value were as follows for the years ended of June 30:

	<u>2015</u>	<u>2014</u>
Beginning balance	\$ 12,842,740	\$ 8,000,832
Transfers based on change in liquidity restrictions	(2,953,071)	4,587,105
Purchases of investments	95,371	95,158
Proceeds from sales of investments	(597,759)	(715,875)
Realized gain	443,004	132,293
Net unrealized gain	155,621	743,227
Ending balance	<u>\$ 9,985,906</u>	<u>\$ 12,842,740</u>

In accordance with the Society's investment spending policy, the Board of Directors approved draws up to \$2,100,000 and \$2,492,000 for fiscal years 2015 and 2014, respectively. During fiscal years 2015 and 2014, the Society designated \$1,910,745 and \$1,724,133, respectively, for operations and \$149,255 and \$622,345, respectively, to fund principal payments on note payable to a bank (see Note 7).

Transfers out of or into Level 3 relate to changes in the alternative investments redemption period to a period less than ninety days or to a period greater than ninety days, respectively, as of June 30, 2015 and 2014.

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

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO CHILDREN

Notes to Financial Statements
June 30, 2015 and 2014

4. INVESTMENTS (Continued)

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>2015</u>	<u>2014</u>
Realized gain on sale of investments	\$ 559,510	\$ 1,043,105
Investment income	99,489	54,285
Unrealized gain (loss) on investments	<u>(382,501)</u>	<u>41,516</u>
	<u>\$ 276,498</u>	<u>\$ 1,138,906</u>

The Society incurred investment management fees totaling \$130,047 and \$130,232 for the years ended June 30, 2015 and 2014, respectively, which are included in professional fees in the accompanying statements of functional expenses.

The following schedules summarize 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, 2013	\$ 11,762,889	\$ 11,079,741	\$ 22,842,630
Investment returns:			
Net realized gains	1,043,105	-	1,043,105
Investment income	54,285	-	54,285
Net unrealized gains	<u>41,516</u>	<u>-</u>	<u>41,516</u>
Total investment returns	<u>1,138,906</u>	<u>-</u>	<u>1,138,906</u>
Appropriation of endowment assets for expenditure	<u>(1,724,133)</u>	<u>-</u>	<u>(1,724,133)</u>
Appropriation of endowment assets for principal payments on note payable to a bank	<u>(622,345)</u>	<u>-</u>	<u>(622,345)</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>

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO CHILDREN

Notes to Financial Statements
June 30, 2015 and 2014

5. PROPERTY AND EQUIPMENT

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

	<u>2015</u>	<u>2014</u>
Land	\$ 370,605	\$ 370,605
Buildings	474,176	474,176
Building and leasehold improvements	323,452	1,106,338
Computers and software	620,317	2,197,774
Furniture and fixtures	472,175	961,557
Construction in process	-	6,520
	<u>2,260,725</u>	<u>5,116,970</u>
Less - accumulated depreciation	<u>1,412,467</u>	<u>4,165,398</u>
	<u>\$ 848,258</u>	<u>\$ 951,572</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 and \$240,000 as of June 30, 2015 and 2014, respectively. During fiscal year 2015, the Society disposed of approximately \$85,000 of furniture and fixtures for which the Society held title and was no longer in use. 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>2015</u>	<u>2014</u>
Funded Status:		
Fair value of plan assets	\$ 4,233,335	\$ 4,719,356
Projected benefit obligation	<u>(7,559,003)</u>	<u>(7,456,048)</u>
Pension liability	<u>\$ (3,325,668)</u>	<u>\$ (2,736,692)</u>
Other Disclosures:		
Benefits paid other than for settlement	<u>\$ 197,646</u>	<u>\$ 196,248</u>
Net periodic pension expense recognized	<u>\$ 140,148</u>	<u>\$ 162,377</u>

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO CHILDREN

Notes to Financial Statements
June 30, 2015 and 2014

6. PENSION PLANS (Continued)

Defined Benefit Plan (Continued)

Future Plan Benefit Payments and Employer Contributions

During fiscal years 2015 and 2014, a group of participants in the Plan elected to receive a lump-sum distribution which totaled \$419,440 and \$729,198, respectively. This distribution from the Plan exceeded the sum of the interest and service cost, resulting in a settlement charge of \$160,179 and \$215,793, respectively.

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

	<u>2015</u>	<u>2014</u>
Weighted average discount rate	4.20%	4.44%
Long-term return on plan assets	6.10%	6.20%

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

	<u>2015</u>	<u>2014</u>
Weighted average discount rate	4.34%	4.20%
Rate of compensation increase	N/A	N/A

Future benefits expected to be paid are as follows:

2016	\$ 277,000
2017	\$ 301,000
2018	\$ 331,000
2019	\$ 338,000
2020	\$ 357,000
2021 - 2025	\$ 2,005,000

The Society made contributions of \$278,518 during fiscal year 2015, of which \$159,713 related to the prior year and \$118,805 pertained to fiscal year 2015. The Society made contributions of \$94,639 during fiscal year 2014, of which \$45,192 related to prior years and \$49,447 pertained to fiscal year 2014. The Society plans to make contributions totaling \$191,096 to the Plan during the fiscal year ending June 30, 2016.

Plan Assets

The Society holds its plan assets in a diversified portfolio allocation. The allocation in this portfolio was weighted 99% and 97% in a mutual fund and 1% and 3% in cash to minimize risk and maximize return as of June 30, 2015 and 2014, respectively.

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO CHILDREN

Notes to Financial Statements
June 30, 2015 and 2014

6. PENSION PLANS (Continued)

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 2015 and 2014.

7. NOTE PAYABLE TO A BANK

The Society has available up to \$3,000,000 under a revolving line of credit agreement with a bank through January 31, 2016. Borrowings under the agreement bear interest at the bank's base lending rate (3.25% at June 30, 2015 and 2014) 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, 2015 and 2014. There was no balance outstanding at June 30, 2015 and 2014.

The Society had a five-year term note with a bank, bearing a simple interest rate of 4.5%, payable monthly. The outstanding balance of the note was \$149,255 as of June 30, 2014. The note was payable in monthly installments of principal and interest of \$49,729 and was paid in full during fiscal year 2015. The note was cross-collateralized with the revolving line of credit by a first lien on all assets of the Society, as well as the non-permanently restricted portion of its investments. The Society had to meet certain non-financial covenants as specified in the agreement. The Society was in compliance with these covenants at June 30, 2014.

8. ACCRUED RENT

The Society leased office space in Boston, Massachusetts under a lease agreement that expired in March 2015. The monthly rental payments under this lease were \$35,985 and had escalated annually over the ten-year lease term. Under this agreement, the Society received nine months of free rent for the majority of the space before it began paying rent in 2005. The Society was responsible for certain operating costs as defined in the agreement.

In accordance with the ASC Topic, *Leases*, the Society recorded rent expense for this lease on a straight-line basis over the term of the lease regardless of actual cash payments. The Society had a liability of \$61,294, which was included in other liabilities in the accompanying statement of financial position as of June 30, 2014, pertaining to this agreement. There was no liability at June 30, 2015.

MASSACHUSETTS SOCIETY FOR THE PREVENTION OF CRUELTY TO CHILDREN

Notes to Financial Statements
June 30, 2015 and 2014

9. 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 \$1,165,000 and \$1,293,000 for the years ended June 30, 2015 and 2014, respectively. For the year ended June 30, 2015, the entire balance is included in occupancy in the accompanying statement of functional expenses. For the year ended June 30, 2014, approximately \$1,099,000 is included in occupancy in the accompanying statement of functional expenses and \$194,000 is included in loss from discontinued operations (see Note 13) in the accompanying statement of activities and changes in net assets.

Future minimum lease payments under these agreements are as follows:

2016	\$ 779,627
2017	\$ 783,743
2018	\$ 736,179
2019	\$ 427,040
2020	\$ 352,644
Thereafter	\$ 883,491

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

The Society subleased two facilities to third parties, one as a tenant-at-will, and the other through March 2015, with average monthly payments totaling approximately \$6,000 and \$2,800 during the years ended June 30, 2015 and 2014, respectively. The tenant occupied the space for the entire fiscal year and the other facility was vacant after March 2015. Total rental income for the years ended June 30, 2015 and 2014, was \$55,445 and \$72,010, respectively, and is netted with occupancy expense in the accompanying statements of functional expenses.

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, 2015 and 2014, was \$91,380 and \$86,774, respectively, 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:

2016	\$ 91,380
2017	\$ 91,380
2018	\$ 91,380
2019	\$ 15,230

10. 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.

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11. 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 22% of the Society's labor force was covered under these agreements as of June 30, 2015 and 2014.

12. CONCENTRATIONS

Approximately 70% of the Society's gross pledges receivable totaling \$190,000 and \$170,600 at June 30, 2015 and 2014, respectively, are from four donors.

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.

13. DISCONTINUED OPERATIONS

The Society's Board of Directors voted to cease operations of three of the Society's programs during fiscal year 2013. Additionally, the Society had been incurring rent costs on a long-term lease associated with a program that was closed during fiscal year 2009.

The activity relating to the operations of these terminated programs is reflected as loss from discontinued operations in the accompanying statement of activities and changes in net assets and is summarized as follows for the year ended June 30, 2014:

Revenues	\$ 1,355,249
Expenses	<u>(1,750,525)</u>
Loss from discontinued operations	<u>\$ (395,276)</u>

There was no discontinued operations activity for the year ended June 30, 2015.

14. CONTINUING OPERATIONS

The Society's unrestricted changes in net assets from operations were \$178,957 and \$(402,499) for the years ended June 30, 2015 and 2014, respectively, including investment return designated for operations of \$1,910,745 and \$1,724,133 for the years ended June 30, 2015 and 2014, respectively. Unrestricted operating net asset deficits were \$(1,430,293) and \$(1,872,737) as of June 30, 2015 and 2014, respectively.

To assure the strength and future of the Society as a vital leader in promoting the safety and health of children in Massachusetts, initiatives are underway to achieve strategic goals to address the Society's structural deficit and limit the endowment draw for operating needs to a sustainable level. During fiscal year 2016, management will continue to modify program models to maximize productivity and to provide high quality services; enhance fundraising efforts; and continue its efforts to assure optimum administrative efficiencies. Through these actions and a commitment to continuous monitoring, the Society will continue to be a leader in services and advocacy for children and families.

15. RECLASSIFICATIONS

Certain amounts in the fiscal year 2014 financial statements have been reclassified to conform with the fiscal year 2015 presentation.