

# **TREE HOUSE HUMANE SOCIETY, INC.**

## **Report on Audited Financial Statements**

**December 31, 2015 and 2014**

**MANNING SILVERMAN & COMPANY  
CERTIFIED PUBLIC ACCOUNTANTS  
(847) 459-8850**

**TREE HOUSE HUMANE SOCIETY, INC.**  
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**DECEMBER 31, 2015 AND 2014**

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Tree House Humane Society, Inc.  
Chicago, Illinois

We have audited the accompanying financial statements of Tree House Humane Society, Inc. (an Illinois not-for-profit corporation) which comprise the statements of financial position as of December 31, 2015 and 2014 and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. These 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 Organization'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 Organization'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 Tree House Humane Society, Inc. as of December 31, 2015 and 2014 and the results of its activities and changes in net assets, functional expenses and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script, appearing to read "Manning Silverman & Company", is written over a horizontal line.

Manning Silverman & Company  
Certified Public Accountants  
Lincolnshire, Illinois

April 15, 2017

**TREE HOUSE HUMANE SOCIETY, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2015 AND 2014**

**ASSETS**

	2015	2014
<b>Current Assets:</b>		
Cash and Cash Equivalents	\$ 2,216,340	\$ 4,385,995
Investments	1,128,837	1,164,935
Contributions Receivable	89,000	77,000
Inventory	12,842	12,843
Prepaid Expenses	5,734	5,736
Total Current Assets	3,452,753	5,646,509
<b>Fixed Assets at Net Book Value:</b>		
Land	727,501	727,501
Building and Building Improvements	734,663	737,593
Furniture and Equipment	208,752	29,738
Capitalized Building Costs	1,967,941	263,589
Total Net Fixed Assets	3,638,857	1,758,421
<b>Other Assets:</b>		
Cash Held for Investment in Perpetuity	25,000	25,000
Contributions Receivable	176,000	223,000
Total Other Assets	201,000	248,000
Total Assets	\$ 7,292,610	\$ 7,652,930

**LIABILITIES AND NET ASSETS**

<b>Current Liabilities:</b>		
Accounts Payable	\$ 85,895	\$ 58,881
Total Current Liabilities	85,895	58,881
<b>Net Assets:</b>		
Unrestricted	3,188,667	3,798,932
Temporarily Restricted	3,993,048	3,770,117
Permanently Restricted	25,000	25,000
Total Net Assets	7,206,715	7,594,049
Total Liabilities and Net Assets	\$ 7,292,610	\$ 7,652,930

See Independent Auditor's Report.  
The accompanying notes are an integral part of these financial statements.

**TREE HOUSE HUMANE SOCIETY, INC.**  
**STATEMENTS OF ACTIVITIES**  
**YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015		2014		Total	Temporarily Restricted	Permanently Restricted	Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Temporarily Restricted				
Public Support :								
Contributions	\$ 1,357,350	\$ 220,618	\$ -	\$ 1,577,968	\$ 1,278,951	\$ 802,058	\$ 2,081,009	
Grant	184,790	-	-	184,790	112,069	-	112,069	
Bequests	454,087	-	-	454,087	1,338,994	-	1,338,994	
Membership Dues	18,192	-	-	18,192	50,372	-	50,372	
Special Events	201,158	-	-	201,158	208,460	-	208,460	
Raffle	16,258	-	-	16,258	24,768	-	24,768	
<b>Total Public Support</b>	<b>2,231,835</b>	<b>220,618</b>	<b>-</b>	<b>2,452,453</b>	<b>3,013,614</b>	<b>802,058</b>	<b>3,815,672</b>	
Program Service Fees:								
Program Fees	302,763	-	-	302,763	284,635	-	284,635	
<b>Total Program Service Fees</b>	<b>302,763</b>	<b>-</b>	<b>-</b>	<b>302,763</b>	<b>284,635</b>	<b>-</b>	<b>284,635</b>	
Other Revenues (Expenses):								
Miscellaneous Income	(673)	-	-	(673)	2,864	-	2,864	
<b>Total Other Revenues (Expenses)</b>	<b>(673)</b>	<b>-</b>	<b>-</b>	<b>(673)</b>	<b>2,864</b>	<b>-</b>	<b>2,864</b>	
Investment Income:								
Investment Income	6,845	42,035	-	48,880	5,626	38,907	44,533	
Realized Gain	2,395	-	-	2,395	(1,215)	27,384	26,169	
Unrealized Gain (Loss)	(4,151)	(39,722)	-	(43,873)	2,445	23,607	26,052	
<b>Total Investment Income</b>	<b>5,089</b>	<b>2,313</b>	<b>-</b>	<b>7,402</b>	<b>6,856</b>	<b>89,898</b>	<b>96,754</b>	
<b>Total Revenues and Other Support</b>	<b>2,539,014</b>	<b>222,931</b>	<b>-</b>	<b>2,761,945</b>	<b>3,307,969</b>	<b>891,956</b>	<b>4,199,925</b>	

See Independent Auditor's Report.  
The accompanying notes are an integral part of these financial statements.

**TREE HOUSE HUMANE SOCIETY, INC.**  
**STATEMENTS OF ACTIVITIES (Continued)**  
**YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015			2014				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Total Revenues and Other Support	2,539,014	222,931	-	2,761,945	3,307,969	891,956	-	4,199,925
Expenses:								
Program Services								
General	732,907	-	-	732,907	697,381	-	-	697,381
Medical	1,291,048	-	-	1,291,048	1,205,602	-	-	1,205,602
Educational/Counseling	93,631	-	-	93,631	94,478	-	-	94,478
Adoption	264,526	-	-	264,526	244,386	-	-	244,386
Other Outreach	145,919	-	-	145,919	134,019	-	-	134,019
Total Program Services	2,528,031	-	-	2,528,031	2,375,866	-	-	2,375,866
Support								
Management and General	129,743	-	-	129,743	128,846	-	-	128,846
Fundraising	491,477	-	-	491,477	471,513	-	-	471,513
Total Expenses	3,149,251	-	-	3,149,251	2,976,225	-	-	2,976,225
Change in Net Assets Before Other Expense	(610,237)	222,931	-	(387,306)	331,744	891,956	-	1,223,700
Other Expense - Foreign Tax Paid	(28)	-	-	(28)	(28)	-	-	(28)
Change in Net Assets	(610,265)	222,931	-	(387,334)	331,716	891,956	-	1,223,672
Reclassification of Prior Restricted Assets	-	-	-	-	(987,036)	987,036	-	-
Net Assets, Beginning of Year	3,798,932	3,770,117	25,000	7,594,049	4,454,252	1,891,125	25,000	6,370,377
Net Assets, End of Year	\$ 3,188,667	\$ 3,993,048	\$ 25,000	\$ 7,206,715	\$ 3,798,932	\$ 3,770,117	\$ 25,000	\$ 7,594,049

See Independent Auditor's Report.  
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**TREE HOUSE HUMANE SOCIETY, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED DECEMBER 31, 2015**

	Program Services				Other Outreach	Management and General	Support		Organization Total
	General	Medical	Educational/Counseling	Adoption			Fundraising	Total	
Salaries	\$ 290,692	\$ 509,091	\$ 41,709	\$ 203,926	\$ 105,582	\$ 1,151,000	\$ 159,474	\$ 211,229	\$ 1,362,229
Employee Benefits	33,015	57,822	4,737	23,162	11,992	130,728	18,113	23,992	154,720
Payroll Taxes	26,882	47,079	3,857	18,858	9,764	106,440	14,747	19,534	125,974
Advertising	-	-	-	-	-	-	6,441	6,739	6,739
Bank and Credit Card Fees	-	-	-	2,077	-	2,077	18,685	18,808	20,885
Consultants	-	-	12,123	-	-	12,123	2,940	46,260	58,383
Depreciation	27,875	24,390	3,484	3,484	3,484	62,717	3,484	6,968	69,685
Equipment Rental	18,234	-	-	-	-	18,234	321	7,374	25,608
Food	33,463	-	-	-	-	33,463	-	-	33,463
Insurance	16,656	14,574	2,081	2,081	2,081	37,473	5,671	7,752	45,225
Lab Tests	-	51,291	-	-	-	51,291	-	-	51,291
Licenses and Fees	1,692	-	-	-	-	1,692	-	-	1,692
Medicine	-	37,923	-	-	-	37,923	-	-	37,923
Miscellaneous	-	720	1,589	-	-	2,309	4,242	4,752	7,061
Occupancy	10,595	9,271	1,324	1,324	1,324	23,838	1,324	2,648	26,486
Office Supplies	4,135	4,135	4,135	4,135	4,135	20,675	8,271	20,677	41,352
Payroll Service	4,864	9,485	756	2,033	860	17,998	1,684	2,923	20,921
Postage and Shipping	1,322	-	7,079	1,322	-	9,723	1,322	35,225	44,948
Printing and Publications	1,100	1,100	9,733	1,100	1,100	14,133	2,198	65,628	79,761
Professional Fees	-	-	-	-	-	-	34,392	34,392	34,392
Real Estate Taxes - Bucktown Lots	-	-	-	-	-	-	-	-	-
Real Estate Taxes - Western Ave	2,467	2,467	-	-	-	4,934	-	-	4,934
Supplies	61,537	74,182	-	-	4,573	140,292	101,172	101,172	241,464
Telephone	1,024	1,024	1,024	1,024	1,024	5,120	1,024	5,119	10,239
Travel	6,841	8,631	-	-	-	15,472	28	28	15,500
Veterinary Fees	-	54,371	-	-	-	54,371	-	-	54,371
Tree House Branch Clinic	-	383,492	-	-	-	383,492	-	-	383,492
Tree House Branch Shelter	190,513	-	-	-	-	190,513	-	-	190,513
<b>Total Expenses</b>	<b>\$ 732,907</b>	<b>\$ 1,291,048</b>	<b>\$ 93,631</b>	<b>\$ 264,526</b>	<b>\$ 145,919</b>	<b>\$ 2,528,031</b>	<b>\$ 129,743</b>	<b>\$ 491,477</b>	<b>\$ 3,149,251</b>

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**TREE HOUSE HUMANE SOCIETY, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2014**

	Program Services					Support		Organization Total		
	General	Medical	Educational/ Counseling	Adoption	Other Outreach	Total	Management and General		Fundraising	Total
Salaries	\$ 268,567	\$ 470,343	\$ 38,534	\$ 188,405	\$ 97,546	\$ 1,063,395	\$ 47,816	\$ 147,336	\$ 195,152	\$ 1,258,547
Employee Benefits	30,632	53,646	4,395	21,489	11,126	121,288	5,454	16,805	22,259	143,547
Payroll Taxes	25,183	44,103	3,613	17,666	9,147	99,712	4,484	13,815	18,299	118,011
Advertising	-	-	-	-	-	-	280	6,044	6,324	6,324
Bank and Credit Card Fees	-	-	-	1,930	-	1,930	114	17,366	17,480	19,410
Consultants	-	-	14,844	-	-	14,844	3,600	53,043	56,643	71,487
Depreciation	29,003	25,377	3,625	3,625	3,625	65,255	3,625	3,625	7,250	72,505
Equipment Rental	13,048	-	-	-	-	13,048	230	5,047	-	18,325
Food	57,550	-	-	-	-	57,550	-	-	-	57,550
Insurance	15,877	13,892	1,984	1,984	1,984	35,721	5,406	1,984	7,390	43,111
Lab Tests	-	19,552	-	-	-	19,552	-	-	-	19,552
Licenses and Fees	1,025	-	-	-	-	1,025	-	-	-	1,025
Medicine	-	33,388	-	-	-	33,388	-	-	-	33,388
Miscellaneous	-	1,500	3,303	-	-	4,803	8,816	1,060	9,876	14,679
Occupancy	10,719	9,379	1,340	1,340	1,340	24,118	1,340	1,340	2,680	26,798
Office Supplies	2,594	2,594	2,594	2,594	2,594	12,970	5,189	7,783	12,972	25,942
Payroll Service	4,332	8,447	673	1,811	766	16,029	1,500	1,103	2,603	18,632
Postage and Shipping	1,386	-	7,421	1,386	-	10,193	1,386	35,543	36,929	47,122
Printing and Publications	1,273	1,273	11,269	1,273	1,273	16,361	2,545	73,436	75,981	92,342
Professional Fees	-	-	-	-	-	-	36,148	-	36,148	36,148
Real Estate Taxes - Bucktown Lots	679	679	-	-	-	1,358	-	-	-	1,358
Real Estate Taxes - Western Ave	2,418	2,418	-	-	-	4,836	-	-	-	4,836
Supplies	50,272	60,603	-	-	3,735	114,610	-	82,652	82,652	197,262
Telephone	883	883	883	883	883	4,415	883	3,531	4,414	8,829
Travel	7,266	9,168	-	-	-	16,434	30	-	30	16,464
Veterinary Fees	-	38,482	-	-	-	38,482	-	-	-	38,482
Tree House Branch Clinic	-	409,875	-	-	-	409,875	-	-	-	409,875
Tree House Branch Shelter	174,674	-	-	-	-	174,674	-	-	-	174,674
<b>Total Expenses</b>	<b>\$ 697,381</b>	<b>\$ 1,205,602</b>	<b>\$ 94,478</b>	<b>\$ 244,386</b>	<b>\$ 134,019</b>	<b>\$ 2,375,866</b>	<b>\$ 128,846</b>	<b>\$ 471,513</b>	<b>\$ 600,359</b>	<b>\$ 2,976,225</b>

See Independent Auditor's Report.  
The accompanying notes are an integral part of these financial statements.

**TREE HOUSE HUMANE SOCIETY, INC.**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015	2014
Cash Flows from Operating Activities:		
Increase (Decrease) in Net Assets	\$ (387,334)	\$ 1,223,672
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash		
Provided by (Used in) Operating Activities:		
Depreciation	69,684	72,505
Donation of Stocks	(172,411)	(351,100)
Realized (Gain) on Investments	2,395	(26,169)
Unrealized Loss (Gain) on Investments	(43,873)	(26,052)
Changes in Current Assets and Liabilities:		
(Increase) in Contributions Receivable	(12,000)	(77,000)
Decrease in Other Assets	47,000	526,501
Increase in Accounts Payable	27,014	31,622
Decrease in Inventory and Prepaid Expenses	3	13,935
	(469,522)	1,387,914
Cash Flows from Investing Activities:		
Purchases of Investments	(214,463)	(623,445)
Proceeds from Sale of Investments	208,542	1,229,396
Decrease in Cash Held for Investment in Perpetuity	255,908	-
Purchases of Fixed Assets	(1,950,120)	(156,507)
	(1,700,133)	449,444
Net Increase (Decrease) in Cash and Cash Equivalents	(2,169,655)	1,837,358
Cash and Cash Equivalents, Beginning of Year	4,385,995	2,548,637
Cash and Cash Equivalents, End of Year	\$ 2,216,340	\$ 4,385,995

See Independent Auditor's Report.  
The accompanying notes are an integral part of these financial statements.

**TREE HOUSE HUMANE SOCIETY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015 AND 2014**

**1. Nature of Activities**

Tree House Humane Society, Inc.'s (Society) mission is developing and implementing model programs in animal welfare, public education, and promoting the mutually-enriching human/animal bond. The Society is committed to the rescue and rehabilitation of sick, injured and abused stray animals in the Chicago area. To attain these goals, Tree House operates no-kill shelters and adoption centers for cats and kittens at 1212 West Carmen Avenue and 1629 North Ashland in Chicago. The Society also offers innovative programs and services in humane education and outreach. Services include an animal behavior counseling hotline; a series of free publications on animal-related issues; animal-assisted therapy at hospitals and managed care facilities; humane education presentations; youth volunteer programs; and veterinary and animal-food assistance for low-income families. The Society received 74% of its revenues in both of the years ended December 31, 2015 and 2014, from contributions and bequests. The remainder is from fundraising, program fees, membership dues, grants and investment income.

**2. Summary of Significant Accounting Policies**

Basis of Accounting

The accounts of the Society are maintained on the accrual basis.

Information regarding the financial position and activities of the Society are reported in three classes of net assets (as applicable): unrestricted, temporarily restricted or permanently restricted, the latter two of which are based on the existence or absence of externally (donor) imposed restrictions on contributions. Accordingly, net assets of the Society and changes therein are classified and reported as follows:

- Unrestricted Net Assets – Unrestricted net assets are not subject to donor-imposed stipulations. They include all activities of the Society, except for those that are temporarily or permanently restricted by donors. Board designated amounts are part of unrestricted net assets.
- Temporarily Restricted Net Assets – Temporarily restricted net assets are subject to donor-imposed stipulations that can be removed through the passage of time (time restrictions) or actions of the Society (purpose restrictions).
- Permanently Restricted Net Assets – Permanently restricted net assets are subject to the restrictions imposed by donors who require that the principal of this class of net assets be retained in perpetuity as an endowment with only the income to be reclassified to unrestricted net assets.

**TREE HOUSE HUMANE SOCIETY, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2015 AND 2014**

Cash and Cash Equivalents

The Society considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents, excluding those amounts contained in the investment portfolios.

Fair Value Measurements

Under GAAP, *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The Society utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique.

The Society's assessment of the significance of a particular input to the fair value measurements requires judgment and may affect the valuation of fair value of assets and liabilities and their placement within the fair value hierarchy levels.

GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value, maximizes the use of observable inputs, and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level I measurements) and the lowest priority to measurements involving significant unobservable inputs (Level III measurements). The three levels of fair value hierarchy are as follows:

Level I Valuation based on quoted prices in active markets for identical assets or liabilities that a reporting entity has the ability to access at the measurement date, and where transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level II Valuation based on inputs other than quoted prices included within Level I that are observable for the asset or liability, either directly or indirectly. Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets, or liabilities in markets that are not active, that is, markets in which there are few transactions, prices are not current, or prices vary substantially over time.

**TREE HOUSE HUMANE SOCIETY, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2015 AND 2014**

Level III Valuation based on inputs that are unobservable for an asset or liability and should be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. This input, therefore, reflects the Society's assumptions about what market participants would use in pricing the asset or liability based on the best information available in the circumstances.

The following table sets forth by level, the Organization's assets as of December 31, 2015:

	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
Fixed Income	\$ 638,149	\$ -	\$ -	\$ 638,149
Equity Investments	<u>490,688</u>	<u>-</u>	<u>-</u>	<u>490,688</u>
Total Investment Assets at Fair Value	<u>\$1,128,837</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,128,837</u>

The following table sets forth by level, the Organization's assets as of December 31, 2014:

	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
Fixed Income	\$ 636,799	\$ -	\$ -	\$ 636,799
Equity Investments	<u>528,136</u>	<u>-</u>	<u>-</u>	<u>528,136</u>
Total Investment Assets at Fair Value	<u>\$1,164,935</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,164,935</u>

Contributions Receivable and Bad Debt Expense

Management considers receivables to be fully collectible; accordingly, no allowance for doubtful accounts has been provided. If an amount becomes uncollectible, it is charged to operations in the period in which that determination is made. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

All contributions receivable are restricted for use in constructing the new adoption center and are collectible in installments no later than 2020.

Inventory

Inventory is stated at the lower of cost or market, using procedures which approximate the first-in, first-out (FIFO) method of inventory valuation.

**TREE HOUSE HUMANE SOCIETY, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2015 AND 2014**

Property and Equipment

Property and equipment is recorded at historical cost. The Society capitalizes fixed asset additions over \$1,000. Depreciation is computed using the straight-line method for all property and equipment. The estimated useful lives in computing depreciation are as follows:

<u>Description</u>	<u>Years</u>
Buildings	30
Leasehold Improvements	5 - 30
Computer Equipment	3 - 10
Furniture and Fixtures	3 - 10

Maintenance and repairs, which neither materially add to the value of the property nor appreciably prolong its life, are charged to expense as incurred. Gains or losses on dispositions of property and equipment are included in the statements of activities.

Contributions, Grants and Contracts

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor, grantor or contracting agency. Amounts received that are designated for future periods or are restricted for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. Unconditional promises to give, which do not state a due date, are presumed to be unrestricted net assets.

A donor restriction expires when a stipulated time restriction ends, when an unconditional promise with an implied time restriction is collected, or when a purpose restriction is accomplished. Upon expiration, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statements of activities as net assets released from restrictions. Permanently restricted net assets include the principal amount of contributions accepted with the stipulations from the donors that the principal be maintained in perpetuity, with only the income therefrom to be expended for either general purposes or a purpose specified by the donor.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Expenses that are easily and directly associated with a particular program or supporting service are allocated directly to that functional category. Certain costs have been allocated among the programs and supporting services benefited based on time devoted to the functional areas and other appropriate methods.

**TREE HOUSE HUMANE SOCIETY, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2015 AND 2014**

Income Taxes

The Society is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and is not considered to be a private foundation. It is also required to recognize or derecognize in its financial statements positions taken or expected to be taken in a tax return on a "more likely than not" threshold. The Society does not believe its financial statements include any uncertain tax positions. The Society's income tax filings for the years 2012 and thereafter remain subject to examination by the Internal Revenue Service.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the relevant period. Actual results could differ from those estimates.

**3. Donated Materials and Services**

In-kind donations of material are recorded at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Conditional transfers of assets are recognized when the conditions upon which they depend are substantially met. During the year ended December 31, 2015 and 2014, the Society received in kind donations of \$0.

Donations of services are recorded if they create or enhance a non-financial asset or are specialized skills that would be purchased if they were not donated. The Society did receive donated services for the years ended December 31, 2015 and 2014; however no amounts have been reflected in the financial statements since the Society pays for most services requiring specific expertise and other individuals volunteer their time.

**4. Concentration of Credit Risk**

Financial instruments, which potentially subject the entity to concentrations of credit risk, consist of money market accounts and investment securities.

The Society places its temporary cash and money market accounts with creditworthy, high-quality financial institutions. The Society maintains its cash in various bank deposit accounts which, at times, may exceed federally insured limits. The Society has not experienced any losses in such accounts.

**TREE HOUSE HUMANE SOCIETY, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
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The Society has significant investments in stocks, bonds, and mutual funds and, therefore, is subject to concentrations of credit risk. Investments are monitored, and recommendations are made, by the finance committee, for approval by the Board of Directors. Although the fair value of investments is subject to fluctuations on a year-to-year basis, management believes the investment policy is prudent for the long-term welfare of the Society and its beneficiaries.

**5. Investments**

Investments as of December 31, 2015 and 2014 are summarized as follows:

	<u>2015</u>	<u>2014</u>
Vanguard	\$ 1,049,619	\$ 1,047,428
Northern Trust	25,027	24,767
Charles Schwab	<u>54,191</u>	<u>92,740</u>
Total Investments	<u>\$ 1,128,837</u>	<u>\$ 1,164,935</u>

**6. Fixed Assets and Other Assets**

The costs of the Society's assets as of December 31, 2015 and 2014 are shown below:

	<u>2015</u>	<u>2014</u>
Land	\$ 727,501	\$ 727,501
Building and Building Improvements	1,481,863	1,429,691
Furniture and Equipment	492,507	298,912
Vehicles	23,106	23,106
Capitalized Building Costs	<u>1,967,941</u>	<u>263,589</u>
	4,692,918	2,742,799
Less Accumulated Depreciation	<u>1,054,061</u>	<u>984,378</u>
Net Book Value	<u>\$ 3,638,857</u>	<u>\$ 1,758,421</u>

Depreciation expense for the years ended December 31, 2015 and 2014 was \$69,683 and \$72,505, respectively.

**7. Advertising Costs**

Advertising costs, used by the Society to promote its programs among the audiences it serves, are expensed as incurred. Advertising costs for the years ended December 31, 2015 and 2014 were \$6,739 and \$6,324, respectively.



**TREE HOUSE HUMANE SOCIETY, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2015 AND 2014**

**8. Lease Obligation and Rental Expense**

The Society leases laundry room equipment including washers and dryers. The lease began December 13, 2006 and expired April 1, 2014, after which it continued on a month to month basis. Rental expense on this lease for the years ended December 31, 2015 and 2014 was \$1,863 and \$1,680, respectively.

**9. Compensated Absences**

Employees of the Society are entitled to paid vacation, paid sick days, and personal days off, depending on job classification, length of service, and other factors. It is impracticable to estimate the amount of compensation for future absences, and accordingly, no liability has been recorded in the accompanying financial statements. The Society's policy is to recognize the costs of compensated absences when actually paid to employees.

**10. Temporarily Restricted Net Assets**

As of December 31, 2015 and 2014 there were \$3,993,048 and \$3,770,117 in temporarily restricted net assets. These funds are restricted for the purpose of designing and constructing a state-of-the-art, environmentally friendly adoption center and low-cost clinic to replace the current facility on Carmen Avenue in Chicago, Illinois. An adjustment of \$987,036 was made to correct temporary restricted net assets in 2014.

**11. Activities with Joint Costs**

The Society conducted activities that included fundraising appeals as well as program components. These activities include direct mail activities. The costs of conducting these joint activities which met the purpose, audience and content criteria of AICPA Statement of Position ("SOP") 98-2, *Accounting for Costs of Activities of Not-for-Profit Organizations and State and Local Government Entities That Include Fund-Raising*, included a total of \$79,760 of joint costs for the year ended December 31, 2015, and \$92,342 of joint costs for the year ended December 31, 2014, that were functionally allocated as follows:

	<u>2015</u>	<u>2014</u>
Programs	\$ 17,303	\$ 16,361
Fundraising	<u>62,457</u>	<u>75,981</u>
Total	<u>\$ 79,760</u>	<u>\$ 92,342</u>

**TREE HOUSE HUMANE SOCIETY, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
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**12. Subsequent Events**

Subsequent events have been evaluated through April 15, 2017 which is the date the financial statements were available to be issued.

During 2016 Tree House Board Members decided to perform an internal review of the Organization. In order to build on the Organization's strengths in pursuit of its core mission, it was decided to bring in a new management team to help push and support the Organization's rapid growth.

As of April 8, 2017, the Organization is in the process of selling the Carmen and Ashland locations in order to bring the Organization together under its newly built facility. The grand opening of the new facility is expected to be in July 2017.