

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

## **Report on Audited Financial Statements**

**December 31, 2014 and 2013**

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

**TREE HOUSE HUMANE SOCIETY, INC.**  
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**DECEMBER 31, 2014 AND 2013**

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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, 2014 and 2013 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**

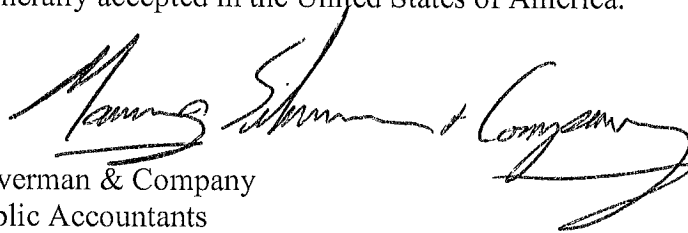
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. These standards require that we plan and perform the audits to obtain reasonable assurance about 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, 2014 and 2013 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 that reads "Manning Silverman & Company". The signature is written in dark ink and is positioned above the printed name of the firm.

Manning Silverman & Company  
Certified Public Accountants

October 6, 2015

**TREE HOUSE HUMANE SOCIETY, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2014 AND 2013**

**ASSETS**

	2014	2013
<b>Current Assets:</b>		
Cash and Cash Equivalents	\$ 4,385,995	\$ 2,548,637
Investments	1,164,935	1,367,564
Contributions Receivable	77,000	-
Inventory	12,843	27,960
Prepaid Expenses	5,736	4,554
Total Current Assets	5,646,509	3,948,715
<b>Fixed Assets at Net Book Value:</b>		
Land	727,501	727,501
Building and Building Improvements	737,593	905,260
Furniture and Equipment	29,738	41,406
Vehicles	-	253
Capitalized Building Costs	263,589	-
Total Net Fixed Assets	1,758,421	1,674,420
<b>Other Assets:</b>		
Cash Held for Investment in Perpetuity	25,000	25,000
Contributions Receivable	223,000	-
Vacant Land	-	749,501
Total Other Assets	248,000	774,501
Total Assets	\$ 7,652,930	\$ 6,397,636

**LIABILITIES AND NET ASSETS**

<b>Current Liabilities:</b>		
Accounts Payable	\$ 58,881	\$ 27,259
Total Current Liabilities	58,881	27,259
<b>Net Assets:</b>		
Unrestricted	3,798,932	4,454,252
Temporarily Restricted	3,770,117	1,891,125
Permanently Restricted	25,000	25,000
Total Net Assets	7,594,049	6,370,377
Total Liabilities and Net Assets	\$ 7,652,930	\$ 6,397,636

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, 2014 AND 2013**

	2014		2013				
	Unrestricted	Temporarily Restricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public Support :							
Contributions	\$ 1,278,951	\$ 802,058	\$ -	\$ 1,118,710	\$ 332,050	\$ (1,018)	\$ 1,449,742
In-Kind Contributions	-	-	-	5,000	-	-	5,000
Grant	112,069	-	-	108,250	-	-	108,250
Bequests	1,338,994	-	-	675,049	-	-	675,049
Membership Dues	50,372	-	-	-	-	-	-
Special Events	208,460	-	-	152,545	-	-	152,545
Raffle	24,768	-	-	25,706	-	-	25,706
<b>Total Public Support</b>	<b>3,013,614</b>	<b>802,058</b>	<b>-</b>	<b>2,085,260</b>	<b>332,050</b>	<b>(1,018)</b>	<b>2,416,292</b>
Program Service Fees:							
Program Fees	284,635	-	-	314,798	-	-	314,798
<b>Total Program Service Fees</b>	<b>284,635</b>	<b>-</b>	<b>-</b>	<b>314,798</b>	<b>-</b>	<b>-</b>	<b>314,798</b>
Other Revenues:							
Miscellaneous Income	2,864	-	-	915	-	-	915
<b>Total Other Revenues</b>	<b>2,864</b>	<b>-</b>	<b>-</b>	<b>915</b>	<b>-</b>	<b>-</b>	<b>915</b>
Investment Income:							
Investment Income	5,626	38,907	-	53,971	-	-	53,971
Realized Gain	(1,215)	27,384	-	-	-	-	-
Unrealized Gain (Loss)	2,445	23,607	-	82,177	-	-	82,177
<b>Total Investment Income</b>	<b>6,856</b>	<b>89,898</b>	<b>-</b>	<b>136,148</b>	<b>-</b>	<b>-</b>	<b>136,148</b>
<b>Total Revenues and Other Support</b>	<b>\$ 3,307,969</b>	<b>\$ 891,956</b>	<b>\$ -</b>	<b>\$ 2,537,121</b>	<b>\$ 332,050</b>	<b>\$ (1,018)</b>	<b>\$ 2,868,153</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, 2014 AND 2013**

	2014			2013				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Total Revenues and Other Support	\$ 3,307,969	\$ 891,956	\$ -	\$ 4,199,925	\$ 2,537,121	\$ 332,050	\$ (1,018)	\$ 2,868,153
Expenses:								
Program Services								
General	697,381	-	-	697,381	690,240	-	-	690,240
Medical	1,205,602	-	-	1,205,602	1,151,343	-	-	1,151,343
Educational/Counseling	94,478	-	-	94,478	59,215	-	-	59,215
Adoption	244,386	-	-	244,386	189,507	-	-	189,507
Other Outreach	134,019	-	-	134,019	129,375	-	-	129,375
Total Program Services	2,375,866	-	-	2,375,866	2,219,680	-	-	2,219,680
Support								
Management and General	128,846	-	-	128,846	121,260	-	-	121,260
Fundraising	471,513	-	-	471,513	391,049	-	-	391,049
Total Expenses	2,976,225	-	-	2,976,225	2,731,989	-	-	2,731,989
Change in Net Assets Before Other Expense	331,744	891,956	-	1,223,700	(194,868)	332,050	(1,018)	136,164
Other Expense - Foreign Tax Paid	(28)	-	-	(28)	-	-	-	-
Other Expense - Impairment Loss	-	-	-	-	(627,141)	-	-	(627,141)
Change in Net Assets	331,716	891,956	-	1,223,672	(822,009)	332,050	(1,018)	(490,977)
Reclassification of Prior Restricted Assets	(987,036)	987,036	-	-	-	-	-	-
Net Assets, Beginning of Year	4,454,252	1,891,125	25,000	6,370,377	5,276,261	1,559,075	26,018	6,861,354
Net Assets, End of Year	\$ 3,798,932	\$ 3,770,117	\$ 25,000	\$ 7,594,049	\$ 4,454,252	\$ 1,891,125	\$ 25,000	\$ 6,370,377

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

**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		
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	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	4,352	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>

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**TREE HOUSE HUMANE SOCIETY, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2013**

	Program Services						Support		Organization Total	
	General	Medical	Educational/ Counseling	Adoption	Other Outreach	Total	Management and General			
							Fundraising	Total		
Salaries	\$ 266,844	\$ 402,796	\$ 21,640	\$ 145,414	\$ 96,375	\$ 933,069	\$ 53,459	\$ 130,270	\$ 183,729	\$ 1,116,798
Employee Benefits	25,218	38,066	2,045	13,742	9,108	88,179	5,052	12,311	17,363	105,542
Payroll Taxes	26,547	40,072	2,153	14,466	9,588	92,826	5,318	12,960	18,278	111,104
Advertising	-	-	-	103	-	103	451	10,809	11,260	11,363
Bank and Credit Card Fees	-	-	-	2,021	-	2,021	174	17,221	17,395	19,416
Consultants	-	-	5,866	-	-	5,866	2,500	50,422	52,922	58,788
Depreciation	24,541	21,473	3,067	3,068	3,068	55,217	3,068	3,067	6,135	61,352
Equipment Rental	14,796	373	372	372	1,502	17,415	745	4,305	5,050	22,465
Food	56,045	-	-	-	-	56,045	-	-	-	56,045
Insurance	18,898	16,535	2,363	2,362	2,362	42,520	5,482	2,362	7,844	50,364
Lab Tests	-	20,204	-	-	-	20,204	-	-	-	20,204
Licenses and Fees	4,106	-	-	-	-	4,106	-	-	-	4,106
Medicine	-	33,058	-	-	-	33,058	1,098	-	1,098	34,156
Occupancy	10,021	8,770	1,253	1,253	1,253	22,550	1,253	1,253	2,506	25,056
Office Supplies	2,139	2,139	2,139	2,139	2,139	10,695	4,279	6,418	10,697	21,392
Payroll Service	4,086	7,969	634	1,708	722	15,119	1,416	1,040	2,456	17,575
Postage and Shipping	1,511	-	7,318	1,511	-	10,340	1,512	35,018	36,530	46,870
Printing and Publications	620	620	9,637	620	620	12,117	1,240	66,262	67,502	79,619
Professional Fees	-	-	-	-	-	-	33,484	-	33,484	33,484
Real Estate Taxes - Bucktown Lots	5,790	5,791	-	-	-	11,581	-	-	-	11,581
Supplies	50,860	46,120	-	-	1,910	98,890	-	34,416	34,416	133,306
Telephone	728	728	728	728	728	3,640	729	2,915	3,644	7,284
Travel	8,381	7,711	-	-	-	16,092	-	-	-	16,092
Veterinary Fees	-	54,844	-	-	-	54,844	-	-	-	54,844
Tree House Branch Clinic	-	444,074	-	-	-	444,074	-	-	-	444,074
Tree House Branch Shelter	169,109	-	-	-	-	169,109	-	-	-	169,109
<b>Total Expenses</b>	<b>\$ 690,240</b>	<b>\$ 1,151,343</b>	<b>\$ 59,215</b>	<b>\$ 189,507</b>	<b>\$ 129,375</b>	<b>\$ 2,219,680</b>	<b>\$ 121,260</b>	<b>\$ 391,049</b>	<b>\$ 512,309</b>	<b>\$ 2,731,989</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, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
Cash Flows from Operating Activities:		
Increase (Decrease) in Net Assets	\$ 1,223,672	\$ (490,977)
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash		
Provided by (Used in) Operating Activities:		
Depreciation	72,505	61,353
Donation of Stocks	(351,100)	(34,800)
Realized (Gain) on Investments	(26,169)	-
Unrealized Loss (Gain) on Investments	(26,052)	(82,177)
Impairment Loss on Land Investment	-	627,141
Changes in Current Assets and Liabilities:		
(Increase) Decrease in Contributions Receivable	(77,000)	660,000
Decrease in Other Assets	526,501	
Increase (Decrease) in Accounts Payable	31,622	(44,690)
Increase in Other Liabilities	-	1,358
Decrease in Inventory and Prepaid Expenses	13,935	848
Net Cash Provided by Operating Activities	<u>1,387,914</u>	<u>698,056</u>
Cash Flows from Investing Activities:		
Purchases of Investments	(623,445)	(40,565)
Proceeds from Sale of Investments	1,229,396	-
Decrease in Cash Held for Investment in Perpetuity	-	1,018
Purchases of Fixed Assets	<u>(156,507)</u>	<u>(131,806)</u>
Net Cash Provided by (Used in) Investing Activities	<u>449,444</u>	<u>(171,353)</u>
Net Increase in Cash and Cash Equivalents	1,837,358	526,703
Cash and Cash Equivalents, Beginning of Year	<u>2,548,637</u>	<u>2,021,934</u>
Cash and Cash Equivalents, End of Year	<u>\$ 4,385,995</u>	<u>\$ 2,548,637</u>

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, 2014 AND 2013**

**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% and 75% of its revenues in the years ended December 31, 2014 and 2013, respectively, 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, 2014 AND 2013**

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.

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.

**TREE HOUSE HUMANE SOCIETY, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2014 AND 2013**

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>

The following table sets forth by level, the Organization's assets as of December 31, 2013:

	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
Fixed Income	\$ 214,467	\$ -	\$ -	\$ 214,467
Equity Investments	<u>1,153,097</u>	<u>-</u>	<u>-</u>	<u>1,153,097</u>
Total Investment Assets at Fair Value	<u>\$1,367,564</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,367,564</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.

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:

**TREE HOUSE HUMANE SOCIETY, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2014 AND 2013**

<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.

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 2011 and thereafter remain subject to examination by the Internal Revenue Service.

**TREE HOUSE HUMANE SOCIETY, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2014 AND 2013**

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, 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, 2014 and 2013; 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.

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.

**TREE HOUSE HUMANE SOCIETY, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2014 AND 2013**

**5. Investments**

Investments as of December 31, 2014 and 2013 are summarized as follows:

	<u>2014</u>	<u>2013</u>
Vanguard	\$ 1,047,428	\$ 1,242,222
Northern Trust	24,767	125,342
Charles Schwab	<u>92,740</u>	<u>-</u>
Total Investments	<u>\$ 1,164,935</u>	<u>\$ 1,367,564</u>

**6. Fixed Assets and Other Assets**

The costs of the Society's assets as of December 31, 2014 and 2013 are shown below:

	<u>2014</u>	<u>2013</u>
Land	\$ 727,501	\$ 727,501
Building and Building Improvements	1,429,691	1,542,258
Furniture and Equipment	298,912	293,428
Vehicles	23,106	23,106
Capitalized Building Costs	<u>263,589</u>	<u>-</u>
	2,742,799	2,586,293
Less Accumulated Depreciation	<u>984,378</u>	<u>911,873</u>
Net Book Value	<u>\$ 1,758,421</u>	<u>\$ 1,674,420</u>

Depreciation expense for the years ended December 31, 2014 and 2013 was \$72,505 and \$61,353, 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, 2014 and 2013 were \$6,324 and \$11,363, respectively.

**8. Lease Obligation and Rental Expense**

The Society leases laundry room equipment including washers and dryers. The lease began December 13, 2006 and expires April 1, 2014. Rental expense on this lease for the years ended December 31, 2014 and 2013 was \$230 and \$1,680, respectively.



**TREE HOUSE HUMANE SOCIETY, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2014 AND 2013**

**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, 2014 and 2013 there were \$3,770,117 and \$1,891,125 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 \$92,342 of joint costs for the year ended December 31, 2014, and \$79,619 of joint costs for the year ended December 31, 2013, that were functionally allocated as follows:

	<u>2014</u>	<u>2013</u>
Programs	\$ 16,361	\$ 12,117
Fundraising	<u>75,981</u>	<u>67,502</u>
Total	<u>\$ 92,342</u>	<u>\$ 79,619</u>

**12. Subsequent Events**

Subsequent events have been evaluated through October 6, 2015 which is the date the financial statements were available to be issued.

In 2015, Tree House broke ground on a 15,000 square-foot state-of-the-art Adoption Center and Veterinary Clinic, located at 7225 N. Western Avenue in Chicago's Rogers Park neighborhood. Tree House will be relocating its headquarters from its current facility (a three-story house converted into an animal shelter) at 1212 W. Carmen Avenue, which has been its home since 1975. To date, Tree House has raised more than \$5 million of the \$7 million capital campaign goal.