

TREE HOUSE HUMANE SOCIETY, INC.

Report on Audited Financial Statements

December 31, 2017 and 2016

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

TREE HOUSE HUMANE SOCIETY, INC.
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DECEMBER 31, 2017 AND 2016

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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, 2017 and 2016 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.

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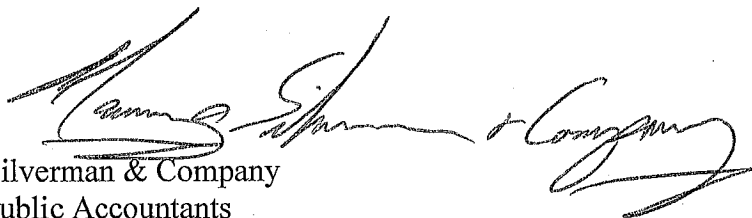
"HELPING OUR CLIENTS GROW AND PROSPER SINCE 1987"

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, 2017 and 2016 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.



Manning Silverman & Company
Certified Public Accountants
Lincolnshire, Illinois

August 14, 2018

TREE HOUSE HUMANE SOCIETY, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016

ASSETS

	2017	2016
Current Assets:		
Cash and Cash Equivalents	\$ 1,719,952	\$ 928,951
Investments	230,517	198,011
Contributions Receivable	118,000	71,500
Inventory	4,896	12,842
Prepaid Expenses	13,824	5,734
Total Current Assets	2,087,189	1,217,038
Fixed Assets at Net Book Value:		
Land	727,501	727,501
Building and Building Improvements	6,987,037	679,960
Furniture and Equipment	411,791	198,372
Capitalized Building Costs	-	6,188,967
Total Net Fixed Assets	8,126,329	7,794,800
Other Assets:		
Cash Held for Investment in Perpetuity	25,000	25,000
Contributions Receivable	-	113,500
Total Other Assets	25,000	138,500
Total Assets	\$ 10,238,518	\$ 9,150,338

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts Payable	\$ 52,082	\$ 49,892
Total Current Liabilities	52,082	49,892
Long-Term Liabilities		
Line of Credit	2,563,641	1,922,044
Total Long-Term Liabilities	2,563,641	1,922,044
Net Assets:		
Unrestricted	3,252,572	2,847,216
Temporarily Restricted	4,345,223	4,306,186
Permanently Restricted	25,000	25,000
Total Net Assets	7,622,795	7,178,402
Total Liabilities and Net Assets	\$ 10,238,518	\$ 9,150,338

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, 2017 AND 2016

	2017			2016				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public Support:								
Contributions	\$ 994,661	\$ 37,022	\$ -	\$ 1,031,683	\$ 1,523,736	\$ 266,118	\$ -	\$ 1,789,854
Grant	85,180	-	-	85,180	89,175	-	-	89,175
Bequests	911,289	-	-	911,289	399,532	-	-	399,532
Membership Dues	26,357	-	-	26,357	12,143	-	-	12,143
Special Events	194,080	-	-	194,080	158,815	-	-	158,815
Total Public Support	2,211,567	37,022	-	2,248,589	2,183,401	266,118	-	2,449,519
Program Service Fees:								
Program Fees	68,964	-	-	68,964	121,839	-	-	121,839
Total Program Service Fees	68,964	-	-	68,964	121,839	-	-	121,839
Other Revenues (Expenses):								
Gain on Disposal of Asset	697,247	-	-	697,247	-	-	-	-
Merchandise Sales	4,416	-	-	4,416	-	-	-	-
Miscellaneous Income	3,227	-	-	3,227	1,185	-	-	1,185
Total Other Revenues (Expenses)	704,890	-	-	704,890	1,185	-	-	1,185
Investment Income:								
Investment Income	5,777	1,648	-	7,425	4,587	12,652	-	17,239
Realized Gain	8,542	-	-	8,542	-	489	-	489
Unrealized Gain (Loss)	(7,177)	367	-	(6,810)	10,598	33,879	-	44,477
Total Investment Income	7,142	2,015	-	9,157	15,185	47,020	-	62,205
Total Revenues and Other Support	2,992,563	39,037	-	3,031,600	2,321,610	313,138	-	2,634,748

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, 2017 AND 2016

	2017			2016				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Total Revenues and Other Support	2,992,563	39,037	-	3,031,600	2,321,610	313,138	-	2,634,748
Expenses:								
Program Services								
General	547,891	-	-	547,891	653,986	-	-	653,986
Clinic	820,763	-	-	820,763	939,365	-	-	939,365
Educational/Counseling	85,466	-	-	85,466	86,869	-	-	86,869
Adoption	264,005	-	-	264,005	249,831	-	-	249,831
Other Outreach	148,966	-	-	148,966	136,821	-	-	136,821
Total Program Services	1,867,091	-	-	1,867,091	2,066,872	-	-	2,066,872
Support								
Management and General	296,736	-	-	296,736	123,407	-	-	123,407
Fundraising	423,380	-	-	423,380	442,863	-	-	442,863
Total Expenses	2,587,207	-	-	2,587,207	2,633,142	-	-	2,633,142
Change in Net Assets Before Other Expense	405,356	39,037	-	444,393	(311,532)	313,138	-	1,606
Other Expense - Foreign Tax Paid	-	-	-	-	-	-	-	-
Other Expense - Interest Expense	-	-	-	-	(29,919)	-	-	(29,919)
Change in Net Assets	405,356	39,037	-	444,393	(341,451)	313,138	-	(28,313)
Net Assets, Beginning of Year	2,847,216	4,306,186	25,000	7,178,402	3,188,667	3,993,048	25,000	7,206,715
Net Assets, End of Year	<u>\$ 3,252,572</u>	<u>\$ 4,345,223</u>	<u>\$ 25,000</u>	<u>\$ 7,622,795</u>	<u>\$ 2,847,216</u>	<u>\$ 4,306,186</u>	<u>\$ 25,000</u>	<u>\$ 7,178,402</u>

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, 2017**

	Program Services						Support		Organization Total		
	General	Clinic	Educational/ Counseling		Adoption	Other Outreach	Total	Management and General		Fundraising	Total
Salaries	\$ 289,801	\$ 507,531	\$ 41,580	\$ 203,301	\$ 105,258	\$ 1,147,471	\$ 51,597	\$ 158,985	\$ 210,582	\$ 1,358,053	
Employee Benefits	26,626	46,631	3,820	18,679	9,671	105,427	4,741	14,607	19,348	124,775	
Payroll Taxes	23,941	41,928	3,435	16,795	8,696	94,795	4,263	13,134	17,397	112,192	
Advertising	-	-	-	-	-	-	642	13,868	14,510	14,510	
Bank and Credit Card Fees	-	-	-	2,051	-	2,051	121	18,458	18,579	20,630	
Consultants	-	-	2,661	-	-	2,661	645	9,509	10,154	12,815	
Depreciation	84,253	73,720	10,531	10,531	10,531	189,566	10,531	10,531	21,062	210,628	
Equipment Rental	1,497	-	-	-	-	1,497	26	579	605	2,102	
Food	5,923	-	-	-	-	5,923	-	-	-	5,923	
Insurance	13,199	11,549	1,649	1,649	1,649	29,695	4,494	1,649	6,143	35,838	
Interest	-	-	-	-	-	-	152,487	-	152,487	152,487	
Lab Tests	-	10,617	-	-	-	10,617	-	-	-	10,617	
Licenses and Fees	8,815	-	-	-	-	8,815	-	-	-	8,815	
Medicine	-	10,484	-	-	-	10,484	-	-	-	10,484	
Miscellaneous	-	957	2,108	-	-	3,065	5,628	677	6,305	9,370	
Occupancy	20,578	18,005	2,572	2,572	2,572	46,299	2,572	2,572	5,144	51,443	
Office Supplies	3,710	3,710	3,710	3,710	3,710	18,550	7,422	11,132	18,554	37,104	
Payroll Service	4,848	9,453	753	2,027	857	17,938	1,679	1,234	2,913	20,851	
Postage and Shipping	994	-	5,324	994	-	7,312	994	25,498	26,492	33,804	
Printing and Publications	716	716	6,343	716	716	9,207	1,432	41,332	42,764	51,971	
Professional Fees	-	-	-	-	-	-	46,472	-	46,472	46,472	
Real Estate Taxes - Bucktown Lots	1,323	1,323	-	-	-	2,646	-	-	-	2,646	
Real Estate Taxes - Western Ave	-	-	-	-	-	-	-	-	-	-	
Supplies	58,206	70,166	-	-	4,326	132,698	-	95,697	95,697	228,395	
Telephone	980	980	980	980	980	4,900	980	3,918	4,898	9,798	
Travel	2,481	3,129	-	-	-	5,610	10	-	10	5,620	
Veterinary Fees	-	9,864	-	-	-	9,864	-	-	-	9,864	
Tree House Branch Clinic	-	-	-	-	-	-	-	-	-	-	
Tree House Branch Shelter	-	-	-	-	-	-	-	-	-	-	
Total Expenses	\$ 547,891	\$ 820,763	\$ 85,466	\$ 264,005	\$ 148,966	\$ 1,867,091	\$ 296,736	\$ 423,380	\$ 720,116	\$ 2,587,207	

See Independent Auditor's Report.
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TREE HOUSE HUMANE SOCIETY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2016

	Program Services					Support		Organization Total		
	General	Clinic	Educational/ Counseling	Adoption	Other Outreach	Total	Management and General		Fundraising	Total
Salaries	\$ 278,602	\$ 487,917	\$ 39,974	\$ 195,445	\$ 101,191	\$ 1,103,129	\$ 49,603	\$ 152,841	\$ 202,444	\$ 1,305,573
Employee Benefits	29,491	51,648	4,231	20,689	10,712	116,771	5,251	16,179	21,430	138,201
Payroll Taxes	22,984	40,252	3,298	16,124	8,348	91,006	4,092	12,609	16,701	107,707
Advertising	-	-	-	-	-	-	1,116	24,083	25,199	25,199
Bank and Credit Card Fees	-	-	-	2,200	-	2,200	130	19,794	19,924	22,124
Consultants	-	-	9,232	-	-	9,232	2,239	32,991	35,230	44,462
Depreciation	26,044	22,774	3,253	3,253	3,253	58,577	3,253	3,253	6,506	65,083
Equipment Rental	5,008	-	-	-	-	5,008	88	1,937	2,025	7,033
Food	10,381	-	-	-	-	10,381	-	-	-	10,381
Insurance	16,900	14,787	2,112	2,112	2,112	38,023	5,754	2,112	7,866	45,889
Lab Tests	-	5,488	-	-	-	5,488	-	-	-	5,488
Licenses and Fees	1,393	-	-	-	-	1,393	-	-	-	1,393
Medicine	-	40,291	-	-	-	40,291	-	-	-	40,291
Miscellaneous	-	1,929	-	-	-	1,929	-	-	-	1,929
Occupancy	11,477	10,042	1,435	1,435	1,435	25,824	1,435	1,435	2,870	28,694
Office Supplies	3,296	3,296	3,296	3,296	3,296	16,480	6,593	9,889	16,482	32,962
Payroll Service	4,654	9,074	723	1,945	823	17,219	1,611	1,185	2,796	20,015
Postage and Shipping	1,309	-	7,009	1,309	-	9,627	1,309	33,571	34,880	44,507
Printing and Publications	768	768	6,802	768	768	9,874	1,536	44,325	45,861	55,735
Professional Fees	-	-	-	-	-	-	26,776	-	26,776	26,776
Real Estate Taxes - Western Ave	2,438	2,438	-	-	-	4,876	-	-	-	4,876
Supplies	48,828	58,862	-	-	3,628	111,318	-	80,278	80,278	191,596
Telephone	1,255	1,255	1,255	1,255	1,255	6,275	1,255	5,018	6,273	12,548
Travel	6,355	8,018	-	-	-	14,373	26	-	26	14,399
Veterinary Fees	-	59,898	-	-	-	59,898	-	-	-	59,898
Tree House Branch Clinic	-	120,628	-	-	-	120,628	-	-	-	120,628
Tree House Branch Shelter	182,803	-	-	-	-	182,803	-	-	-	182,803
Total Expenses	\$ 653,986	\$ 939,365	\$ 86,869	\$ 249,831	\$ 136,821	\$ 2,066,872	\$ 123,407	\$ 442,863	\$ 566,270	\$ 2,633,142

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, 2017 AND 2016

	2017	2016
Cash Flows from Operating Activities:		
Increase (Decrease) in Net Assets:	\$ 444,393	\$ (28,313)
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash		
Provided by (Used in) Operating Activities:		
Depreciation	210,628	65,083
(Gain) Loss on Sale of Assets	(697,247)	-
Donation of Stocks	(278,794)	(35,471)
Realized and Unrealized Loss (Gain) on Investments	1,732	44,966
Changes in Current Assets and Liabilities:		
(Increase) Decrease in Contributions Receivable	(46,500)	17,500
Decrease in Other Assets	113,500	62,500
(Increase) in Inventory and Prepaid Expenses	(144)	-
Increase (Decrease) in Accounts Payable	2,190	(36,003)
	(250,242)	90,262
 Cash Flows from Investing Activities:		
Purchases of Investments	(2,732)	(12,980)
Proceeds from Sale of Investments	247,289	934,311
Financing Proceeds from Line of Credit	641,597	1,922,044
Proceeds from Sale of Fixed Assets	829,578	-
Purchases of Fixed Assets	(674,489)	(4,221,026)
	1,041,243	(1,377,651)
 Net Increase (Decrease) in Cash and Cash Equivalents	791,001	(1,287,389)
 Cash and Cash Equivalents, Beginning of Year	928,951	2,216,340
 Cash and Cash Equivalents, End of Year	\$ 1,719,952	\$ 928,951

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, 2017 AND 2016

1. Nature of Activities

Since 1971, Tree House Humane Society has been committed to improving the lives of sick, injured, stray and feral cats in the community. The organization operates a cageless shelter and education center in the West Rogers Park community, offering the following services:

- Community Cats Program: trap/neuter/return services to increase sterilization of outdoor cats; support for 850+ community cat colony caretakers manage colonies; Cat at Work program that places appropriate feral cats in residential and commercial settings to provide rodent control.
- Foster Care: temporary placement in foster homes for healthy and treatable stray cats that need time to recover from illnesses and injuries before they move to the adoption floor.
- Clinic: comprehensive veterinary care for cats admitted to the shelter for adoption, including sterilization, vaccinations, and treatment of health issues that must be resolved prior to adoption; sterilization and wellness services for feral cats brought in by community members who trapped them.
- Adoptions: placement of shelter cats in forever homes after screening and counseling
- Pet Food Pantry: supplemental food, litter and other donated supplies for cats and dogs for community members facing financial challenges in an effort to maintain pets in their homes
- Education and Outreach: workshops, presentations and activities for cat lovers of all ages to educate them about the humane treatment of animals.

Annually, Tree House assists more than 4,000 cats, nearly 1,000 of them through adoption. In the years ending December 31, 2017 and 2016 respectively, Tree House received 63% and 83% of its revenues from contributions and bequests with the remaining income coming 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.

TREE HOUSE HUMANE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2017 AND 2016

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.

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.

TREE HOUSE HUMANE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2017 AND 2016

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.

The following table sets forth by level, the Organization's assets as of December 31, 2017:

	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
Fixed Income	\$ 73,757	\$ -	\$ -	\$ 73,757
Equity Investments	<u>156,759</u>	<u>-</u>	<u>-</u>	<u>156,759</u>
Total Investment Assets at Fair Value	<u>\$ 230,516</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 230,516</u>

TREE HOUSE HUMANE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2017 AND 2016.

The following table sets forth by level, the Organization's assets as of December 31, 2016:

	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
Fixed Income	\$ 71,741	\$ -	\$ -	\$ 71,741
Equity Investments	<u>126,270</u>	<u>-</u>	<u>-</u>	<u>126,270</u>
Total Investment Assets at Fair Value	<u>\$ 198,011</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 198,011</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:

<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.

TREE HOUSE HUMANE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2017 AND 2016

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 2014 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.

TREE HOUSE HUMANE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2017 AND 2016

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. The Society received in-kind donations during the year ended December 31, 2017 of \$7,096. No in-kind donations were received during the year ended December 31, 2016.

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, 2017 and 2016; 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.

5. Investments

Investments as of December 31, 2017 and 2016 are summarized as follows:

	<u>2017</u>	<u>2016</u>
Vanguard	\$ 73,757	\$ 71,741
Northern Trust	28,421	30,677
Charles Schwab	<u>128,338</u>	<u>95,593</u>
Total Investments	<u>\$ 230,516</u>	<u>\$ 198,011</u>

TREE HOUSE HUMANE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2017 AND 2016

6. Fixed Assets and Other Assets

The costs of the Society's assets as of December 31, 2017 and 2016 are shown below:

	<u>2017</u>	<u>2016</u>
Land	\$ 727,501	\$ 727,501
Building and Building Improvements	7,413,297	1,481,863
Furniture and Equipment	577,571	492,507
Vehicles	19,306	23,106
Capitalized Building Costs	<u>-</u>	<u>6,188,967</u>
	8,737,675	8,913,944
Less Accumulated Depreciation	<u>611,346</u>	<u>1,119,144</u>
Net Book Value	<u>\$ 8,126,329</u>	<u>\$ 7,794,800</u>

Depreciation expense for the years ended December 31, 2017 and 2016 was \$201,630 and \$65,083, respectively.

In July 2017, the Organization began operations at its new facility located at 7225 N Western Ave and therefore reclassified all of its Capitalized Building Costs to Building and Building Improvements.

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, 2017 and 2016 were \$14,510 and \$25,199, respectively.

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, 2017 and 2016 was \$1,700 and \$1,492, respectively.

TREE HOUSE HUMANE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2017 AND 2016

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, 2017 and 2016 there were \$4,345,223 and \$4,306,186 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.

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 \$51,973 of joint costs for the year ended December 31, 2017, and \$55,737 of joint costs for the year ended December 31, 2016, that were functionally allocated as follows:

	<u>2017</u>	<u>2016</u>
Programs	\$ 2,160	\$ 11,316
Fundraising	<u>49,813</u>	<u>44,421</u>
Total	<u>\$ 51,973</u>	<u>\$ 55,737</u>

12. Subsequent Events

Subsequent events have been evaluated through August 14, 2018 which is the date the financial statements were available to be issued.

Subsequent to the year end, the Organization has sold its Ashland facility.

In May 2018, Tree House refinanced its line of credit with Bridgeview Bank into a fixed installment loan for the period of 20 years and with an interest rate of 5.500%.