

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

## **Report on Audited Financial Statements**

**December 31, 2016 and 2015**

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

**TREE HOUSE HUMANE SOCIETY, INC.**  
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**DECEMBER 31, 2016 AND 2015**

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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, 2016 and 2015 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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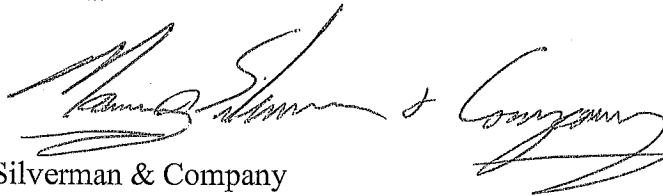
"HELPING OUR CLIENTS GROW AND PROSPER SINCE 1987"

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, 2016 and 2015 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.

Handwritten signature of Manning Silverman & Company, consisting of a stylized cursive script.

Manning Silverman & Company  
Certified Public Accountants  
Lincolnshire, Illinois

September 29, 2017

**TREE HOUSE HUMANE SOCIETY, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2016 AND 2015**

**ASSETS**

	2016	2015
<b>Current Assets:</b>		
Cash and Cash Equivalents	\$ 928,951	\$ 2,216,340
Investments	198,011	1,128,837
Contributions Receivable	71,500	89,000
Inventory	12,842	12,842
Prepaid Expenses	5,734	5,734
Total Current Assets	1,217,038	3,452,753
<b>Fixed Assets at Net Book Value:</b>		
Land	727,501	727,501
Building and Building Improvements	679,960	734,663
Furniture and Equipment	198,372	208,752
Capitalized Building Costs	6,188,967	1,967,941
Total Net Fixed Assets	7,794,800	3,638,857
<b>Other Assets:</b>		
Cash Held for Investment in Perpetuity	25,000	25,000
Contributions Receivable	113,500	176,000
Total Other Assets	138,500	201,000
Total Assets	\$ 9,150,338	\$ 7,292,610

**LIABILITIES AND NET ASSETS**

<b>Current Liabilities:</b>		
Accounts Payable	\$ 49,892	\$ 85,895
Total Current Liabilities	49,892	85,895
<b>Long-Term Liabilities</b>		
Line of Credit	1,922,044	-
Total Long-Term Liabilities	1,922,044	-
<b>Net Assets:</b>		
Unrestricted	2,847,216	3,188,667
Temporarily Restricted	4,306,186	3,993,048
Permanently Restricted	25,000	25,000
Total Net Assets	7,178,402	7,206,715
Total Liabilities and Net Assets	\$ 9,150,338	\$ 7,292,610

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, 2016 AND 2015**

	2016			2015				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Public Support :</b>								
Contributions	\$ 1,523,736	\$ 266,118	\$ -	\$ 1,789,854	\$ 1,357,350	\$ 220,618	\$ -	\$ 1,577,968
Grant	89,175	-	-	89,175	184,790	-	-	184,790
Bequests	399,532	-	-	399,532	454,087	-	-	454,087
Membership Dues	12,143	-	-	12,143	18,192	-	-	18,192
Special Events	158,815	-	-	158,815	201,158	-	-	201,158
Raffle	-	-	-	-	16,258	-	-	16,258
<b>Total Public Support</b>	<b>2,183,401</b>	<b>266,118</b>	<b>-</b>	<b>2,449,519</b>	<b>2,231,835</b>	<b>220,618</b>	<b>-</b>	<b>2,452,453</b>
<b>Program Service Fees:</b>								
Program Fees	121,839	-	-	121,839	302,763	-	-	302,763
<b>Total Program Service Fees</b>	<b>121,839</b>	<b>-</b>	<b>-</b>	<b>121,839</b>	<b>302,763</b>	<b>-</b>	<b>-</b>	<b>302,763</b>
<b>Other Revenues (Expenses):</b>								
Miscellaneous Income	1,185	-	-	1,185	(673)	-	-	(673)
<b>Total Other Revenues (Expenses)</b>	<b>1,185</b>	<b>-</b>	<b>-</b>	<b>1,185</b>	<b>(673)</b>	<b>-</b>	<b>-</b>	<b>(673)</b>
<b>Investment Income:</b>								
Investment Income	4,587	12,652	-	17,239	6,845	42,035	-	48,880
Realized Gain	-	489	-	489	2,395	-	-	2,395
Unrealized Gain (Loss)	10,598	33,879	-	44,477	(4,151)	(39,722)	-	(43,873)
<b>Total Investment Income</b>	<b>15,185</b>	<b>47,020</b>	<b>-</b>	<b>62,205</b>	<b>5,089</b>	<b>2,313</b>	<b>-</b>	<b>7,402</b>
<b>Total Revenues and Other Support</b>	<b>2,321,610</b>	<b>313,138</b>	<b>-</b>	<b>2,634,748</b>	<b>2,539,014</b>	<b>222,931</b>	<b>-</b>	<b>2,761,945</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, 2016 AND 2015**

	2016			2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted	
	Total	Total	Total	Total	Total	Total	
Total Revenues and Other Support	2,321,610	313,138	-	2,634,748	222,931	-	2,761,945
Expenses:							
Program Services							
General	653,986	-	-	653,986	-	-	732,907
Medical	939,365	-	-	939,365	-	-	1,291,048
Educational/Counseling	86,869	-	-	86,869	-	-	93,631
Adoption	249,831	-	-	249,831	-	-	264,526
Other Outreach	136,821	-	-	136,821	-	-	145,919
Total Program Services	2,066,872	-	-	2,066,872	-	-	2,528,031
Support							
Management and General	123,407	-	-	123,407	-	-	129,743
Fundraising	442,863	-	-	442,863	-	-	491,477
Total Expenses	2,633,142	-	-	2,633,142	-	-	3,149,251
Change in Net Assets Before Other Expense	(311,532)	313,138	-	1,606	222,931	-	(387,306)
Other Expense - Foreign Tax Paid	-	-	-	-	-	-	(28)
Other Expense - Interest Expense	(29,919)	-	-	(29,919)	-	-	-
Change in Net Assets	(341,451)	313,138	-	(28,313)	222,931	-	(387,334)
Net Assets, Beginning of Year	3,188,667	3,993,048	25,000	7,206,715	3,770,117	25,000	7,594,049
Net Assets, End of Year	\$ 2,847,216	\$ 4,306,186	\$ 25,000	\$ 7,178,402	\$ 3,993,048	\$ 25,000	\$ 7,206,715

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, 2016**

	Program Services						Support		Organization Total	
	General	Medical	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	4,249	-	-	6,178	11,340	1,363	12,703	18,881
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
<b>Total Expenses</b>	<b>\$ 653,986</b>	<b>\$ 939,365</b>	<b>\$ 86,869</b>	<b>\$ 249,831</b>	<b>\$ 136,821</b>	<b>\$ 2,066,872</b>	<b>\$ 123,407</b>	<b>\$ 442,863</b>	<b>\$ 566,270</b>	<b>\$ 2,633,142</b>

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**TREE HOUSE HUMANE SOCIETY, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED DECEMBER 31, 2015**

	Program Services					Support		Organization Total		
	General	Medical	Educational/ Counseling	Adoption	Other Outreach	Total	Management and General		Fundraising	Total
Salaries	\$ 290,692	\$ 509,091	\$ 41,709	\$ 203,926	\$ 105,582	\$ 1,151,000	\$ 51,755	\$ 159,474	\$ 211,229	\$ 1,362,229
Employee Benefits	33,015	57,822	4,737	23,162	11,992	130,728	5,879	18,113	23,992	154,720
Payroll Taxes	26,882	47,079	3,857	18,858	9,764	106,440	4,787	14,747	19,534	125,974
Advertising	-	-	-	-	-	-	298	6,441	6,739	6,739
Bank and Credit Card Fees	-	-	-	2,077	-	2,077	123	18,685	18,808	20,885
Consultants	-	-	12,123	-	-	12,123	2,940	43,320	46,260	58,383
Depreciation	27,875	24,390	3,484	3,484	3,484	62,717	3,484	3,484	6,968	69,685
Equipment Rental	18,234	-	-	-	-	18,234	321	7,053	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	2,081	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	510	4,752	7,061
Occupancy	10,595	9,271	1,324	1,324	1,324	23,838	1,324	1,324	2,648	26,486
Office Supplies	4,135	4,135	4,135	4,135	4,135	20,675	8,271	12,406	20,677	41,352
Payroll Service	4,864	9,485	756	2,033	860	17,998	1,684	1,239	2,923	20,921
Postage and Shipping	1,322	-	7,079	1,322	-	9,723	1,322	33,903	35,225	44,948
Printing and Publications	1,100	1,100	9,733	1,100	1,100	14,133	2,198	63,430	65,628	79,761
Professional Fees	-	-	-	-	-	-	34,392	-	34,392	34,392
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	4,095	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>\$ 621,220</b>	<b>\$ 3,149,251</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, 2016 AND 2015**

	2016	2015
Cash Flows from Operating Activities:		
(Decrease) in Net Assets	\$ (28,313)	\$ (387,334)
Adjustments to Reconcile (Decrease) in Net Assets to Net Cash		
Provided by (Used in) Operating Activities:		
Depreciation	65,083	69,684
Donation of Stocks	(35,471)	(172,411)
Realized and Unrealized Loss (Gain) on Investments	44,966	(41,478)
Changes in Current Assets and Liabilities:		
Decrease (Increase) in Contributions Receivable	17,500	(12,000)
Decrease in Other Assets	62,500	47,000
(Decrease) Increase in Accounts Payable	(36,003)	27,014
Decrease in Inventory and Prepaid Expenses	-	3
	90,262	(469,522)
Net Cash Provided by (Used in) Operating Activities		
Cash Flows from Investing Activities:		
Purchases of Investments	(12,980)	(214,463)
Proceeds from Sale of Investments	934,311	208,542
Decrease in Cash Held for Investment in Perpetuity	-	255,908
Financing Proceeds from Line of Credit	1,922,044	-
Purchases of Fixed Assets	(4,221,026)	(1,950,120)
	(1,377,651)	(1,700,133)
Net Cash Provided by (Used in) Investing Activities		
Net (Decrease) in Cash and Cash Equivalents	(1,287,389)	(2,169,655)
Cash and Cash Equivalents, Beginning of Year	2,216,340	4,385,995
Cash and Cash Equivalents, End of Year	\$ 928,951	\$ 2,216,340

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, 2016 AND 2015**

**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 83% and 74% of its revenues during the years ended December 31, 2016 and 2015, 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, 2016 AND 2015**

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, 2016 AND 2015**

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, 2016:

	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
Fixed Income	\$ 71,741	\$ -	\$ -	\$ 74,741
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>

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>

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, 2016 AND 2015**

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, 2016 AND 2015**

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 2013 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. The Society did not receive any in-kind donations during the years ended December 31, 2016 and 2015.

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, 2016 and 2015; 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, 2016 and 2015 are summarized as follows:

	<u>2016</u>	<u>2015</u>
Vanguard	\$ 71,741	\$ 1,049,619
Northern Trust	30,677	25,027
Charles Schwab	<u>95,593</u>	<u>54,191</u>
Total Investments	<u>\$ 198,011</u>	<u>\$ 1,128,837</u>

**6. Fixed Assets and Other Assets**

The costs of the Society's assets as of December 31, 2016 and 2015 are shown below:

	<u>2016</u>	<u>2015</u>
Land	\$ 727,501	\$ 727,501
Building and Building Improvements	1,481,863	1,481,863
Furniture and Equipment	492,507	492,507
Vehicles	23,106	23,106
Capitalized Building Costs	<u>6,188,967</u>	<u>1,967,941</u>
	8,913,944	4,692,918
Less Accumulated Depreciation	<u>1,119,144</u>	<u>1,054,061</u>
Net Book Value	<u>\$ 7,794,800</u>	<u>\$ 3,638,857</u>

Depreciation expense for the years ended December 31, 2016 and 2015 was \$65,083 and \$69,684, 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, 2016 and 2015 were \$25,199 and \$6,739, respectively.



**TREE HOUSE HUMANE SOCIETY, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2016 AND 2015**

**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, 2016 and 2015 was \$1,492 and \$1,863, 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, 2016 and 2015 there were \$4,306,186 and \$3,993,048 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 \$55,737 of joint costs for the year ended December 31, 2016, and \$79,760 of joint costs for the year ended December 31, 2015, that were functionally allocated as follows:

	<u>2016</u>	<u>2015</u>
Programs	\$ 11,316	\$ 17,303
Fundraising	<u>44,421</u>	<u>62,457</u>
Total	<u>\$ 55,737</u>	<u>\$ 79,760</u>

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

Subsequent events have been evaluated through September 29, 2017 which is the date the financial statements were available to be issued.

The Organization opened its new facility on Western Avenue on July 29, 2017 which was built to replace its current two facilities on Ashland and Carmen Avenue. Subsequent to the year end, the Organization has sold its Carmen facility and has listed its Ashland facility for sale.