

TREE HOUSE HUMANE SOCIETY, INC.

**FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2021 AND 2020**

TOGETHER WITH AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Tree House Humane Society, Inc.:

Opinion

We have audited the accompanying financial statements of Tree House Humane Society, Inc., which comprise the statement of financial position as of December 31, 2021 and 2020, and the related statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

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, 2021 and 2020, and its changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Tree House Humane Society, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in aggregate, that raise substantial doubt about Tree House Humane Society, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

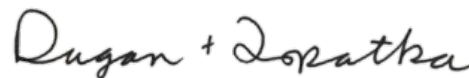
Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risk of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Tree House Humane Society, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about Tree House Humane Society, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



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TREE HOUSE HUMANE SOCIETY
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2021 AND 2020

<u>ASSETS</u>	<u>2021</u>	<u>2020</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 699,201	\$ 851,534
Cash held for others	50,000	-
Receivables	430,441	-
Investments	2,023,190	1,617,342
Prepaid expenses and other current assets	25,411	22,123
	<hr/>	<hr/>
Total current assets	3,228,243	2,490,999
PROPERTY AND EQUIPMENT		
Land	630,000	630,000
Building and building improvements	6,581,689	6,572,067
Machinery and equipment	374,206	370,599
Furniture and fixtures	234,835	236,584
Vehicles	51,326	51,326
Wellness Center	201,883	-
Construction in progress	-	195,955
	<hr/>	<hr/>
	8,073,939	8,056,531
Less - Accumulated depreciation	(1,239,166)	(957,666)
	<hr/>	<hr/>
Total property and equipment	6,834,773	7,098,865
OTHER ASSETS:		
Cash held for investment in perpetuity	4,014	5,512
	<hr/>	<hr/>
Total assets	<u>\$ 10,067,030</u>	<u>\$ 9,595,376</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
CURRENT LIABILITIES:		
Accounts payable	\$ 117,034	\$ 8,613
Custodial liability	50,000	-
Accrued expenses	35,490	27,460
Mortgage payable, current portion	100,174	95,072
	<hr/>	<hr/>
Total current liabilities	302,698	131,145
LONG-TERM LIABILITIES:		
Mortgage payable, net of current portion	171,815	272,182
	<hr/>	<hr/>
NET ASSETS:		
Without donor restrictions	9,263,503	9,154,563
With donor restrictions	329,014	37,486
	<hr/>	<hr/>
Total net assets	9,592,517	9,192,049
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Total liabilities and net assets	<u>\$ 10,067,030</u>	<u>\$ 9,595,376</u>

The accompanying notes are an integral part of this statement.

TREE HOUSE HUMANE SOCIETY
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	With Donor Restrictions	Without Donor Restrictions	Total
PUBLIC SUPPORT:						
Contributions	\$ 738,525	\$ 376,000	\$ 1,114,525	\$ 926,227	\$ 142,199	\$ 1,068,426
Grants	366,600	-	366,600	37,597	-	37,597
Bequests	774,553	-	774,553	319,135	-	319,135
Membership dues	-	-	-	7,910	-	7,910
Special events	97,377	-	97,377	21,008	-	21,008
Forgiveness of note payable	289,200	-	289,200	289,200	-	289,200
Assets released from restrictions	84,472	(84,472)	-	214,417	(214,417)	-
Total public support	2,350,727	291,528	2,642,255	1,815,494	(72,218)	1,743,276
PROGRAM SERVICE FEES AND OTHER:						
Program fees	584,001	-	584,001	121,274	-	121,274
(Loss) on disposal of asset	(1,750)	-	(1,750)	-	-	-
Merchandise sales	39,933	-	39,933	30,183	-	30,183
Miscellaneous income	10,398	-	10,398	17,110	-	17,110
Investment income	295,364	-	295,364	184,312	-	184,312
Total program service fees and other revenues	927,946	-	927,946	352,879	-	352,879
Total revenues and other support	3,278,673	291,528	3,570,201	2,168,373	(72,218)	2,096,155
EXPENSES:						
Program services						
Shelter	828,043	-	828,043	693,714	-	693,714
Clinic	1,005,475	-	1,005,475	669,065	-	669,065
Other community programs	263,838	-	263,838	206,495	-	206,495
Total program services	2,097,356	-	2,097,356	1,569,274	-	1,569,274
Support						
Management and general	504,791	-	504,791	419,767	-	419,767
Fundraising	567,586	-	567,586	473,266	-	473,266
Total support	1,072,377	-	1,072,377	893,033	-	893,033
Total expenses	3,169,733	-	3,169,733	2,462,307	-	2,462,307
CHANGES IN NET ASSETS	108,940	291,528	400,468	(293,934)	(72,218)	(366,152)
NET ASSETS, beginning of year	9,154,563	37,486	9,192,049	9,448,497	109,704	9,558,201
NET ASSETS, end of year	\$ 9,263,503	\$ 329,014	\$ 9,592,517	\$ 9,154,563	\$ 37,486	\$ 9,192,049

The accompanying notes are an integral part of this statement.

TREE HOUSE HUMANE SOCIETY
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 400,468	\$ (366,152)
Adjustments to reconcile change in total net assets to net cash (used in) operating activities:		
Depreciation	281,502	257,063
Donated Stock	(110,484)	-
Loss on disposal of fixed asset	1,750	-
Forgiveness of note payable	(289,200)	(289,200)
Contributions received for long-term purposes	-	(142,199)
Realized and unrealized (gain) on investments	(282,750)	(169,324)
Change in current assets and liabilities:		
(Increase) decrease in contribution receivable	(430,441)	25,000
(Increase) decrease in prepaid expenses and other current assets	(3,288)	3,680
Increase (decrease) in accounts payable	108,421	(16,980)
Increase in custodial liability	50,000	-
Increase (decrease) in accrued expenses	8,030	(40,469)
	<u>(265,992)</u>	<u>(738,581)</u>
Net cash (used in) operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(12,614)	(66,486)
Purchase of fixed assets	(19,160)	(285,048)
	<u>(31,774)</u>	<u>(351,534)</u>
Net cash (used in) investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for long-term purposes	-	142,199
Payments on mortgage payable	(95,265)	(90,280)
Proceeds from note payable	289,200	289,200
	<u>193,935</u>	<u>341,119</u>
Net cash provided by financing activities		
NET CHANGE IN CASH AND CASH EQUIVALENTS	(103,831)	(748,996)
CASH AND CASH EQUIVALENTS, Beginning of year	<u>857,046</u>	<u>1,606,042</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 753,215</u>	<u>\$ 857,046</u>
CASH AND CASH EQUIVALENTS		
Cash and cash equivalents	\$ 699,201	\$ 851,534
Cash held for investment in perpetuity	4,014	5,512
Cash held for others	50,000	-
	<u>\$ 753,215</u>	<u>\$ 857,046</u>
Total cash and cash equivalents		
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	<u>\$ 17,217</u>	<u>\$ 22,352</u>

The accompanying notes are an integral part of this statement.

TREE HOUSE HUMANE SOCIETY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2021

	Program Services				Support			Organization Total
	Shelter Services	Clinical and Veterinary Services	Other Community Programs	Total	Management and General	Fundraising	Total	
Salaries	\$ 486,325	\$ 463,413	\$ 154,350	\$ 1,104,088	\$ 216,090	\$ 237,673	\$ 453,763	\$ 1,557,851
Employee benefits	38,480	38,409	12,428	89,317	22,242	18,362	40,604	129,921
Payroll taxes	44,577	43,139	14,380	102,096	20,132	21,570	41,702	143,798
Advertising	109	5,588	4,371	10,068	10,138	1,719	11,857	21,925
Bank and credit card fees	4,213	9,209	208	13,630	18,517	4,296	22,813	36,443
Cost of good sold	11,215	-	-	11,215	-	-	-	11,215
Depreciation	84,873	82,132	27,310	194,315	46,072	41,116	87,188	281,503
Equipment rental	29,687	29,203	5,856	64,746	9,714	8,273	17,987	82,733
Food	841	1,511	91	2,443	1,623	830	2,453	4,896
Insurance	12,846	10,753	3,565	27,164	8,528	5,347	13,875	41,039
Interest	-	-	-	-	17,217	-	17,217	17,217
Lab tests	-	35,593	-	35,593	-	-	-	35,593
Licenses and fees	1,378	3,526	530	5,434	1,128	6,523	7,651	13,085
Miscellaneous	487	437	187	1,111	89,878	237	90,115	91,226
Medicine	-	193,178	-	193,178	-	-	-	193,178
Occupancy	44,366	36,751	10,206	91,323	14,334	15,310	29,644	120,967
Office supplies	3,442	8,921	1,144	13,507	1,930	2,347	4,277	17,784
Payroll service	4,923	4,764	1,588	11,275	2,223	2,382	4,605	15,880
Postage and shipping	1,455	1,425	1,626	4,506	619	31,204	31,823	36,329
Printing and publications	1,395	3,702	15,570	20,667	3,660	65,970	69,630	90,297
Professional fees	10,709	16,129	6,454	33,292	14,473	97,213	111,686	144,978
Supplies	39,513	11,445	3,314	54,272	4,879	5,900	10,779	65,051
Telephone	3,901	2,179	639	6,719	974	958	1,932	8,651
Taxes	21	21	7	49	10	10	20	69
Travel	3,287	645	14	3,946	410	346	756	4,702
Veterinary Fees	-	3,402	-	3,402	-	-	-	3,402
Total expenses	<u>\$ 828,043</u>	<u>\$ 1,005,475</u>	<u>\$ 263,838</u>	<u>\$ 2,097,356</u>	<u>\$ 504,791</u>	<u>\$ 567,586</u>	<u>\$ 1,072,377</u>	<u>\$ 3,169,733</u>

The accompanying notes are an integral part of this statement.

TREE HOUSE HUMANE SOCIETY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2020

	Program Services				Support			Organization Total
	Shelter Services	Clinical and Veterinary Services	Other Community Programs	Total	Management and General	Fundraising	Total	
Salaries	\$ 383,189	\$ 370,416	\$ 114,957	\$ 868,562	\$ 217,140	\$ 191,595	\$ 408,735	\$ 1,277,297
Employee benefits	33,350	31,915	9,306	74,571	20,854	16,154	37,008	111,579
Payroll taxes	35,617	34,430	10,685	80,732	20,182	17,808	37,990	118,722
Advertising	5	5	5,252	5,262	3	189	192	5,454
Bank and credit card fees	3,032	623	142	3,797	9,736	6,793	16,529	20,326
Cost of good sold	5,028	-	-	5,028	-	3,464	3,464	8,492
Depreciation	77,119	74,548	23,136	174,803	43,700	38,560	82,260	257,063
Equipment rental	16,522	16,931	4,642	38,095	12,433	7,678	20,111	58,206
Food	664	239	7	910	2,546	301	2,847	3,757
Insurance	4,733	3,883	1,205	9,821	24,422	2,009	26,431	36,252
Interest	45	44	14	103	22,227	23	22,250	22,353
Lab tests	-	8,272	-	8,272	-	-	-	8,272
Licenses and fees	2,223	2,323	621	5,167	2,082	6,130	8,212	13,379
Medicine	-	70,381	-	70,381	-	-	-	70,381
Occupancy	60,967	24,113	6,437	91,517	14,964	10,726	25,690	117,207
Office supplies	6,096	4,081	1,860	12,037	4,713	(147)	4,566	16,603
Payroll service	4,220	4,079	1,266	9,565	2,391	2,110	4,501	14,066
Postage and shipping	1,020	809	9,757	11,586	4,418	55,708	60,126	71,712
Printing and publications	709	403	9,624	10,736	1,307	43,513	44,820	55,556
Professional fees	12,084	9,618	5,919	27,621	4,532	62,337	66,869	94,490
Supplies	41,039	2,334	717	44,090	1,303	7,198	8,501	52,591
Telephone	2,890	1,579	490	4,959	926	817	1,743	6,702
Taxes	5	4	1	10	3	2	5	15
Travel	2,737	48	457	3,242	9,885	298	10,183	13,425
Veterinary Fees	420	7,987	-	8,407	-	-	-	8,407
Total expenses	\$ 693,714	\$ 669,065	\$ 206,495	\$ 1,569,274	\$ 419,767	\$ 473,266	\$ 893,033	\$ 2,462,307

The accompanying notes are an integral part of this statement.

TREE HOUSE HUMANE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Activities -

Tree House (the Society) is one of Chicago's oldest cage-free cat shelters, founded in 1971. The Society envisions a world where every cat thrives. The mission of the organization is to empower communities of caregivers to protect, nurture, and support solutions so no cat suffers.

- Shelter Services: care and placement of shelter cats in forever homes after screening and counseling. Tree House is a top transfer/rescue partner for high-intake shelters in Chicago and Illinois, and has a Cat Café that highlights Feline Leukemia cats.
- Clinical and Veterinary Services: high-quality vet care, spay/neuter, vaccinations, and surgeries for resident and community cats; and foster care for cats who are recovering. The Society opened its Veterinary Wellness Center during 2021 to serve the general public. Pet caregivers are able to access low cost spay/neuter and basic wellness services that will help them keep their pets healthy. This community initiative aims to fight one of the causes of pets being surrendered to shelters: illness and inability to pay for treatment.
- Community Programs: trap/neuter/return and support for volunteers caring for 3,000+ outdoor cats throughout Chicagoland; and relocation of feral cats to residences/businesses for rodent control; pet food pantry partnerships; and humane education.

The financial statements were available to be issued on May 20, 2022, with subsequent events being evaluated through this date.

Basis of Accounting -

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

Basis of Presentation -

Information regarding the financial position and activities of the Society are reported in two classes of net assets (as applicable): net assets without donor restrictions or net assets with donor restrictions, the latter of which is 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:

Without donor restrictions - Net assets that 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 net assets without donor restrictions.

With donor restrictions - Net assets subject to donor-imposed stipulations. Some donor restrictions are temporary in nature; those restrictions will be met by either the actions of the Society and/or the passage of time. Other donor restrictions are perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

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.

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.

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
Building Improvements	5 - 30
Machinery and Equipment	3 - 10
Furniture and Fixtures	3 - 10
Vehicles	5

Depreciation expense for the years ended December 31, 2021 and 2020 was \$281,502 and \$257,063, respectively.

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 statement of activities.

Custodial Liability –

Custodial liabilities consist of funds received by the Society for another Organization, for which the Society is acting as a fiscal sponsor.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Revenue Recognition for Public Support -

The Society recognizes public support when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met. The Society reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the assets, or if they are designated as support for future periods. When a donor restriction expires; that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donor-imposed contributions whose restrictions are met in the same reporting period are reported as net assets without donor restrictions.

Program Service Fees -

The Society's revenue consists primarily of adoption fees, veterinary clinic fees, and merchandise sales. These services are considered to be a single performance obligation that is satisfied at a point in time when services are provided. Revenues from adoption fees are recognized at the point in time when a cat is placed with its new owner. Revenues from veterinary clinic services are recognized when the services are provided. Revenues from merchandise sales are recognized at the point the merchandise is transferred to the customer.

Disaggregation of Program Fees Revenue -

	<u>2021</u>	<u>2020</u>
Adoption Fees	\$ 123,764	\$ 111,987
Veterinary clinic fees	5,800	9,287
Wellness Center fees	<u>454,437</u>	<u>-</u>
Total program fees	<u>\$ 584,001</u>	<u>\$ 121,274</u>

Functional Allocation of Expenses -

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and related expenses and depreciation which are allocated on the basis of estimates of time and effort.

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 2018 and thereafter remain subject to examination by the Internal Revenue Service.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

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.

(2) CONCENTRATIONS:

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.

Revenues -

In 2020 the Society received approximately 14% of its total revenue as debt forgiveness (See note 11). In 2020, the Society was the beneficiary of a bequest from a single trust that amounted to approximately 14% of total revenue. There were no revenue concentrations for 2021.

(3) INVESTMENTS:

The composition of investments at December 31, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Equities	\$ 553,185	\$ 342,376
Equity funds	25,696	20,864
Fixed income funds	130,574	102,893
Community foundation fund	<u>1,313,735</u>	<u>1,151,209</u>
	<u>\$ 2,023,190</u>	<u>\$ 1,617,342</u>

(3) INVESTMENTS: (Continued)

Investment return for the years ended December 31, 2021 and 2020 consists of the following:

	<u>2021</u>	<u>2020</u>
Dividends and interest	\$ 12,614	\$ 14,988
Realized and unrealized gain on investments	<u>282,750</u>	<u>169,324</u>
	<u>\$ 295,364</u>	<u>\$ 184,312</u>

(4) FAIR VALUE MEASUREMENTS:

The Accounting Standards Codification for Fair Value Measurements established a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1:

Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2:

Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3:

Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

(4) FAIR VALUE MEASUREMENTS: (Continued)

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2021 and 2020.

Equities, Equity funds and fixed income funds: Valued at the quoted market price the individual securities are traded on.

Community Foundation Fund: Valued at the fair value of the Society's share of pooled investment portfolios as reported by the Community Foundation.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Society believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Society's assets at fair value:

<u>Description</u>	<u>Assets at Fair Value as of December, 31 2021</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equities	\$ 553,185	\$ -	\$ -	\$ 553,185
Equity funds	25,696	-	-	25,696
Fixed income funds	130,574	-	-	130,574
Community foundation fund	-	-	1,313,735	1,313,735
Total assets at fair value	<u>\$ 709,455</u>	<u>\$ -</u>	<u>\$ 1,313,735</u>	<u>\$ 2,023,190</u>

<u>Description</u>	<u>Assets at Fair Value as of December, 31 2020</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equities	\$ 342,376	\$ -	\$ -	\$ 342,376
Equity funds	20,864	-	-	20,864
Fixed income funds	102,893	-	-	102,893
Community foundation fund	-	-	1,151,209	1,151,209
Total assets at fair value	<u>\$ 466,133</u>	<u>\$ -</u>	<u>\$ 1,151,209</u>	<u>\$ 1,617,342</u>

(4) FAIR VALUE MEASUREMENTS: (Continued)

The table below sets forth a summary of changes in the fair value of the Society's level 3 assets:

	<u>2021</u>	<u>2020</u>
Balance, beginning of year	\$ 1,151,209	\$ 1,027,282
Realized and unrealized gain relating to instruments held at end of year	172,834	132,744
Interest, purchases and sales, net	<u>(10,308)</u>	<u>(8,817)</u>
Balance, end of year	<u>\$ 1,313,735</u>	<u>\$ 1,151,209</u>

(5) MORTGAGE PAYABLE:

	<u>2021</u>	<u>2020</u>
Payable to a bank in monthly installments of \$9,373, principal and interest, through July, 2024, bearing interest at 5.242%, and secured by land and building.	\$ 271,989	\$ 367,254
Less - Current maturities	<u>100,174</u>	<u>95,072</u>
Long-term maturities	<u>\$ 171,815</u>	<u>\$ 272,182</u>

The aggregate maturities for long-term debt for each of the succeeding five years are as follows:

2022	\$ 100,174
2023	105,531
2024	<u>66,284</u>
Total	<u>\$ 271,989</u>

(6) LEASES:

The Society leases veterinary lab equipment with monthly rental payments of approximately \$720 and an expiration date in September 2023. The Society is responsible for adequate maintenance of the equipment.

The Society leases copiers and other IT equipment with monthly payments of approximately \$1,400 and an expiration date in March 2024. Maintenance and IT services are included in the lease.

(6) LEASES: (Continued)

Total future minimum lease commitments for each of the next three years are as follows:

2022	\$ 25,443
2023	22,562
2024	<u>5,600</u>
	<u>\$ 53,605</u>

Total rent expense for the years ended December 31, 2021 and 2020 were \$34,808 and \$25,856, respectively.

(7) NET ASSETS WITH DONOR RESTRICTIONS:

Net assets with donor restrictions at December 31, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Wellness Center	\$ 25,000	\$ 29,871
Time restricted	275,000	-
Targeted community programs	25,000	-
Vehicle and signage	-	2,103
In perpetuity	<u>4,014</u>	<u>5,512</u>
	<u>\$ 329,014</u>	<u>\$ 37,486</u>

(8) 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. The Society did not receive in-kind donations of materials during the year ended December 31, 2021 and 2020.

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, 2021 and 2020; 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.

(9) 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, 2021 and 2020 were \$21,925 and \$5,454, respectively.

(10) LIQUIDITY AND AVAILABILITY:

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year, comprise of the following:

	<u>2021</u>	<u>2020</u>
Financial assets -		
Cash	\$ 699,201	\$ 857,046
Receivables	430,441	-
Investments	<u>2,023,190</u>	<u>1,617,342</u>
Total financial assets	3,152,832	2,474,388
Donor imposed restrictions	<u>329,014</u>	<u>37,486</u>
Financial assets available to meet cash needs for general expenditures that is without donor or other restrictions limiting their use within one year	<u>\$ 2,823,818</u>	<u>\$ 2,436,902</u>

The Society manages its liquidity and reserves following three guiding principles:

- operating within a prudent range of financial soundness and stability.
- maintaining adequate liquid assets to fund near-term operating needs.
- maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

(11) PAYCHECK PROTECTION PROGRAM LOAN FORGIVENESS:

In April 2020, the Society obtained a Paycheck Protection Program (PPP) loan payable to a bank as part of the Coronavirus Aid, Relief and Economic Security (CARES) Act in the amount of \$289,200. Interest accrued at 1%, with the amount to be repaid in equal installments of principal and interest, beginning at the earlier of the date the SBA remits the loan forgiveness amount, or 10 months after the end of the forgivable covered period, with the final payment due April 2022, consisting of interest and the entirety of the principal. As part of the loan agreement, the entire loan, or a portion was eligible to be forgiven. In November 2020, the Society received notice from the United States Small Business Administration that their loan had been fully forgiven. The Society has adopted ASC 470 to account for the loan and has recorded a gain from the forgiven portion of the loan in the statement of activities.

(11) PAYCHECK PROTECTION PROGRAM LOAN FORGIVENESS: (Continued)

In January 2021, the Society received a second Paycheck Protection Program (PPP) loan payable to a bank as part of the Economic Aid Act in the amount of \$289,200. Interest accrued at 1% with the amount to be repaid in equal installments of principal and interest at beginning at the earlier of the date the SBA remits the loan forgiveness amount, or 10 months after the end of the forgivable covered period, with the final payment due January 2026, consisting of interest and the entirety of the principal. As part of the loan agreement, the entire loan, or a portion was eligible to be forgiven. In June 2021, the Society received notice from the United States Small Business Administration that their loan had been fully forgiven. The Society has adopted ASC 470 to account for the loan and has recorded a gain from the forgiven portion of the loan in the statement of activities.