

**TREE HOUSE HUMANE SOCIETY, INC.**

**FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 2022 AND 2021**

**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, 2022 and 2021, 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, 2022 and 2021, 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, which 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.

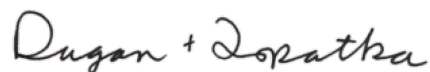
***Auditor's Responsibilities for the Audit of the Financial Statements***

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, which 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, 2022 AND 2021

A S S E T S

	2022	2021
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 1,369,017	\$ 699,201
Cash held for others	110,482	50,000
Receivables	105,620	430,441
Investments	1,084,396	2,023,190
Prepaid expenses and other current assets	43,205	25,411
Total current assets	2,712,720	3,228,243
<b>PROPERTY AND EQUIPMENT</b>		
Land	630,000	630,000
Building and building improvements	6,581,688	6,581,689
Machinery and equipment	399,357	374,206
Furniture and fixtures	237,829	234,835
Vehicles	51,326	51,326
Wellness Center	201,770	201,883
	8,101,970	8,073,939
Less - Accumulated depreciation	(1,479,889)	(1,239,166)
Total property and equipment	6,622,081	6,834,773
<b>OTHER ASSETS:</b>		
Cash held for investment in perpetuity	2,512	4,014
Total assets	\$ 9,337,313	\$ 10,067,030

The accompanying notes are an integral part of this statement.

LIABILITIES AND NET ASSETS

	<u>2022</u>	<u>2021</u>
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 60,701	\$ 117,034
Custodial liability	110,482	50,000
Accrued expenses	58,417	35,490
Mortgage payable, current portion	<u>105,531</u>	<u>100,174</u>
Total current liabilities	<u>335,131</u>	<u>302,698</u>
<b>LONG-TERM LIABILITIES:</b>		
Mortgage payable, net of current portion	<u>66,006</u>	<u>171,815</u>
<b>NET ASSETS:</b>		
Without donor restrictions	8,711,493	9,263,503
With donor restrictions	<u>224,683</u>	<u>329,014</u>
Total net assets	<u>8,936,176</u>	<u>9,592,517</u>
Total liabilities and net assets	<u>\$ 9,337,313</u>	<u>\$ 10,067,030</u>

The accompanying notes are an integral part of this statement.

TREE HOUSE HUMANE SOCIETY  
STATEMENT OF ACTIVITIES  
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	With Donor Restrictions	Without Donor Restrictions	Total
<b>PUBLIC SUPPORT:</b>						
Contributions	\$ 939,853	\$ 255,000	\$ 1,194,853	\$ 738,525	\$ 376,000	\$ 1,114,525
Grants	192,868	-	192,868	366,600	-	366,600
Bequests	741,180	-	741,180	774,553	-	774,553
Special events	160,200	-	160,200	97,377	-	97,377
Forgiveness of note payable	-	-	-	289,200	-	289,200
In-Kind contributions	97,230	-	97,230	-	-	-
Assets released from restrictions	359,331	(359,331)	-	84,472	(84,472)	-
<b>Total public support</b>	<b>2,490,662</b>	<b>(104,331)</b>	<b>2,386,331</b>	<b>2,350,727</b>	<b>291,528</b>	<b>2,642,255</b>
<b>PROGRAM SERVICE FEES AND OTHER:</b>						
Program fees	750,927	-	750,927	584,001	-	584,001
(Loss) on disposal of asset	-	-	-	(1,750)	-	(1,750)
Merchandise sales	56,971	-	56,971	39,933	-	39,933
Miscellaneous income	22,731	-	22,731	10,398	-	10,398
Investment income (loss)	(279,043)	-	(279,043)	295,364	-	295,364
<b>Total program service fees and other revenues</b>	<b>551,586</b>	<b>-</b>	<b>551,586</b>	<b>927,946</b>	<b>-</b>	<b>927,946</b>
<b>Total revenues and other support</b>	<b>3,042,248</b>	<b>(104,331)</b>	<b>2,937,917</b>	<b>3,278,673</b>	<b>291,528</b>	<b>3,570,201</b>
<b>EXPENSES:</b>						
<b>Program services</b>						
Shelter	1,018,650	-	1,018,650	828,043	-	828,043
Clinic	1,321,311	-	1,321,311	1,005,475	-	1,005,475
Other community programs	176,547	-	176,547	263,838	-	263,838
<b>Total program services</b>	<b>2,516,508</b>	<b>-</b>	<b>2,516,508</b>	<b>2,097,356</b>	<b>-</b>	<b>2,097,356</b>
<b>Support</b>						
Management and general	630,619	-	630,619	504,791	-	504,791
Fundraising	447,131	-	447,131	567,586	-	567,586
<b>Total support</b>	<b>1,077,750</b>	<b>-</b>	<b>1,077,750</b>	<b>1,072,377</b>	<b>-</b>	<b>1,072,377</b>
<b>Total expenses</b>	<b>3,594,258</b>	<b>-</b>	<b>3,594,258</b>	<b>3,169,733</b>	<b>-</b>	<b>3,169,733</b>
<b>CHANGES IN NET ASSETS</b>	<b>(552,010)</b>	<b>(104,331)</b>	<b>(656,341)</b>	<b>108,940</b>	<b>291,528</b>	<b>400,468</b>
<b>NET ASSETS, beginning of year</b>	<b>9,263,503</b>	<b>329,014</b>	<b>9,592,517</b>	<b>9,154,563</b>	<b>37,486</b>	<b>9,192,049</b>
<b>NET ASSETS, end of year</b>	<b>\$ 8,711,493</b>	<b>\$ 224,683</b>	<b>\$ 8,936,176</b>	<b>\$ 9,263,503</b>	<b>\$ 329,014</b>	<b>\$ 9,592,517</b>

The accompanying notes are an integral part of this statement.

TREE HOUSE HUMANE SOCIETY  
STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (656,341)	\$ 400,468
Adjustments to reconcile change in total net assets to net cash (used in) provided by operating activities:		
Depreciation	240,721	281,503
Donated Stock	-	(110,484)
Loss on disposal of fixed asset	-	1,750
Forgiveness of note payable	-	(289,200)
Realized and unrealized (gain) loss on investments	313,462	(282,750)
Change in current assets and liabilities:		
(Increase) decrease in receivables	324,821	(430,441)
(Increase) in prepaid expenses and other current assets	(17,794)	(3,288)
Increase (decrease) in accounts payable	(56,333)	108,421
Increase in custodial liability	60,482	50,000
Increase in accrued expenses	22,927	8,030
	<u>231,945</u>	<u>(265,991)</u>
Net cash provided by (used in) operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(1,572,560)	(12,614)
Proceeds from sales of investments	2,197,892	-
Purchase of fixed assets	(28,029)	(19,161)
	<u>597,303</u>	<u>(31,775)</u>
Net cash provided by (used in) investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on mortgage payable	(100,452)	(95,265)
Proceeds from note payable	-	289,200
	<u>(100,452)</u>	<u>193,935</u>
Net cash (used in) provided by financing activities		
NET CHANGE IN CASH AND CASH EQUIVALENTS	728,796	(103,831)
CASH AND CASH EQUIVALENTS, Beginning of year	753,215	857,046
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 1,482,011</u>	<u>\$ 753,215</u>
CASH AND CASH EQUIVALENTS		
Cash and cash equivalents	\$ 1,369,017	\$ 699,201
Cash held for investment in perpetuity	2,512	4,014
Cash held for others	110,482	50,000
	<u>\$ 1,482,011</u>	<u>\$ 753,215</u>
Total cash and cash equivalents		
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	<u>\$ 12,045</u>	<u>\$ 17,217</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, 2022

	Program Services				Support			Organization Total
	Shelter Services	Clinical and Veterinary Services	Other Community Programs	Total	Management and General	Fundraising	Total	
Salaries	\$ 522,006	\$ 663,837	\$ 84,530	\$ 1,270,373	\$ 268,986	\$ 103,826	\$ 372,812	\$ 1,643,185
Employee benefits	40,113	50,074	5,852	96,039	33,180	8,246	41,426	137,465
Payroll taxes	41,624	51,397	6,678	99,699	46,574	7,782	54,356	154,055
Advertising	4,444	2,368	8,769	15,581	-	22,302	22,302	37,883
Bank and credit card fees	3,931	14,327	127	18,385	24,332	10,467	34,799	53,184
Cost of good sold	23,907	-	-	23,907	185	-	185	24,092
Depreciation	76,883	97,441	12,429	186,753	39,201	14,767	53,968	240,721
Equipment rental	31,048	26,934	2,615	60,597	9,954	23,216	33,170	93,767
Food	2,049	2,682	440	5,171	3,154	2,185	5,339	10,510
In-Kind expense	88,155	1,000	-	89,155	6,950	1,125	8,075	97,230
Insurance	17,150	20,975	2,675	40,800	9,903	3,179	13,082	53,882
Interest	-	16	-	16	12,029	-	12,029	12,045
Lab tests	-	41,482	-	41,482	-	-	-	41,482
Licenses and fees	1,516	3,222	419	5,157	1,466	9,938	11,404	16,561
Miscellaneous	8,852	9,825	1,608	20,285	5,826	2,167	7,993	28,278
Medicine	-	197,943	-	197,943	-	132	132	198,075
Occupancy	53,090	63,649	6,987	123,726	22,220	8,302	30,522	154,248
Office supplies	2,950	3,857	461	7,268	2,665	1,153	3,818	11,086
Payroll service	5,131	6,503	829	12,463	5,399	986	6,385	18,848
Postage and shipping	1,072	1,058	2,232	4,362	652	13,506	14,158	18,520
Printing and publications	2,937	4,929	8,342	16,208	2,007	62,053	64,060	80,268
Professional fees	24,336	31,328	30,242	85,906	125,168	141,253	266,421	352,327
Supplies	56,050	9,981	887	66,918	3,732	6,892	10,624	77,542
Telephone	3,284	2,386	304	5,974	993	362	1,355	7,329
Taxes	1,197	17	2	1,216	22	3	25	1,241
Travel	6,925	1,615	119	8,659	6,021	3,289	9,310	17,969
Veterinary Fees	-	12,465	-	12,465	-	-	-	12,465
<b>Total expenses</b>	<b>\$ 1,018,650</b>	<b>\$ 1,321,311</b>	<b>\$ 176,547</b>	<b>\$ 2,516,508</b>	<b>\$ 630,619</b>	<b>\$ 447,131</b>	<b>\$ 1,077,750</b>	<b>\$ 3,594,258</b>

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	\$ 828,043	\$ 1,005,475	\$ 263,838	\$ 2,097,356	\$ 504,791	\$ 567,586	\$ 1,072,377	\$ 3,169,733

The accompanying notes are an integral part of this statement.

TREE HOUSE HUMANE SOCIETY, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022 AND 2021

(1) NATURE OF ACTIVITIES AND 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 22, 2023, 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) NATURE OF ACTIVITIES AND 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 are 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, 2022 and 2021 was \$240,721 and \$281,503, 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) NATURE OF ACTIVITIES AND 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 Revenues -

The Society's program revenue consists primarily of adoption fees, veterinary clinic fees, wellness center 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 and wellness center fees 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>2022</u>	<u>2021</u>
Adoption Fees	\$ 115,937	\$ 123,764
Veterinary clinic fees	4,489	5,800
Wellness Center fees	<u>630,501</u>	<u>454,437</u>
Total program fees	<u>\$ 750,927</u>	<u>\$ 584,001</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.

(1) NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:  
(Continued)

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 2019 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.

In-Kind Contributions -

Contributed nonfinancial assets include donated cat food and supplies and legal services, which are recorded at the respective fair values of the goods received. Contributed goods are recorded at fair value at the date of the donation.

In addition to contributed nonfinancial assets, volunteers contribute significant amounts of time to program services, administration, and fundraising activities; however, the consolidated financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles that prohibits the recording of donated services unless they create or enhance a nonfinancial asset or are specialized skills that would have been purchased if they were not donated. In 2022, individuals contributed 33,600 volunteer hours to support the foster program, shelter operations, veterinary services, events and outreach. The estimated value (at \$15 per hour in 2022) of the volunteer hours contributed for 2022 is approximately \$517,000.

Leases -

The Society determines if an arrangement is a lease or contains a lease at inception of the contract. For any operating leases with a term of over one year, the Society records an operating lease right-of-use asset, and current and long-term operating lease liabilities in the statement of financial position.

Operating lease right-of-use assets and lease liabilities are measured based on the present value of future lease payments over the lease term at each lease's commencement date. As most of the Society's leases do not specify their implicit rate, the Society has elected a practical expedient to use the nominal yield, at lease inception, applicable to U.S. Treasury instruments with a maturity of similar length of the lease term.

(1) NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:  
(Continued)

Leases - (Continued)

Operating lease right-of-use assets include all fixed contractual lease payments and initial direct costs incurred by the Society, less any lease incentives the Society receives from the lessor. The Society has elected a practical expedient to account for lease and non-lease components together as a single lease component. Only the fixed lease components are included in the right-of-use assets and lease liabilities. Additionally, the Society has elected not to apply these lease accounting policies to leases with a term of one year or less at the commencement date.

New Accounting Pronouncement -

Effective January 1, 2022, the Society adopted ASU 2016-02, *Leases* (Topic 842) and subsequent amendments. Under ASU 2016-02, all of the Society's equipment leases that have lease terms exceeding twelve months will now be required to be recognized on the statement of financial position as amortizable right-of-use assets accompanied by liabilities for the present value of the lease payments that the Society is obligated to make in order to obtain control of the leased assets for the duration of each lease term.

Lease expense, under these amendments, will be recognized in different patterns depending on whether the underlying lease is an operating lease or a finance lease. Lease expense for operating leases will be recognized as a single expense using the straight-line method over the term of the lease, which includes options to renew the lease that the Society is reasonably expected to exercise. Finance lease expense will consist of two components, interest expense on the lease obligation payable and straight-line amortization of the right-of-use asset.

Implementation of these amendments is reflected using the modified retrospective method as of January 1, 2022. Consequently, the 2021 financial statements and disclosures do not reflect the effects of implementing the new lease standard. During 2022, the Society did not have any operating leases that exceeded a one year term and would result in recording a lease asset and lease liability. Upon implementation, the Society elected an available package of practical expedients permitted under the transition guidance included in ASU 2018-11, *Leases* (Topic 842) – *Targeted Improvements* that permits the Society to carry forward the historical lease identification, classification and initial direct costs associated with the Society's pre-existing leases. The implementation of the amendments did not materially impact the Society's change in net assets or cash flows.

(2) CONCENTRATIONS:

Credit Risk -

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

(2) CONCENTRATIONS: (Continued)

Credit Risk - (Continued)

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.

(3) INVESTMENTS:

The composition of investments at December 31, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Equities	\$ 397,220	\$ 553,185
Equity funds	644,909	25,696
Fixed income funds	42,267	130,574
Community foundation fund	<u>-</u>	<u>1,313,735</u>
	<u>\$ 1,084,396</u>	<u>\$ 2,023,190</u>

Investment return for the years ended December 31, 2022 and 2021 consists of the following:

	<u>2022</u>	<u>2021</u>
Dividends and interest	\$ 34,419	\$ 12,614
Realized and unrealized gain (loss) on investments	<u>(313,462)</u>	<u>282,750</u>
	<u>\$ (279,043)</u>	<u>\$ 295,364</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.

(4) FAIR VALUE MEASUREMENTS: (Continued)

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.

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, 2022 and 2021.

Equities, Equity funds and fixed income funds: Valued at the daily closing price as reported by the fund. Shares in mutual funds held by the Society are open-ended mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value and to transact at that price. The mutual funds held by the Society are deemed to be actively traded.

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.



(4) FAIR VALUE MEASUREMENTS: (Continued)

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 2022</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equities	\$ 397,220	\$ -	\$ -	\$ 397,220
Equity funds	644,909	-	-	644,909
Fixed income funds	42,267	-	-	42,267
Community foundation fund	-	-	-	-
Total assets at fair value	<u>\$ 1,084,396</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,084,396</u>

<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>

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

	<u>2022</u>	<u>2021</u>
Balance, beginning of year	\$ 1,313,735	\$ 1,151,209
Realized and unrealized gain (loss) relating to instruments held at end of year	(214,488)	172,834
Interest, purchases and sales, net	<u>(1,099,247)</u>	<u>(10,308)</u>
Balance, end of year	<u>\$ -</u>	<u>\$ 1,313,735</u>

(5) MORTGAGE PAYABLE:

	<u>2022</u>	<u>2021</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.	\$ 171,537	\$ 271,989
Less - Current maturities	<u>105,531</u>	<u>100,174</u>
Long-term maturities	<u>\$ 66,006</u>	<u>\$ 171,815</u>

(5) MORTGAGE PAYABLE: (Continued)

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

2023	\$ 105,531
2024	<u>66,006</u>
Total	<u>\$ 171,537</u>

(6) LEASES:

The Society leases veterinary lab equipment with monthly rental payments of approximately \$720 and on a month to month basis. 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 on a month to month basis. Maintenance and IT services are included in the lease.

Total short term lease expense for the years ended December 31, 2022 and 2021 were \$28,536 and \$34,808, respectively.

(7) NET ASSETS WITH DONOR RESTRICTIONS:

Net assets with donor restrictions at December 31, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Wellness Center	\$ -	\$ 25,000
Time restricted	206,734	275,000
Targeted community programs	15,435	25,000
Vehicle and signage	-	-
In perpetuity	<u>2,514</u>	<u>4,014</u>
	<u>\$ 224,683</u>	<u>\$ 329,014</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.

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, 2022 and 2021.

(8) DONATED MATERIALS AND SERVICES: (Continued)

For the years ended December 31, 2022 and 2021 contributed nonfinancial assets recognized within the statement of activities included the following:

	<u>2022</u>	<u>2021</u>
Cat food and supplies	\$ 81,775	\$ -
Professional services	3,505	
Legal services	<u>11,950</u>	<u>-</u>
Total in-kind contributions	<u>\$ 97,230</u>	<u>\$ -</u>

Contributed cat food and supplies are valued at the estimated U.S. wholesale prices of identical or similar products using pricing data under a “like-kind” methodology considering the goods’ condition and utility for use at the time of the contribution. Contributed cat food and supplies are used in program services.

Contributed legal and professional services are valued at the hourly rate and time spent on the services provided by the attorneys or other professionals. Contributed legal and professional services were used in general operations.

(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, 2022 and 2021 were \$37,883 and \$21,925, 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>2022</u>	<u>2021</u>
Financial assets -		
Cash	\$ 1,369,017	\$ 699,201
Receivables	105,620	430,441
Investments	<u>1,084,396</u>	<u>2,023,190</u>
Total financial assets	2,559,033	3,152,832
Donor imposed restrictions	<u>224,683</u>	<u>329,014</u>
Financial assets available to meet cash needs for general expenditures that are without donor or other restrictions limiting their use within one year	<u>\$ 2,334,350</u>	<u>\$ 2,823,818</u>

(10) LIQUIDITY AND AVAILABILITY: (Continued)

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 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.

(12) EMPLOYEE BENEFIT PLANS:

Tree House maintains an optional 401(k) plan for all of their employees. The Organization did not make any employer contributions for the years ended December 31, 2022 and 2021.