

TREE HOUSE HUMANE SOCIETY, INC.

**FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2023 AND 2022**

TOGETHER WITH AUDITOR'S REPORT



Certified Public Accountants

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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, 2023 and 2022, 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, 2023 and 2022, 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 audits 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.

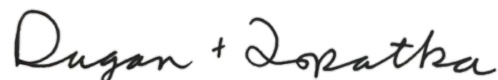
Auditor's Responsibilities for the Audit of the Financial Statements

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, 2023 AND 2022

A S S E T S

	2023	2022
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,223,991	\$ 1,369,017
Cash held for others	109,805	110,482
Contribution receivables	26,989	105,620
Investments	2,015,877	1,084,396
Prepaid expenses and other current assets	47,361	43,205
Total current assets	3,424,023	2,712,720
PROPERTY AND EQUIPMENT		
Land	630,000	630,000
Building and building improvements	6,606,204	6,581,688
Machinery and equipment	401,546	399,357
Furniture and fixtures	234,319	237,829
Vehicles	51,326	51,326
Wellness Center	195,096	201,770
	8,118,491	8,101,970
Less - Accumulated depreciation	(1,688,967)	(1,479,889)
Total property and equipment	6,429,524	6,622,081
OTHER ASSETS:		
Cash held for investment in perpetuity	-	2,512
Total assets	\$ 9,853,547	\$ 9,337,313

The accompanying notes are an integral part of this statement.

LIABILITIES AND NET ASSETS

	<u>2023</u>	<u>2022</u>
CURRENT LIABILITIES:		
Accounts payable	\$ 114,465	\$ 60,701
Custodial liability	109,805	110,482
Accrued expenses	82,349	58,417
Mortgage payable, current portion	<u>65,614</u>	<u>105,531</u>
Total current liabilities	<u>372,233</u>	<u>335,131</u>
LONG-TERM LIABILITIES:		
Mortgage payable, net of current portion	<u>-</u>	<u>66,006</u>
NET ASSETS:		
Without donor restrictions	9,310,515	8,711,493
With donor restrictions	<u>170,799</u>	<u>224,683</u>
Total net assets	<u>9,481,314</u>	<u>8,936,176</u>
Total liabilities and net assets	<u><u>\$ 9,853,547</u></u>	<u><u>\$ 9,337,313</u></u>

The accompanying notes are an integral part of this statement.

TREE HOUSE HUMANE SOCIETY
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	With Donor Restrictions	Without Donor Restrictions	Total
PUBLIC SUPPORT:						
Contributions	\$ 975,180	\$ 242,397	\$ 1,217,577	\$ 939,853	\$ 255,000	\$ 1,194,853
Grants	252,667	-	252,667	192,868	-	192,868
Bequests	1,444,206	-	1,444,206	741,180	-	741,180
Special events	115,159	-	115,159	160,200	-	160,200
In-Kind contributions	159,320	-	159,320	97,230	-	97,230
Assets released from restrictions	296,281	(296,281)	-	359,331	(359,331)	-
Total public support	3,242,813	(53,884)	3,188,929	2,490,662	(104,331)	2,386,331
PROGRAM SERVICE FEES AND OTHER:						
Program fees	616,143	-	616,143	750,927	-	750,927
(Loss) on disposal of asset	(7,594)	-	(7,594)	-	-	-
Merchandise sales	53,052	-	53,052	56,971	-	56,971
Miscellaneous income	54,837	-	54,837	22,731	-	22,731
Employee retention credit	173,619	-	173,619	-	-	-
Investment income (loss)	227,191	-	227,191	(279,043)	-	(279,043)
Total program service fees and other revenues	1,117,248	-	1,117,248	551,586	-	551,586
Total revenues and other support	4,360,061	(53,884)	4,306,177	3,042,248	(104,331)	2,937,917
EXPENSES:						
Program services						
Shelter	1,283,360	-	1,283,360	1,018,650	-	1,018,650
Clinic	1,084,776	-	1,084,776	1,321,311	-	1,321,311
Other community programs	191,602	-	191,602	176,547	-	176,547
Total program services	2,559,738	-	2,559,738	2,516,508	-	2,516,508
Support						
Management and general	616,795	-	616,795	630,619	-	630,619
Fundraising	584,506	-	584,506	447,131	-	447,131
Total support	1,201,301	-	1,201,301	1,077,750	-	1,077,750
Total expenses	3,761,039	-	3,761,039	3,594,258	-	3,594,258
CHANGES IN NET ASSETS	599,022	(53,884)	545,138	(552,010)	(104,331)	(656,341)
NET ASSETS, beginning of year	8,711,493	224,683	8,936,176	9,263,503	329,014	9,592,517
NET ASSETS, end of year	\$ 9,310,515	\$ 170,799	\$ 9,481,314	\$ 8,711,493	\$ 224,683	\$ 8,936,176

The accompanying notes are an integral part of this statement.

TREE HOUSE HUMANE SOCIETY
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 545,138	\$ (656,341)
Adjustments to reconcile change in total net assets to net cash provided by operating activities:		
Depreciation	230,519	240,721
Loss on disposal of fixed asset	7,594	-
Realized and unrealized (gain) loss on investments	(177,624)	313,462
Change in current assets and liabilities:		
Decrease in contribution receivables	78,631	324,821
(Increase) in prepaid expenses and other current assets	(4,156)	(17,794)
Increase (decrease) in accounts payable	53,764	(56,333)
Increase (decrease) in custodial liability	(677)	60,482
Increase in accrued expenses	23,932	22,927
	<u>757,121</u>	<u>231,945</u>
Net cash provided by operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(2,651,408)	(1,572,560)
Proceeds from sales of investments	1,897,551	2,197,892
Purchase of fixed assets	(45,557)	(28,029)
	<u>(799,414)</u>	<u>597,303</u>
Net cash provided by (used in) investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on mortgage payable	(105,923)	(100,452)
	<u>(105,923)</u>	<u>(100,452)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(148,216)	728,796
CASH AND CASH EQUIVALENTS, Beginning of year	<u>1,482,011</u>	<u>753,215</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 1,333,795</u>	<u>\$ 1,482,011</u>
CASH AND CASH EQUIVALENTS		
Cash and cash equivalents	\$ 1,223,991	\$ 1,369,017
Cash held for investment in perpetuity	-	2,512
Cash held for others	<u>109,805</u>	<u>110,482</u>
	<u>\$ 1,333,796</u>	<u>\$ 1,482,011</u>
Total cash and cash equivalents		
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	<u>\$ 6,558</u>	<u>\$ 12,045</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, 2023

	Program Services				Support			Organization Total
	Shelter Services	Clinical and Veterinary Services	Other Community Programs	Total	Management and General	Fundraising	Total	
Salaries	\$ 659,769	\$ 461,016	\$ 104,615	\$ 1,225,400	\$ 193,747	\$ 162,859	\$ 356,606	\$ 1,582,006
Employee benefits	53,888	40,088	8,887	102,863	48,591	14,499	63,090	165,953
Payroll taxes	60,393	41,004	10,435	111,832	14,756	14,546	29,302	141,134
Advertising	1,582	683	11,765	14,030	350	5,457	5,807	19,837
Bank and credit card fees	362	6,298	10	6,670	30,131	22,512	52,643	59,313
Cost of good sold	11,779	-	-	11,779	-	77	77	11,856
Depreciation	97,192	67,762	15,519	180,473	26,101	23,945	50,046	230,519
Equipment rental	23,750	23,544	2,160	49,454	8,702	21,158	29,860	79,314
Food	2,950	2,371	394	5,715	2,721	1,525	4,246	9,961
In-Kind expense	156,621	1,192	874	158,687	71	562	633	159,320
Insurance	18,572	13,731	2,966	35,269	6,439	4,576	11,015	46,284
Interest	-	-	-	-	6,558	-	6,558	6,558
Lab tests	-	27,444	-	27,444	-	-	-	27,444
Licenses and fees	5,762	9,039	984	15,785	3,224	7,734	10,958	26,743
Medicine	45	151,365	-	151,410	33,264	1,000	34,264	185,674
Miscellaneous	4,324	1,192	665	6,181	3,349	2,070	5,419	11,600
Occupancy	68,804	46,829	8,546	124,179	18,604	13,423	32,027	156,206
Office supplies	1,271	458	105	1,834	744	576	1,320	3,154
Payroll service	113	79	18	210	43,870	28	43,898	44,108
Postage and shipping	2,400	1,783	633	4,816	949	43,527	44,476	49,292
Printing and publications	4,670	3,158	15,166	22,994	1,364	4,941	6,305	29,299
Professional fees	31,112	138,729	6,572	176,413	164,675	225,026	389,701	566,114
Supplies	66,665	8,845	705	76,215	1,423	8,961	10,384	86,599
Taxes	-	-	-	-	-	-	-	-
Telephone	4,096	2,120	486	6,702	1,055	749	1,804	8,506
Travel	7,165	2,453	97	9,715	6,107	4,755	10,862	20,577
Veterinary Fees	75	33,593	-	33,668	-	-	-	33,668
Total expenses	\$ 1,283,360	\$ 1,084,776	\$ 191,602	\$ 2,559,738	\$ 616,795	\$ 584,506	\$ 1,201,301	\$ 3,761,039

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
Medicine	-	197,943	-	197,943	-	132	132	198,075
Miscellaneous	8,852	9,825	1,608	20,285	5,826	2,167	7,993	28,278
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
Taxes	1,197	17	2	1,216	22	3	25	1,241
Telephone	3,284	2,386	304	5,974	993	362	1,355	7,329
Travel	6,925	1,615	119	8,659	6,021	3,289	9,310	17,969
Veterinary Fees	-	12,465	-	12,465	-	-	-	12,465
Total expenses	\$ 1,018,650	\$ 1,321,311	\$ 176,547	\$ 2,516,508	\$ 630,619	\$ 447,131	\$ 1,077,750	\$ 3,594,258

The accompanying notes are an integral part of this statement.

TREE HOUSE HUMANE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

(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 30, 2024, 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.

Contribution 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	39
Building Improvements	5 - 37
Machinery and Equipment	3 - 10
Furniture and Fixtures	3 - 10
Vehicles	5

Depreciation expense for the years ended December 31, 2023 and 2022 was \$230,520 and \$240,721, 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>2023</u>	<u>2022</u>
Adoption Fees	\$ 94,979	\$ 115,937
Veterinary clinic fees	993	4,489
Wellness Center fees	<u>520,171</u>	<u>630,501</u>
Total program fees	<u>\$ 616,143</u>	<u>\$ 750,927</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 2020 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 2023, individuals contributed 32,400 volunteer hours to support the foster program, shelter operations, veterinary services, events and outreach. The estimated value (at \$16 per hour in 2023) of the volunteer hours contributed for 2023 is approximately \$519,000.

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.

(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.

(3) INVESTMENTS:

The composition of investments at December 31, 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>
Equities	\$ 996,494	\$ 397,220
Equity funds	11,576	644,909
Fixed income funds	855,350	42,267
Hedge funds	<u>152,457</u>	<u>-</u>
	<u>\$ 2,015,877</u>	<u>\$ 1,084,396</u>

(3) INVESTMENTS: (Continued)

Investment return for the years ended December 31, 2023 and 2022 consists of the following:

	<u>2023</u>	<u>2022</u>
Dividends and interest	\$ 49,567	\$ 34,419
Realized and unrealized gain (loss) on investments	<u>177,624</u>	<u>(313,462)</u>
	<u>\$ 227,191</u>	<u>\$ (279,043)</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.

(4) FAIR VALUE MEASUREMENTS: (Continued)

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.

The 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, 2023 and 2022.

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.

Hedge funds: Valued at the Society's share of pooled investment portfolios as reported by the Hedge Fund.

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 2023</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equities	\$ 996,494	\$ -	\$ -	\$ 996,494
Equity funds	11,576	-	-	11,576
Fixed income funds	855,350	-	-	855,350
Hedge funds	-	-	152,457	152,457
Total assets at fair value	<u>\$ 1,863,420</u>	<u>\$ -</u>	<u>\$ 152,457</u>	<u>\$ 2,015,877</u>

<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
Total assets at fair value	<u>\$ 1,084,396</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,084,396</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>2023</u>	<u>2022</u>
Balance, beginning of year	\$ -	\$ -
Realized and unrealized gain (loss) relating to instruments held at end of year	1,868	-
Interest, purchases and sales, net	<u>150,589</u>	<u>-</u>
Balance, end of year	<u>\$ 152,457</u>	<u>\$ -</u>

(5) MORTGAGE PAYABLE:

	<u>2023</u>	<u>2022</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.	\$ 65,614	\$ 171,537
Less - Current maturities	<u>65,614</u>	<u>105,531</u>
Long-term maturities	<u>\$ -</u>	<u>\$ 66,006</u>

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

2024	\$ 65,614
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(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, 2023 and 2022 were \$20,743 and \$28,536, respectively.

(7) NET ASSETS WITH DONOR RESTRICTIONS:

Net assets with donor restrictions at December 31, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Time restricted	\$ 127,462	\$ 206,734
Targeted community programs	43,337	15,435
In perpetuity	<u>-</u>	<u>2,514</u>
	<u>\$ 170,799</u>	<u>\$ 224,683</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, 2023 and 2022.

For the years ended December 31, 2023 and 2022 contributed nonfinancial assets recognized within the statement of activities included the following:

	<u>2023</u>	<u>2022</u>
Cat food and supplies	\$ 135,045	\$ 81,775
Professional services	24,275	3,505
Legal services	<u>-</u>	<u>11,950</u>
Total in-kind contributions	<u>\$ 159,320</u>	<u>\$ 97,230</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, 2023 and 2022 were \$19,837 and \$37,883, 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>2023</u>	<u>2022</u>
Financial assets -		
Cash	\$ 1,223,991	\$ 1,369,017
Receivables	26,989	105,620
Investments	<u>2,015,877</u>	<u>1,084,396</u>
Total financial assets	3,266,857	2,559,033
Donor imposed restrictions	<u>170,799</u>	<u>224,683</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>\$ 3,096,058</u>	<u>\$ 2,334,350</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) 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, 2023 and 2022.