

TREEHOUSE

FINANCIAL REPORT

SEPTEMBER 30, 2011

C O N T E N T S

	Page
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
STATEMENT OF FINANCIAL POSITION	2
STATEMENT OF ACTIVITIES.....	3
STATEMENT OF FUNCTIONAL EXPENSES	4
STATEMENT OF CASH FLOWS	5
NOTES TO FINANCIAL STATEMENTS.....	6 - 16



CERTIFIED PUBLIC ACCOUNTANTS
601 UNION STREET, SUITE 2300
SEATTLE, WASHINGTON 98101

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Treehouse
Seattle, Washington

We have audited the accompanying statement of financial position of Treehouse as of September 30, 2011, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of Treehouse's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from Treehouse's September 30, 2010, financial statements and in our report dated January 19, 2011, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Treehouse as of September 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

Peterson Sullivan LLP.

January 19, 2012

TREEHOUSE

STATEMENT OF FINANCIAL POSITION

September 30, 2011

(With Comparative Totals for 2010)

ASSETS	<u>2011</u>	<u>2010</u>
Current Assets		
Cash and cash equivalents	\$ 2,080,101	\$ 1,584,669
Investments	498,194	1,247,116
Current pledges receivable, net	216,638	203,948
Grants and other receivables	220,815	168,787
Inventories	278,428	190,108
Prepaid expenses	<u>35,832</u>	<u>68,639</u>
Total current assets	3,330,008	3,463,267
Long-Term Assets		
Long-term pledges receivable, net	50,162	
Furniture and equipment, net	171,118	50,330
Endowment investments	2,671,699	2,910,811
Other investments	<u>150,381</u>	<u>119,168</u>
Total long-term assets	<u>3,043,360</u>	<u>3,080,309</u>
Total assets	<u><u>\$ 6,373,368</u></u>	<u><u>\$ 6,543,576</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 30,921	\$ 36,147
Accrued salaries and related costs	<u>214,955</u>	<u>169,433</u>
Total current liabilities	245,876	205,580
Net Assets		
Unrestricted	3,053,193	3,131,634
Temporarily restricted	402,600	295,551
Permanently restricted	<u>2,671,699</u>	<u>2,910,811</u>
Total net assets	<u>6,127,492</u>	<u>6,337,996</u>
Total liabilities and net assets	<u><u>\$ 6,373,368</u></u>	<u><u>\$ 6,543,576</u></u>

See Notes to Financial Statements

TREEHOUSE

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2011

(With Comparative Totals for 2010)

	2011			Total	2010 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenue					
Contributions and grants	\$ 3,692,524	\$ 531,744	\$ -	\$ 4,224,268	\$ 3,869,941
In-kind contributions	1,474,074			1,474,074	1,371,393
Program service fees	943,898			943,898	1,194,850
Net assets released from restrictions	582,200	(455,908)	(126,292)		
Total revenue	6,692,696	75,836	(126,292)	6,642,240	6,436,184
Expenses					
Program services	5,398,703			5,398,703	5,111,935
Management and general	270,138			270,138	287,875
Fundraising	1,112,016			1,112,016	1,019,623
Total expenses	6,780,857			6,780,857	6,419,433
Changes in net assets before investment income (loss)	(88,161)	75,836	(126,292)	(138,617)	16,751
Investment income (loss)	9,720	31,213	(112,820)	(71,887)	273,522
Change in net assets	(78,441)	107,049	(239,112)	(210,504)	290,273
Net assets, beginning of year	3,131,634	295,551	2,910,811	6,337,996	6,047,723
Net assets, end of year	\$ 3,053,193	\$ 402,600	\$ 2,671,699	\$ 6,127,492	\$ 6,337,996

See Notes to Financial Statements

TREEHOUSE

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended September 30, 2011

(With Comparative Totals for 2010)

	Program Services			Total Program Services	Support Services		Totals	
	Education Programs	Enrichment Programs			Management and General	Fundraising	2011	2010
		Wearhouse	Other					
Payroll	\$ 1,697,966	\$ 232,425	\$ 254,191	\$ 2,184,582	\$ 46,184	\$ 539,809	\$ 2,770,575	\$ 2,401,140
Wearhouse distributions		920,488		920,488			920,488	1,167,320
Payroll taxes and benefits	399,371	60,258	60,312	519,941	6,756	112,354	639,051	527,602
Other in-kind expenses	68,191	222,839	109,207	400,237	19,496	660	420,393	313,322
Occupancy	141,489	164,970	15,411	321,870	27,845	47,050	396,765	395,799
Assistance to specific individuals	52,000		327,051	379,051			379,051	492,501
Holiday Magic purchases			263,151	263,151			263,151	260,891
Professional services	71,651	299	25,738	97,688	61,089	32,936	191,713	171,322
Special events	12,784			12,784		133,222	146,006	97,792
Other	32,227	1,839	3,271	37,337	19,647	73,447	130,431	65,139
Printing and publications	13,724	1,239	10,037	25,000	11,804	48,172	84,976	58,875
Transportation	67,454	5	527	67,986	3,581	3,223	74,790	62,913
Supplies	41,636	5,244	4,776	51,656	1,161	9,593	62,410	63,952
Depreciation	21,676	4,786	4,938	31,400	13,389	9,329	54,118	106,041
Licenses and fees	14,882	697		15,579	8,110	28,586	52,275	27,779
Credit card fees		30	15,913	15,943		35,822	51,765	33,921
Postage and shipping	2,812	73	15,068	17,953	1,315	27,708	46,976	53,167
Staff training	11,156		370	11,526	20,842	3,179	35,547	50,242
Meetings	14,018	458	597	15,073	7,824	4,185	27,082	37,978
Insurance					19,540		19,540	18,710
Equipment leases	6,370	1,406	1,682	9,458	1,555	2,741	13,754	13,027
Total expenses - 2011	\$ 2,669,407	\$ 1,617,056	\$ 1,112,240	\$ 5,398,703	\$ 270,138	\$ 1,112,016	\$ 6,780,857	
Percent of total - 2011	39%	24%	17%	80%	4%	16%	100%	
Total expenses - 2010	\$ 2,201,498	\$ 1,674,951	\$ 1,235,486	\$ 5,111,935	\$ 287,875	\$ 1,019,623		\$ 6,419,433
Percent of total - 2010	34%	26%	20%	80%	4%	16%		100%

See Notes to Financial Statements

TREEHOUSE

STATEMENT OF CASH FLOWS

For the Year Ended September 30, 2011

(With Comparative Totals for 2010)

	2011	2010
Cash Flows from Operating Activities		
Change in net assets	\$ (210,504)	\$ 290,273
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	54,118	106,041
Net realized and unrealized loss (gain) on investments	129,016	(197,357)
Donated computer software	(104,609)	
Interest and dividends restricted for long-term investments	(30,800)	(53,800)
Change in operating assets and liabilities		
Receivables	(114,880)	364,125
Inventories	(88,320)	25,485
Prepaid expenses	32,807	(33,089)
Accounts payable	(5,226)	(20,672)
Accrued salaries and related costs	45,522	55,124
	(292,876)	536,130
Net cash flows from operating activities		
Cash Flows from Investing Activities		
Purchase of investments (including reinvested income)	(3,910,465)	(1,313,474)
Proceeds from sale of investments	4,738,270	140,713
Purchase of furniture and equipment	(70,297)	(21,106)
	757,508	(1,193,867)
Net cash flows from investing activities		
Cash Flows from Financing Activity		
Interest and dividends restricted for reinvestment	30,800	53,800
	30,800	53,800
Net change in cash and cash equivalents	495,432	(603,937)
Cash and cash equivalents, beginning of year	1,584,669	2,188,606
	1,584,669	2,188,606
Cash and cash equivalents, end of year	\$ 2,080,101	\$ 1,584,669

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

Note 1. Organization

Treehouse is a non-profit organization uniquely committed to helping foster children throughout King County attain self-esteem and confidence, and to reach their fullest potential by responding to their needs, hopes, and dreams. Founded in 1988, Treehouse's mission is *giving foster kids a childhood and a future*. Funding is received primarily from individuals, corporate gifts, and private foundation grants. Governmental support has traditionally been limited with the exception of an agreement with the Washington State Department of Social and Health Services ("DSHS").

Treehouse's six major programs are in two categories – Education and Enrichment.

Education Programs:

- Tutoring – Treehouse tutoring provides one-on-one educational help for students who, through no fault of their own, are far behind their peers. Treehouse's intensive tutoring program places certified teachers in public schools to provide foster kids with essential weekly tutoring in basic skills. After-school tutoring and summer school classes are also provided at Treehouse.
- Educational Advocacy – Treehouse's Educational Advocacy program connects schools, social workers, foster families, and the children, to obtain the intervention, testing or remediation services kids need – and deserve – to boost their chances for academic success. Educational Advocacy is a statewide program.
- College and Career Planning – This innovative program teams with foster children to help them prepare for and navigate the daunting college selection and application process, including identifying scholarships and other support services. Through the College and Career Planning program, Treehouse assists foster kids to graduate from high school and attend college in numbers that exceed the rates historically experienced by children in foster care.

Enrichment Programs:

- Little Wishes/Summer Camp – Treehouse's Little Wishes program provides funds for the activities that every child deserves to explore and enjoy, including community-based athletics, art and music lessons, school field trips, and tickets to cultural events. Treehouse's camp program sends foster kids to the day or overnight camp of their choice. Summer camp introduces positive role models into otherwise difficult lives, while providing a much-needed opportunity to get away from it all, make new friends, and just be a normal kid for one unforgettable week.

- Wearhouse – The Wearhouse accepts donations of new and like-new clothing, toys, books, school supplies, and household goods and distributes them at no charge to eligible children residing in King County. When necessary to meet demand, Treehouse may purchase items for distribution. Due to the significance of the expenses related to the Wearhouse, the expenses have been shown separately in the Statement of Functional Expenses.
- 97.3 KIRO FM Foster Child Holiday Magic - Holiday Magic is a joint holiday gift program for foster children between DSHS Children's Administration, KIRO FM and Treehouse. Children's Administration contracts with Treehouse to administer the program, raise community funds, and provide one substantial holiday gift to over 4,000 foster children across Washington State. Funds are raised through a one-day radiothon, a partnership with the employees of The Boeing Company, and direct mail and email appeals and totaled \$411,744 during fiscal year 2011. The proceeds from the radiothon are used to purchase gifts for foster children. The contract with DSHS stipulates that any funds raised in excess of Holiday Magic gift needs will be transferred to Treehouse, and that those funds are to be utilized to benefit children currently served by DSHS. At September 30, 2011, Treehouse has \$132,219 restricted to fund Holiday Magic in fiscal year 2012, which is recorded as temporarily restricted net assets.

Note 2. Summary of Significant Accounting Policies

Financial Statement Presentation

Treehouse reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Temporarily restricted contributions are reclassified to unrestricted net assets when the restrictions are met. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction is met in the year in which the support is initially recognized.

Permanently restricted contributions are reclassified to unrestricted net assets in accordance with the donors' request to release up to 5% of the average ending balances of the previous 12 quarters from restrictions annually on December 31, to fund expenditures for various programs. Permanently restricted net assets consist solely of endowment funds with donor stipulations requiring Treehouse to invest in equity securities and, as such, all investment earnings or losses related to these endowments in excess of the amounts released are retained and presented in the financial statements as a component of permanently restricted net assets.

The financial statements include 2010 prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States. Accordingly, such information should be read in conjunction with Treehouse's financial statements for the year ended September 30, 2010, from which the summarized information was derived.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from the estimated amounts.

Fair Value Measurements

Fair value is a market-based measurement determined based on assumptions that market participants would use in pricing an asset or liability. There are three levels which prioritize the inputs used in measuring fair value as follows:

- Level 1: Observable market inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Observable market inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3: Unobservable inputs where there is little or no market data, which require the reporting entity to develop its own assumptions.

Cash and Cash Equivalents

Cash and cash equivalents include cash, money market funds, and short-term securities with an original maturity of three months or less. Money market balances held in investment accounts are included with investments in the Statement of Financial Position. Treehouse occasionally has cash and cash equivalents balances in excess of federally insured limits.

Unconditional and Conditional Promises to Give

Unconditional promises to give are recognized as support in the period the pledge is received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. There are no conditional promises as of September 30, 2011 or 2010.

Investments

Investments in mutual funds are stated at fair value using Level 1 inputs (quoted prices on national exchanges). Certificates of deposit are stated at cost plus accrued interest. Realized and unrealized gains and losses are included in the Statement of Activities. At September 30, 2011 and 2010, investments are as follows:

	<u>2011</u>	<u>2010</u>
Equity mutual funds		
Large cap	\$ 1,293,021	\$ 2,504,100
Mid cap	264,298	
Small cap	133,524	
International	330,614	
Emerging markets	225,729	
Bond index mutual funds	540,741	525,879
Certificates of deposit	498,194	1,247,116
Money market fund	34,153	
	<u>\$ 3,320,274</u>	<u>\$ 4,277,095</u>

Investments are presented in the Statement of Financial Position as follows:

	<u>2011</u>	<u>2010</u>
Investments	\$ 498,194	\$ 1,247,116
Endowment investments	2,671,699	2,910,811
Other investments	150,381	119,168
	<u>\$ 3,320,274</u>	<u>\$ 4,277,095</u>

Investment income (loss) was composed of:

	<u>2011</u>	<u>2010</u>
Interest and dividends	\$ 57,129	\$ 76,165
Unrealized gains (losses)	(129,016)	197,357
	<u>\$ (71,887)</u>	<u>\$ 273,522</u>

Investment income reported as an increase in unrestricted net assets for the year ended September 30, 2011, amounted to \$9,720 and was generated from cash and cash equivalents.

Investment income reported as an increase in temporarily restricted net assets for the year ended September 30, 2011, amounted to \$31,213. This amount is comprised of interest and dividends of \$16,609 and unrealized gains of \$14,604 generated from the Fostering Futures Endowment.

Investment income (loss) reported as a decrease in permanently restricted net assets for the year ended September 30, 2011, amounted to \$(112,820). This amount is composed of unrealized losses of \$(143,620) from the Operations and Education Endowments and interest and dividend income amounting to \$30,800.

Inventories

Inventories include new and quality used clothing and other items for children. Purchased new inventory is valued at cost and donated new inventory is valued at estimated fair value. Effective October 1, 2010, Treehouse began recording donated quality used clothing in inventory at estimated fair value. Previously, donated quality used clothing was recognized when it was distributed as both a contribution and expense at its estimated fair value.

Furniture and Equipment

Furniture and equipment is recorded at cost, if purchased, or at estimated fair value at the date of receipt, if donated. All purchases under \$500 are expensed when acquired. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Furniture and equipment consist of the following:

	<u>2011</u>	<u>2010</u>
Computer equipment	\$ 496,876	\$ 384,932
Office furniture and fixtures	418,722	402,479
Leasehold improvements	66,453	66,453
Vehicle	<u>13,257</u>	<u>13,257</u>
	995,308	867,121
Accumulated depreciation	<u>(824,190)</u>	<u>(816,791)</u>
Furniture and equipment, net	<u>\$ 171,118</u>	<u>\$ 50,330</u>

In-Kind Contributions

In-kind contributions are recorded at their estimated fair values at the date of donation. In-kind contributions recognized consist of the following:

	<u>2011</u>	<u>2010</u>
Donated new and quality used clothing	\$ 1,155,996	\$ 1,152,254
Summer camp discounts	49,667	68,389
Little Wishes discounts	57,611	65,626
Gift cards	13,900	7,746
Tutoring	65,346	58,953
Professional services and other	26,945	18,425
Donated computer software	<u>104,609</u>	
	<u>\$ 1,474,074</u>	<u>\$ 1,371,393</u>

Functional Allocation of Expenses

The costs of providing the various programs and other activities are summarized on a functional basis in the Statement of Activities. Accordingly, certain costs are allocated among the programs and supporting services benefited.

Income Taxes

Treehouse is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Treehouse's federal tax returns are open to examination for the years ended September 30, 2008 to 2011.

Subsequent Events

Treehouse has evaluated subsequent events through the date these financial statements were available to be issued, which is the same date as the independent auditors' report.

Note 3. Pledges Receivable

Pledges receivable are as follows:

	<u>2011</u>	<u>2010</u>
Receivable in less than one year	\$ 229,924	\$ 217,360
Receivable in one to five years	50,162	
	<u>280,086</u>	<u>217,360</u>
Less: Allowance for uncollectible pledges	(13,286)	(13,412)
Pledges receivable, net	<u>\$ 266,800</u>	<u>\$ 203,948</u>

These assets are presented in the financial statements as follows:

	<u>2011</u>	<u>2010</u>
Current	\$ 216,638	\$ 203,948
Long-term	50,162	
Pledges receivable, net	<u>\$ 266,800</u>	<u>\$ 203,948</u>

Note 4. Restricted Net Assets

Temporarily restricted net assets consist of contributions restricted for particular purposes or time periods, and were composed of the following as of September 30:

	<u>2011</u>	<u>2010</u>
Fostering Futures Endowment earnings	\$ 150,381	\$ 119,168
Holiday Magic	132,219	82,332
Contributions with payments due in future periods (restricted for time)	120,000	15,000
Contributions with payments due in future periods (restricted for time and Tutoring program)		69,051
Other		10,000
	<u>\$ 402,600</u>	<u>\$ 295,551</u>

Permanently restricted net assets were composed of the following as of September 30:

	<u>2011</u>	<u>2010</u>
Education Endowment	\$ 350,306	\$ 392,519
Operations Endowment	1,914,680	2,111,579
Fostering Futures Endowment	406,713	406,713
	<u>\$ 2,671,699</u>	<u>\$ 2,910,811</u>

Note 5. Endowment Funds

Two separate endowment funds, the Education Endowment Fund and Operations Endowment Fund, were formed by two principal donors to provide a recurring base of funds to achieve the goals as requested by the donors. The donors allow an amount up to 5% of the average ending balances of the previous 12 quarters of both the Education and Operations Endowment Funds to be released from restrictions annually on December 31, without regard to the principal balance. The amount released is available to Treehouse for expenditure to fund educational programs and operational needs. Each year, the amounts released are shown as being transferred to unrestricted net assets. The donors require Treehouse to invest the endowment funds in equity securities and, as such, all other investment earnings or losses related to these endowments in excess of the amounts released are retained and presented in the financial statements as a component of permanently restricted net assets.

An endowment fund called the Fostering Futures Endowment Fund was created in 2003 in conjunction with Treehouse's Fostering Futures Campaign. Earnings from the Fostering Futures Endowment Fund are available to be used to achieve the targeted goals of Treehouse; however, the Board of Directors has resolved that no funds from the Fostering Futures Endowment Fund will be expended until the fund grows to \$1,000,000. Therefore, the earnings from the Fostering Futures Endowment Fund are board-designated. There were no transfers from this Fund in 2011 or 2010.

As required by accounting principles generally accepted in the United States, net assets associated with endowment funds, including quasi-endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors has interpreted the State of Washington Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds (other than the Operations and Educational Endowment Funds). As a result of this interpretation, Treehouse classifies as permanently restricted net assets (other than the Operations and Educational Endowment Funds) (a) the original value of gifts donated to the permanent endowment, plus (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of donor-restricted endowment funds, representing the earnings from the Fostering Futures Fund, that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Treehouse in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, Treehouse considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

- The duration and preservation of the fund
- The purposes of Treehouse and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation or deflation
- The expected total return from income and the appreciation of investments
- Other resources of Treehouse
- The investment policies of Treehouse

Endowment Net Assets consisted of the following at:

	September 30, 2011			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds	\$ -	\$ 150,381	\$ 2,671,699	\$ 2,822,080

	September 30, 2010			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds	\$ -	\$ 119,168	\$ 2,910,811	\$ 3,029,979

Changes in Endowment Net Assets are as follows for the years ended:

	September 30, 2011			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ -	\$ 119,168	\$ 2,910,811	\$ 3,029,979
Investment return:				
Net investment income		16,609	30,800	47,409
Net realized and unrealized gain (loss)		14,604	(143,620)	(129,016)
Total investment return		31,213	(112,820)	(81,607)
Net assets appropriated and released from restrictions			(126,292)	(126,292)
Endowment net assets, end of year	\$ -	\$ 150,381	\$ 2,671,699	\$ 2,822,080

	September 30, 2010			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ -	\$ 94,394	\$ 2,812,583	\$ 2,906,977
Investment return:				
Net investment income		12,558	53,800	66,358
Net realized and unrealized gain		12,216	185,141	197,357
Total investment return		24,774	238,941	263,715
Net assets appropriated and released from restrictions			(140,713)	(140,713)
Endowment net assets, end of year	\$ -	\$ 119,168	\$ 2,910,811	\$ 3,029,979

Return Objectives and Risk Parameters

Treehouse adopted an investment policy that was approved by the Board of Directors for endowment assets that attempts to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. In accordance with the donors' stipulations, Treehouse's investment policy states that the assets in the Operations and Education Endowments are to be invested in equity securities and performance will be evaluated against the S&P500. Treehouse expects its Operations and Education Endowment funds, over time, to continue to provide an average rate of return in excess of the 5% distributed from the funds, allowing for increases in value. Treehouse's investment policy states that the assets in the Fostering Futures Endowment are to be invested in fixed income securities and performance will be evaluated against the Barclay's Capital Aggregate Bond Index. Actual returns in any given year may vary.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, Treehouse relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Following donor restrictions, two of its Endowments are invested in equity securities with the remaining invested in fixed income securities to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

Treehouse follows the donors' request of appropriating for distribution each year 5% of the average ending balances of the previous 12 quarters of its Operations and Education Endowment Fund's value. No funds from the Fostering Futures Endowment will be expended until the balance of the fund grows to \$1,000,000.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level of original value of the gifts donated. There were no deficiencies of this nature as of September 30, 2011.

Note 6. Leases

Treehouse leased office space under an operating lease agreement that expired on December 1, 2011. Treehouse intends to continue to lease the office space on a month-to-month basis and renew the lease as soon as practical. Future minimum lease payments for the year ending September 30, 2012, amount to \$66,396. Rental expense for the years ended September 30, 2011 and 2010, was \$396,765 and \$395,799, respectively.

Treehouse leases its copier under a five year operating lease agreement that expires in January 2016. The lease expense for the copier for the years ended September 30, 2011 and 2010, was \$13,754 and \$9,959, respectively. Future minimum lease payments for the years ending September 30 are as follows:

2012	\$	10,080
2013		10,080
2014		10,080
2015		10,080
2016		2,520
		<hr/>
	\$	42,840
		<hr/> <hr/>

Note 7. Concentrations

At September 30, 2011, 57% of pledges receivable are from one donor. At September 30, 2010, 50% of pledges receivable are from two donors. For the years ended September 30, 2011 and 2010, 9% and 13%, respectively, of contributions and grants revenue was received from one donor (and organizations related to the donor).