



REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS

TREEHOUSE

September 30, 2017

Table of Contents

	PAGE
Report of Independent Auditors	1–2
Financial Statements	
Statement of financial position	3
Statement of activities	4
Statement of functional expenses	5
Statement of cash flows	6
Notes to financial statements	7–17

Report of Independent Auditors

To the Board of Directors
Treehouse

Report on the Financial Statements

We have audited the accompanying financial statements of Treehouse, which comprise the statement of financial position as of September 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Treehouse as of September 30, 2017, and the results of its changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As described in Note 3, the Organization restated net assets as of September 30, 2016 to reclassify certain net asset balances. Our opinion is not modified in respect to that matter.

Mon Adam LLP

Seattle, Washington

May 10, 2018

Treehouse
Statement of Financial Position
September 30, 2017

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 2,834,727
Investments	1,631,485
Current pledges receivable, net	1,243,606
Contribution receivable for rent	49,300
Contracts receivable	21,654
Inventories	229,934
Unemployment trust deposits	57,395
Prepaid expenses	<u>102,937</u>

Total current assets	<u>6,171,038</u>
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LONG-TERM ASSETS

Long-term portion of pledges receivable, net	319,307
Furniture and equipment, net	261,263
Endowment investments	<u>4,730,393</u>

Total long-term assets	<u>5,310,963</u>
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Total assets	<u><u>\$ 11,482,001</u></u>
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 226,279
Accrued salaries and related costs	<u>355,113</u>

Total current liabilities	<u>581,392</u>
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NET ASSETS

Unrestricted	5,092,690
Temporarily restricted	1,647,135
Permanently restricted	<u>4,160,784</u>

Total net assets	<u>10,900,609</u>
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	<u><u>\$ 11,482,001</u></u>
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Treehouse
Statement of Activities
Year Ended September 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE				
Contributions and grants	\$ 6,366,768	\$ 940,000	\$ 50,000	\$ 7,356,768
In-kind contributions	1,287,516	-	-	1,287,516
Contract revenue	1,767,062	-	-	1,767,062
Net assets released from restrictions	<u>1,591,830</u>	<u>(1,428,585)</u>	<u>(163,245)</u>	<u>-</u>
Total revenue	11,013,176	(488,585)	(113,245)	10,411,346
EXPENSES				
Program services	9,242,794	-	-	9,242,794
Management and general	631,854	-	-	631,854
Fundraising	<u>1,552,519</u>	<u>-</u>	<u>-</u>	<u>1,552,519</u>
Total expenses	<u>11,427,167</u>	<u>-</u>	<u>-</u>	<u>11,427,167</u>
CHANGES IN NET ASSETS BEFORE INVESTMENT INCOME	(413,991)	(488,585)	(113,245)	(1,015,821)
INVESTMENT INCOME	<u>317,230</u>	<u>-</u>	<u>530,961</u>	<u>848,191</u>
CHANGE IN NET ASSETS	(96,761)	(488,585)	417,716	(167,630)
NET ASSETS, beginning of year (as restated)	<u>5,189,451</u>	<u>2,135,720</u>	<u>3,743,068</u>	<u>11,068,239</u>
NET ASSETS, end of year	<u>\$ 5,092,690</u>	<u>\$ 1,647,135</u>	<u>\$ 4,160,784</u>	<u>\$ 10,900,609</u>

Treehouse
Statement of Functional Expenses
Year Ended September 30, 2017

	Program Services			Total Program Services	Support Services		Total
	Education Programs	Enrichment Programs			Management and General	Fundraising	
		Wearhouse	Other				
Payroll	\$ 3,817,873	\$ 259,396	\$ 294,116	\$ 4,371,385	\$ 376,413	\$ 871,523	\$ 5,619,321
Wearhouse distributions	-	1,358,090	-	1,358,090	-	-	1,358,090
Payroll taxes and benefits	876,203	65,334	65,518	1,007,055	77,971	172,843	1,257,869
Assistance to specific individuals	-	-	509,487	509,487	-	-	509,487
Occupancy	180,448	228,900	2,672	412,020	11,724	12,485	436,229
Holiday Magic purchases	-	-	380,607	380,607	-	-	380,607
Professional services	209,363	25,967	19,472	254,802	6,476	58,287	319,565
Depreciation	189,545	14,391	2,537	206,473	23,061	33,928	263,462
Licenses and fees	93,179	5,321	17,809	116,309	10,733	54,963	182,005
Transportation	157,960	3,861	343	162,164	5,610	9,911	177,685
Staff training	111,798	3,571	1,840	117,209	13,744	15,724	146,677
Supplies	53,641	34,816	4,973	93,430	391	14,343	108,164
Special events	-	-	-	-	-	104,830	104,830
Postage and shipping	1,897	119	41,609	43,625	2,040	53,207	98,872
Printing and publications	1,489	323	16,765	18,577	3,089	62,161	83,827
Credit card fees	-	-	10,165	10,165	3,095	59,272	72,532
Other in-kind expenses	15,282	3,682	45,384	64,348	1,864	4,081	70,293
Telephone	45,960	1,063	5,333	52,356	2,151	5,735	60,242
Loss (recovery) of bad debt	-	-	-	-	55,638	291	55,929
Meetings	21,683	1,273	254	23,210	504	7,746	31,460
Repairs and maintenance	16,931	1,443	611	18,985	22	3,598	22,605
Insurance	-	-	-	-	21,369	-	21,369
Equipment leases	13,476	1,149	486	15,111	2,480	3,373	20,964
Recognition	5,585	426	1,375	7,386	5,329	4,218	16,933
Other	-	-	-	-	8,150	-	8,150
Total expenses - 2017	\$ 5,812,313	\$ 2,009,125	\$ 1,421,356	\$ 9,242,794	\$ 631,854	\$ 1,552,519	\$ 11,427,167
Percent of total - 2017	50%	18%	12%	80%	6%	14%	100%

See accompanying notes.

Treehouse
Statement of Cash Flows
Year Ended September 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ (167,630)
Adjustments to reconcile change in net assets to net cash flows from operating activities	
Depreciation	263,462
Net realized and unrealized losses (gains) on investments	(724,502)
Interest and dividends restricted for long-term investments	(65,293)
Changes in operating assets and liabilities	
Pledges receivable	296,939
Contribution receivable for rent	191,646
Contracts receivable	342,658
Inventories	43,946
Unemployment trust deposits	(11,590)
Prepaid expenses	(21,149)
Accounts payable	143,930
Accrued salaries and related costs	<u>73,883</u>
Net cash from operating activities	<u>366,300</u>
CASH FLOWS USED IN INVESTING ACTIVITIES	
Purchase of investments (including reinvested income)	(169,515)
Proceeds from sale of investments	163,245
Purchase of furniture and equipment	<u>(169,565)</u>
Net cash used in investing activities	<u>(175,835)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Interest and dividends restricted for reinvestment	<u>65,293</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	255,758
CASH AND CASH EQUIVALENTS, beginning of year	<u>2,578,969</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 2,834,727</u></u>

Note 1 – Organization

Treehouse is a nonprofit organization addressing the academic and other essential support needs of kids in foster care. Treehouse serves over 8,750 kids in foster care each year through programs that help them succeed in school, fulfill key material needs, and provide important experiences every child deserves. Founded in 1988, Treehouse's mission is giving foster kids a childhood and a future, and the organization has set an ambitious goal that foster youth in King County will graduate from high school at the same rate as their peers with a plan for their future by 2017. The Organization has set a new goal that by 2022, youth in foster care across Washington State will graduate from high school at the same rate as their peers, with support and a plan to launch successfully into adulthood. Funding is received primarily from individuals, corporate gifts, and private foundation grants. Governmental support has traditionally been limited. There currently are three agreements with the State of Washington.

Treehouse's five major programs focus on education and enrichment services:

Education

- *Graduation Success* – Youth in foster care face an uphill battle to graduate from high school due to school transitions, lack of basic skills, and emotional upheaval. Treehouse's Graduation Success program addresses the specific education needs of youth in foster care. Treehouse education specialists partner with social workers, caregivers, teachers, school counselors, and an in-school mentor to provide education planning, coaching, and support to help build each youth's engagement and investment in his/her education and future. Through weekly monitoring of risk indicators, personalized interventions, building problem solving and self-advocacy skills, proactively removing barriers to school success, and coordinating needed support, Treehouse paves the way to high school graduation, hope, and opportunity. Treehouse provides Graduation Success education support services in most high schools and middle schools in King County.
- *Educational Advocacy* – Treehouse Educational Advocates are co-located in DSHS Children's Administration offices throughout Washington State and work with schools, social workers, foster families, and youth in foster care to resolve difficult issues and remove barriers to foster kids' school success.

Enrichment

- *The Wearhouse* – The Wearhouse ensures that youth in foster care have access to the items they need to feel confident and ready to learn at school. 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.

Treehouse

Notes to the Financial Statements

Note 1 – Organization (continued)

- *Little Wishes/Summer Experiences* – Treehouse's Little Wishes program helps pay for the important experiences that every child deserves. Treehouse provides access to extra-curricular activities like sports, clubs, music, and dance, as well as school activities helping youth to gain confidence, have fun, and improve academic performance. Little Wishes also supports fun and enriching summer experiences for youth, including overnight camps, day camps, leadership opportunities, summer school, and other summer programs that give kids in foster care a chance to get away from it all, make new friends, and just be kids.
- *Holiday Magic* – Holiday Magic is a joint holiday gift program for children in foster care between DSHS Children's Administration, KIRO Radio 97.3 FM, and Treehouse. Children's Administration contracts with Treehouse to administer the program, raise community funds, and provide one substantial holiday gift to each of the 5,000 children in foster care across Washington State. Funds are raised through a radio-thon, a partnership with the employees of The Boeing Company, and direct mail and email appeals. The proceeds from the radio-thon are used to purchase gifts for children in foster care. 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.

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, temporarily restricted, and permanently restricted. Contributions that are received are recorded as unrestricted, temporarily restricted, or permanently restricted, 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.

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.

Note 2 – Summary of Significant Accounting Policies (continued)

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 that 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 has cash and cash equivalents balances in excess of federally insured limits.

Revenue recognition

Contributions and grants – Unconditional promises to give are recognized at fair value in the period the pledge is received. In arriving at fair value, management has discounted these contributions using an estimated present value discount rate and has established an allowance for doubtful accounts. One donor represented 10% of total contribution and grant revenue for the year ended September 30, 2017. At September 30, 2017, 60% of pledges receivable are from three donors.

In-kind contributions – In-kind contributions of goods and services are recorded at their estimated fair values at the date of donation. Donated services are recognized if they (a) create or enhance non-financial assets, or (b) require specialized technical skills, are provided by individuals possessing those skills, and would typically need to be purchased if not donated. In-kind contributions recognized consist of the following at September 30, 2017:

Donated new and quality used clothing	\$ 1,221,101
Summer camp discounts	25,796
Little Wishes discounts	15,081
Professional services and other	11,100
Computer equipment	9,715
Gift cards	4,723
	\$ 1,287,516

Treehouse

Notes to the Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Contract revenue – Revenue under contracts administered by local governments is recorded when services are performed. Contracts receivable represents contracts awarded or earned, but not yet received. Substantially all contract receivables are from the State of Washington at September 30, 2017.

Investments – Investments in mutual funds are stated at fair value using Level 1 inputs (quoted prices on national exchanges). Money market funds are stated at cost plus accrued interest. Realized and unrealized gains and losses are included in the Statement of Activities. At September 30, 2017, investments are as follows:

Equity mutual funds	
Large cap	\$ 273,269
International	182,179
Fixed income mutual funds	
Intermediate-term bond funds	56,931
Short-term bond funds	22,772
World bond funds	34,159
Money market fund	<u>5,792,568</u>
	<u>\$ 6,361,878</u>

Investments are presented in the statement of financial position as follows at September 30, 2017:

Investments (current assets)	\$ 1,631,485
Endowment investments	<u>4,730,393</u>
	<u>\$ 6,361,878</u>

Investment income comprises the following as of September 30, 2017:

Interest and dividends	\$ 123,689
Realized and unrealized gains	<u>724,502</u>
	<u>\$ 848,191</u>

Inventories – Inventories include new and quality used clothing and other items for children. Purchased new inventory is valued at cost. Donated new inventory and quality used clothing is valued at estimated fair value.

Note 2 – Summary of Significant Accounting Policies (continued)

Unemployment trust deposits – Treehouse participates in a program to reduce its unemployment insurance costs. Accordingly, Treehouse has made deposits with the organization that sponsors this program (and Treehouse does not pay unemployment insurance to the State of Washington). These deposits are used to reimburse the State of Washington for unemployment benefits paid to employees who have terminated their employment with Treehouse. Treehouse's unemployment trust deposits are expected to cover claims for unemployment benefits that management expects to occur. If any claims are in excess of the unemployment trust deposits, Treehouse will fund such claims when incurred.

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 \$1,000 are expensed when acquired. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which are generally three to seven years. Amortization expense for leasehold improvements is computed over the shorter of the useful life or the lease term using the straight-line method. Furniture and equipment consists of the following as of September 30, 2017:

Computer equipment	\$ 823,098
Office furniture and fixtures	355,416
Leasehold improvements	193,377
Vehicles	<u>13,257</u>
	1,385,148
Accumulated depreciation	<u>(1,123,885)</u>
	<u>261,263</u>
Furniture and equipment, net	<u><u>\$ 261,263</u></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.

Subsequent events – Treehouse has evaluated subsequent events through the date these financial statements were available to be issued, which was May 10, 2018.

Treehouse

Notes to the Financial Statements

Note 3 – Reclassification

During the fiscal year ended September 30, 2016, a donor changed certain restrictions related to the Janis Avery and Treehouse Endowment funds. The change was not reflected in financial statements for the year ended September 30, 2016. An adjustment of \$156,713 was necessary to reclassify funds from permanently restricted net assets to unrestricted net assets due to the donor's changes in restriction. In addition, a second adjustment of \$469,997 was necessary to reclassify funds from unrestricted net assets to permanently restricted net assets due to an improper release of the funds from permanently restricted net assets in the prior year. The total net adjustment caused an increase to permanently restricted net assets of \$313,284 and a decrease to unrestricted net assets for the same amount. Finally, as of September 30, 2016 there were \$379,608 of pledges receivable that were improperly classified as unrestricted rather than temporarily restricted. An adjustment totaling \$379,608 was made to correct this misclassification. The effect of these three changes does not impact the prior year total change in net assets, but does impact the change in net assets by restriction type as of September 30, 2016. Had the adjustments been posted for the year ended September 30, 2016, change in unrestricted net assets would have decreased by \$692,892, change in temporarily restricted net assets would have increased by \$379,608 and change in permanently restricted net assets would have increased by \$313,284.

	As Previously Reported	Reclassification	As Restated at 9/30/16
Statement of Financial Position			
Unrestricted net assets	\$ 5,882,343	\$ (692,892)	\$ 5,189,451
Temporarily restricted net assets	1,756,112	379,608	2,135,720
Permanently restricted net assets	<u>3,429,784</u>	<u>313,284</u>	<u>3,743,068</u>
Total net assets	<u>\$ 11,068,239</u>	<u>\$ -</u>	<u>\$ 11,068,239</u>

Note 4 – Pledges Receivable

Pledges receivable as of September 30, 2017, are as follows:

Receivable in less than one year	\$ 1,249,902
Receivable in one to five years	<u>347,933</u>
	1,597,835
Less allowance for uncollectible pledges	<u>(6,296)</u>
	1,591,539
Less discounts to present value (2%)	<u>(28,626)</u>
Pledges receivable, net	<u>\$ 1,562,913</u>

Treehouse
Notes to the Financial Statements

Note 4 – Pledges Receivable (continued)

These assets are presented in the financial statements as follows as of September 30, 2017:

Current pledges receivable, net	\$ 1,243,606
Long-term pledges receivable, net	<u>319,307</u>
Pledges receivable, net	<u>\$ 1,562,913</u>

Note 5 – Restricted Net Assets

Temporarily restricted net assets consist of contributions restricted for particular purposes or time periods, and are composed of the following as of September 30, 2017:

Contribution receivable for rent (restricted for time)	\$ 49,300
Contributions with payments due in future periods (restricted for time)	<u>1,597,835</u>
	<u>\$ 1,647,135</u>

Permanently restricted net assets are composed of the following as of September 30, 2017:

Treehouse Endowment Fund	\$ 469,995
Education Endowment Fund	610,015
Operations Endowment Fund	<u>3,080,774</u>
	<u>\$ 4,160,784</u>

Note 6 – Endowment Funds

The Education Endowment and Operations Endowment Funds, 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 fund balance to be released from restrictions annually on December 31 without regard to the investment performance. 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.

Treehouse

Notes to the Financial Statements

Note 6 – Endowment Funds (continued)

The Treehouse Endowment Fund, composed of a restricted endowment corpus and board designated gains and additions, has been established to support the educational goals of youth who have experienced foster care. Gains or additions in excess of the corpus are designated as unrestricted, and, at the direction of the Board, such funds may be withdrawn should such action be determined to be necessary or appropriate. There is no designated spending policy for this fund, but the Board of Directors may approve distributions from this fund.

The Janis Avery Futures Fund is a board designated quasi-endowment fund as the Board has resolved that no amounts will be expended until the balance reaches \$1 million to sustain operations over the long-term. There is no designated spending policy for this fund, but the Board of Directors may approve distributions to the Organization operations from this fund at its sole discretion.

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 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. Funds designated by the Board of Directors, to be treated as the Fund's quasi-endowment funds, are classified as board-designated unrestricted net assets. 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

Treehouse
Notes to the Financial Statements

Note 6 – Endowment Funds (continued)

Endowment net assets consist of the following at September 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ -	\$ 4,160,784	\$ 4,160,784
Board-designated quasi-endowment fund	569,609	-	-	569,609
	<u>\$ 569,609</u>	<u>\$ -</u>	<u>\$ 4,160,784</u>	<u>\$ 4,730,393</u>

Changes in endowment net assets are as follows for the year ended September 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year, as restated	\$ 507,583	\$ -	\$ 3,743,068	\$ 4,250,651
Investment return				
Net investment income	8,151	9,841	65,293	83,285
Net realized and unrealized gain	53,875	72,221	465,668	591,764
Total investment return	62,026	82,062	530,961	675,049
Contributions to restricted net assets	-	-	50,000	50,000
Net assets appropriated and released from restrictions	-	(82,062)	(163,245)	(245,307)
Endowment net assets, end of year	<u>\$ 569,609</u>	<u>\$ -</u>	<u>\$ 4,160,784</u>	<u>\$ 4,730,393</u>

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 total return strategy, seeking to generate a combination of long-term capital appreciation and current income in a manner consistent with a long-term horizon. In accordance with the donors' stipulations, Treehouse's investment policy states that the assets in the Operations and Education Endowment Funds are to be invested in equity securities. Treehouse's investment policy states that the assets in the Treehouse Endowment and Janis Avery Futures Funds are to be invested in 80% equity securities and 20% fixed income securities. Investment performance for all funds is evaluated against market indices representing the broad asset classes as specified in the investment policy.

Treehouse

Notes to the Financial Statements

Note 6 – Endowment Funds (continued)

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).

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 fund balance of its Operations and Education Endowment Funds' value.

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, 2017.

Note 7 – Lease

Treehouse's office lease which expired January 1, 2018, provided for payments below market rates. The contribution receivable for rent represents the fair value of rent contributed to Treehouse in excess of the actual rent to be paid as specified in the lease. The full amount of the contributed rent to be received is \$49,300 at September 30, 2017, which has been discounted at an interest rate of 1.65%. The amounts are due in the following years ending September 30:

	Recognized Contribution Receivable	Discount (Interest Portion)	Total
2018	<u>\$ 44,524</u>	<u>\$ 4,776</u>	<u>\$ 49,300</u>

Rent expense for the year ended September 30, 2017, was \$436,229. The in-kind portion of rent expense was \$196,422 for the year ended September 30, 2017.

The future minimum lease payments (cash portion) under the office lease and lease for office equipment are as follows:

2018	<u>\$ 58,020</u>
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Subsequent to September 30, 2017, Treehouse entered into a new lease agreement effective for the period January 1, 2018 through January 1, 2023. The lease calls for escalating monthly payments over the five-year term of \$19,630 - \$21,248.

Note 8 – Line of Credit

In 2016, Treehouse entered into a \$500,000 line of credit with a bank. As of September 30, 2017, borrowings under the line of credit are zero. The line of credit was closed in 2017.

Note 9 – Retirement Plan

Treehouse sponsors a defined contribution 403(b) plan for employees who meet the eligibility requirements set forth in the plan. Treehouse's contributions were \$133,017 for the year ended September 30, 2017.

