

**TREEHOUSE**

FINANCIAL REPORT

SEPTEMBER 30, 2012

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CERTIFIED PUBLIC ACCOUNTANTS  
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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, 2012, 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, 2011, financial statements and in our report dated January 19, 2012, 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, 2012, 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 22, 2013

## TREEHOUSE

### STATEMENT OF FINANCIAL POSITION

September 30, 2012

(With Comparative Totals for 2011)

ASSETS	<u>2012</u>	<u>2011</u>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 552,320	\$ 2,080,101
Investments	2,247,256	498,194
Current pledges receivable, net	262,831	216,638
Contribution receivable for rent	180,106	
Grants and other receivables	72,975	220,815
Inventories	225,286	278,428
Prepaid expenses	36,038	35,832
	<u>3,576,812</u>	<u>3,330,008</u>
<b>Long-Term Assets</b>		
Long-term portion of receivables, less current portions		
Pledges receivable, net	370,006	50,162
Contribution receivable for rent	225,340	
Furniture and equipment, net	121,538	171,118
Endowment investments	3,116,011	2,671,699
Other investments	169,669	150,381
	<u>4,002,564</u>	<u>3,043,360</u>
Total long-term assets	<u>4,002,564</u>	<u>3,043,360</u>
Total assets	<u>\$ 7,579,376</u>	<u>\$ 6,373,368</u>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 38,254	\$ 30,921
Accrued salaries and related costs	194,619	214,955
	<u>232,873</u>	<u>245,876</u>
Total current liabilities	<u>232,873</u>	<u>245,876</u>
<b>Net Assets</b>		
Unrestricted	2,920,584	3,053,193
Temporarily restricted	1,309,908	402,600
Permanently restricted	3,116,011	2,671,699
	<u>7,346,503</u>	<u>6,127,492</u>
Total net assets	<u>7,346,503</u>	<u>6,127,492</u>
Total liabilities and net assets	<u>\$ 7,579,376</u>	<u>\$ 6,373,368</u>

See Notes to Financial Statements

## TREEHOUSE

### STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2012

(With Comparative Totals for 2011)

	2012			Total	2011 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenue					
Contributions and grants	\$ 3,890,950	\$ 1,638,557	\$ -	\$ 5,529,507	\$ 4,224,268
In-kind contributions	1,164,037			1,164,037	1,474,074
Program service fees	839,835			839,835	943,898
Net assets released from restrictions	873,140	(750,537)	(122,603)		
Total revenue	6,767,962	888,020	(122,603)	7,533,379	6,642,240
Expenses					
Program services	5,477,660			5,477,660	5,398,703
Management and general	418,009			418,009	270,138
Fundraising	1,009,411			1,009,411	1,112,016
Total expenses	6,905,080			6,905,080	6,780,857
Changes in net assets before investment income (loss)	(137,118)	888,020	(122,603)	628,299	(138,617)
Investment income (loss)	4,509	19,288	566,915	590,712	(71,887)
<b>Change in net assets</b>	<b>(132,609)</b>	<b>907,308</b>	<b>444,312</b>	<b>1,219,011</b>	<b>(210,504)</b>
Net assets, beginning of year	3,053,193	402,600	2,671,699	6,127,492	6,337,996
Net assets, end of year	<u>\$ 2,920,584</u>	<u>\$ 1,309,908</u>	<u>\$ 3,116,011</u>	<u>\$ 7,346,503</u>	<u>\$ 6,127,492</u>

See Notes to Financial Statements

# TREEHOUSE

## STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended September 30, 2012

(With Comparative Totals for 2011)

	Program Services			Support Services		Totals		
	Education Programs	Enrichment Programs		Total Program Services	Management and General	Fundraising	2012	2011
		Wearhouse	Other					
Payroll	\$ 1,771,916	\$ 257,102	\$ 276,202	\$ 2,305,220	\$ 147,960	\$ 491,968	\$ 2,945,148	\$ 2,770,575
Wearhouse distributions		996,702		996,702			996,702	920,488
Payroll taxes and benefits	412,758	58,782	58,435	529,975	24,703	104,501	659,179	639,051
Other in-kind expenses	6,053	130,693	84,267	221,013	907	47,845	269,765	420,393
Occupancy	62,966	136,997	11,638	211,601	151,173	32,947	395,721	396,765
Assistance to specific individuals	39,757		324,668	364,425			364,425	379,051
Holiday Magic purchases			343,752	343,752			343,752	263,151
Professional services	96,088	7,013	26,089	129,190	29,687	51,891	210,768	191,713
Special events	3,630			3,630		79,096	82,726	146,006
Printing and publications	20,143	569	8,566	29,278	1,970	46,250	77,498	84,976
Transportation	65,399	285	865	66,549	973	2,752	70,274	74,790
Supplies	64,894	5,472	4,204	74,570	3,639	4,251	82,460	62,410
Licenses and fees	19,361	1,440	3,453	24,254	4,052	12,941	41,247	52,275
Credit card fees	193	34	15,507	15,734		41,586	57,320	51,765
Postage and shipping	6,019	97	26,415	32,531	369	41,826	74,726	46,976
Staff training	18,750	1,231	1,951	21,932	4,250	6,399	32,581	35,547
Meetings	9,441	570	467	10,478	2,771	10,435	23,684	27,082
Insurance	7,760	1,627	1,327	10,714	7,076	2,428	20,218	19,540
Equipment leases	5,296	1,111	1,126	7,533	4,830	1,657	14,020	13,754
Depreciation	26,260	5,506	4,490	36,256	23,947	8,217	68,420	54,118
Other	37,139	2,674	2,510	42,323	9,702	22,421	74,446	130,431
<b>Total expenses - 2012</b>	<b>\$ 2,673,823</b>	<b>\$ 1,607,905</b>	<b>\$ 1,195,932</b>	<b>\$ 5,477,660</b>	<b>\$ 418,009</b>	<b>\$ 1,009,411</b>	<b>\$ 6,905,080</b>	
<b>Percent of total - 2012</b>	<b>39%</b>	<b>23%</b>	<b>17%</b>	<b>79%</b>	<b>6%</b>	<b>15%</b>	<b>100%</b>	
<b>Total expenses - 2011</b>	<b>\$ 2,669,407</b>	<b>\$ 1,617,056</b>	<b>\$ 1,112,240</b>	<b>\$ 5,398,703</b>	<b>\$ 270,138</b>	<b>\$ 1,112,016</b>		<b>\$ 6,780,857</b>
<b>Percent of total - 2011</b>	<b>39%</b>	<b>24%</b>	<b>17%</b>	<b>80%</b>	<b>4%</b>	<b>16%</b>		<b>100%</b>

See Notes to Financial Statements

## TREEHOUSE

### STATEMENT OF CASH FLOWS For the Year Ended September 30, 2012 (With Comparative Totals for 2011)

	2012	2011
Cash Flows from Operating Activities		
Change in net assets	\$ 1,219,011	\$ (210,504)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	68,420	54,118
Net realized and unrealized loss (gain) on investments	(515,277)	129,016
Donated computer software		(104,609)
Interest and dividends restricted for long-term investments	(52,682)	(30,800)
Changes in allowance and discounts on receivables	20,290	
Change in operating assets and liabilities		
Pledges receivable	(386,327)	(62,852)
Contribution receivable for rent	(405,446)	
Grants and other receivables	147,840	(52,028)
Inventories	53,142	(88,320)
Prepaid expenses	(206)	32,807
Accounts payable	7,333	(5,226)
Accrued salaries and related costs	(20,336)	45,522
Net cash flows from operating activities	135,762	(292,876)
Cash Flows from Investing Activities		
Purchase of investments (including reinvested income)	(4,322,435)	(3,910,465)
Proceeds from sale of investments	2,625,050	4,738,270
Purchase of furniture and equipment	(18,840)	(70,297)
Net cash flows from investing activities	(1,716,225)	757,508
Cash Flows from Financing Activity		
Interest and dividends restricted for reinvestment	52,682	30,800
<b>Net change in cash and cash equivalents</b>	<b>(1,527,781)</b>	<b>495,432</b>
Cash and cash equivalents, beginning of year	2,080,101	1,584,669
Cash and cash equivalents, end of year	\$ 552,320	\$ 2,080,101

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.
- Educational Engagement – Treehouse's Education program provides education planning, coaching, and support to build each youth's engagement and investment in their own education and their future. Through weekly monitoring of risk indicators, personalized intervention, building problem solving and self-advocacy skills, proactively removing barrier to school success, and support to fully engage in school and community, Treehouse paves the way to high school graduation, hope, and opportunity.

#### **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 5,000 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 \$417,486 during fiscal year 2012. 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, 2012, Treehouse has \$184,168 restricted to fund Holiday Magic in fiscal year 2013, 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 2011 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, 2011, 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 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. 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, 2012 or 2011.

## **Grants Receivable**

Grants receivable consist of grants and contracts administered by local governments awarded or earned, but not yet received. Substantially all grants receivable are from one local government at September 30, 2012 and 2011.

## 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, 2012 and 2011, investments are as follows:

	<u>2012</u>	<u>2011</u>
Equity mutual funds		
Large cap	\$ 1,675,467	\$ 1,293,021
Mid cap	333,508	264,298
Small cap	189,665	133,524
International	280,543	330,614
Emerging markets	441,982	225,729
Fixed income securities		
Intermediate-term bond funds	331,510	540,741
International bond funds	13,921	
Certificates of deposit	2,246,078	498,194
Money market fund	20,262	34,153
	<u>\$ 5,532,936</u>	<u>\$ 3,320,274</u>

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

	<u>2012</u>	<u>2011</u>
Investments	\$ 2,247,256	\$ 498,194
Endowment investments	3,116,011	2,671,699
Other investments	169,669	150,381
	<u>\$ 5,532,936</u>	<u>\$ 3,320,274</u>

Investment income (loss) was composed of:

	<u>2012</u>	<u>2011</u>
Interest and dividends	\$ 75,435	\$ 57,129
Realized and unrealized gains (losses)	515,277	(129,016)
	<u>\$ 590,712</u>	<u>\$ (71,887)</u>

Investment income reported as an increase in unrestricted net assets for the year ended September 30, 2012, amounted to \$4,509 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, 2012, amounted to \$19,288. This amount is comprised of interest and dividends of \$18,244 and unrealized gains of \$1,044 generated from the Fostering Futures Endowment.

Investment income reported as an increase in permanently restricted net assets for the year ended September 30, 2012, amounted to \$566,915. This amount is composed of unrealized gains of \$514,233 from the Operations and Education Endowments and interest and dividend income amounting to \$52,682.

### **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.

### **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. Furniture and equipment consist of the following:

	<u>2012</u>	<u>2011</u>
Computer equipment	\$ 479,900	\$ 496,876
Office furniture and fixtures	411,555	418,722
Leasehold improvements	65,808	66,453
Vehicle	13,257	13,257
	<u>970,520</u>	<u>995,308</u>
Accumulated depreciation	<u>(848,982)</u>	<u>(824,190)</u>
Furniture and equipment, net	<u><u>\$ 121,538</u></u>	<u><u>\$ 171,118</u></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>2012</u>	<u>2011</u>
Donated new and quality used clothing	\$ 1,021,317	\$ 1,155,996
Summer camp discounts	34,721	49,667
Little Wishes discounts	48,112	57,611
Gift cards	4,020	13,900
Tutoring	267	65,346
Professional services and other	55,600	26,945
Donated computer software		104,609
	<u>\$ 1,164,037</u>	<u>\$ 1,474,074</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, 2009 to 2012.

### **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. No subsequent events required recognition or disclosure in the financial statements.

### **Note 3. Pledges Receivable**

Pledges receivable are as follows:

	<u>2012</u>	<u>2011</u>
Receivable in less than one year	\$ 276,117	\$ 229,924
Receivable in one to five years	290,502	50,162
Thereafter	100,000	
	<u>666,619</u>	<u>280,086</u>
Less: Allowance for uncollectible pledges	(13,286)	(13,286)
	653,333	266,800
Less: Present value discount	(20,496)	
Pledges receivable, net	<u>\$ 632,837</u>	<u>\$ 266,800</u>

These assets are presented in the financial statements as follows:

	<u>2012</u>	<u>2011</u>
Current pledges receivable, net	\$ 262,831	\$ 216,638
Long-term pledges receivable, net	370,006	50,162
Pledges receivable, net	<u>\$ 632,837</u>	<u>\$ 266,800</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>2012</u>	<u>2011</u>
Fostering Futures Endowment earnings	\$ 169,669	\$ 150,381
Holiday Magic	164,546	109,999
Contribution receivable for rent (restricted for time)	405,446	
Contributions with payments due in future periods (restricted for time)	325,625	120,000
Contributions with payments due in future periods (restricted for time and Holiday Magic)	19,622	22,220
Contributions with payments due in future periods (restricted for time and Little Wishes)	225,000	
	<u>\$ 1,309,908</u>	<u>\$ 402,600</u>

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

	<u>2012</u>	<u>2011</u>
Education Endowment	\$ 419,007	\$ 350,306
Operations Endowment	2,290,291	1,914,680
Fostering Futures Endowment	406,713	406,713
	<u>\$ 3,116,011</u>	<u>\$ 2,671,699</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 2012 or 2011.

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, 2012			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds	\$ -	\$ 169,669	\$ 3,116,011	\$ 3,285,680

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

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

	September 30, 2012			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ -	\$ 150,381	\$ 2,671,699	\$ 2,822,080
Investment return:				
Net investment income		18,244	52,682	70,926
Net realized and unrealized gain		1,044	514,233	515,277
Total investment return		19,288	566,915	586,203
Net assets appropriated and released from restrictions			(122,603)	(122,603)
Endowment net assets, end of year	\$ -	\$ 169,669	\$ 3,116,011	\$ 3,285,680

	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



## **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 80% equity securities and 20% fixed income securities and performance will be evaluated against the S&P 500 and 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, 2012.

## Note 6. Lease

Treehouse's current office lease, expiring January 2015, is at a below market rate. The contribution receivable for rent represents the fair value of rent contributed to Treehouse in excess of the actual rent to be paid. The receivable represents the entire contribution over the remaining term of the office lease. The full amount of the contributed rent to be received is \$409,927 at September 30, 2012, which has been discounted at an interest rate of 1.65% to result in a contribution receivable of \$405,446 at September 30, 2012. The amounts are due in the following periods ending September 30:

	Recognized Contribution Receivable	Discount (Interest Portion)	Total
2013	\$ 180,106	\$ -	\$ 180,106
2014	179,841	2,967	182,808
2015	45,499	1,514	47,013
	<u>\$ 405,446</u>	<u>\$ 4,481</u>	<u>\$ 409,927</u>

Future minimum lease payments (cash portion) under the office lease for the years ending September 30 are as follows:

2013	\$ 218,274
2014	221,550
2015	55,593
	<u>\$ 495,417</u>

Rent expense for the years ended September 30, 2012 and 2011, was \$395,721 and \$396,765, respectively. The in-kind portion of rent expense was \$132,486 for the year ended September 30, 2012. There was no in-kind rent expense for the year ended September 30, 2011.

## Note 7. Concentrations

At September 30, 2012, 68% of pledges receivable are from two donors. At September 30, 2011, 57% of pledges receivable are from one donor. For the years ended September 30, 2012 and 2011, 10% and 9%, respectively, of contributions and grants revenue were received from one donor (and organizations related to the donor).