

TREEHOUSE

FINANCIAL REPORT

SEPTEMBER 30, 2014

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Treehouse
Seattle, Washington

We have audited the accompanying financial statements of Treehouse, which comprise the statement of financial position as of September 30, 2014, 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; 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits 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, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States.

Report on Summarized Comparative Information

We have previously audited Treehouse's 2013 financial statements, and our report dated January 7, 2014, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Peterson Sullivan LLP.

January 23, 2015

TREEHOUSE

STATEMENT OF FINANCIAL POSITION

September 30, 2014

(With Comparative Totals for 2013)

ASSETS	2014	2013
Current Assets		
Cash and cash equivalents	\$ 3,053,277	\$ 1,991,268
Investments	980,248	494,009
Current pledges receivable, net	1,349,314	1,246,906
Contribution receivable for rent	45,369	179,841
Contracts receivable	99,030	56,643
Cy pres award receivable		750,000
Inventories	296,017	196,974
Unemployment trust deposits	46,725	23,030
Prepaid expenses	32,589	130,718
	5,902,569	5,069,389
Long-Term Assets		
Long-term portion of receivables, less current portion		
Pledges receivable, net	1,410,876	1,412,540
Contribution receivable for rent, net		45,402
Furniture and equipment, net	53,867	66,924
Endowment investments	3,683,988	3,440,411
Other investments	423,764	338,511
	5,572,495	5,303,788
Total long-term assets	5,572,495	5,303,788
Total assets	\$ 11,475,064	\$ 10,373,177
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 37,053	\$ 63,516
Accrued salaries and related costs	348,719	265,881
Deferred revenue		45,000
	385,772	374,397
Total current liabilities	385,772	374,397
Net Assets		
Unrestricted	4,549,404	3,461,238
Temporarily restricted	2,855,900	3,097,131
Permanently restricted	3,683,988	3,440,411
	11,089,292	9,998,780
Total net assets	11,089,292	9,998,780
Total liabilities and net assets	\$ 11,475,064	\$ 10,373,177

See Notes to Financial Statements

TREEHOUSE

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2014
(With Comparative Totals for 2013)

	2014			Total	2013
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenue					
Contributions and grants	\$ 5,080,212	\$ 1,207,500	\$ -	\$ 6,287,712	\$ 6,659,812
Bequests	50,000			50,000	149,484
Cy pres award					750,000
In-kind contributions	1,315,232			1,315,232	1,427,786
Contract revenue	1,368,092			1,368,092	823,771
Other	7,767			7,767	
Net assets released from restrictions	1,436,402	(1,298,976)	(137,426)		
Total revenue	9,257,705	(91,476)	(137,426)	9,028,803	9,810,853
Expenses					
Program services	6,560,098			6,560,098	6,071,047
Management and general	391,208			391,208	357,690
Fundraising	1,239,095			1,239,095	1,270,122
Total expenses	8,190,401			8,190,401	7,698,859
Changes in net assets before investment income and loss on pledge receivable	1,067,304	(91,476)	(137,426)	838,402	2,111,994
Investment income	20,862	75,310	381,003	477,175	540,283
Loss on pledge receivable		(225,065)		(225,065)	
Change in net assets	1,088,166	(241,231)	243,577	1,090,512	2,652,277
Net assets, beginning of year	3,461,238	3,097,131	3,440,411	9,998,780	7,346,503
Net assets, end of year	\$ 4,549,404	\$ 2,855,900	\$ 3,683,988	\$ 11,089,292	\$ 9,998,780

See Notes to Financial Statements

TREEHOUSE

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended September 30, 2014

(With Comparative Totals for 2013)

	Program Services			Total Program Services	Support Services		Totals	
	Education Programs	Enrichment Programs			Management and General	Fundraising	2014	2013
		Warehouse	Other					
Payroll	\$ 2,509,681	\$ 233,480	\$ 287,791	\$ 3,030,952	\$ 192,872	\$ 584,319	\$ 3,808,143	\$ 3,337,391
Warehouse distributions		1,039,882		1,039,882			1,039,882	981,250
Payroll taxes and benefits	577,243	61,004	74,639	712,886	45,882	132,542	891,310	703,370
Occupancy	115,719	211,746	17,988	345,453	27,044	34,366	406,863	401,169
Assistance to specific individuals			378,059	378,059			378,059	339,986
Holiday Magic purchases			333,673	333,673			333,673	325,730
Other in-kind expenses	11,295	120,923	67,408	199,626	1,610	37,593	238,829	526,315
Professional services	93,429	8,904	14,713	117,046	40,390	40,170	197,606	279,156
Special events						172,958	172,958	88,918
Printing and publications	2,608	409	11,726	14,743	1,535	72,217	88,495	90,638
Licenses and fees	40,535	3,300	6,767	50,602	8,645	21,877	81,124	87,936
Postage and shipping	1,759	168	30,372	32,299	656	47,120	80,075	79,639
Transportation	72,524	1,802	691	75,017	1,253	2,585	78,855	64,380
Staff training	43,703	2,304	2,133	48,140	7,529	6,393	62,062	33,183
Supplies	30,712	6,094	5,904	42,710	6,015	4,445	53,170	73,011
Telephone	38,370	963	1,020	40,353	6,335	4,923	51,611	60,493
Credit card fees		15	7,908	7,923	98	34,567	42,588	55,463
Meetings	10,515	815	3,238	14,568	5,361	16,495	36,424	22,976
Insurance	10,368	1,293	1,370	13,031	8,506	2,767	24,304	21,435
Equipment leases	6,415	1,059	848	8,322	5,263	1,712	15,297	21,047
Depreciation	26,031	3,245	3,441	32,717	23,251	6,946	62,914	67,274
Other	14,698	4,225	3,173	22,096	8,963	15,100	46,159	38,099
Total expenses - 2014	<u>\$ 3,605,605</u>	<u>\$ 1,701,631</u>	<u>\$ 1,252,862</u>	<u>\$ 6,560,098</u>	<u>\$ 391,208</u>	<u>\$ 1,239,095</u>	<u>\$ 8,190,401</u>	
Percent of total - 2014	<u>44%</u>	<u>21%</u>	<u>15%</u>	<u>80%</u>	<u>5%</u>	<u>15%</u>	<u>100%</u>	
Total expenses - 2013	<u>\$ 3,242,125</u>	<u>\$ 1,602,069</u>	<u>\$ 1,226,853</u>	<u>\$ 6,071,047</u>	<u>\$ 357,690</u>	<u>\$ 1,270,122</u>		<u>\$ 7,698,859</u>
Percent of total - 2013	<u>42%</u>	<u>21%</u>	<u>16%</u>	<u>79%</u>	<u>5%</u>	<u>16%</u>		<u>100%</u>

See Notes to Financial Statements

TREEHOUSE

STATEMENT OF CASH FLOWS

For the Year Ended September 30, 2014
(With Comparative Totals for 2013)

	2014	2013
Cash Flows from Operating Activities		
Change in net assets	\$ 1,090,512	\$ 2,652,277
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	62,914	67,274
Donated investments	(245,822)	
Net realized and unrealized gain on investments	(384,639)	(449,725)
Interest and dividends restricted for long-term investments	(53,610)	(77,305)
Changes in allowance and discounts on receivables	(10,513)	25,708
Change in operating assets and liabilities		
Pledges receivable	(90,231)	(2,052,317)
Contribution receivable for rent	179,874	180,203
Contracts receivable	(42,387)	16,332
Cy pres award receivable	750,000	(750,000)
Inventories	(99,043)	28,312
Unemployment trust deposits	(23,695)	(23,030)
Prepaid expenses	98,129	(94,680)
Accounts payable	(26,463)	25,262
Accrued salaries and related costs	82,838	71,262
Deferred revenue	(45,000)	45,000
Net cash flows from operating activities	1,242,864	(335,427)
Cash Flows from Investing Activities		
Purchase of investments (including reinvested income)	(1,892,570)	(693,153)
Proceeds from sale of investments	1,707,962	2,402,883
Purchase of furniture and equipment	(49,857)	(12,660)
Net cash flows from investing activities	(234,465)	1,697,070
Cash Flows from Financing Activity		
Interest and dividends restricted for reinvestment	53,610	77,305
Net change in cash and cash equivalents	1,062,009	1,438,948
Cash and cash equivalents, beginning of year	1,991,268	552,320
Cash and cash equivalents, end of year	\$ 3,053,277	\$ 1,991,268

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

Note 1. Organization

Treehouse is a nonprofit organization addressing the essential education and enrichment needs of kids in foster care. Treehouse helps 6,000 foster kids each year through programs that help them succeed in school, fulfill key material needs, and provide important childhood 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 high school at the same rate as their peers with a plan for their future by 2017. 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 five major programs are in two categories – Education and Enrichment.

Education Programs

- 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 foster youth to resolve difficult issues and remove barriers to foster kids' school success.
- Graduation Success – Foster youth face an uphill battle to graduate 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 their education and their 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 supports, 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.

Enrichment Programs

- Wearhouse – The Wearhouse ensures that foster youth 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. Due to the significance of the expenses related to the Wearhouse, the expenses have been shown separately in the Statement of Functional Expenses.
- 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 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.

- 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 each of 4,600 foster children across Washington State. Funds are raised through a radiothon, a partnership with the employees of The Boeing Company, and direct mail and email appeals. 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.

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 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.

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, the difference between investment earnings or losses related to these endowments and the amounts released are retained and presented in the financial statements as a component of permanently restricted net assets.

The financial statements include 2013 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, 2013, 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 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 occasionally has cash and cash equivalents balances in excess of federally insured limits.

Revenue Recognition

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, 2014 or 2013. For the years ended September 30, 2014 and 2013, 16% and 29%, respectively, of contributions and grants revenue were received from one donor (and organizations related to the donor). At September 30, 2014, 70% of pledges receivable are from two donors. At September 30, 2013, 71% of pledges receivable are from one donor.

Contract revenue consists of contracts administered by local governments and is recorded as revenue when services are performed. Contracts receivable represents contracts awarded or earned, but not yet received. Substantially all contracts receivable are from two local governments at September 30, 2014, and from one local government at September 30, 2013.

Deferred revenue represents the proceeds from ticket sales for events. Revenue from ticket sales for events is recognized during the period in which the event takes place.

Cy pres awards result from the receipt of residual funds distributed by various courts from class action lawsuit recoveries. The award was distributed by the court when it determined it was not practical to distribute the award to class action members. Treehouse records Cy pres awards as revenue when it is notified that an award has been made. Treehouse does not anticipate receiving Cy pres awards in the future.

Bequests are recognized when Treehouse is informed that it will receive a bequest and the amount to be received is known by Treehouse. Treehouse does not recognize bequest revenue until death of the donor. One bequest represented 100% of bequest revenue for the year ended September 30, 2014. Three bequests represented 100% of bequest revenue for the year ended September 30, 2013.

Investments

Investments in mutual funds are stated at fair value using Level 1 inputs (quoted prices on national exchanges). Certificates of deposit and 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, investments are as follows:

	<u>2014</u>	<u>2013</u>
Equity mutual funds		
Large cap	\$ 2,254,383	\$ 2,152,294
International	630,401	347,523
Emerging markets	437,600	454,445
Mid cap	406,550	436,056
Small cap	236,121	264,415
Fixed income mutual funds		
Intermediate-term bond funds	560,837	578,597
High yield bond funds	26,153	
Corporate bond funds	12,085	
Emerging markets bond funds	9,184	
International bond funds		29,511
Certificates of deposit	495,575	
Money market fund	19,111	10,090
	<u>\$ 5,088,000</u>	<u>\$ 4,272,931</u>

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

	<u>2014</u>	<u>2013</u>
Investments	\$ 980,248	\$ 494,009
Endowment investments	3,683,988	3,440,411
Other investments	423,764	338,511
	<u>\$ 5,088,000</u>	<u>\$ 4,272,931</u>

Investment income was composed of:

	<u>2014</u>	<u>2013</u>
Interest and dividends	\$ 92,536	\$ 90,558
Realized and unrealized gains	384,639	449,725
	<u>\$ 477,175</u>	<u>\$ 540,283</u>

Investment income reported as an increase in unrestricted net assets for the year ended September 30, 2014, amounted to \$20,862 and was generated from cash and cash equivalents and Board designated endowment funds. This amount is composed of interest and dividends of \$25,482 and net unrealized losses of \$4,620.

Investment income reported as an increase in temporarily restricted net assets for the year ended September 30, 2014, amounted to \$75,310. This amount is composed of interest and dividends of \$13,444 and net unrealized gains of \$61,866 generated from the Fostering Futures Endowment.

Investment income reported as an increase in permanently restricted net assets for the year ended September 30, 2014, amounted to \$381,003. This amount is composed of interest and dividends of \$53,610 and net unrealized gains of \$327,393 generated from the Operations and Education Endowments.

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.

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. The goal of the program is that payments for the deposits are less than what would be paid to the State of Washington for unemployment insurance. 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. Furniture and equipment consist of the following:

	2014	2013
Computer equipment	\$ 331,828	\$ 283,864
Office furniture and fixtures	293,237	293,237
Leasehold improvements	66,869	66,869
Vehicle	13,257	13,257
	705,191	657,227
Accumulated depreciation	(651,324)	(590,303)
Furniture and equipment, net	\$ 53,867	\$ 66,924

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>2014</u>	<u>2013</u>
Donated new and quality used clothing	\$ 1,184,752	\$ 1,002,306
Little Wishes discounts	48,920	82,240
Advertising and public relations	33,245	79,301
Professional services and other	17,325	67,886
Summer camp discounts	16,006	41,553
Gift cards	14,984	7,000
Database and software implementation		105,000
Donor research		42,500
	<u>\$ 1,315,232</u>	<u>\$ 1,427,786</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, 2011 to 2014.

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>2014</u>	<u>2013</u>
Receivable in less than one year	\$ 1,360,000	\$ 1,257,592
Receivable in one to five years	1,449,167	1,461,344
	2,809,167	2,718,936
Less: Allowance for uncollectible pledges	(10,686)	(10,686)
	2,798,481	2,708,250
Less: Discounts to present value (2%)	(38,291)	(48,804)
Pledges receivable, net	<u>\$ 2,760,190</u>	<u>\$ 2,659,446</u>

These assets are presented in the financial statements as follows:

	<u>2014</u>	<u>2013</u>
Current pledges receivable, net	\$ 1,349,314	\$ 1,246,906
Long-term pledges receivable, net	<u>1,410,876</u>	<u>1,412,540</u>
Pledges receivable, net	<u>\$ 2,760,190</u>	<u>\$ 2,659,446</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>2014</u>	<u>2013</u>
Fostering Futures Endowment earnings	\$ 319,698	\$ 244,388
Contribution receivable for rent (restricted for time)	45,369	225,243
Contributions with payments due in future periods (restricted for time)	<u>2,490,833</u>	<u>2,627,500</u>
	<u>\$ 2,855,900</u>	<u>\$ 3,097,131</u>

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

	<u>2014</u>	<u>2013</u>
Education Endowment	\$ 505,365	\$ 468,349
Operations Endowment	2,771,910	2,565,349
Fostering Futures Endowment	<u>406,713</u>	<u>406,713</u>
	<u>\$ 3,683,988</u>	<u>\$ 3,440,411</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 2014 or 2013. During the year ended September 30, 2013, the Board of Directors designated funds to function as part of the Fostering Futures Endowment Fund ("quasi-endowment").

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. Funds designated by the Board of Directors, to be treated as Fostering Futures 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

Endowment net assets consisted of the following at:

	September 30, 2014			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds	\$ -	\$ 319,698	\$ 3,683,988	\$ 4,003,686
Board-designated quasi-endowment funds	104,066			104,066
Total invested endowment net assets	<u>\$ 104,066</u>	<u>\$ 319,698</u>	<u>\$ 3,683,988</u>	<u>\$ 4,107,752</u>

	September 30, 2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds	\$ -	\$ 244,388	\$ 3,440,411	\$ 3,684,799
Board-designated quasi-endowment funds	94,123			94,123
Total invested endowment net assets	<u>\$ 94,123</u>	<u>\$ 244,388</u>	<u>\$ 3,440,411</u>	<u>\$ 3,778,922</u>

Changes in endowment net assets are as follows for the years ended:

	September 30, 2014			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ 94,123	\$ 244,388	\$ 3,440,411	\$ 3,778,922
Investment return:				
Net investment income		13,444	53,610	67,054
Net realized and unrealized gain	9,943	61,866	327,393	399,202
Total investment return	9,943	75,310	381,003	466,256
Net assets appropriated and released from restrictions			(137,426)	(137,426)
Endowment net assets, end of year	<u>\$ 104,066</u>	<u>\$ 319,698</u>	<u>\$ 3,683,988</u>	<u>\$ 4,107,752</u>

	September 30, 2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ -	\$ 169,669	\$ 3,116,011	\$ 3,285,680
Investment return:				
Net investment income		13,126	77,305	90,431
Net realized and unrealized gain	11,957	61,593	376,175	449,725
Total investment return	11,957	74,719	453,480	540,156
Net assets appropriated and released from restrictions			(129,080)	(129,080)
Other changes and transfers	82,166			82,166
Endowment net assets, end of year	<u>\$ 94,123</u>	<u>\$ 244,388</u>	<u>\$ 3,440,411</u>	<u>\$ 3,778,922</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 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&P 500. 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, 2014.

Note 6. Lease

Treehouse's office lease provides 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 receivable as of September 30, 2014, represents the entire contribution over the remaining term of the office lease in place as of September 30, 2014. The full amount of the contributed rent to be received is \$45,369 at September 30, 2014, which is due to be received in fiscal year 2015.

Subsequent to September 30, 2014, Treehouse executed a lease expiring on January 1, 2018, which also provides for payments below market rates. The fair value of the rent in excess of the actual rent to be paid under the lease expiring on January 1, 2018, will be recognized as contribution revenue during the year ending September 30, 2015.

Rent expense for the years ended September 30, 2014 and 2013, was \$406,863 and \$401,169, respectively. The in-kind portion of rent expense was \$182,840 and \$180,203 for the years ended September 30, 2014 and 2013, respectively.

Treehouse has two operating leases for a copier and an office lease which expire on various dates through 2019. The future minimum lease payments (cash portion) under the operating leases are as follows:

2015	\$	240,272
2016		243,519
2017		246,800
2018		73,560
2019		6,475
		<hr/>
	\$	810,626
		<hr/> <hr/>

Note 7. Retirement Plan

In July 2013, Treehouse began sponsoring a defined contribution 403(b) plan for employees who meet the eligibility requirements set forth in the plan. Treehouse's contributions were \$105,743 and \$20,232 for the years ended September 30, 2014 and 2013, respectively.