



REPORT OF INDEPENDENT AUDITORS  
AND FINANCIAL STATEMENTS

TREEHOUSE

September 30, 2018 and 2017

## Table of Contents

---

	PAGE
<b>Report of Independent Auditors</b>	1–2
<b>Financial Statements</b>	
Statements of financial position	3
Statement of activities	4–5
Statement of functional expenses	6–7
Statements of cash flows	8
Notes to the financial statements	9–19

## **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 statements of financial position as of September 30, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits 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, 2018 and 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.

*Mon Adam LLP*

Seattle, Washington  
January 31, 2019

**Treehouse**  
**Statements of Financial Position**

**ASSETS**

	September 30,	
	2018	2017
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 4,252,691	\$ 2,834,727
Investments	1,749,592	1,631,485
Current pledges receivable, net	536,905	1,243,606
Contribution receivable for rent	868,704	49,300
Contracts receivable	504,741	21,654
Inventories	277,029	229,934
Unemployment trust deposits	92,332	57,395
Prepaid expenses	93,997	102,937
	<b>8,375,991</b>	<b>6,171,038</b>
<b>LONG-TERM ASSETS</b>		
Long-term portion of pledges receivable, net	1,526,822	319,307
Furniture and equipment, net	1,258,445	261,263
Endowment investments	4,975,356	4,730,393
	<b>7,760,623</b>	<b>5,310,963</b>
	<b>\$ 16,136,614</b>	<b>\$ 11,482,001</b>

**LIABILITIES AND NET ASSETS**

<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 983,687	\$ 226,279
Accrued salaries and related costs	435,862	355,113
	<b>1,419,549</b>	<b>581,392</b>
<b>NET ASSETS</b>		
Unrestricted	7,335,149	5,092,690
Temporarily restricted	2,883,172	1,647,135
Permanently restricted	4,498,744	4,160,784
	<b>14,717,065</b>	<b>10,900,609</b>
	<b>\$ 16,136,614</b>	<b>\$ 11,482,001</b>

**Treehouse**  
**Statement of Activities**  
**Year Ended September 30, 2018**

	2018			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>REVENUE</b>				
Contributions and grants	\$ 7,625,601	\$ 1,801,715	\$ -	\$ 9,427,316
In-kind contributions	1,546,970	868,704	-	2,415,674
Contract revenue	4,007,357	-	-	4,007,357
Net assets released from restrictions	1,434,382	(1,434,382)	-	-
Total revenue	14,614,310	1,236,037	-	15,850,347
<b>EXPENSES</b>				
Program services	10,391,562	-	-	10,391,562
Management and general	613,294	-	-	613,294
Fundraising	1,641,252	-	-	1,641,252
Total expenses	12,646,108	-	-	12,646,108
CHANGES IN NET ASSETS BEFORE INVESTMENT INCOME	1,968,202	1,236,037	-	3,204,239
INVESTMENT INCOME	274,257	-	337,960	612,217
CHANGE IN NET ASSETS	2,242,459	1,236,037	337,960	3,816,456
NET ASSETS, beginning of year	5,092,690	1,647,135	4,160,784	10,900,609
NET ASSETS, end of year	<u>\$ 7,335,149</u>	<u>\$ 2,883,172</u>	<u>\$ 4,498,744</u>	<u>\$ 14,717,065</u>

**Treehouse**  
**Statement of Activities**  
**Year Ended September 30, 2017**

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>REVENUE</b>				
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	1,591,830	(1,428,585)	(163,245)	-
Total revenue	11,013,176	(488,585)	(113,245)	10,411,346
<b>EXPENSES</b>				
Program services	9,242,794	-	-	9,242,794
Management and general	631,854	-	-	631,854
Fundraising	1,552,519	-	-	1,552,519
Total expenses	11,427,167	-	-	11,427,167
<b>CHANGES IN NET ASSETS BEFORE INVESTMENT INCOME</b>				
	(413,991)	(488,585)	(113,245)	(1,015,821)
<b>INVESTMENT INCOME</b>				
	317,230	-	530,961	848,191
<b>CHANGE IN NET ASSETS</b>				
	(96,761)	(488,585)	417,716	(167,630)
<b>NET ASSETS, beginning of year</b>				
	5,189,451	2,135,720	3,743,068	11,068,239
<b>NET ASSETS, end of year</b>				
	<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, 2018**

	Program Services				Support Services		
	Education Programs	Enrichment Programs		Total Program Services	Management and General	Fundraising	Total
		Wearhouse	Other				
Payroll	\$ 4,437,238	\$ 257,394	\$ 551,782	\$ 5,246,414	\$ 321,992	\$ 949,202	\$ 6,517,608
Payroll taxes and benefits	984,432	68,995	112,248	1,165,675	138,886	180,226	1,484,787
Wearhouse distributions	-	1,325,867	-	1,325,867	-	-	1,325,867
Assistance to specific individuals	-	-	850,852	850,852	-	-	850,852
Occupancy	172,794	231,138	1,239	405,171	13,472	23,486	442,129
Professional services	231,902	14,743	40,833	287,478	16,271	65,343	369,092
Holiday Magic purchases	-	-	305,654	305,654	-	-	305,654
Transportation	217,465	716	5,046	223,227	1,716	6,873	231,816
Licenses and fees	85,206	4,348	21,405	110,959	29,262	66,283	206,504
Special events	-	-	-	-	-	127,654	127,654
Depreciation	83,860	3,896	6,753	94,509	12,082	14,960	121,551
Supplies	103,340	2,827	6,853	113,020	(284)	6,200	118,936
Printing and publications	8,207	424	18,870	27,501	462	80,252	108,215
Postage and shipping	2,067	206	39,298	41,571	108	53,354	95,033
Staff training	31,826	1,521	2,647	35,994	18,534	13,799	68,327
Other in-kind expenses	575	295	43,743	44,613	12,931	-	57,544
Telephone	44,772	811	1,860	47,443	1,905	3,628	52,976
Credit card fees	-	-	1,482	1,482	5,241	42,898	49,621
Meetings	28,683	2,181	2,805	33,669	915	9,469	44,053
Insurance	-	-	-	-	22,367	-	22,367
Recognition	14,443	608	745	15,796	4,141	1,685	21,622
Equipment leases	12,167	565	1,935	14,667	1,521	2,171	18,359
Other	-	-	-	-	11,348	-	11,348
Repairs and maintenance	-	-	-	-	233	-	233
Loss (recovery) of bad debt	-	-	-	-	191	(6,231)	(6,040)
<b>Total expenses - 2018</b>	<b>\$ 6,458,977</b>	<b>\$ 1,916,535</b>	<b>\$ 2,016,050</b>	<b>\$ 10,391,562</b>	<b>\$ 613,294</b>	<b>\$ 1,641,252</b>	<b>\$ 12,646,108</b>
Percent of total - 2018	51%	15%	16%	82%	5%	13%	100%

See accompanying notes.



**Treehouse**  
**Statement of Functional Expenses**  
**Year Ended September 30, 2017**

	Program Services				Support Services		
	Education Programs	Enrichment Programs		Total Program Services	Management and General	Fundraising	Total
		Warehouse	Other				
Payroll	\$ 3,817,873	\$ 259,396	\$ 294,116	\$ 4,371,385	\$ 376,413	\$ 871,523	\$ 5,619,321
Payroll taxes and benefits	876,203	65,334	65,518	1,007,055	77,971	172,843	1,257,869
Warehouse distributions	-	1,358,090	-	1,358,090	-	-	1,358,090
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
Professional services	-	-	380,607	380,607	-	-	380,607
Holiday Magic purchases	209,363	25,967	19,472	254,802	6,476	58,287	319,565
Transportation	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
Special events	157,960	3,861	343	162,164	5,610	9,911	177,685
Depreciation	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
Printing and publications	-	-	-	-	-	104,830	104,830
Postage and shipping	1,897	119	41,609	43,625	2,040	53,207	98,872
Staff training	1,489	323	16,765	18,577	3,089	62,161	83,827
Other in-kind expenses	-	-	10,165	10,165	3,095	59,272	72,532
Telephone	15,282	3,682	45,384	64,348	1,864	4,081	70,293
Credit card fees	45,960	1,063	5,333	52,356	2,151	5,735	60,242
Meetings	-	-	-	-	55,638	291	55,929
Insurance	21,683	1,273	254	23,210	504	7,746	31,460
Recognition	16,931	1,443	611	18,985	22	3,598	22,605
Equipment leases	-	-	-	-	21,369	-	21,369
Other	13,476	1,149	486	15,111	2,480	3,373	20,964
Repairs and maintenance	5,585	426	1,375	7,386	5,329	4,218	16,933
Loss (recovery) of bad debt	-	-	-	-	8,150	-	8,150
<b>Total expenses - 2017</b>	<b>\$ 5,812,313</b>	<b>\$ 2,009,125</b>	<b>\$ 1,421,356</b>	<b>\$ 9,242,794</b>	<b>\$ 631,854</b>	<b>\$ 1,552,519</b>	<b>\$ 11,427,167</b>
Percent of total - 2017	50%	18%	12%	80%	6%	14%	100%

See accompanying notes.

## Treehouse

### Statements of Cash Flows

	Years Ended September 30,	
	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 3,816,456	\$ (167,630)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	121,551	263,462
Donated Investments	(14,885)	-
Net realized and unrealized losses (gains) on investments	(343,792)	(724,502)
Interest and dividends restricted for long-term investments	(105,871)	(65,293)
Changes in allowance and discounts on receivables	58,701	-
Changes in operating assets and liabilities		
Pledges receivable	(559,515)	296,939
Contribution receivable for rent	(819,404)	191,646
Contracts receivable	(483,087)	342,658
Inventories	(47,095)	43,946
Unemployment trust deposits	(34,937)	(11,590)
Prepaid expenses	8,940	(21,149)
Accounts payable	757,409	143,930
Accrued salaries and related costs	80,749	73,883
Net cash from operating activities	<u>2,435,220</u>	<u>366,300</u>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>		
Purchase of investments (including reinvested income)	(5,791,670)	(169,515)
Proceeds from sale of investments	5,791,670	163,245
Purchase of furniture and equipment	<u>(1,123,127)</u>	<u>(169,565)</u>
Net cash used in investing activities	<u>(1,123,127)</u>	<u>(175,835)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Interest and dividends restricted for reinvestment	<u>105,871</u>	<u>65,293</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	1,417,964	255,758
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>2,834,727</u>	<u>2,578,969</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u><u>\$ 4,252,691</u></u>	<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 7,129 youth 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 2018. 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 four agreements with the State of Washington.

Treehouse's six 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 and has expanded services to Pierce, Spokane and Snohomish Counties.
- *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 youth 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 5,393 youth 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.
- *Driver's Assistance* – Treehouse removes many transportation-related financial burdens for youth in foster care, including the cost of auto insurance and driver's education. Driver's Assistance supports reliable transportation during and after high school, which is necessary as youth pursue academic and career opportunities.

### 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.

**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.

**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.

**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 12% and 10% of total contribution and grant revenue for the years ended September 30, 2018 and 2017, respectively. Of the total contribution and grant revenue, \$756,099 and \$175,355, were from related parties for the years ended September 30, 2018 and 2017, respectively. At September 30, 2018 and 2017, 72% and 60% of pledges receivable, respectively, 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:

	2018	2017
Office rent	\$ 1,018,805	\$ -
Donated new and quality used clothing	1,338,426	1,221,101
Summer camp discounts	25,616	25,796
Little Wishes discounts	19,316	15,081
Professional services and other	12,931	11,100
Computer equipment	-	9,715
Gift cards	580	4,723
	\$ 2,415,674	\$ 1,287,516

*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, 2018 and 2017.

## Treehouse

### Notes to the Financial Statements

---

#### Note 2 – Summary of Significant Accounting Policies (continued)

**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, investments are as follows:

	<u>2018</u>	<u>2017</u>
Equity mutual funds		
Large cap	\$ 3,726,755	\$ 273,269
International	2,142,227	182,179
Fixed income mutual funds		
Intermediate-term bond funds	117,406	56,931
Short-term bond funds	166,670	22,772
World bond funds	263,770	34,159
Money market fund	<u>308,120</u>	<u>5,792,568</u>
	<u>\$ 6,724,948</u>	<u>\$ 6,361,878</u>

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

	<u>2018</u>	<u>2017</u>
Investments (current assets)	\$ 1,749,592	\$ 1,631,485
Endowment investments	<u>4,975,356</u>	<u>4,730,393</u>
	<u>\$ 6,724,948</u>	<u>\$ 6,361,878</u>

Investment income comprises the following as of September 30:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 161,209	\$ 123,689
Realized and unrealized gains	<u>343,792</u>	<u>724,502</u>
	<u>\$ 505,001</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:

	<u>2018</u>	<u>2017</u>
Computer equipment	\$ 903,544	\$ 823,098
Office furniture and fixtures	525,366	355,416
Leasehold improvements	1,061,714	193,377
Vehicles	<u>13,257</u>	<u>13,257</u>
	2,503,881	1,385,148
Accumulated depreciation	<u>(1,245,436)</u>	<u>(1,123,885)</u>
	<u>1,258,445</u>	<u>261,263</u>
Furniture and equipment, net	<u>\$ 1,258,445</u>	<u>\$ 261,263</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 January 31, 2019.

# Treehouse

## Notes to the Financial Statements

---

### Note 3 – Pledges Receivable

Pledges receivable as of September 30 are as follows:

	<u>2018</u>	<u>2017</u>
Receivable in less than one year	\$ 543,201	\$ 1,249,902
Receivable in one to five years	<u>1,614,149</u>	<u>347,933</u>
	2,157,350	1,597,835
Less allowance for uncollectible pledges	<u>(6,296)</u>	<u>(6,296)</u>
	2,151,054	1,591,539
Less discounts to present value (2%)	<u>(87,327)</u>	<u>(28,626)</u>
	2,063,727	1,562,913
Pledges receivable, net	<u><u>\$ 2,063,727</u></u>	<u><u>\$ 1,562,913</u></u>

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

	<u>2018</u>	<u>2017</u>
Current pledges receivable, net	\$ 536,905	\$ 1,243,606
Long-term pledges receivable, net	<u>1,526,822</u>	<u>319,307</u>
Pledges receivable, net	<u><u>\$ 2,063,727</u></u>	<u><u>\$ 1,562,913</u></u>

### Note 4 – 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:

	<u>2018</u>	<u>2017</u>
Contribution receivable for rent (restricted for time)	\$ 868,704	\$ 49,300
Contributions with payments due in future periods (restricted for time)	<u>2,157,350</u>	<u>1,597,835</u>
	<u><u>\$ 3,026,054</u></u>	<u><u>\$ 1,647,135</u></u>



**Note 4 – Restricted Net Assets (continued)**

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

	2018	2017
Treehouse Endowment Fund	\$ 509,655	\$ 469,995
Education Endowment Fund	636,768	610,015
Operations Endowment Fund	3,209,439	3,080,774
	\$ 4,355,862	\$ 4,160,784

**Note 5 – 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.

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 an unrestricted, board-designated fund dedicated to supporting Treehouse at the sole discretion of the Board of Directors in order to sustain operations and innovative spirit over the long-term. There is no spending policy for this fund, but the Board of Directors may approve distributions to Treehouse 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.

## Treehouse

### Notes to the Financial Statements

---

#### Note 5 – Endowment Funds (continued)

**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

Endowment net assets consist of the following at September 30:

	September 30, 2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ -	\$ 4,355,862	\$ 4,355,862
Board-designated quasi-endowment fund	619,494	-	-	619,494
	<u>\$ 619,494</u>	<u>\$ -</u>	<u>\$ 4,355,862</u>	<u>\$ 4,975,356</u>
	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>

**Treehouse**  
**Notes to the Financial Statements**

**Note 5 – Endowment Funds (continued)**

Changes in endowment net assets are as follows for the years ended September 30, 2018 and 2017:

	September 30, 2018			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ 569,609	\$ -	\$ 4,160,784	\$ 4,730,393
Investment return				
Net investment income	10,479	-	96,378	106,857
Net realized and unrealized gain	39,406	-	241,582	280,988
Total investment return	49,885	-	337,960	387,845
Contributions to restricted net assets	-	-	-	-
Net assets appropriated and released from restrictions	-	-	(142,882)	(142,882)
Endowment net assets, end of year	<u>\$ 619,494</u>	<u>\$ -</u>	<u>\$ 4,355,862</u>	<u>\$ 4,975,356</u>
	September 30, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 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 5 – 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, 2018 or 2017.

#### Note 6 – Lease

Treehouse's office lease which had a termination date of January 1, 2018, was renewed for an additional 60 months, terminating on January 1, 2023. The new lease agreement 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 \$868,704 at September 30, 2018, which has been discounted at a blended interest rate of 2.81%. The amounts are due in the following years ending September 30:

	<u>Total</u>	<u>Discount (Interest Portion)</u>	<u>Recognized Contribution Receivable</u>
2019	\$ 201,559	\$ 5,241	\$ 196,318
2020	203,329	5,734	197,595
2021	205,056	5,906	199,150
2022	206,912	6,021	200,891
2023	<u>51,848</u>	<u>1,524</u>	<u>50,324</u>
	<u>\$ 868,704</u>	<u>\$ 24,425</u>	<u>\$ 844,278</u>

Rent expense for the years ended September 30, 2018 and 2017, was \$442,129 and \$436,229, respectively. The in-kind portion of rent expense was \$199,401 and \$196,422 for the years ended September 30, 2018 and 2017, respectively.

**Note 6 – Lease (continued)**

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

2019	\$ 239,097
2020	243,876
2021	248,757
2022	253,728
2023	63,744
Thereafter	-
	<hr/>
	<u>\$ 1,049,202</u>

**Note 7 – Line of Credit**

In 2018, Treehouse entered into a \$1,000,000 line of credit with a bank with a variable interest rate indexed at the Wall Street Journal Prime Rate plus 1%. As of September 30, 2018, borrowings under the line of credit are zero.

**Note 8 – 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 \$156,074 and \$133,017 for the years ended September 30, 2018 and 2017, respectively.

