



REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS

TREEHOUSE

September 30, 2019 and 2018

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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, 2019 and 2018, 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, 2019 and 2018, and the results of its changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

Treehouse adopted Accounting Standards Update (ASU) 2016-14, *Presenting Financial Statements for Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, information about liquidity and availability of resources, and methods used to allocate expenses. The adoption of this standard resulted in additional footnote disclosures and changes to the disclosures related to net assets. Our opinion is not modified with respect to this matter.

A handwritten signature in black ink that reads "Mon Adams LLP". The signature is written in a cursive, flowing style.

Seattle, Washington
March 17, 2020

Treehouse
Statements of Financial Position

ASSETS

	September 30,	
	2019	2018
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,454,906	\$ 4,252,691
Investments	1,830,191	1,749,592
Current pledges receivable, net	743,569	536,905
Contribution receivable for rent	667,145	868,704
Contracts receivable	171,989	504,741
Inventories	319,534	277,029
Unemployment trust deposits	84,368	92,332
Prepaid expenses	53,140	93,997
	5,324,842	8,375,991
LONG-TERM ASSETS		
Long-term portion of pledges receivable, net	1,332,973	1,526,822
Furniture and equipment, net	1,687,336	1,258,445
Endowment investments	4,794,823	4,975,356
	7,815,132	7,760,623
	\$ 13,139,974	\$ 16,136,614

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 223,412	\$ 983,687
Accrued salaries and related costs	603,260	435,862
	826,672	1,419,549
NET ASSETS		
Without donor restrictions	5,362,876	7,335,149
With donor restrictions	6,950,426	7,381,916
	12,313,302	14,717,065
	\$ 13,139,974	\$ 16,136,614

Treehouse
Statement of Activities
Year Ended September 30, 2019

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE			
Contributions and grants	\$ 7,515,649	\$ 556,000	\$ 8,071,649
In-kind contributions	1,610,841	-	1,610,841
Contract revenue	2,757,372	-	2,757,372
Net assets released from restrictions	942,277	(942,277)	-
	<u>12,826,139</u>	<u>(386,277)</u>	<u>12,439,862</u>
EXPENSES			
Program services	12,483,474	-	12,483,474
Management and general	696,948	-	696,948
Fundraising	1,924,109	-	1,924,109
	<u>15,104,531</u>	<u>-</u>	<u>15,104,531</u>
CHANGES IN NET ASSETS BEFORE INVESTMENT INCOME (LOSS)	(2,278,392)	(386,277)	(2,664,669)
INVESTMENT INCOME (LOSS)	<u>306,119</u>	<u>(45,213)</u>	<u>260,906</u>
CHANGE IN NET ASSETS	(1,972,273)	(431,490)	(2,403,763)
NET ASSETS, beginning of year	<u>7,335,149</u>	<u>7,381,916</u>	<u>14,717,065</u>
NET ASSETS, end of year	<u><u>\$ 5,362,876</u></u>	<u><u>\$ 6,950,426</u></u>	<u><u>\$ 12,313,302</u></u>

Treehouse
Statement of Activities
Year Ended September 30, 2018

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE			
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
EXPENSES			
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	1,573,997	3,816,456
NET ASSETS, beginning of year	5,092,690	5,807,919	10,900,609
NET ASSETS, end of year	<u>\$ 7,335,149</u>	<u>\$ 7,381,916</u>	<u>\$ 14,717,065</u>

Treehouse
Statement of Functional Expenses
Year Ended September 30, 2019

	Program Services				Support Services		
	Education Programs	Enrichment Programs		Total Program Services	Management and General	Fundraising	Total
		Warehouse	Other				
Payroll	\$ 5,490,263	\$ 313,499	\$ 571,069	\$ 6,374,831	\$ 370,228	\$ 1,116,321	\$ 7,861,380
Payroll taxes and benefits	1,245,097	73,529	137,442	1,456,068	183,310	215,687	1,855,065
Warehouse distributions	-	1,231,808	-	1,231,808	-	-	1,231,808
Assistance to specific individuals	-	-	1,246,694	1,246,694	-	-	1,246,694
Occupancy	135,417	231,696	6,941	374,054	30,882	38,134	443,070
Professional services	183,728	9,841	31,457	225,026	59,473	61,491	345,990
Holiday Magic purchases	-	-	212,224	212,224	-	-	212,224
Transportation	304,084	(470)	3,137	306,751	5,880	10,255	322,886
Licenses and fees	36,572	2,291	11,655	50,518	203,702	16,488	270,708
Special events	-	-	-	-	-	112,007	112,007
Depreciation	178,088	10,060	4,504	192,652	20,605	29,772	243,029
Supplies	73,135	5,153	8,266	86,554	45,622	8,283	140,459
Printing and publications	8,633	452	3,496	12,581	644	79,992	93,217
Postage and shipping	5,878	271	47,837	53,986	344	59,110	113,440
Staff training	71,358	5,833	5,188	82,379	4,365	15,030	101,774
Other in-kind expenses	86,388	6,923	81,322	174,633	13,929	33,415	221,977
Telephone	290,486	16,403	7,356	314,245	(298,378)	48,562	64,429
Credit card fees	-	-	1,384	1,384	6,461	42,092	49,937
Meetings	55,488	2,485	2,553	60,526	(896)	6,790	66,420
Insurance	-	-	-	-	27,053	-	27,053
Recognition	16,420	630	637	17,687	1,437	2,060	21,184
Equipment leases	2,722	154	1,211	4,087	14,685	455	19,227
Other	-	-	-	-	5,973	-	5,973
Repairs and maintenance	4,424	250	112	4,786	1,039	738	6,563
Loss (recovery) of bad debt	-	-	-	-	590	27,427	28,017
Total expenses - 2019	\$ 8,188,181	\$ 1,910,808	\$ 2,384,485	\$ 12,483,474	\$ 696,948	\$ 1,924,109	\$ 15,104,531
Percent of total - 2019	54.21%	12.65%	15.79%	82.65%	4.61%	12.74%	100.00%

See accompanying notes.

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
		Warehouse	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
Warehouse 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)
Total expenses - 2018	\$ 6,458,977	\$ 1,916,535	\$ 2,016,050	\$ 10,391,562	\$ 613,294	\$ 1,641,252	\$ 12,646,108
Percent of total - 2018	51%	15%	16%	82%	5%	13%	100%

See accompanying notes.

Treehouse

Statements of Cash Flows

	Years Ended September 30,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (2,403,763)	\$ 3,816,456
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	243,029	121,551
Donated Investments	(8,088)	(14,885)
Net realized and unrealized losses (gains) on investments	54,401	(343,792)
Interest and dividends restricted for long-term investments	(111,587)	(105,871)
Changes in allowance and discounts on receivables	(46,553)	58,701
Changes in operating assets and liabilities		
Pledges receivable	33,738	(559,515)
Contribution receivable for rent	201,559	(819,404)
Contracts receivable	332,752	(483,087)
Inventories	(42,505)	(47,095)
Unemployment trust deposits	7,964	(34,937)
Prepaid expenses	40,857	8,940
Accounts payable	(760,275)	757,409
Accrued salaries and related costs	167,398	80,749
Net cash from operating activities	<u>(2,291,073)</u>	<u>2,435,220</u>
CASH FLOWS USED IN INVESTING ACTIVITIES		
Purchase of investments (including reinvested income)	-	(5,791,670)
Proceeds from sale of investments	-	5,791,670
Purchase of furniture and equipment	(671,920)	(1,123,127)
Net cash used in investing activities	<u>(671,920)</u>	<u>(1,123,127)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Draws on line of credit	100,000	-
Repayments on line of credit	(100,000)	-
Interest and dividends restricted for reinvestment	165,208	105,871
Net cash from financing activities	<u>165,208</u>	<u>105,871</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(2,797,785)	1,417,964
CASH AND CASH EQUIVALENTS, beginning of year	<u>4,252,691</u>	<u>2,834,727</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 1,454,906</u>	<u>\$ 4,252,691</u>

Note 1 – Organization

Treehouse addresses academic and essential support needs of children, youth and young adults in foster care or who have experienced care. The nonprofit organization serves more than 8,000 youth each year by partnering with them to succeed in school, and fulfilling key material needs and access to important experiences that support identity development. Founded in 1988 by social workers, Treehouse's mission is giving foster kids a childhood and a future. Starting in King County, the organization achieved an ambitious goal that foster youth in their program would graduate from high school at the same rate as their peers with a plan for their future by 2017. Now expanding statewide, Treehouse has set a new goal that by 2022, youth in care throughout Washington state will graduate from high school at the same rate as their peers, with support and a plan to launch successfully into adulthood.

Treehouse's seven major programs focus on education and enrichment services. "Fostering Futures" includes education and career-related programs. All programs related to enrichment are grouped as "Essentials & Experiences."

Fostering Futures

- *Graduation Success* – Youth in foster care face an uphill battle to graduate from high school due to frequent school transitions, trauma and emotional upheaval. Treehouse's Graduation Success program addresses the unique education needs of youth in care, while building problem solving and self-advocacy skills. Partnering with social workers, caregivers, teachers and school counselors, Treehouse Education Specialists provide academic planning, coaching and support to cultivate each youth's engagement and investment in their education and future. Through weekly monitoring of risk indicators, personalized interventions, proactively removing barriers to school success and coordinating needed support, Treehouse paves the way to high school graduation, hope and opportunity. Graduation Success is in most high schools and middle schools in King County and has expanded services to Benton, Franklin, Pierce, Skagit, Snohomish, Spokane, Thurston and Whatcom counties.
- *Launch Success* – Youth who have experienced foster care often lack an adequate support network as they navigate the difficult transition into adulthood. Treehouse recognizes a high school diploma as a critical step, not a destination. Enter Launch Success. The post-high school program provides young people who have experienced foster care with continued support until they achieve a career credential or degree, living wage and stable housing.
- *Educational Advocacy* – Treehouse Education Advocates work across the state and partner with schools, social workers, foster families and youth in foster care to resolve difficult issues and remove barriers to school success.

Treehouse

Notes to the Financial Statements

Note 1 – Organization (continued)

Essentials & Experiences

- *Treehouse Store* – The Treehouse Store ensures that youth in foster care have access to the items they need to feel confident and ready to learn at school. The store accepts donations of new and like-new clothing, toys, books, school supplies and household goods, and distributes them at no charge. When necessary to meet demand, Treehouse may purchase items for distribution.
- *Just-in-Time Funding* – Treehouse's Just-in-Time Funding program pays for the important experiences that every child deserves. Treehouse provides access to extracurricular activities such as sports, clubs, music and dance, as well as school activities where youth gain confidence, have fun and improve academic performance. Just-in-Time Funding also pays for 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 an opportunity to make new friends and just be kids.
- *Holiday Magic* – Holiday Magic is a joint holiday gift program for children in foster care between the Department of Children, Youth and Families (DCYF) and Treehouse. DCYF contracts with Treehouse to administer the program, raise community funds and provide more than 5,000 youth across the state a meaningful holiday gift.
- *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, allowing youth to focus on pursuing academic and career opportunities.

Adoption of new accounting principle – In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Treehouse has implemented ASU 2016-14 and has adjusted the presentation in these financial statements in accordance with the updated accounting principles. The primary impact is the reclassification of net assets and inclusion of liquidity disclosure. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets are now reported as net assets with donor restrictions.

Note 2 – Summary of Significant Accounting Policies

Financial statement presentation – Treehouse reports information regarding its financial position and activities according to two classes of net assets: with donor restrictions and without donor restrictions. Contributions that are received are recorded as with donor restrictions or without donor restrictions, depending on the existence and/or nature of any donor restrictions. Donor restricted contributions are reclassified to net assets without donor restrictions when the restrictions are met. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions 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.

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% of total contribution and grant revenue for the year ended September 30, 2019 and 2018. Of the total contribution and grant revenue, \$770,326 and \$756,099, were from related parties for the years ended September 30, 2019 and 2018, respectively. Four donors made up 74% of pledges receivable, and three donors made up 72% of pledges receivable for the years ended September 30, 2019 and 2018, respectively.

Treehouse

Notes to the Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

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:

	<u>2019</u>	<u>2018</u>
Office rent	\$ -	\$ 1,018,805
Donated new and quality used clothing	1,227,166	1,338,426
Summer camp discounts	41,700	25,616
Little Wishes discounts	33,663	19,316
Professional services and other	301,271	12,931
Gift cards	3,041	580
Information technology	4,000	-
	<u>\$ 1,610,841</u>	<u>\$ 2,415,674</u>

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, 2019 and 2018.

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>2019</u>	<u>2018</u>
Equity mutual funds		
Large cap	\$ 2,089,779	\$ 3,726,755
International	3,603,426	2,142,227
Fixed income mutual funds		
Intermediate-term bond funds	130,328	117,406
Short-term bond funds	167,700	166,670
World bond funds	293,512	263,770
Money market fund	340,269	308,120
	<u>\$ 6,625,014</u>	<u>\$ 6,724,948</u>

Treehouse
Notes to the Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

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

	<u>2019</u>	<u>2018</u>
Investments (current assets)	\$ 1,830,191	\$ 1,749,592
Endowment investments	<u>4,794,823</u>	<u>4,975,356</u>
	<u>\$ 6,625,014</u>	<u>\$ 6,724,948</u>

Investment income comprises the following as of September 30:

	<u>2019</u>	<u>2018</u>
Interest and dividends	\$ 303,183	\$ 230,284
Realized and unrealized gains (losses)	<u>(42,277)</u>	<u>381,933</u>
	<u>\$ 260,906</u>	<u>\$ 612,217</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.

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.

Treehouse

Notes to the Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

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:

	2019	2018
Computer equipment	\$ 966,858	\$ 903,544
Office furniture and fixtures	417,847	525,366
Leasehold improvements	1,144,665	1,061,714
Vehicles	61,030	13,257
Work in process	213,924	-
	<u>2,804,324</u>	<u>2,503,881</u>
Accumulated depreciation	<u>(1,116,988)</u>	<u>(1,245,436)</u>
	<u>1,687,336</u>	<u>1,258,445</u>
Furniture and equipment, net	<u>\$ 1,687,336</u>	<u>\$ 1,258,445</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. The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include rent, which is allocated on a square-footage basis. Salaries, payroll taxes and benefits are allocated on the basis of estimates of time and effort, and indirect overhead operating expenses are allocated on FTE.

Income taxes – The Internal Revenue Service has recognized Treehouse as exempt from federal income taxes under provisions of Section 501(c)(3) of the Internal Revenue Code (IRC) except to the extent of unrelated business taxable income as defined under IRC Sections 511 through 515. Any unrelated business income generated is not significant; therefore, no provision for income taxes has been recorded. Treehouse follows Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740-10, *Income Taxes*, relating to accounting for uncertain tax positions. ASC 740-10 prescribes a recognition threshold and measurement process for accounting for uncertain tax positions and also provides guidance on various related matters such as derecognition, interest, penalties and disclosures required. Management does not believe Treehouse has an uncertain tax position as of and for the years ended September 30, 2019 and 2018.

Subsequent events – Treehouse has evaluated subsequent events through the date these financial statements were available to be issued, which was March 17, 2020.

Note 3 – Liquidity and Availability of Financial Assets

Treehouse’s policy is to maintain cash and operating reserves (collectively the Reserves) representing a minimum of 4 to 6 months operating expenses including the following:

- Cash and short-term investments representing a minimum of 2 months of normal operating expenses, which are, on average approximately \$1.3 million per month for fiscal 2020.
- Remaining Reserves may include certificate of deposits or fixed income investments held in the Working Capital Reserve Fund and the Board Designated Reserve Fund.
- Operating expenses are defined as the 12 months forward looking average cash basis expenses.

As part of its liquidity management, Treehouse invests cash in excess of daily requirements in various short-term investments including certificates of deposit and short-term treasury instruments. In addition, Treehouse maintains a \$1.0 million line of credit.

The following reflects Treehouse’s availability of financial assets as of the statement of financial position date. Financial assets are reduced by the amounts not available for general use within one year of the statements of financial position date because of contractual or donor-imposed restrictions or internal designations. Internal designations can be changed based on board approval.

Treehouse’s financial assets available within one year of the statement of financial position date for general expenditures were as follows:

	2019
Current financial assets, at year-end	
Cash and cash equivalents	\$ 1,454,906
Investments	1,830,191
Receivables	171,989
Promises to give for general purposes, due within one year	743,569
	4,200,655
Less those unavailable for general expenditures within one year, due to donor purpose restrictions	125,000
Financial assets available to meet cash needs for general expenditures within one year	\$ 4,200,655

As of September 30, 2019, Treehouse’s cash reserves equaled approximately 1 month of normal operating expenses. As of December 31, 2019, the cash reserves had increased to 2 months of normal operating expenses.

Treehouse

Notes to the Financial Statements

Note 4 – Pledges Receivable

Pledges receivable as of September 30 are as follows:

	<u>2019</u>	<u>2018</u>
Receivable in less than one year	\$ 743,569	\$ 543,201
Receivable in one to five years	<u>1,380,043</u>	<u>1,614,149</u>
	2,123,612	2,157,350
Less allowance for uncollectible pledges	<u>(5,000)</u>	<u>(6,296)</u>
	2,118,612	2,151,054
Less discounts to present value (2%)	<u>(42,070)</u>	<u>(87,327)</u>
	2,076,542	2,063,727
Pledges receivable, net	<u><u>\$ 2,076,542</u></u>	<u><u>\$ 2,063,727</u></u>

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

	<u>2019</u>	<u>2018</u>
Current pledges receivable, net	\$ 743,569	\$ 536,905
Long-term pledges receivable, net	<u>1,332,973</u>	<u>1,526,822</u>
Pledges receivable, net	<u><u>\$ 2,076,542</u></u>	<u><u>\$ 2,063,727</u></u>

Note 5 – Restricted Net Assets

Certain net assets with donor restrictions consist of contributions restricted for particular purposes or time periods, and are composed of the following as of September 30:

	<u>2019</u>	<u>2018</u>
Contribution receivable for rent (restricted for time)	\$ 667,145	\$ 868,704
Contributions with payments due in future periods (restricted for time)	<u>2,123,612</u>	<u>2,157,350</u>
	<u><u>\$ 2,790,757</u></u>	<u><u>\$ 3,026,054</u></u>

Note 5 – Restricted Net Assets (continued)

In addition to net assets restricted for time or purpose, the remaining net assets with donor restrictions to be held in perpetuity consisted of the following as of September 30:

	2019	2018
Treehouse Endowment Fund	\$ 522,524	\$ 509,655
Education Endowment Fund	602,985	636,768
Operations Endowment Fund	3,034,160	3,209,439
	\$ 4,159,669	\$ 4,355,862

Note 6 – Endowment Funds

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

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

The Janis Avery Futures Fund is a, board-designated 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 6 – 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 net assets with donor restrictions (other than the Operations and Educational Endowment Funds) (a) the original value of gifts donated to the donor restricted endowment, plus (b) the original value of subsequent gifts to the donor restricted endowment. The remaining portion of donor-restricted endowment funds, representing the earnings from the Fund, that is not classified in donor restricted net assets is classified as net assets with donor restrictions 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 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, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 4,159,669	\$ 4,159,669
Board-designated quasi-endowment fund	635,154	-	635,154
	<u>\$ 635,154</u>	<u>\$ 4,159,669</u>	<u>\$ 4,794,823</u>
	September 30, 2018		
	Without Donor Restrictions	With Donor Restrictions	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>\$ 4,355,862</u>	<u>\$ 4,975,356</u>

Treehouse
Notes to the Financial Statements

Note 6 – Endowment Funds (continued)

Changes in endowment net assets are as follows for the years ended September 30, 2019 and 2018:

	September 30, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 619,494	\$ 4,355,862	\$ 4,975,356
Investment return			
Net investment income	14,354	83,006	97,360
Net realized and unrealized gain	<u>1,306</u>	<u>(128,219)</u>	<u>(126,913)</u>
Total investment return	15,660	(45,213)	(29,553)
Net assets appropriated and released from restrictions	<u>-</u>	<u>(150,980)</u>	<u>(150,980)</u>
Endowment net assets, end of year	<u>\$ 635,154</u>	<u>\$ 4,159,669</u>	<u>\$ 4,794,823</u>
	September 30, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total
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	<u>39,406</u>	<u>241,582</u>	<u>\$ 280,988</u>
Total investment return	49,885	337,960	387,845
Net assets appropriated and released from restrictions	<u>-</u>	<u>(142,882)</u>	<u>\$ (142,882)</u>
Endowment net assets, end of year	<u>\$ 619,494</u>	<u>\$ 4,355,862</u>	<u>\$ 4,975,356</u>

Treehouse

Notes to the Financial Statements

Note 6 – Endowment Funds (continued)

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.

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, 2019 or 2018.

Note 7 – Lease

Treehouse's office lease was renewed on January 1, 2018 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 \$667,145 at September 30, 2019, which has been discounted at a blended interest rate of 1.64%. The amounts are due in the following years ending September 30:

	<u>Total</u>	<u>Discount (Interest Portion)</u>	<u>Recognized Contribution Receivable</u>
2020	209,063	5,734	203,329
2021	210,963	5,906	205,057
2022	212,933	6,021	206,912
2023	<u>53,371</u>	<u>1,524</u>	<u>51,847</u>
	<u>\$ 686,330</u>	<u>\$ 19,185</u>	<u>\$ 667,145</u>

Note 7 – Lease (continued)

Rent expense for the years ended September 30, 2019 and 2018, was \$443,070 and \$442,129, respectively. The in-kind portion of rent expense was \$201,559 and \$199,401 for the years ended September 30, 2019 and 2018, respectively.

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

2020	243,876
2021	248,757
2022	253,728
2023	<u>63,744</u>
	<u>\$ 810,105</u>

Note 8 – 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%. The line of credit expires August 2020. As of September 30, 2019, borrowings under the line of credit are zero.

Note 9 – Retirement Plan

Treehouse sponsors a defined contribution 403(b) plan for employees who meet the eligibility requirements set forth in the plan. Treehouse's contributions were \$198,702 and \$156,074 for the years ended September 30, 2019 and 2018, respectively.

