



REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS

TREEHOUSE

September 30, 2020 and 2019

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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, 2020 and 2019, 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, 2020 and 2019, and the results of its changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Mon Adams LLP

Seattle, Washington
February 2, 2021

Treehouse
Statements of Financial Position

ASSETS

	September 30,	
	2020	2019
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,822,795	\$ 1,454,906
Investments	2,052,785	1,830,191
Current pledges receivable, net	707,500	743,569
Contribution receivable for rent	463,816	667,145
Contracts receivable	776,741	171,989
Inventories	442,736	319,534
Unemployment trust deposits	101,312	84,368
Prepaid expenses	25,978	53,140
	9,393,663	5,324,842
LONG-TERM ASSETS		
Long-term portion of pledges receivable, net	929,659	1,332,973
Property and equipment, net	1,427,432	1,687,336
Endowment investments	5,148,262	4,794,823
	7,505,353	7,815,132
Total long-term assets	7,505,353	7,815,132
Total assets	\$ 16,899,016	\$ 13,139,974

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 201,668	\$ 223,412
Accrued salaries and related costs	767,474	603,260
	969,142	826,672
Total current liabilities	969,142	826,672
NET ASSETS		
Without donor restrictions	9,379,979	5,362,876
With donor restrictions	6,549,895	6,950,426
	15,929,874	12,313,302
Total net assets	15,929,874	12,313,302
	\$ 16,899,016	\$ 13,139,974

Treehouse
Statement of Activities
Year Ended September 30, 2020

	2020		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUE			
Contributions and grants	\$ 9,297,988	\$ 539,108	\$ 9,837,096
In-kind contributions	1,010,133	-	1,010,133
Contract revenue	5,649,439	-	5,649,439
SBA PPP proceeds	1,826,900	-	1,826,900
Net assets released from restrictions	1,303,992	(1,303,992)	-
Total revenue	<u>19,088,452</u>	<u>(764,884)</u>	<u>18,323,568</u>
EXPENSES			
Program services	12,710,855	-	12,710,855
Management and general	872,261	-	872,261
Fundraising	1,812,658	-	1,812,658
Total expenses	<u>15,395,774</u>	<u>-</u>	<u>15,395,774</u>
CHANGES IN NET ASSETS BEFORE INVESTMENT INCOME (LOSS)	3,692,678	(764,884)	2,927,794
INVESTMENT INCOME (LOSS)	<u>324,425</u>	<u>364,353</u>	<u>688,778</u>
CHANGE IN NET ASSETS	4,017,103	(400,531)	3,616,572
NET ASSETS, beginning of year	<u>5,362,876</u>	<u>6,950,426</u>	<u>12,313,302</u>
NET ASSETS, end of year	<u>\$ 9,379,979</u>	<u>\$ 6,549,895</u>	<u>\$ 15,929,874</u>

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)	-
Total revenue	<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
Total expenses	<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>\$ 5,362,876</u>	<u>\$ 6,950,426</u>	<u>\$ 12,313,302</u>

Treehouse
Statement of Functional Expenses
Year Ended September 30, 2020

	Program Services				Support Services		
	Education Programs	Enrichment Programs		Total Program Services	Management and General	Fundraising	Total
		Warehouse	Other				
Payroll	\$ 6,301,235	\$ 326,649	\$ 594,627	\$ 7,222,511	\$ 406,887	\$ 1,098,612	\$ 8,728,010
Payroll taxes and benefits	1,500,512	84,460	151,030	1,736,002	202,461	214,929	2,153,392
Warehouse distributions	-	779,038	-	779,038	-	-	779,038
Assistance to specific individuals	-	-	1,014,291	1,014,291	-	-	1,014,291
Occupancy	137,552	235,349	7,050	379,951	31,849	38,736	450,536
Professional services	353,451	14,673	18,611	386,735	114,253	113,662	614,650
Holiday Magic purchases	-	-	185,898	185,898	-	-	185,898
Transportation	129,066	4,793	4,782	138,641	625	6,375	145,641
Licenses and fees	36,896	2,329	6,946	46,171	251,592	11,107	308,870
Special events	-	-	-	-	-	14,211	14,211
Depreciation	222,272	13,160	-	235,432	23,006	29,942	288,380
Supplies	37,989	(1,247)	(2,313)	34,429	3,705	16,277	54,411
Printing and publications	968	250	2,099	3,317	57	69,246	72,620
Postage and shipping	3,161	1,338	36,536	41,035	545	50,912	92,492
Staff training	43,693	1,731	1,366	46,790	5,789	7,553	60,132
Other in-kind expenses	50,189	11,935	36,028	98,152	30,261	8,346	136,759
Telephone	298,165	17,971	5,496	321,632	(273,746)	40,893	88,779
Credit card fees	-	-	-	-	(665)	85,225	84,560
Meetings	24,613	1,767	1,029	27,409	1,851	4,279	33,539
Insurance	-	-	-	-	36,230	-	36,230
Recognition	9,157	498	292	9,947	7,115	1,020	18,082
Equipment leases	1,860	112	1,502	3,474	15,667	254	19,395
Other	-	-	-	-	5,162	-	5,162
Repairs and maintenance	-	-	-	-	264	-	264
Loss (recovery) of bad debt	-	-	-	-	9,353	1,079	10,432
Total expenses - 2020	<u>\$ 9,150,779</u>	<u>\$ 1,494,806</u>	<u>\$ 2,065,270</u>	<u>\$ 12,710,855</u>	<u>\$ 872,261</u>	<u>\$ 1,812,658</u>	<u>\$ 15,395,774</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

Treehouse

Statements of Cash Flows

	Years Ended September 30,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 3,616,572	\$ (2,403,763)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	288,380	243,029
Donated Investments	(41,764)	(8,088)
Net realized and unrealized losses (gains) on investments	(480,389)	54,401
Interest and dividends restricted for long-term investments	(107,057)	(111,587)
Interest and dividends restricted for short-term investments	(39,696)	-
Changes in allowance and discounts on receivables	(39,121)	(46,553)
Changes in operating assets and liabilities		
Pledges receivable	478,504	33,738
Contribution receivable for rent	203,329	201,559
Contracts receivable	(604,752)	332,752
Inventories	(123,202)	(42,505)
Unemployment trust deposits	(16,944)	7,964
Prepaid expenses	27,162	40,857
Accounts payable	(21,744)	(760,275)
Accrued salaries and related costs	164,214	167,398
Net cash from (used in) operating activities	<u>3,303,492</u>	<u>(2,291,073)</u>
CASH FLOWS USED IN INVESTING ACTIVITIES		
Purchase of furniture and equipment	(35,279)	(671,920)
Sale of furniture and equipment	6,803	-
Net cash used in investing activities	<u>(28,476)</u>	<u>(671,920)</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	92,873	165,208
Net cash from financing activities	<u>92,873</u>	<u>165,208</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	3,367,889	(2,797,785)
CASH AND CASH EQUIVALENTS, beginning of year	<u>1,454,906</u>	<u>4,252,691</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 4,822,795</u>	<u>\$ 1,454,906</u>

Note 1 – Organization

Treehouse (the Organization) 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 7,000 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 foster 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.

Effective October 1, 2020, the Organization's fiscal year-end end has changed to June 30 of every year.

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 June 2018, the FASB issued standard ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. This standard provides a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction. The guidance also helps determine whether a contribution is conditional and better distinguishes a donor-imposed condition from a donor-imposed restriction. The Organization adopted this standard effective October 1, 2019, on a modified prospective basis for contracts not yet completed as of, or entered into subsequent to, the beginning of the fiscal year. The adoption did not result in a change to how the Organization accounts for revenue from contributions, grants and contracts.

New accounting pronouncements – In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606). This standard implements a single framework for recognition of all revenue earned from customers. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services by allocating the transaction price to identified performance obligations and recognizing revenue as performance obligations are satisfied. The guidance is effective for the Organization for the fiscal year ending June 30, 2021. The Organization is currently evaluating the impact that this guidance will have on its financial statements.

Note 1 – Organization (continued)

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which requires lessees to recognize operating and financing lease liabilities and corresponding right-of-use assets on the balance sheet. The guidance is effective for the Organization during the fiscal year ending June 30, 2023. The Organization is currently evaluating the impact that this guidance will have on its financial statements.

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 accordance 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.

Treehouse

Notes to the Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

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. Grants are stated at the amount the Organization expects to collect from outstanding balances. The Organization uses the allowance method to determine uncollectible receivables based on historical experience, the aging of outstanding accounts, and management’s judgment regarding collectability. Uncollectible amounts are written off after the Organization has exhausted its standard collection efforts. One donor represented 15% of total contribution and grant revenue for the year ended September 30, 2020. One donor represented 12% of total contribution and grant revenue for the year ended September 30, 2020 and 2019. Of the total contribution and grant revenue, \$150,555 and \$770,326, were from related parties for the years ended September 30, 2020 and 2019, respectively. Four donors made up 66% of pledges receivable, and four donors made up 74% of pledges receivable for the years ended September 30, 2020 and 2019, respectively.

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 for the years ended September 30:

	<u>2020</u>	<u>2019</u>
Donated new and quality used clothing	\$ 880,125	\$ 1,227,166
Summer camp discounts	11,420	41,700
Little Wishes discounts	19,990	33,663
Professional services and other	92,433	301,271
Gift cards	6,165	3,041
Information technology	-	4,000
	<u>\$ 1,010,133</u>	<u>\$ 1,610,841</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, 2020 and 2019.

Treehouse
Notes to the Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Investments – Investments in equity and fixed income securities 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>2020</u>	<u>2019</u>
Equity securities		
Large cap	\$ 2,765,431	\$ 2,089,779
International	1,846,181	3,603,426
Fixed income securities		
Intermediate-term bond funds	31,712	130,328
Short-term bond funds	1,737,006	167,700
World bond funds	755,980	293,512
Money market fund	64,737	340,269
	<u>\$ 7,201,047</u>	<u>\$ 6,625,014</u>

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

	<u>2020</u>	<u>2019</u>
Investments (current assets)	\$ 2,052,785	\$ 1,830,191
Endowment investments	5,148,262	4,794,823
	<u>\$ 7,201,047</u>	<u>\$ 6,625,014</u>

Investment income comprises the following for the years ended September 30:

	<u>2020</u>	<u>2019</u>
Interest and dividends	\$ 210,919	\$ 303,183
Realized and unrealized gains (losses)	477,859	(42,277)
	<u>\$ 688,778</u>	<u>\$ 260,906</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 consist of the following as of September 30:

	2020	2019
Computer equipment	\$ 1,174,658	\$ 966,858
Office furniture and fixtures	417,847	417,847
Leasehold improvements	1,144,665	1,144,665
Vehicles	61,030	61,030
Work in process	17,936	213,924
	<u>2,816,136</u>	<u>2,804,324</u>
Accumulated depreciation	<u>(1,388,704)</u>	<u>(1,116,988)</u>
Property and equipment, net	<u>\$ 1,427,432</u>	<u>\$ 1,687,336</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 the 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, 2020 and 2019.

Subsequent events – Treehouse has evaluated subsequent events through the date these financial statements were available to be issued, which was February 2, 2021.

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 \$1.1 million per month for fiscal year 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 \$500,000 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 statement 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:

	2020
Financial assets, at year-end	
Cash and cash equivalents	\$ 4,822,795
Investments	7,201,047
Contracts receivable	776,741
Promises to give	1,637,159
	14,437,742
Less those unavailable for general expenditures within one year	
Due to donor purpose restrictions	70,001
Due to donor time restrictions	1,645,108
Due to endowment purpose restriction	5,148,262
	6,863,371
Financial assets available to meet cash needs for general expenditures within one year	\$ 7,574,371

As of September 30, 2020 and 2019, Treehouse’s cash reserves equaled approximately 3 months and 1 month of normal operating expenses, respectively.

Treehouse

Notes to the Financial Statements

Note 4 – Pledges Receivable

Pledges receivable as of September 30 are as follows:

	<u>2020</u>	<u>2019</u>
Receivable in less than one year	\$ 707,500	\$ 743,569
Receivable in one to five years	<u>937,608</u>	<u>1,380,043</u>
	1,645,108	2,123,612
Less allowance for uncollectible pledges	<u>(5,000)</u>	<u>(5,000)</u>
	1,640,108	2,118,612
Less discounts to present value (2%)	<u>(2,949)</u>	<u>(42,070)</u>
	1,637,159	2,076,542
Pledges receivable, net	<u><u>\$ 1,637,159</u></u>	<u><u>\$ 2,076,542</u></u>

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

	<u>2020</u>	<u>2019</u>
Current pledges receivable, net	\$ 707,500	\$ 743,569
Long-term pledges receivable, net	<u>929,659</u>	<u>1,332,973</u>
Pledges receivable, net	<u><u>\$ 1,637,159</u></u>	<u><u>\$ 2,076,542</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>2020</u>	<u>2019</u>
Contribution receivable for rent (restricted for time)	\$ 463,816	\$ 667,145
Contributions with payments due in future periods (restricted for time)	1,645,108	2,123,612
Contributions restricted for purpose	<u>70,001</u>	<u>-</u>
	<u><u>\$ 2,178,925</u></u>	<u><u>\$ 2,790,757</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:

	2020	2019
Treehouse Endowment Fund	\$ 578,439	\$ 522,524
Education Endowment Fund	628,978	602,985
Operations Endowment Fund	3,163,553	3,034,160
	\$ 4,370,970	\$ 4,159,669

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 net assets without donor restrictions. 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 net assets with donor restrictions.

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 without donor restriction, 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, 2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 4,370,970	\$ 4,370,970
Board-designated quasi-endowment fund	777,292	-	777,292
	<u>\$ 777,292</u>	<u>\$ 4,370,970</u>	<u>\$ 5,148,262</u>
	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>

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 any mix of equity and 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, 2020 or 2019.

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 \$463,816 at September 30, 2020, 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>
2021	\$ 210,963	\$ 5,906	\$ 205,057
2022	212,933	6,021	206,912
2023	53,371	1,524	51,847
	<u>\$ 477,267</u>	<u>\$ 13,451</u>	<u>\$ 463,816</u>

Note 7 – Lease (continued)

Rent expense for the years ended September 30, 2020 and 2019, was \$450,536 and \$443,070, respectively. The in-kind portion of rent expense was \$203,329 and \$201,559 for the years ended September 30, 2020 and 2019, respectively.

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

2021	\$ 245,076
2022	254,616
2023	<u>64,449</u>
	<u>\$ 564,141</u>

Effective October 1, 2020, the Organization became the property manager for the building in which it leases office space. The agreement will automatically renew each year unless terminated. In exchange for these management services, the Organization will receive \$6,000 per month which is based on the fair market value and square footage managed. The Organization will also be reimbursed for all direct costs related to managing the building except for the necessary property insurance. Any profits made from this property management agreement will be treated as unrelated business income.

Effective October 1, 2020, the Organization's lease agreement was amended to adjust base rent to zero, for which the Organization will record in-kind revenue. This rent abatement is unrelated to the property management agreement.

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 greater of the Wall Street Journal Prime Rate plus 1% or 6%. Effective in June 2020, the limit was decreased to \$500,000. The line of credit expires August 2021. As of September 30, 2020 and 2019, there were no borrowings under the line of credit.

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 \$203,863 and \$198,702 for the years ended September 30, 2020 and 2019, respectively.

Treehouse

Notes to the Financial Statements

Note 10 – COVID-19 Impact and SBA Loan

On March 11, 2020, the World Health Organization officially declared COVID-19, the disease caused by the novel coronavirus, a pandemic. Management is closely monitoring the evolution of the pandemic, including how it may affect the Organization's future performance. Management has not yet determined or quantified the potential long-term financial impact. In April 2020, the Organization was granted a loan under the Paycheck Protection Program offered by the SBA under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), section 7(a)(36) of the Small Business Act for \$1,826,800. The loan bears interest at 1% with no payments for the first 6 months. Monthly payments of principal and interest begin in March 2021 and continue through maturity in August 2022, if required. The loan is subject to partial or full forgiveness if the Organization uses all proceeds for eligible purposes; maintains certain employment levels; and maintains certain compensation levels in accordance with and subject to the CARES Act and the rules, regulations and guidance. As the Organization estimates that the full amount of the loan will be forgiven in accordance with the loan's requirements in the year ending June 30, 2021, the loan has been recorded as revenue for the year ending September 30, 2020.

