



REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS

TREEHOUSE

June 30, 2021, and September 30, 2020

Table of Contents

	PAGE
Report of Independent Auditors	1–2
Financial Statements	
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	9–22

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 June 30, 2021, and September 30, 2020, and the related statements of activities, functional expenses, and cash flows for the period from October 1, 2020 to June 30, 2021, and the year ended September 30, 2020, 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 June 30, 2021, and September 30, 2020, and the results of its changes in net assets and its cash flows for the fiscal period from October 1, 2020 to June 30, 2021, and the year ended September 30, 2020, in accordance with accounting principles generally accepted in the United States of America.

Mon Adams LLP

Seattle, Washington

May 16, 2022

Treehouse
Statements of Financial Position

	ASSETS	
	June 30, 2021	September 30, 2020
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,552,763	\$ 4,822,795
Investments	4,144,242	2,052,785
Current pledges receivable, net	35,000	707,500
Contribution receivable for rent	582,099	463,816
Contracts receivable	1,141,268	776,741
Inventories	393,462	442,736
Unemployment trust and other deposits	302,309	101,312
Prepaid expenses	46,213	25,978
	<u>12,197,356</u>	<u>9,393,663</u>
LONG-TERM ASSETS		
Long-term portion of pledges receivable, net	1,308,470	929,659
Property and equipment, net	1,227,762	1,427,432
Endowment investments	6,373,414	5,148,262
	<u>8,909,646</u>	<u>7,505,353</u>
Total assets	<u>\$ 21,107,002</u>	<u>\$ 16,899,016</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 286,030	\$ 201,668
Accrued salaries and related costs	716,656	767,474
	<u>1,002,686</u>	<u>969,142</u>
NET ASSETS		
Without donor restrictions	12,564,684	9,379,979
With donor restrictions	7,539,632	6,549,895
	<u>20,104,316</u>	<u>15,929,874</u>
Total net assets	<u>\$ 21,107,002</u>	<u>\$ 16,899,016</u>

Treehouse
Statement of Activities
Fiscal Period from October 1, 2020 to June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE			
Contributions and grants	\$ 8,257,401	\$ 350,000	\$ 8,607,401
In-kind contributions	580,307	271,968	852,275
Contract revenue	3,867,313	-	3,867,313
Other revenue	137,164	-	137,164
Net assets released from restrictions	878,350	(878,350)	-
Total revenue	<u>13,720,535</u>	<u>(256,382)</u>	<u>13,464,153</u>
EXPENSES			
Program services	8,129,972	-	8,129,972
Management and general	945,581	-	945,581
Fundraising	1,588,136	-	1,588,136
Total expenses	<u>10,663,689</u>	<u>-</u>	<u>10,663,689</u>
CHANGES IN NET ASSETS BEFORE INVESTMENT INCOME (LOSS)	3,056,846	(256,382)	2,800,464
INVESTMENT INCOME (LOSS)	<u>127,859</u>	<u>1,246,119</u>	<u>1,373,978</u>
CHANGE IN NET ASSETS	3,184,705	989,737	4,174,442
NET ASSETS, beginning of year	<u>9,379,979</u>	<u>6,549,895</u>	<u>15,929,874</u>
NET ASSETS, end of year	<u>\$ 12,564,684</u>	<u>\$ 7,539,632</u>	<u>\$ 20,104,316</u>

Treehouse
Statement of Activities
Fiscal Year Ended September 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
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 Functional Expenses
Fiscal Period from October 1, 2020 to June 30, 2021

	Program Services			Total Program Services	Support Services			Total
	Education Programs	Enrichment Programs			Management and General	Fundraising	Total Support Services	
		Warehouse	Other					
Payroll	\$ 4,378,838	\$ 164,688	\$ 293,615	\$ 4,837,141	\$ 138,043	\$ 798,601	\$ 936,644	\$ 5,773,785
Payroll taxes and benefits	948,551	42,485	65,369	1,056,405	171,329	149,178	320,507	1,376,912
Warehouse distributions	-	449,350	-	449,350	-	-	-	449,350
Assistance to specific individuals	-	-	800,291	800,291	-	-	-	800,291
Occupancy	104,229	178,335	5,342	287,906	25,213	29,352	54,565	342,471
Professional services	255,304	4,120	17,724	277,148	147,648	271,539	419,187	696,335
Holiday Magic purchases	-	-	7,750	7,750	-	-	-	7,750
Transportation	10,167	1,108	18	11,293	43	87	130	11,423
Licenses and fees	32,019	1,121	1,495	34,635	153,863	6,698	160,561	195,196
Special events	-	-	-	-	-	38,028	38,028	38,028
Depreciation	162,228	4,646	6,170	173,044	90,993	23,080	114,073	287,117
Supplies	15,093	672	677	16,442	1,825	9,058	10,883	27,325
Printing and publications	157	33	1	191	36	39,027	39,063	39,254
Postage and shipping	3,274	8,366	31,526	43,166	2,280	41,471	43,751	86,917
Staff training	27,233	811	1,092	29,136	136,570	3,950	140,520	169,656
Other in-kind expenses	11,856	25,156	1,141	38,153	-	15,073	15,073	53,226
Telephone	23,188	11,861	3,627	38,676	9,475	10,515	19,990	58,666
Credit card fees	-	-	-	-	6,637	86,687	93,324	93,324
Meetings	1,289	28	36	1,353	(606)	691	85	1,438
Insurance	-	-	-	-	50,966	-	50,966	50,966
Recognition	23,900	862	971	25,733	6,123	2,852	8,975	34,708
Equipment leases	1,184	34	941	2,159	4,392	169	4,561	6,720
Other	-	-	-	-	5,514	-	5,514	5,514
Repairs and maintenance	-	-	-	-	1,516	-	1,516	1,516
Loss (recovery) of bad debt	-	-	-	-	(6,279)	62,080	55,801	55,801
Total expenses - 2021	\$ 5,998,510	\$ 893,676	\$ 1,237,786	\$ 8,129,972	\$ 945,581	\$1,588,136	\$ 2,533,717	\$ 10,663,689

Treehouse
Statement of Functional Expenses
Fiscal Year Ended September 30, 2020

	Program Services				Support Services			
	Education Programs	Enrichment Programs		Total Program Services	Management and General	Fundraising	Total Support Services	
		Wearhouse	Other				Support Services	Total
Payroll	\$ 6,301,235	\$ 326,649	\$ 594,627	\$ 7,222,511	\$ 406,887	\$ 1,098,612	\$ 1,505,499	\$ 8,728,010
Payroll taxes and benefits	1,500,512	84,460	151,030	1,736,002	202,461	214,929	417,390	2,153,392
Wearhouse 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	70,585	450,536
Professional services	353,451	14,673	18,611	386,735	114,253	113,662	227,915	614,650
Holiday Magic purchases	-	-	185,898	185,898	-	-	-	185,898
Transportation	129,066	4,793	4,782	138,641	625	6,375	7,000	145,641
Licenses and fees	36,896	2,329	6,946	46,171	251,592	11,107	262,699	308,870
Special events	-	-	-	-	-	14,211	14,211	14,211
Depreciation	222,272	13,160	-	235,432	23,006	29,942	52,948	288,380
Supplies	37,989	(1,247)	(2,313)	34,429	3,705	16,277	19,982	54,411
Printing and publications	968	250	2,099	3,317	57	69,246	69,303	72,620
Postage and shipping	3,161	1,338	36,536	41,035	545	50,912	51,457	92,492
Staff training	43,693	1,731	1,366	46,790	5,789	7,553	13,342	60,132
Other in-kind expenses	50,189	11,935	36,028	98,152	30,261	8,346	38,607	136,759
Telephone	298,165	17,971	5,496	321,632	(273,746)	40,893	(232,853)	88,779
Credit card fees	-	-	-	-	(665)	85,225	84,560	84,560
Meetings	24,613	1,767	1,029	27,409	1,851	4,279	6,130	33,539
Insurance	-	-	-	-	36,230	-	36,230	36,230
Recognition	9,157	498	292	9,947	7,115	1,020	8,135	18,082
Equipment leases	1,860	112	1,502	3,474	15,667	254	15,921	19,395
Other	-	-	-	-	5,162	-	5,162	5,162
Repairs and maintenance	-	-	-	-	264	-	264	264
Loss (recovery) of bad debt	-	-	-	-	9,353	1,079	10,432	10,432
Total expenses - 2020	\$ 9,150,779	\$ 1,494,806	\$ 2,065,270	\$ 12,710,855	\$ 872,261	\$ 1,812,658	\$ 2,684,919	\$ 15,395,774

Treehouse

Statements of Cash Flows

	For the Period October 1, 2020 to June 30, 2021	Fiscal Year Ended September 30, 2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 4,174,442	\$ 3,616,572
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	287,117	288,380
Donated investments	(293,946)	(41,764)
Net realized and unrealized losses (gains) on investments	(1,279,462)	(480,389)
Changes in allowance and discounts on receivables	74,682	(39,121)
Loss on disposal of furniture and equipment	4,560	6,803
Changes in operating assets and liabilities		
Pledges receivable	219,007	478,504
Contribution receivable for rent	(118,283)	203,329
Contracts receivable	(364,527)	(604,752)
Inventories	49,274	(123,202)
Unemployment trust deposits	(200,997)	(16,944)
Prepaid expenses	(20,235)	27,162
Accounts payable	84,362	(21,744)
Accrued salaries and related costs	(50,820)	164,214
Net cash from operating activities	<u>2,565,174</u>	<u>3,457,048</u>
CASH FLOWS USED IN INVESTING ACTIVITIES		
Purchase of investments	(2,104,688)	(146,753)
Proceeds from sale of investments	193,641	-
Purchase of furniture and equipment	(92,007)	(35,279)
Net cash used in investing activities	<u>(2,003,054)</u>	<u>(182,032)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest and dividends restricted for reinvestment	167,848	92,873
Net cash from financing activities	<u>167,848</u>	<u>92,873</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	729,968	3,367,889
CASH AND CASH EQUIVALENTS, beginning of year	<u>4,822,795</u>	<u>1,454,906</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 5,552,763</u></u>	<u><u>\$ 4,822,795</u></u>

Note 1 – Organization

Treehouse (the Organization) addresses academic and essential support needs of children, youth and young adults who experience foster care. The nonprofit organization serves more than 7,000 (unaudited) youth each year by partnering with them to succeed in school and providing access to important experiences and resources that support identity development. Founded in 1988 by social workers, Treehouse envisions – and strives to create – a world where every child who has experienced foster care has the opportunities and support they need to pursue their dreams and launch successfully into adulthood.

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

In December 2021, Treehouse was partially donated ownership in property at 2100 24th Avenue South in Seattle and formed 2100 Building LLC (2100 LLC), a disregarded entity. The donated property is an office building in which Treehouse and other tenants reside. See Note 7.

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, Walla Walla, Whatcom and Yakima 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* – Serving youth between the ages of pre-K through 12th grade, 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 4,000 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 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 period October 1, 2020 to June 30, 2021. The adoption did not result in a change to how the Organization accounts for revenue.

New accounting pronouncement – 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 1 – Organization (continued)

In September 2020, the FASB issued ASU 2020-07, *Not-For-Profit Entities* (Topic 958), *Presentation and Disclosures by Not-For-Profit Entities for Contributed Nonfinancial Assets*. This standard intends to increase the transparency of contributed nonfinancial assets for not-for-profit entities through enhancements to presentation and disclosure. This guidance requires presentation of contributed nonfinancial assets as a separate line item in the statement of activities and more detailed quantitative and qualitative disclosure of the valuation of the amount recognized and monetization or utilization of these assets during the reporting period. Topic 958 is effective for the Organization for the fiscal year ending June 30, 2022. 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.

Reclassifications – Certain prior year amounts have been reclassified to be in accordance with current year presentation. These reclassifications had no impact on change in net assets for either period.

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 on the statement of financial position. Treehouse has cash and cash equivalent 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 – The Organization recognizes contributions when cash, securities or other assets, an unconditional promise to give (pledge), or a notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met in accordance with ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08). 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.

Government and operating grants are treated as conditional contributions and revenue is recognized when a contribution becomes unconditional in accordance with ASU 2018-08. Typically, contract and grant agreements contain a right of return or right of release from obligation provision and the Organization has limited discretion over how funds transferred should be spent. As such, the Organization recognizes revenue for these conditional contributions when the related barrier(s) has been overcome which is to the extent that expenses have been incurred for the purposes specified by the grantors. 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 11% and 15% of total contribution and grant revenue for the period ended October 1, 2020 to June 30, 2021, and the year ended September 30, 2020, respectively. Of the total contribution and grant revenue, \$147,367 and \$150,555, were from related parties for the period October 1, 2020 to June 30, 2021, and year ended September 30, 2020, respectively. Four donors made up 64% of pledges receivable, and four donors made up 66% of pledges receivable as of June 30, 2021, and September 30, 2020, 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 and are recognized upon donation or when an unconditional promise is made. Conditional promises to give are not recorded as revenue until such donor conditions are met. 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 period October 1, 2020, to June 30, 2021, and the year ended September 30, 2020:

	Period Ended June 30, 2021	Year Ended September 30, 2020
	<u> </u>	<u> </u>
Donated new and quality used clothing	\$ 389,934	\$ 880,125
Office rent	404,229	-
Summer camp discounts	-	11,420
Little Wishes discounts	10,009	19,990
Professional services and other	41,194	92,433
Stock	4,886	-
Building	2,023	-
Gift cards	-	6,165
	<u> </u>	<u> </u>
	<u>\$ 852,275</u>	<u>\$ 1,010,133</u>

Contract revenue – Revenue under contracts administered by local governments is recorded when services are performed. Contracts receivable represent contracts awarded or earned, but not yet received. Substantially all contract receivables are from the state of Washington as of June 30, 2021, and September 30, 2020.

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 statements of activities. As of June 30, 2021, and September 30, 2020, investments are as follows:

	June 30, 2021	September 30, 2020
	<u> </u>	<u> </u>
Equity securities		
Large cap	\$ 3,468,863	\$ 2,765,431
International	2,274,424	1,846,181
Fixed income securities		
Intermediate-term bond funds	662,086	31,712
Short-term bond funds	2,566,855	1,737,006
World bond funds	1,380,384	755,980
Money market fund	165,044	64,737
	<u> </u>	<u> </u>
	<u>\$ 10,517,656</u>	<u>\$ 7,201,047</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 as of June 30, 2021, and September 30, 2020:

	June 30, 2021	September 30, 2020
Investments (current assets)	\$ 4,144,242	\$ 2,052,785
Endowment investments	6,373,414	5,148,262
	<u>\$ 10,517,656</u>	<u>\$ 7,201,047</u>

Investment income comprises the following for the period October 1, 2020, to June 30, 2021, and the year ended September 30, 2020:

	Period Ended June 30, 2021	Year Ended September 30, 2020
Interest and dividends	\$ 110,252	\$ 210,919
Realized and unrealized gains (losses)	1,263,726	477,859
	<u>\$ 1,373,978</u>	<u>\$ 688,778</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 net realizable value.

Unemployment trust and other 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.

The Organization also maintains a deposit trust account for the rents received from tenants as part of the property management agreement further discussed in Note 7.

Treehouse
Notes to the Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Furniture and equipment – Furniture and equipment are 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 June 30, 2021, and September 30, 2020:

	June 30, 2021	September 30, 2020
	<u> </u>	<u> </u>
Computer equipment	\$ 1,223,876	\$ 1,174,658
Office furniture and fixtures	417,847	417,847
Leasehold improvements	1,144,665	1,144,665
Vehicles	61,030	61,030
Work in process	<u>20,025</u>	<u>17,936</u>
	2,867,443	2,816,136
Accumulated depreciation	<u>(1,639,681)</u>	<u>(1,388,704)</u>
Property and equipment, net	<u><u>\$ 1,227,762</u></u>	<u><u>\$ 1,427,432</u></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 full-time equivalent (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 fiscal period from October 1, 2020, to June 30, 2021, or the fiscal year ended September 30, 2020.

Subsequent events – Treehouse has evaluated subsequent events through the date these financial statements were available to be issued, which was May 16, 2022.

Treehouse

Notes to the Financial Statements

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 four to six months operating expenses including the following:

- Cash and short-term investments representing a minimum of two months of normal operating expenses, which were budgeted at \$1.3 million per month for fiscal year 2021.
- 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 maintained a \$500,000 line of credit during the period from October 1, 2020, to June 30, 2021.

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:

	Fiscal Period Ended June 30, 2021
Financial assets, at year-end	
Cash and cash equivalents	\$ 5,552,763
Investments	10,517,656
Contracts receivable	1,141,268
Promises to give	1,343,470
	<u>18,555,157</u>
Less those unavailable for general expenditures within one year	
Due to donor purpose restrictions	70,001
Due to donor time restrictions	1,426,101
Due to endowment purpose restriction	5,461,431
	<u>6,957,533</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 11,597,624</u></u>

Treehouse
Notes to the Financial Statements

Note 4 – Pledges Receivable

Pledges receivable as of June 30, 2021, and September 30, 2020, are as follows:

	June 30, 2021	September 30, 2020
Receivable in less than one year	\$ 35,000	\$ 707,500
Receivable in one to five years	1,391,101	937,608
	1,426,101	1,645,108
Less allowance for uncollectible pledges	(5,000)	(5,000)
	1,421,101	1,640,108
Less discounts to present value (2%)	(77,631)	(2,949)
Pledges receivable, net	<u>\$ 1,343,470</u>	<u>\$ 1,637,159</u>

These assets are presented in the financial statements as follows as of June 30, 2021, and September 30, 2020:

	June 30, 2021	September 30, 2020
Current pledges receivable, net	\$ 35,000	\$ 707,500
Long-term pledges receivable, net	1,308,470	929,659
Pledges receivable, net	<u>\$ 1,343,470</u>	<u>\$ 1,637,159</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 June 30, 2021, and September 30, 2020:

	June 30, 2021	September 30, 2020
Contribution receivable for rent (restricted for time)	\$ 582,099	\$ 463,816
Contributions with payments due in future periods (restricted for time)	1,426,101	1,645,108
Contributions restricted for purpose	70,001	70,001
	<u>\$ 2,078,201</u>	<u>\$ 2,178,925</u>

Treehouse

Notes to the Financial Statements

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 the endowment consisted of the following as of June 30, 2021, and September 30, 2020:

	June 30, 2021	September 30, 2020
Treehouse Endowment Fund	\$ 680,231	\$ 578,439
Education Endowment Fund	792,967	628,978
Operations Endowment Fund	3,988,233	3,163,553
	<u>\$ 5,461,431</u>	<u>\$ 4,370,970</u>

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.

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 as of June 30, 2021, and September 30, 2020:

	June 30, 2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 5,461,431	\$ 5,461,431
Board-designated quasi-endowment fund	911,983	-	911,983
	\$ 911,983	\$ 5,461,431	\$ 6,373,414
	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
	\$ 777,292	\$ 4,370,970	\$ 5,148,262

Treehouse

Notes to the Financial Statements

Note 6 – Endowment Funds (continued)

Changes in endowment net assets are as follows for the period October 1, 2020 to June 30, 2021, and the year ended September 30, 2020:

	June 30, 2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 5,461,431	\$ 5,461,431
Board-designated quasi-endowment fund	911,983	-	911,983
	<u>\$ 911,983</u>	<u>\$ 5,461,431</u>	<u>\$ 6,373,414</u>
	September 30, 2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 635,154	\$ 4,159,669	\$ 4,794,823
Investment return			
Net investment income	12,841	80,238	93,079
Net realized and unrealized gain (loss)	55,140	284,115	339,255
Total investment return (loss)	67,981	364,353	432,334
Contributions	74,157	-	74,157
Net assets appropriated and released from restrictions	-	(153,052)	(153,052)
Endowment net assets, end of year	<u>\$ 777,292</u>	<u>\$ 4,370,970</u>	<u>\$ 5,148,262</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 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).

Note 6 – Endowment Funds (continued)

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 June 30, 2021, or September 30, 2020.

Note 7 – Lease

Treehouse's office lease was renewed on January 1, 2018, for an additional 60 months, terminating on January 1, 2023. The lease agreement provided for payments below market rates. Effective October 1, 2020, the Organization's lease agreement was amended again to adjust base rent to zero, for which the Organization recorded in-kind revenue for the period October 1, 2020, to June 30, 2021. As such, there is no cash portion of future minimum lease payments due as of June 30, 2021.

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 \$582,099 as of June 30, 2021, which has been discounted at an average interest rate of 2%. The amounts are due in the following years ending June 30:

	Total	Discount (Interest Portion)	Recognized Contribution Receivable
2022	\$ 394,656	\$ 7,738	\$ 386,918
2023	199,085	3,904	195,181
	\$ 593,741	\$ 11,642	\$ 582,099

Rent expense for the period from October 1, 2020, to June 30, 2021, and the year ended September 30, 2020, was \$342,472 and \$450,536, respectively. The in-kind portion of rent expense was \$339,945 and \$203,329 for the period from October 1, 2020, to June 30, 2021, and the year ended September 30, 2020.

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. Any profits made from this property management agreement will be treated as unrelated business income and is captured within other revenue on the statements of activities.

Effective December 30, 2021, and February 2, 2022, 10% ownership and an additional 13.5% ownership of the building was donated to 2100 LLC by the owner. Additional ownership interests may be conveyed in the future. The fair market value of these donations is not yet readily determinable.

Treehouse

Notes to the Financial Statements

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 expired August 2021 and was not renewed. As of June 30, 2021, and September 30, 2020, 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 \$73,238 and \$203,863 for the period from October 1, 2020 to June 30, 2021, and the year ended September 30, 2020, respectively.

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 Small Business Administration (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 were scheduled to begin in March 2021 and continue through maturity in August 2022, if required. As the Organization estimated that the full amount of the loan would be forgiven in accordance with the loan's provisions, the loan was recorded as revenue for the year ending September 30, 2020. Full forgiveness for the loan was granted on September 1, 2021, by the SBA.

