



Report of Independent Auditors
and Consolidated Financial Statements

Treehouse

June 30, 2022

Table of Contents

	Page
Report of Independent Auditors	1
Consolidated Statement of Financial Position	3
Consolidated Statement of Activities	4
Consolidated Statement of Functional Expenses	5
Consolidated Statement of Cash Flows	6
Notes to Consolidated Financial Statements	7

Report of Independent Auditors

The Board of Directors
Treehouse

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Treehouse and its wholly owned subsidiary, which comprise the consolidated statement of financial position as of June 30, 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Treehouse as of June 30, 2022, and the results of their operations and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Treehouse and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Treehouse's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Treehouse's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Treehouse's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Moss Adams LLP

Seattle, Washington

February 14, 2023

Treehouse
Consolidated Statement of Financial Position
June 30, 2022

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 4,430,208
Investments	3,162,683
Current pledges receivable, net	970,433
Rent receivable from the building	195,182
Contracts and other receivables	3,528,538
Inventories	315,985
Unemployment trust and other deposits	128,572
Prepaid expenses and other assets	<u>364,127</u>

Total current assets 13,095,728

LONG-TERM ASSETS

Long-term portion of pledges receivable, net	355,448
Property and equipment, net	1,228,420
Interest in 2100 Building	7,097,000
Endowment investments	<u>5,189,663</u>

Total long-term assets 13,870,531

Total assets \$ 26,966,259

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 143,584
Other Liabilities	266,444
Accrued salaries and related costs	<u>829,883</u>

Total current liabilities 1,239,911

NET ASSETS

Without donor restrictions	19,743,171
With donor restrictions	<u>5,983,177</u>

Total net assets 25,726,348

\$ 26,966,259

See accompanying notes.

Treehouse
Consolidated Statement of Activities
Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUE			
Contributions and grants	\$ 9,400,113	\$ 640,000	\$ 10,040,113
In-kind contributions	662,156	-	662,156
Contract revenue	12,659,996	-	12,659,996
Other revenue	23,358	-	23,358
Net assets released from restrictions	1,270,202	(1,270,202)	-
Total revenue	<u>24,015,825</u>	<u>(630,202)</u>	<u>23,385,623</u>
OPERATING EXPENSES			
Program services	19,577,929	-	19,577,929
Management and general	1,659,555	-	1,659,555
Fundraising	2,262,043	-	2,262,043
Total expenses	<u>23,499,527</u>	<u>-</u>	<u>23,499,527</u>
CHANGES IN OPERATING NET ASSETS	516,298	(630,202)	(113,904)
NON-OPERATING ACTIVITY			
Investment loss, net	(505,340)	(856,252)	(1,361,592)
Donation of interest in building	7,097,000	-	7,097,000
Property related revenue	123,011	-	123,011
Property related expenses	(122,486)	-	(122,486)
Total non-operating activity	<u>6,592,185</u>	<u>(856,252)</u>	<u>5,735,933</u>
TOTAL CHANGE IN NET ASSETS	7,108,483	(1,486,454)	5,622,029
NET ASSETS, beginning of year	<u>12,634,688</u>	<u>7,469,631</u>	<u>20,104,319</u>
NET ASSETS, end of year	<u>\$ 19,743,171</u>	<u>\$ 5,983,177</u>	<u>\$ 25,726,348</u>

See accompanying notes.

Treehouse
Consolidated Statement of Functional Expenses
Year Ended June 30, 2022

	Program Services				Support Services			
	Education	Enrichment Programs		Total	Management	Fundraising	Total	Total
	Programs	Free Store	Other	Program Services	and General		Support Services	
Payroll	\$ 4,395,285	\$ 314,944	\$ 3,256,070	\$ 7,966,299	\$ 534,943	\$ 1,489,412	\$ 2,024,355	\$ 9,990,654
Payroll taxes and benefits	1,095,975	73,316	689,588	1,858,879	153,356	158,137	311,493	2,170,372
Free Store & Holiday Magic	-	805,346	-	805,346	-	-	-	805,346
Assistance to specific individuals	-	-	5,740,043	5,740,043	-	-	-	5,740,043
Occupancy	-	240,000	167,947	407,947	52,778	5,090	57,868	465,815
Professional services	301	22,191	1,161,957	1,184,449	584,639	276,936	861,575	2,046,024
Transportation	59,528	3,277	41,356	104,161	6,351	1,360	7,711	111,872
Licenses and fees	-	16,886	820,303	837,189	202,811	12,623	215,434	1,052,623
Special events	-	-	-	-	-	109,479	109,479	109,479
Depreciation	-	4,745	230,364	235,109	49,030	2,135	51,165	286,274
Supplies	22,130	8,903	28,496	59,529	2,435	5,639	8,074	67,603
Printing and publications	797	620	19,818	21,235	24,781	37,681	62,462	83,697
Postage and shipping	521	12,335	77,715	90,571	12,080	479	12,559	103,130
Staff training	2,607	2,158	114,428	119,193	14,208	11,186	25,394	144,587
Credit card fees	-	5	8,716	8,721	30	108,775	108,805	117,526
Insurance	-	1,582	76,785	78,367	8,857	8,198	17,055	95,422
All other operating expenses	7,621	6,182	47,088	60,891	13,256	34,913	48,169	109,060
Total operating expenses - 2022	\$ 5,584,765	\$ 1,512,490	\$ 12,480,674	\$ 19,577,929	\$ 1,659,555	\$ 2,262,043	\$ 3,921,598	\$ 23,499,527

See accompanying notes.

Treehouse
Consolidated Statement of Cash Flows
Year Ended June 30, 2022

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 5,622,029
Adjustments to reconcile change in net assets to net cash flows from operating activities	
Depreciation	286,275
Donated investments	(336,936)
Net realized and unrealized losses (gains) on investments	1,568,107
Changes in allowance and discounts on receivables	(24,422)
Donation of interest in building	(7,097,000)
Changes in operating assets and liabilities	
Pledges receivable	42,101
Contribution receivable for rent	386,917
Contracts & Other receivable	(2,387,270)
Inventories	77,477
Deposits held in trust	173,737
Prepaid expenses	(317,914)
Accounts payable	123,999
Accrued salaries and related costs	113,229
	113,229
Net cash used in operating activities	(1,769,671)
CASH FLOWS USED IN INVESTING ACTIVITIES	
Purchase of investments	(195,512)
Proceeds from sale of investments	1,129,561
Purchase of furniture and equipment	(286,933)
	(286,933)
Net cash from investing activities	647,116
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,122,555)
CASH AND CASH EQUIVALENTS, beginning of year	5,552,763
CASH AND CASH EQUIVALENTS, end of year	\$ 4,430,208

See accompanying notes.

Treehouse

Notes to Consolidated Financial Statements

Note 1 – Organization

Treehouse (the Organization) is uniquely positioned at the intersection of the child welfare and education systems in Washington State. The Organization works to close the opportunity gap for youth and young adults who have experienced foster care, through direct service and advocating for systems change. Founded in 1988 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.

Treehouse serves more than 6,000 youth each year across the following programs:

- *Graduation Success* – Graduation Success partners with high school aged youth in foster care to engage and invest in their education and future. 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. Treehouse paves the way to high school graduation, hope and opportunity.
- *Young Adult Services* - Young Adult Services continues Treehouse's partnership with young adults after graduation by providing ongoing access to goal setting, navigation and financial and material resources.
- *Educational Advocacy* – Serving youth between the ages of pre-K through 12th grade, Treehouse Education Advocates partner with schools, social workers, foster families and youth in foster care to resolve difficult issues and remove barriers to school success.
- *Treehouse Store* – Youth in foster care and their caregivers can shop for high-quality clothing, shoes, school supplies, toys, books, free tickets to events and other essentials at the free store.
- *Just-in-Time Funding* – Treehouse provides funding for youth in foster care to explore interests and engage in their communities, removing financial barriers to their personal growth and development. Through Just-in-Time Funding, Treehouse funds opportunities such as school and athletic fees, arts and music programs, summer camps and more.
- *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.
- *Tribal Engagement* – Treehouse provides support for tribal youth with culturally competent educational coaching, opportunities and the development of self-advocacy skills.
- *Dual Systems Youth* – Treehouse provides access to basic and special education, transition planning and post-secondary opportunities for youth who have experienced both foster care and incarceration.

Treehouse

Notes to Consolidated Financial Statements

In December 2021 and February 2022, Treehouse received donations of partial ownership in property at 2100 24th Avenue South in Seattle and formed the 2100 Building LLC (2100 LLC), a wholly owned disregarded entity. The donated property is an office building in which Treehouse and other tenants reside. See Note 8.

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 consolidated statement of financial position. 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.

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 consolidated 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 was adopted by the Organization for the fiscal year ending June 30, 2022.

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.

Principles of consolidation – The consolidated financial statements include the accounts of Treehouse and the 2100 LLC. All significant intercompany transactions have been eliminated in the consolidated financial statements.

Use of estimates – The preparation of consolidated 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 consolidated statement of financial position. Treehouse has cash and cash equivalent balances in excess of federally insured limits.

Treehouse

Notes to Consolidated Financial Statements

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 – 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. Two donors represented 10% of total contribution and grant revenue for the year ended June 30, 2022, respectively. Of the total contribution and grant revenue, \$335,250, were from related parties for the year ended June 30, 2022. Three donors made up 61% of pledges receivable as of June 30, 2022.

Treehouse

Notes to Consolidated Financial Statements

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. Contributed clothing was utilized and offered to young people in the Free Store. The Organization estimated the fair value of clothing on the basis of estimates of wholesale values that would be received for selling similar products. See note 8 for consideration over the contribution of building interest. In-kind contributions recognized consist of the following for the year ended June 30, 2022:

Donated new and quality used clothing	\$ 627,694
Other	34,462
	\$ 662,156

Contract revenue – Revenue under contracts administered by local governments is recorded when services are performed. Contracts receivable represent contracts awarded without a barrier or right of return or earned, but not yet received. Substantially all contract receivables are from the state of Washington as of June 30, 2022.

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 consolidated statement of activities. As of June 30, 2022:

Equity securities	
Domestic	\$ 3,218,547
International	2,135,893
Fixed income securities	
US Fixed	130,091
Intermediate- and long term bond funds	993,131
Short-term bond funds	952,650
International	849,071
Money market fund	72,963
	\$ 8,352,346

Investments are presented in the consolidated statement of financial position as follows as of June 30, 2022:

Investments (current assets)	\$ 3,162,683
Endowment investments	5,189,663
	\$ 8,352,346

Treehouse

Notes to Consolidated Financial Statements

Investment income comprises the following for the year ended June 30, 2022:

Interest and dividends	\$ 206,515
Realized and unrealized gains (losses)	<u>(1,568,107)</u>
	<u>\$ (1,361,592)</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 incur and therefore no liability has been recorded. 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.

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, 2022:

Computer equipment	\$ 1,488,900
Office furniture and fixtures	440,421
Leasehold improvements	1,164,025
Vehicles	<u>61,030</u>
	3,154,376
Accumulated depreciation	<u>(1,925,956)</u>
Property and equipment, net	<u>\$ 1,228,420</u>

Treehouse

Notes to Consolidated Financial Statements

Functional allocation of expenses – The costs of providing the various programs and other activities are summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs are allocated among the programs and supporting services benefited. The consolidated 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 based 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. As a wholly owned subsidiary, 2100 LLC is treated as a disregarded entity for federal income tax purposes. 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 ended June 30, 2022.

Subsequent events – Treehouse has evaluated subsequent events through the date these consolidated financial statements were available to be issued, which was February 14, 2023.

Operating and nonoperating activity – Operating activities represent support and revenues and expenses solely related to the Organization's primary activities for the direct purpose of fulfilling its mission. Non-operating activity totals \$5,735,933 and consists of income and losses from investments and the 2100 LLC and is not part of the Organization's primary mission.

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 \$1.8 million per month for fiscal year 2022.
- 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, for determining reserves, 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.

Treehouse

Notes to Consolidated Financial Statements

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

Financial assets, at year-end	
Cash and cash equivalents	\$ 4,430,208
Investments	8,352,346
Contracts and other receivables	3,528,538
Pledges receivable	1,325,881
	17,636,973
Less those unavailable for general expenditures within one year	
Due to donor purpose restrictions	-
Due to donor time restrictions	380,000
Due to endowment purpose restriction	4,403,995
	4,783,995
Financial assets available to meet cash needs for general expenditures within one year	\$ 12,852,978

Note 4 – Pledges Receivable

Pledges receivable as of June 30, 2022:

Receivable in less than one year	\$ 1,004,000
Receivable in one to five years	380,000
	1,384,000
Less allowance for uncollectible pledges	(33,567)
	1,350,433
Less discounts to present value (2%)	(24,552)
	\$ 1,325,881

These assets are presented in the consolidated financial statements as follows as of June 30, 2022:

Current pledges receivable, net	\$ 970,433
Long-term pledges receivable, net	355,448
	\$ 1,325,881

Treehouse

Notes to Consolidated Financial Statements

Note 5 – Donor 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, 2022:

Contribution receivable for rent (restricted for time)	\$ 195,182
Contributions with payments due in future periods (restricted for time)	1,384,000
Contributions restricted for purpose	<u>-</u>
	<u>\$ 1,579,182</u>

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, 2022:

Treehouse Endowment Fund	\$ 586,014
Education Endowment Fund	633,477
Operations Endowment Fund	<u>3,184,504</u>
	<u>\$ 4,403,995</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 consolidated 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.

Treehouse

Notes to Consolidated Financial Statements

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.

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, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 4,403,996	\$ 4,403,996
Board-designated quasi-endowment fund	785,667	-	785,667
	\$ 785,667	\$ 4,403,996	\$ 5,189,663

Treehouse

Notes to Consolidated Financial Statements

Changes in endowment net assets are as follows for the year ending June 30, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 911,983	\$ 5,461,430	\$ 6,373,413
Investment return			
Net investment income	18,160	94,767	112,927
Net realized and unrealized loss	(144,476)	(951,018)	(1,095,494)
Total investment loss	(126,316)	(856,251)	(982,567)
Net assets appropriated and released from restrictions	-	(201,183)	(201,183)
Endowment net assets, end of year	<u>\$ 785,667</u>	<u>\$ 4,403,996</u>	<u>\$ 5,189,663</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).

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, 2022.

Treehouse

Notes to Consolidated Financial Statements

Note 7 – Office 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 ended June 30, 2021. As such, there is no cash portion of future minimum lease payments due as of June 30, 2022.

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 \$199,009 as of June 30, 2022, which has been discounted at an average interest rate of 2%. The amounts are due in the year ending June 30, 2023:

<u>Total</u>	<u>Discount (Interest Portion)</u>	<u>Recognized Contribution Receivable</u>
<u>\$ 199,009</u>	<u>\$ 3,827</u>	<u>\$ 195,182</u>

Effective December 31, 2022, the office lease agreement was amended to extend the term of the lease through December 31, 2024. Lease payments total \$319,000 and \$335,000 for the calendar years ended December 31, 2023 and 2024, respectively.

Rent expense for the period ended June 30, 2022, was \$465,815.

Note 8 – 2100 LLC

Effective October 1, 2020 through July 31, 2022, the Organization served as the property manager for the building in which it leases office space. In exchange for these management services, the Organization received \$6,000 per month which is based on the fair market value and square footage managed. The Organization was also be reimbursed for all direct costs related to managing the building. Any profits made from this property management agreement are treated as unrelated business income and are presented on the consolidated statement of activities as non-operating building revenue.

Effective December 2021, the Organization formed the 2100 LLC, a disregarded entity for federal tax purposes and a wholly owned subsidiary of Treehouse. Effective December 30, 2021, and February 2, 2022, 10% ownership and an additional 13.5% ownership of the building and property (collectively the Property) were donated to the 2100 LLC by the Legacy Owner. The fair market value of these donations totaled \$7,097,000 based on third party appraisal of local comparable properties. The investment in the building is accounted for under the equity method. Concurrent with the December 2021 donation, the 2100 LLC and Legacy Owner entered into a Tenancy in Common Agreement defining their relationship as co-tenants. Each co-tenant shares in the income and expense of the Property and funds required for building operations or reserves, according to their undivided interest in the Property. As of June 30, 2022, the 2100 LLC had not been required to fund operations or reserves. The co-tenant owning a majority interest in the Property has the right to operate and manage the building. In the event a co-tenant desires to sell their interest in the Property, they must first provide the offer to the other co-tenant.

Treehouse

Notes to Consolidated Financial Statements

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 \$225,828 for the year ended June 30, 2022.

