Report of Independent Auditors
and Consolidated Financial Statements

Treehouse

June 30, 2023 and 2022

MOSSADAMS

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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 statements of financial position as of June 30, 2023 and 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the years 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, 2023 and 2022, and the results of their operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits 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 audits. 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
November 30, 2023

Consolidated Financial Statements

Treehouse
Consolidated Statements of Financial Position
June 30, 2023 and 2022

	2023	2022
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 9,317,781	$ 4,395,579
Cash held for Extended Foster Care	1,491,792	34,629
Investments	3,494,432	3,162,683
Current pledges receivable, net	1,060,833	970,433
In-kind rent receivable	199,441	195,182
Contracts and other receivable	897,193	3,528,538
Inventories	266,619	315,985
Prepaid expenses and deposit	368,951	492,699
Total current assets	17,097,042	13,095,728
LONG-TERM ASSETS		
Long-term portion of pledges receivable, net	916,251	355,448
Property and equipment, net	921,513	1,228,420
Operating right of use assets	490,195	-
Interest in 2100 Building	7,097,000	7,097,000
Endowment investments	5,693,615	5,189,663
Total long-term assets	15,118,574	13,870,531
Total assets	$ 32,215,616	$ 26,966,259
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 74,854	$ 143,584
Deferred revenue	1,482,639	34,629
Lease liability	326,797	-
Other accruals and liabilities	98,966	231,815
Accrued salaries and related costs	877,638	829,883
Total current liabilities	2,860,894	1,239,911
LONG TERM LIABILITIES		
Long-term portion lease liability	172,729	-
Total liabilities	3,033,623	1,239,911
NET ASSETS		
Without donor restrictions	22,062,720	19,743,171
With donor restrictions	7,119,273	5,983,177
Total net assets	29,181,993	25,726,348
	$ 32,215,616	$ 26,966,259

See accompanying notes.

Treehouse
Consolidated Statement of Activities
Year Ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE			
Contributions and grants	$ 13,132,929	$ 1,385,500	$ 14,518,429
In-kind contributions	895,986	199,441	1,095,427
Contract revenue	15,649,980	-	15,649,980
Other revenue	29,650	-	29,650
Net assets released from restrictions	1,085,567	(1,085,567)	-
Total revenue	30,794,112	499,374	31,293,486
EXPENSES			
Program services	24,461,559	-	24,461,559
Management and general	1,518,208	-	1,518,208
Fundraising	2,972,316	-	2,972,316
Total expenses	28,952,083	-	28,952,083
CHANGES IN OPERATING NET ASSETS	1,842,029	499,374	2,341,403
NON-OPERATING ACTIVITY			
Investment gain/loss, net	511,181	636,722	1,147,903
Property related income	117,019	-	117,019
Property related expenses	(150,680)	-	(150,680)
Total non-operating activity	477,520	636,722	1,114,242
TOTAL CHANGE IN NET ASSETS	2,319,549	1,136,096	3,455,645
NET ASSETS, beginning of year	19,743,171	5,983,177	25,726,348
NET ASSETS, end of year	$ 22,062,720	$ 7,119,273	$ 29,181,993

See accompanying notes.

Treehouse
Consolidated Statement of Activities
Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
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	24,015,825	(630,202)	23,385,623
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	23,499,527	-	23,499,527
CHANGES IN OPERATING NET ASSETS	516,298	(630,202)	(113,904)
NON-OPERATING ACTIVITY			
Investment gain (loss), net	(505,340)	(856,252)	(1,361,592)
Donation of interest in building	7,097,000	-	7,097,000
Property related income	123,011	-	123,011
Property related expenses	(122,486)	-	(122,486)
Total non-operating activity	6,592,185	(856,252)	5,735,933
TOTAL CHANGE IN NET ASSETS	7,108,483	(1,486,454)	5,622,029
NET ASSETS, beginning of year	12,634,688	7,469,631	20,104,319
NET ASSETS, end of year	$ 19,743,171	$ 5,983,177	$ 25,726,348

See accompanying notes.

Treehouse
Consolidated Statement of Functional Expenses
Year Ended June 30, 2023

	Program Services				Support Services			
	Education	Enrichment	Policy & Systems Change	Total Program Services	Management and General	Fundraising	Total Support Services	Total
Payroll, taxes, and benefits	$ 9,936,997	$ 1,399,659	$ 1,108,785	$ 12,445,441	$ 857,442	$ 2,014,460	$ 2,871,902	$ 15,317,343
Assistance to specific young people	181,156	2,219,199	-	2,400,355	-	-	-	2,400,355
Extended foster care	-	7,150,594	-	7,150,594	-	-	-	7,150,594
Professional services	457,009	75,369	144,879	677,257	254,717	382,910	637,627	1,314,884
Technology and hardware	345,477	47,264	24,141	416,882	75,337	64,446	139,783	556,665
Occupancy	69,293	189,947	14,807	274,047	133,673	27,365	161,038	435,085
Professional development	231,633	31,749	14,277	277,659	41,547	27,860	69,407	347,066
Special events	-	-	-	-	-	225,263	225,263	225,263
Depreciation	193,348	25,866	13,580	232,794	42,032	25,865	67,897	300,691
Other expenses	327,704	228,172	30,654	586,530	113,460	204,147	317,607	904,137
Total expenses	$ 11,742,617	$ 11,367,819	$ 1,351,123	$ 24,461,559	$ 1,518,208	$ 2,972,316	$ 4,490,524	$ 28,952,083

See accompanying notes.

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

		Support Services			
	Total Program Services	Management and General	Fundraising	Total Support Services	Total
Payroll, taxes, and benefits	$ 9,825,178	$ 688,299	$ 647,549	$ 1,335,848	$ 11,161,026
Assistance to specific young people	4,910,515	-	-	-	4,910,515
Extended foster care	1,634,874	-	-	-	1,634,874
Professional services	1,184,449	584,639	276,936	861,575	2,046,024
Technology and hardware	837,189	202,811	12,623	215,434	1,052,623
Occupancy	407,947	52,778	5,090	57,868	465,815
Professional development	119,193	14,208	11,186	25,394	144,587
Special events	-	-	109,479	109,479	109,479
Depreciation	235,109	49,030	2,135	51,165	286,274
Other expenses	423,475	67,790	1,197,045	1,264,835	1,688,310
Total expenses	$ 19,577,929	$ 1,659,555	$ 2,262,043	$ 3,921,598	$ 23,499,527

See accompanying notes.

Treehouse
Consolidated Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 3,455,645	$ 5,622,029
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	300,691	286,275
Donated investments	(427,017)	(336,936)
Net realized and unrealized (gain) loss on investments	(643,218)	1,568,107
Changes in allowance and discounts on receivables	50,296	(24,422)
Loss on disposal of furniture and equipment	6,217	-
Donation of interest in building	-	(7,097,000)
Noncash operating lease expense	163,399	-
Changes in operating assets and liabilities		
Pledges receivable	(701,500)	42,101
Contribution receivable for rent	(4,259)	386,917
Contracts and other receivable	2,602,554	(2,387,270)
Inventories	49,366	77,477
Deposits held in trust	81,370	173,737
Prepaid expenses	60,217	(317,914)
Accounts payable and other liabilities	(190,629)	89,370
Deferred revenue	1,448,011	34,629
Operating lease liability	(154,068)	-
Accrued salaries and related costs	47,755	113,229
Net cash used in operating activities	6,144,830	(1,769,671)
CASH FLOWS USED IN INVESTING ACTIVITIES		
Purchase of investments	(198,903)	(195,512)
Proceeds from sale of investments	433,438	1,129,561
Purchase of furniture and equipment	-	(286,933)
Write-off IT office renovation	-	-
Net cash from investing activities	234,535	647,116
NET CHANGE IN CASH AND CASH EQUIVALENTS	6,379,365	(1,122,555)
CASH AND CASH EQUIVALENTS, beginning of year	4,430,208	5,552,763
CASH AND CASH EQUIVALENTS, end of year	$ 10,809,573	$ 4,430,208
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Right-of-use assets obtained in exchange for operating lease liabilities	$ 653,594	$ -

See accompanying notes.

Note 1 – Organization

Founded in 1988 Treehouse (the Organization) envisions – and strives to create – a world where every young person who has experienced foster care has the opportunities and support they need to pursue their dreams and launch successfully into adulthood. Treehouse removes barriers through systems change and legislative advocacy. Treehouse partners with approximately 7,000 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. Effective with the 2023/24 school year Graduation Success will commence expansion to partner with 8th grade.

- *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.

In December 2021 and February 2022, Treehouse received donations of partial ownership in property at 2100 24th Avenue South in Seattle, Washington 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.

Recently adopted accounting standards – Effective for fiscal year ending June 30, 2023, Treehouse adopted Accounting Standards Update (ASU) No. 2016-02, *Leases*, which requires lessees to recognize leases on the consolidated statements of financial position and disclose key information about leasing arrangements. It also elected not to reassess at adoption (i) expired or existing contracts to determine whether they are or contain a lease, (ii) the lease classification of any existing leases, or (iii) initial direct costs for existing leases. As a result of implementing ASU No. 2016-02, Treehouse recognized right-of-use assets of and lease liabilities of $653,594 in its consolidated statement of financial position as of January 1, 2023. The adoption did not result in a significant impact on amounts reported in the consolidated statement of activities for the year ended June 30, 2023.

Reclassifications – Certain amounts included in the 2022 consolidated financial statements have been reclassified to conform with the current year presentation.

Note 2 – Summary of Significant Accounting Policies

Financial statement presentation – Treehouse reports information regarding its consolidated 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 of America (U.S. GAAP) 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.

Leases – Treehouse determines if an arrangement is or contains a lease at inception. Leases are included in right-of-use (ROU) assets and lease liabilities in the consolidated statement of financial position. ROU assets and lease liabilities reflect the present value of the future minimum lease payments over the lease term; ROU assets also include prepaid or accrued rent. Operating lease expense is recognized on a straight-line basis over the lease term. Treehouse does not report ROU assets and leases liabilities for its short-term leases (leases with a term of 12 months or less). Instead, the lease payments of those leases are reported as lease expense on a straight-line basis over the lease term.

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. Three donors represented 28% of total contribution and grant revenue for the year ended June 30, 2023. Two donors represented 10% of total contribution and grant revenue for the year ended June 30, 2022. Of the total contribution and grant revenue, $164,947 and $335,250 were from related parties for the years ended June 30, 2023 and 2022, respectively. Three donors compromised 73% and 61% of pledges receivable as of June 30, 2023 and 2022, respectively.

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. In-kind contributions of goods and services are not monetized. 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 years ended June 30, 2023 and 2022:

	2023	2022
Donated new and quality used clothing	$ 803,011	$ 627,694
Rent and other	292,416	34,462
	$ 1,095,427	$ 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, 2023 and 2022. For the years ended June 30, 2023 and 2022, Treehouse received one time funding from DCYF totaling $7,405,362 and $1,738,000, respectively, to provide eligible young people in Extended Foster Care financial assistance following the pandemic. This program concluded July 2023. As of June 30, 2023 funding received by DCYF totaling $1,482,639 is recorded as deferred revenue and will be recognized when the payments to young people are completed. Final reconciliation and distributions were completed in July 2023.

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 statements of activities. As of June 30, 2023 and 2022 investments are compromised of the following:

	2023	2022
Equity securities		
Domestic	$ 3,812,390	$ 3,218,547
International	2,398,913	2,135,893
Fixed income securities		
US fixed	115,959	203,054
Intermediate and long term bond funds	1,058,115	993,131
Short-term bond funds	951,347	952,650
International	851,322	849,071
	$ 9,188,047	$ 8,352,346

Investments are presented in the consolidated statements of financial position as follows as of June 30, 2023 and 2022:

	2023	2022
Investments (current assets)	$ 3,494,432	$ 3,162,683
Endowment investments	5,693,615	5,189,663
	$ 9,188,047	$ 8,352,346

Investment income (loss) comprises the following for the years ended June 30, 2023 and 2022:

	2023	2022
Interest and dividends	$ 504,685	$ 206,515
Realized and unrealized gains (losses)	643,218	(1,568,107)
	$ 1,147,903	$ (1,361,592)

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 8.

Property and equipment, net – Furniture, equipment and leasehold improvements are recorded at cost if purchased, or at estimated fair value at the date of receipt if donated. All purchases under $5,000 are expensed when acquired. Depreciation and amortization expense are computed using the straight-line method over the estimated useful lives of the assets, which are generally three to fifteen years. Property and equipment consist of the following as of June 30, 2023 and 2022:

	2023	2022
Computer equipment	$ 813,940	$ 1,488,900
Office furniture and fixtures	440,421	440,421
Vehicles	61,030	61,030
Leasehold improvements	1,156,773	1,164,025
	2,472,164	3,154,376
Accumulated depreciation	(1,550,651)	(1,925,956)
Property and equipment, net	$ 921,513	$ 1,228,420

Functional allocation of expenses – The costs of providing the various programs and other activities are summarized on a functional basis in the consolidated statements 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 Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740-10, *Income Taxes*, relating to accounting for uncertain tax positions. ASC 740-10 prescribes a recognition threshold and measurement process for accounting for uncertain tax positions and also provides guidance on various related matters such as derecognition, interest, penalties and disclosures required. Management does not believe Treehouse has an uncertain tax position as of and for the fiscal periods ended June 30, 2023 and 2022.

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 consists of income and losses from investments and the 2100 LLC and is not part of the Organization's primary mission. Non-operating activity totals $1,114,242 and $5,735,933 for the years ended June 30, 2023 and 2022, respectively.

Subsequent events – Treehouse has evaluated subsequent events through the date these consolidated financial statements were available to be issued, which was November 30, 2023

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 are budgeted at $2.1 million per month for fiscal year 2024.

- 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. Effective July 1, 2023, Treehouse entered into a $500,000 line of credit agreement (LOC) though July 1, 2024. Interest accrues on any outstanding balance at the greater of Prime or 5%. Treehouse has not borrowed against the LOC.

Cash held for Extended Foster Care (EFC) Payments represents amounts received under the EFC Program disbursed to young people in July 2023.

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

	2023	2022
Financial assets, at year-end		
Cash and cash equivalents	$ 9,317,781	$ 4,395,579
Cash held for Extended Foster Care	1,491,792	34,629
Investments	9,188,047	8,352,346
Contracts receivable	897,193	3,528,538
Promises to give	1,977,084	1,325,881
	22,871,897	17,636,973
Less those unavailable for general expenditures within one year		
Due to donor time restrictions	1,019,667	380,000
Due to endowment purpose restriction	4,834,333	4,403,995
	5,854,000	4,783,995
Financial assets available to meet cash needs for general expenditures within one year	$ 17,017,897	$ 12,852,978

Note 4 – Pledges Receivable

Pledges receivable as of June 30, 2023 and 2022, are as follows:

	2023	2022
Receivable in less than one year	$ 1,065,833	$ 1,004,000
Receivable in one to five years	1,019,666	380,000
	2,085,499	1,384,000
Less allowance for uncollectible pledges	(5,000)	(33,567)
	2,080,499	1,350,433
Less discounts to present value	(103,415)	(24,552)
Pledges receivable, net	$ 1,977,084	$ 1,325,881

These assets are presented in the consolidated financial statements as follows as of June 30, 2023 and 2022, and as follows:

	2023	2022
Current pledges receivable, net	$ 1,060,833	$ 970,433
Long-term pledges receivable, net	916,251	355,448
Pledges receivable, net	$ 1,977,084	$ 1,325,881

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, 2023 and 2022:

	2023	2022
Contribution receivable for rent (restricted for time)	$ 199,441	$ 195,182
Contributions with payments due in future periods (restricted for time)	2,085,499	1,384,000
	$ 2,284,940	$ 1,579,182

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, 2023 and 2022:

	2023	2022
Education Endowment Fund	$ 695,780	$ 586,014
Treehouse Endowment Fund	640,922	633,477
Operations Endowment Fund	3,497,631	3,184,505
	$ 4,834,333	$ 4,403,996

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.

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, 2023 and 2022:

	2023 Without Donor Restrictions	2023 With Donor Restrictions	2023 Total
Donor-restricted endowment funds	$ -	$ 4,834,333	$ 4,834,333
Board-designated quasi-endowment fund	859,282	-	859,282
	$ 859,282	$ 4,834,333	$ 5,693,615

	2022 Without Donor Restrictions	2022 With Donor Restrictions	2022 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

Changes in endowment net assets are as follows for the years ended June 30, 2023 and 2022:

	2023 Without Donor Restrictions	2023 With Donor Restrictions	2023 Total
Endowment net assets, beginning of year	$ 785,667	$ 4,403,996	$ 5,189,663
Investment return			
Net investment income	15,943	85,582	101,525
Net realized and unrealized gain	57,672	551,139	608,811
Total investment return	73,615	636,722	710,337
Net assets appropriated and released from restrictions	-	(206,385)	(206,385)
Endowment net assets, end of year	$ 859,282	$ 4,834,333	$ 5,693,615

	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	116,273	345,541	461,814
Net realized and unrealized loss	(242,589)	(1,201,792)	(1,444,381)
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	$ 785,667	$ 4,403,996	$ 5,189,663

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, 2023 and 2022.

Note 7 – Leases

Treehouse evaluated current contracts to determine which met the criteria of a lease. The right-of-use (ROU) assets represent Treehouse's right to use underlying assets for the lease term, and the lease liabilities represent Treehouse's obligation to make lease payments arising from these leases. The ROU assets and lease liabilities, all of which arise from operating leases, were calculated based on the present value of future lease payments over the lease terms. Treehouse has made an accounting policy election to use a risk-free rate in lieu of its incremental borrowing rate to discount future lease payments. The weighted-average discount rate applied to calculate lease liabilities as of June 30, 2023, was 4.87%. For the year ended June 30, 2023, total operating lease cost was $163,398, and total short-term lease cost was approximately $17,000. As of June 30, 2023, the remaining lease term for Treehouse's operating leases is 1.5 years. Cash paid for operating leases for the year ended June 30, 2023, totaled $154,068. Future maturities of lease liabilities (cash portion) are presented in the following table for the fiscal years ending June 30, 2024 and 2025:

2024	$ 326,797
2025	172,729
Total lease payments	499,526
Less present value discount	(8,412)
	$ 491,114

Effective January 1, 2023, Treehouse signed an amended office lease agreement extending the lease to January 1, 2025. The new lease agreement provides for payments below market rates. Contribution receivable for rent as presented on the statement of financial position represents the fair value of rent contributed to Treehouse in excess of actual rent to be paid as specified in the lease. The full amount of the contributed rent to be received is $199,441 as of June 30, 2023, which has been discounted at a blended interest rate of 2.44%. The amounts are due as follows for the years ended June 30, 2024 and 2025:

	Total	Discount (Interest Portion)	Recognized Contribution Receivable
2024	$ 135,637	$ -	$ 135,637
2025	66,911	3,107	63,804
	$ 202,548	$ -	$ 199,441

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 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 statements of activities as non-operating property-related 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, 2023 and 2022, the 2100 LLC did not required funding of operations or reserves. As of June 30, 2023, Treehouse funded 2100 LLC operations totaling $25,306. 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. Effective January 1, 2023, the property agreement was amended. Effective September 1, 2022, the Organization received $500 per month in its role of managing the new property manager.

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 $296,713 and $225,828 for the years ended June 30, 2023 and 2022, respectively.

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