

**TREEHOUSE**

FINANCIAL REPORT

SEPTEMBER 30, 2009

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CERTIFIED PUBLIC ACCOUNTANTS  
601 UNION STREET, SUITE 2300  
SEATTLE, WASHINGTON 98101

**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Treehouse  
Seattle, Washington

We have audited the accompanying statement of financial position of Treehouse as of September 30, 2009, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of Treehouse's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from Treehouse's September 30, 2008, financial statements and in our report dated December 29, 2008, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Treehouse as of September 30, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

*Peterson Sullivan LLP*

January 21, 2010

## TREEHOUSE

### STATEMENT OF FINANCIAL POSITION

September 30, 2009

(With Comparative Totals for 2008)

ASSETS	<u>2009</u>	<u>2008</u>
Current Assets		
Cash and cash equivalents	\$ 2,188,606	\$ 1,591,112
Current pledges receivable, net	514,055	666,331
Grants and other receivables	197,931	231,393
Inventories	215,593	181,557
Prepaid expenses	<u>35,550</u>	<u>24,974</u>
Total current assets	3,151,735	2,695,367
Long-Term Assets		
Long-term pledges receivable, net	24,874	151,734
Furniture and equipment, net	135,265	200,621
Endowment investments	2,812,583	3,189,906
Other investments	<u>94,394</u>	<u>63,243</u>
Total long-term assets	<u>3,067,116</u>	<u>3,605,504</u>
Total assets	<u><u>\$ 6,218,851</u></u>	<u><u>\$ 6,300,871</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 56,819	\$ 64,663
Accrued salaries and related costs	<u>114,309</u>	<u>89,012</u>
Total current liabilities	171,128	153,675
Net Assets		
Unrestricted	2,739,149	2,012,187
Temporarily restricted	495,991	945,103
Permanently restricted	<u>2,812,583</u>	<u>3,189,906</u>
Total net assets	<u>6,047,723</u>	<u>6,147,196</u>
Total liabilities and net assets	<u><u>\$ 6,218,851</u></u>	<u><u>\$ 6,300,871</u></u>

See Notes to Financial Statements

## TREEHOUSE

### STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2009  
(With Comparative Totals for 2008)

	2009			2008 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenue				
Contributions and grants	\$ 2,955,275	\$ 682,380	\$ 5,835	\$ 4,186,976
In-kind contributions	1,557,538			1,329,171
Program service fees	1,102,109			1,105,818
Net assets released from restrictions	1,280,714	(1,131,492)	(149,222)	
Total revenue	6,895,636	(449,112)	(143,387)	6,621,965
Expenses				
Program services	5,194,058			4,893,228
Management and general	274,475			376,913
Fundraising	755,765			735,535
Total expenses	6,224,298			6,005,676
Changes in net assets before investment income (loss)	671,338	(449,112)	(143,387)	616,289
Investment income (loss)	55,624		(233,936)	(706,073)
<b>Change in net assets</b>	<b>726,962</b>	<b>(449,112)</b>	<b>(377,323)</b>	<b>(99,473)</b>
Net assets, beginning of year	2,012,187	945,103	3,189,906	6,236,980
Net assets, end of year	\$ 2,739,149	\$ 495,991	\$ 2,812,583	\$ 6,147,196

See Notes to Financial Statements

# TREEHOUSE

## STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended September 30, 2009  
(With Comparative Totals for 2008)

	Program Services			Support Services			Totals	
	Education Programs	Enrichment Programs		Management and General	Fundraising	2009	2008	
		Wearhouse	Other					
Assistance to specific individuals	\$ 74,960	\$ -	\$ 411,588	\$ -	\$ -	\$ 486,548	\$ 556,558	
Wearhouse distributions		1,160,710				1,160,710	1,201,865	
Payroll	1,401,646	141,729	207,832	68,595	405,582	2,225,384	2,012,523	
Payroll taxes and benefits	319,549	24,961	31,624	10,260	77,844	464,238	428,641	
Special events					62,477	62,477	117,668	
Professional services	47,957	9,515	31,425	51,590	38,243	178,730	226,158	
Supplies	38,910	5,928	5,583	386	6,494	57,301	59,495	
Occupancy	110,061	201,512	18,143	32,654	27,700	390,070	388,865	
Printing and publications	8,895	30	1,943	6,251	39,247	56,366	56,362	
Postage and shipping	2,497	1,077	11,668	451	32,040	47,733	50,062	
Depreciation	53,465	6,340	9,636	26,443	20,160	116,044	128,502	
Meetings	15,839		79	7,961	738	24,617	12,088	
Staff training	2,964			5,127	3,268	11,359	13,608	
Transportation	45,002	50	269	1,254	1,415	47,990	62,220	
Insurance				18,018		18,018	17,880	
Credit card fees					23,832	23,832	18,806	
Equipment leases	6,303	747	1,477	1,893	2,377	12,797	11,716	
Licenses and fees	13,403	697		5,830	7,856	27,786	20,578	
Holiday Magic purchases			393,995			393,995	254,657	
Other in-kind expenses	142,017	6,141	110,654	21,895	20	280,727	249,020	
Other	19,233	94,726	1,278	15,867	6,472	137,576	118,404	
<b>Total expenses - 2009</b>	<b>\$ 2,302,701</b>	<b>\$ 1,654,163</b>	<b>\$ 1,237,194</b>	<b>\$ 274,475</b>	<b>\$ 755,765</b>	<b>\$ 6,224,298</b>		
<b>Percent of total - 2009</b>	<b>37%</b>	<b>27%</b>	<b>20%</b>	<b>4%</b>	<b>12%</b>	<b>100%</b>		
<b>Total expenses - 2008</b>	<b>\$ 1,971,465</b>	<b>\$ 1,637,201</b>	<b>\$ 1,284,562</b>	<b>\$ 376,913</b>	<b>\$ 735,535</b>		<b>\$ 6,005,676</b>	
<b>Percent of total - 2008</b>	<b>33%</b>	<b>27%</b>	<b>21%</b>	<b>6%</b>	<b>13%</b>		<b>100%</b>	

See Notes to Financial Statements

## TREEHOUSE

### STATEMENT OF CASH FLOWS For the Year Ended September 30, 2009 (With Comparative Totals for 2008)

	2009	2008
Cash Flows from Operating Activities		
Change in net assets	\$ (99,473)	\$ (89,784)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	116,044	128,502
Loss on disposal of furniture and equipment		3,902
Net realized and unrealized loss on investments	267,773	849,328
Contributions restricted for endowments		(250,800)
Donated computer software	(46,719)	
Interest and dividends restricted for long-term investments	(55,482)	(68,872)
Change in operating assets and liabilities		
Receivables	312,598	(481,110)
Inventories	(34,036)	31,377
Prepaid expenses	(10,576)	4,131
Accounts payable	(7,844)	27,541
Accrued salaries and related costs	25,297	23,187
Net cash flows from operating activities	467,582	177,402
Cash Flows from Investing Activities		
Purchase of investments	(70,824)	(338,854)
Proceeds from sale of investments	149,222	146,226
Purchase of furniture and equipment	(3,968)	(59,463)
Net cash flows from investing activities	74,430	(252,091)
Cash Flows from Financing Activities		
Contributions restricted for endowments		250,800
Interest and dividends restricted for reinvestment	55,482	68,872
Net cash flows from financing activities	55,482	319,672
<b>Net change in cash and cash equivalents</b>	<b>597,494</b>	<b>244,983</b>
Cash and cash equivalents, beginning of year	1,591,112	1,346,129
Cash and cash equivalents, end of year	\$ 2,188,606	\$ 1,591,112

See Notes to Financial Statements

## NOTES TO FINANCIAL STATEMENTS

### Note 1. Organization

Treehouse is a non-profit organization uniquely committed to helping foster children throughout King County attain self-esteem and confidence, and to reach their fullest potential by responding to their needs, hopes and dreams. Founded in 1988, Treehouse's mission is *giving foster kids a childhood and a future*. Funding is received primarily from individuals, corporate gifts, and private foundation grants. Governmental support has traditionally been limited with the exception of an agreement with the Washington State Department of Social and Health Services ("DSHS").

Treehouse's six major programs are in two categories – Education and Enrichment.

#### Education programs:

- Tutoring – Treehouse tutoring provides one-on-one educational help for students who, through no fault of their own, are far behind their peers. Treehouse's intensive tutoring program places certified teachers in public schools to provide foster kids with essential weekly tutoring in basic skills. After-school tutoring and summer school classes are also provided at Treehouse.
- Educational Advocacy – Treehouse's Educational Advocacy program connects schools, social workers, foster families and the children, to obtain the intervention, testing or remediation services kids need – and deserve – to boost their chances for academic success. Educational Advocacy is Treehouse's one statewide program.
- Coaching-to-College – This innovative program teams volunteers with foster children to help them prepare for and navigate the daunting college selection and application process, including identifying scholarships and other support services. Through the Coaching-to-College ("CTC") program, Treehouse assists foster kids to further their education and enhance their future opportunities by attending college in numbers that exceed the rates historically enjoyed by children in foster care.

#### Enrichment programs:

- Little Wishes/Summer Camp – Treehouse's Little Wishes program provides funds for the activities that every child deserves to explore and enjoy including: community-based athletics, art and music lessons, school field trips, and tickets to cultural events. Treehouse's camp program sends foster kids to the day or overnight camp of their choice. Summer camp introduces positive role models into otherwise difficult lives, while providing a much-needed opportunity to get away from it all, make new friends, and just be a normal kid for one unforgettable week.

- Wearhouse – The Wearhouse accepts donations of new and like-new clothing, toys, books, school supplies, and household goods and distributes them at no charge to eligible children residing in King County. When necessary to meet demand, Treehouse may purchase items for distribution. Due to the significance of the expenses related to the Wearhouse, the expenses have been shown separately in the Statement of Functional Expenses.
- Holiday Magic – In 2009, Treehouse continued the responsibility for the project management of Holiday Magic assumed from DSHS in 2007. Treehouse partners with 97.3 FM KIRO (a Seattle-based radio station) and raises funds for the purchase of holiday gifts for foster kids throughout Western Washington. Funds raised, primarily through a 24-hour radiothon, totaled \$550,506 during 2009. The proceeds of the radiothon are used to purchase gifts for foster children. At September 30, 2009, Treehouse has \$279,117 restricted to fund Holiday Magic in 2010, which are recorded as temporarily restricted net assets.

## **Note 2. Summary of Significant Accounting Policies**

### **Financial Statement Presentation**

Treehouse reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Temporarily restricted contributions are reclassified to unrestricted net assets when the restrictions are met. Permanently restricted contributions are reclassified to unrestricted net assets in accordance with the donors' request to fund expenditures for various programs. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction is met in the year in which the support is initially recognized.

The financial statements include 2008 prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States. Accordingly, such information should be read in conjunction with Treehouse's financial statements for the year ended September 30, 2008, from which the summarized information was derived. Certain 2008 financial statement amounts have been reclassified to conform to the 2009 presentation.

### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from the estimated amounts.

## **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, which prioritizes 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 the 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.

## **Cash and Cash Equivalents**

Cash and cash equivalents include cash and money market funds. Treehouse may have amounts deposited with a financial institution in excess of federally insured limits.

## **Unconditional and Conditional Promises to Give**

Unconditional promises to give are recognized as support in the period the pledge is received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. There are no conditional promises as of September 30, 2009 or 2008.

## **Investments**

Investments are stated at fair value using Level 1 inputs. Realized and unrealized gains and losses are included in the Statement of Activities. At September 30, 2009 and 2008, all investments are related to the Operating, Education, and Fostering Futures Endowments and are invested as follows:

	<u>2009</u>	<u>2008</u>
Vanguard 500 Index Equity Mutual Fund	\$ 2,405,870	\$ 2,789,029
Vanguard Short-Term Bond Index Mutual Fund	501,107	464,120
	<u>\$ 2,906,977</u>	<u>\$ 3,253,149</u>

Investments are presented in the Statement of Financial Position as follows:

	<u>2009</u>	<u>2008</u>
Endowment investments	\$ 2,812,583	\$ 3,189,906
Other investments	94,394	63,243
	<u>\$ 2,906,977</u>	<u>\$ 3,253,149</u>

Other investments represent investment earnings from the Fostering Futures Endowment set aside by the Board of Directors until the Fund grows to \$1,000,000 (see Note 5). These funds are not donor restricted, but are designated by the Board for this specific goal. Other investments are included in unrestricted net assets on the Statement of Financial Position.

Investment income (loss) was composed of:

	2009	2008
Interest and dividends	\$ 89,461	\$ 143,255
Unrealized losses	(267,773)	(849,328)
	\$ (178,312)	\$ (706,073)

Investment income (loss) reported as an increase in unrestricted net assets for the year ended September 30, 2009, amounted to \$55,624. This amount is comprised of interest and dividends of \$15,341 and unrealized gains of \$21,645 generated from the Fostering Futures Endowment and interest and dividends of \$18,638 generated from cash and cash equivalents. Investments representing the Fostering Futures Endowment are included with Endowment Investments in the Statement of Financial Position.

Investment income (loss) reported as a decrease in permanently restricted net assets for the year ended September 30, 2009, amounted to \$(233,936). This amount includes an unrealized loss of \$(289,418) from the Operations and Education Endowments and interest and dividends amounting to \$55,482.

### **Inventories**

Inventories include new clothing and other items for children that are purchased or donated. Purchased new inventory is valued at cost and donated new inventory is valued at estimated fair value. Donated quality used clothing is not included in inventory. It is recognized when it is distributed as both a contribution and expense at its estimated fair value, based upon thrift store prices.

### **Furniture and Equipment**

Furniture and equipment is recorded at cost, if purchased, or at estimated fair value at the date of receipt, if donated. All purchases under \$500 are expensed when acquired. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Furniture and equipment consist of the following:

	<u>2009</u>	<u>2008</u>
Computer equipment	\$ 363,827	\$ 315,740
Office furniture and fixtures	402,479	399,878
Leasehold improvements	66,453	66,453
Vehicle	13,257	13,257
	<u>846,016</u>	<u>795,328</u>
Accumulated depreciation	<u>(710,751)</u>	<u>(594,707)</u>
Furniture and equipment, net	<u>\$ 135,265</u>	<u>\$ 200,621</u>

### **In-Kind Contributions**

In-kind contributions are recorded at their estimated fair values using Level 1 or 2 inputs at the date of donation, except donations of used clothing are recognized as both revenue and expense when distributed. In-kind contributions recognized consist of the following:

	<u>2009</u>	<u>2008</u>
Donated new and quality used clothing	\$ 1,236,203	\$ 1,098,043
Summer camp discounts	60,545	85,230
Little Wishes discounts	44,590	63,422
Gift cards	15,081	14,467
Tutoring	73,369	38,898
Professional services and other	81,031	29,111
Donated computer software	46,719	
	<u>\$ 1,557,538</u>	<u>\$ 1,329,171</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.

### **Income Taxes**

Treehouse is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

### Subsequent Events

Treehouse evaluated subsequent events through the date these financial statements were available to be issued, which was on January 21, 2010.

### **Note 3. Pledges Receivable**

Pledges receivable are as follows:

	<u>2009</u>	<u>2008</u>
Receivable in less than one year	\$ 527,341	\$ 666,331
Receivable in one to five years	<u>25,000</u>	<u>171,667</u>
	552,341	837,998
Less: Allowance for uncollectible pledges	<u>(13,286)</u>	<u>(16,900)</u>
	539,055	821,098
Less: Present value discount at 1% and 2% in 2009 and 2008, respectively	<u>(126)</u>	<u>(3,033)</u>
Pledges receivable, net	<u><u>\$ 538,929</u></u>	<u><u>\$ 818,065</u></u>

These assets are presented in the financial statements as follows:

	<u>2009</u>	<u>2008</u>
Current	\$ 514,055	\$ 666,331
Long-term	<u>24,874</u>	<u>151,734</u>
Pledges receivable, net	<u><u>\$ 538,929</u></u>	<u><u>\$ 818,065</u></u>

#### Note 4. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of contributions restricted for particular purposes or time periods, and were composed of the following as of September 30:

	2009	2008
Fostering Futures	\$ 10,000	\$ 10,500
Holiday Magic	279,117	122,606
Little Wishes		92,000
Contributions with payments due in future periods (restricted for time)	37,999	444,997
Contributions with payments due in future periods (restricted for time and Tutoring program)	168,875	175,000
Contributions with payments due in future periods (restricted for time and Coaching-to-College program)		100,000
	<u>\$ 495,991</u>	<u>\$ 945,103</u>

#### Note 5. Donor Restricted Endowment Funds

Two separate endowment funds, the Education Endowment Fund and Operations Endowment Fund, 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 average balances of both the Education and Operations Endowment Funds to be released from restrictions annually on December 31, without regard to the principal balance. The amount released is available to Treehouse for expenditure to fund educational programs and operational needs. Each year, the amounts released are shown as being transferred to unrestricted net assets. The donors require Treehouse to invest the endowment funds in U.S. equity securities and, as such, all other investment earnings or losses related to these endowments in excess of the amounts released are retained and presented in the financial statements as a component of permanently restricted net assets.

An endowment fund called the Fostering Futures Endowment Fund was created in 2003 in conjunction with Treehouse's Fostering Futures Campaign. Earnings from the Fostering Futures Endowment Fund are available to be used to achieve the targeted goals of Treehouse; however, the Board of Directors has resolved that no funds from the Fostering Futures Endowment Fund will be expended until the fund grows to \$1,000,000. There were no transfers from this Fund in 2009 or 2008.

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 Operating and Educational Endowment Funds). As a result of this interpretation, Treehouse classifies as permanently restricted net assets (other than the Operating and Educational Endowment Funds) (a) the original value of gifts donated to the permanent endowment, plus (b) the original value of subsequent gifts to the permanent endowment.

Endowment Net Assets consisted of the following at:

	September 30, 2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ -	\$ 2,812,583	\$ 2,812,583
Board-designated endowment funds	94,394			94,394
Total endowment funds	<u>\$ 94,394</u>	<u>\$ -</u>	<u>\$ 2,812,583</u>	<u>\$ 2,906,977</u>

	September 30, 2008			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ -	\$ 3,189,906	\$ 3,189,906
Board-designated endowment funds	63,243			63,243
Total endowment funds	<u>\$ 63,243</u>	<u>\$ -</u>	<u>\$ 3,189,906</u>	<u>\$ 3,253,149</u>

Changes in Endowment Net Assets are as follows for the years ending:

	September 30, 2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 63,243	\$ -	\$ 3,189,906	\$ 3,253,149
Investment return:				
Net investment income	15,341		55,482	70,823
Net realized and unrealized gain (loss)	21,645		(289,418)	(267,773)
Total investment return	36,986		(233,936)	(196,950)
Net assets released from restrictions			(149,222)	(149,222)
Other	(5,835)		5,835	
Endowment net assets, end of year	<u>\$ 94,394</u>	<u>\$ -</u>	<u>\$ 2,812,583</u>	<u>\$ 2,906,977</u>
	September 30, 2008			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 43,927	\$ -	\$ 3,809,328	\$ 3,853,255
Investment return:				
Net investment income	19,182		68,871	88,053
Net realized and unrealized gain (loss)	134		(849,462)	(849,328)
Total investment return	19,316		(780,591)	(761,275)
Contributions			307,395	307,395
Net assets released from restrictions			(146,226)	(146,226)
Endowment net assets, end of year	<u>\$ 63,243</u>	<u>\$ -</u>	<u>\$ 3,189,906</u>	<u>\$ 3,253,149</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 predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity. In accordance with the donors' stipulations, the assets in the Operating and Education Endowments are invested in U.S. equity securities. Accordingly, the investment policy states that the assets are to be invested in an S&P 500 index mutual fund. Treehouse expects its Endowment funds, over time, to continue to provide an average rate of return in excess of the 5% distributed from the funds, allowing the Endowments to continue to increase in value. Actual returns in any given year may vary from this amount.

Under the policy, the Fostering Futures Endowment assets are invested in a short-term bond index mutual fund.

**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). Following donor restrictions, two of its Endowments are invested in U.S. equity securities with the remaining invested in a short-term bond index mutual fund to achieve its long-term return objectives within prudent risk constraints.

**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 average balances of its Operating and Education Endowment Fund's value. No funds from the Fostering Futures Endowment will be expended until the balance of the fund grows to \$1,000,000. The donors allow the Board of Directors to reduce the amounts to be released from restrictions for all three endowments in the event they believe such a reduction would be in the best interest of Treehouse.

**Funds with Deficiencies**

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level of original value of the gifts donated. There were no deficiencies of this nature as of September 30, 2009.

**Note 6. Leases**

Treehouse leases office space under an operating lease agreement that expires in December 2011. The lease has an early termination clause only if Treehouse experiences a 15% shortfall in actual revenues versus budgeted amounts for any four-month period. During fiscal year 2009, no such shortfall occurred. Rental expense for the years ended September 30, 2009 and 2008, was \$390,069 and \$388,865, respectively. Future minimum lease payments (assuming the early termination clause is not utilized) for the years ending September 30 are as follows:

FY 2010	\$ 392,328
FY 2011	397,396
FY 2012	66,396
	<hr/>
	\$ 856,120
	<hr/>

Treehouse leases its copier under a five year operating lease agreement that expires in January 2013. The lease expense for the copier for the years ended September 30, 2009 and 2008, was \$9,964 and \$5,959, respectively. Future minimum lease payments for the years ending September 30 are as follows:

FY 2010	\$	8,676
FY 2011		8,676
FY 2012		8,676
FY 2013		<u>2,892</u>
	\$	<u><u>28,920</u></u>

**Note 7. Concentrations**

At September 30, 2009, 50% of pledges receivable are from two donors. At September 30, 2008, 60% of pledges receivable were to be received from two donors. For the years ended September 30, 2009 and 2008, 11% and 14%, respectively, of contributions and grants revenue was received from one donor (and organizations related to the donor).