



# TREEHOUSE

*Financial Statements and  
Independent Auditor's Report*

*March 31, 2020 and 2019*

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*March 31, 2020 and 2019*

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## **Independent Auditor's Report**

To the Board of Directors of TreeHouse, Inc.  
St. Louis Park, Minnesota

We have audited the accompanying financial statements of TreeHouse, Inc., which comprise the statements of financial position as of March 31, 2020 and 2019, and the related statements of activities and changes in net assets, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TreeHouse, Inc. as of March 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Wilkinson, Guthrie & Johnson, Ltd.*

Saint Paul, Minnesota  
November 16, 2020

TreeHouse, Inc.

Statements of Financial Position

<i>As of March 31,</i>	<b>2020</b>	<b>2019</b>
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 105,642	\$ 328,528
Cash—Restricted Purpose	255,082	323,282
Contributions Receivable, Net	721,226	453,962
Prepaid Expenses and Other	205,568	127,070
Total Current Assets	1,287,518	1,232,842
<b>Land, Buildings and Equipment</b>		
Land, Buildings and Equipment, Net	1,323,696	811,666
<b>Other</b>		
Contributions Receivable, Net of Current Portion	400,000	-
Assets Held for Endowment	735,343	741,586
Security Deposits	50,000	55,140
Total Other Assets	1,185,343	796,726
<b>Total Assets</b>	<b>\$ 3,796,557</b>	<b>\$ 2,841,234</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current</b>		
Accounts Payable	\$ 185,531	\$ 142,664
Accrued Expenses	338,374	266,541
Current Portion of Security Deposit Liability	46,200	15,000
Deferred Event Revenue	76,200	134,795
Total Current Liabilities	646,305	559,000
<b>Long-Term</b>		
Long-Term Security Deposit Liability, Net of Current Portion	-	30,000
Deferred Rent	148,745	-
Lease Incentive Liability	180,000	-
Note Payable—Related Party	750,000	-
Total Long-Term Liabilities	1,078,745	30,000
Total Liabilities	1,725,050	589,000
<b>Net Assets</b>		
Net Assets Without Donor Restriction	232,497	1,203,796
Net Assets With Donor Restriction:		
Net Assets With Donor Restriction—Purpose/Location Restricted	1,205,293	414,721
Net Assets With Donor Restriction—Perpetual in Nature	633,717	633,717
Total Net Assets	2,071,507	2,252,234
<b>Total Liabilities and Net Assets</b>	<b>\$ 3,796,557</b>	<b>\$ 2,841,234</b>

*The accompanying notes are an integral part of the financial statements.*

TreeHouse, Inc.

Statements of Activities and Changes in Net Assets

<i>Years Ended March 31,</i>	<b>2020</b>			<b>2019</b>		
	Without Donor Restrictions	With Donor Restrictions	Totals	Without Donor Restrictions	With Donor Restrictions	Totals
<b>Revenue and Support</b>						
Contributions	\$ 3,149,045	\$ 2,688,742	\$ 5,837,787	\$ 3,073,936	\$ 1,262,915	\$ 4,336,851
Event In-Kind Contributions	65,836	-	65,836	45,770	-	45,770
Total Contributions	3,214,881	2,688,742	5,903,623	3,119,706	1,262,915	4,382,621
Fundraising Events, Including Event Contributions	1,103,985	459,370	1,563,355	1,290,062	716,341	2,006,403
Activity Fees	54,806	-	54,806	38,483	-	38,483
TreeHouse Partner Network Fees	96,903	-	96,903	66,631	-	66,631
Investment Income, Net	2,440	-	2,440	1,315	-	1,315
Gain (Loss) on Sale of Property	(22,466)	-	(22,466)	213,862	4,660	218,522
Other Income	14,710	-	14,710	180	-	180
Increase (Decrease) in Beneficial Interest in NCF						
Charitable Fund	-	(6,243)	(6,243)	-	902	902
Released from Restriction	2,351,297	(2,351,297)	-	1,813,322	(1,813,322)	-
Total Other Revenues	3,601,675	(1,898,170)	1,703,505	3,423,855	(1,091,419)	2,332,436
Total Revenue and Support	6,816,556	790,572	7,607,128	6,543,561	171,496	6,715,057
<b>Expenses</b>						
Program Services	5,599,488	-	5,599,488	4,459,412	-	4,459,412
Supporting Services:						
Management and General	1,196,845	-	1,196,845	827,416	-	827,416
Fundraising	991,522	-	991,522	832,623	-	832,623
Total Supporting Services	2,188,367	-	2,188,367	1,660,039	-	1,660,039
Total Expenses	7,787,855	-	7,787,855	6,119,451	-	6,119,451
<b>Change in Net Assets</b>	(971,299)	790,572	(180,727)	424,110	171,496	595,606
<b>Net Assets, Beginning of Year</b>	1,203,796	1,048,438	2,252,234	779,686	876,942	1,656,628
<b>Net Assets, End of Year</b>	<b>\$ 232,497</b>	<b>\$ 1,839,010</b>	<b>\$ 2,071,507</b>	<b>\$ 1,203,796</b>	<b>\$ 1,048,438</b>	<b>\$ 2,252,234</b>

The accompanying notes are an integral part of the financial statements.

# TreeHouse, Inc.

## Statements of Cash Flows

<i>Years Ended March 31,</i>	<b>2020</b>	<b>2019</b>
<b>Cash Flows from Operating Activities</b>		
Change in Net Assets	\$ (180,727)	\$ 595,606
Adjustments to Reconcile Change in Net Assets to Net Change in Cash and Restricted Cash from Operating Activities:		
Depreciation	192,207	91,878
(Gain) Loss on Investments, Net	6,243	(5,562)
(Gain) Loss on Sale of Property	22,466	(213,862)
Bad Debt Expense	34,691	4,100
Capitalized Non-Cash Contributions	-	(232,268)
Changes in Operating Assets and Liabilities:		
Contributions Receivable, Net	(701,955)	(180,173)
Prepaid Expenses and Other	(78,498)	(66,637)
Security Deposits	5,140	-
Accounts Payable	42,867	53,254
Accrued Expenses	73,033	61,695
Deferred Event Revenue	(58,595)	40,385
Deferred Rent	148,745	-
Lease Incentive	180,000	-
Total Adjustments	<u>(133,656)</u>	<u>(447,190)</u>
Cash and Restricted Cash Provided By (Used In) Operating Activities	<u>(314,383)</u>	<u>148,416</u>
<b>Cash Flows from Investing Activities</b>		
Proceeds from Sale of Land, Buildings and Equipment	6,490	238,978
Proceeds from Sale of Property Held for Endowment	-	476,638
Purchase of Land, Buildings and Equipment	<u>(733,193)</u>	<u>(290,715)</u>
Cash and Restricted Cash Provided By (Used In) Investing Activities	<u>(726,703)</u>	<u>424,901</u>
<b>Cash Flows from Financing Activities</b>		
Proceeds from Note Payable—Related Party	<u>750,000</u>	<u>-</u>
Cash and Restricted Cash Provided By Financing Activities	<u>750,000</u>	<u>-</u>
Net Change in Cash and Restricted Cash	<u>(291,086)</u>	<u>573,317</u>
Cash and Restricted Cash, Beginning of Year	1,128,448	555,131
<b>Cash and Restricted Cash, End of Year</b>	<b>\$ 837,362</b>	<b>\$ 1,128,448</b>
<b>Non-Cash Investing Transactions</b>		
Donated Furniture	\$ -	\$ 232,268

# TreeHouse, Inc.

## Statements of Functional Expenses

*For the Year Ended March 31, 2020 (with comparative totals for 2019)*

	2020				2019	
	Supporting Services					
	Program	Management and General	Fundraising	Total Supporting Services	Totals	Totals
Salaries	\$ 3,225,325	\$ 530,750	\$ 326,615	\$ 857,365	\$ 4,082,690	\$ 3,376,474
Payroll Taxes	154,063	25,352	15,602	40,954	195,017	158,860
Employee Benefits	268,569	44,195	27,197	71,392	339,961	313,738
Total Personnel Costs	3,647,957	600,297	369,414	969,711	4,617,668	3,849,072
Facility Rent	658,493	102,850	68,567	171,417	829,910	246,378
Costs of Fundraising Events	-		430,739	430,739	430,739	382,970
Marketing	150,876	226,315	-	226,315	377,191	229,522
Special Activities/Outreach	312,998	-	-	-	312,998	264,717
Consulting Fees	180,793	76,302	25,850	102,152	282,945	316,715
Depreciation	148,351	31,062	12,794	43,856	192,207	91,878
Vehicle Expenses	153,708	2,876	2,876	5,752	159,460	203,399
Supplies, Postage and Printing	64,550	21,517	21,517	43,034	107,584	42,019
Professional Services	16,206	64,823	-	64,823	81,029	64,023
Telephone and Utilities	53,831	7,565	5,385	12,950	66,781	69,291
Other Expenses	42,749	9,103	1,619	10,722	53,471	147,781
Travel and Promotional	27,289	12,480	2,161	14,641	41,930	31,229
Seminars and Education	33,330	8,333	-	8,333	41,663	42,642
Insurance	33,973	3,775	-	3,775	37,748	31,574
Bad Debt Expense	-	-	34,691	34,691	34,691	4,100
Repairs and Maintenance	13,193	19,556	1,759	21,315	34,508	50,978
Staff Appreciation	27,074	4,454	2,742	7,196	34,270	25,804
Board Expenses	20,613	5,153	-	5,153	25,766	4,237
Bank Fees	11,172	-	11,172	11,172	22,344	21,122
Interest Expense	2,332	384	236	620	2,952	-
<b>Total Expenses</b>	<b>\$ 5,599,488</b>	<b>\$ 1,196,845</b>	<b>\$ 991,522</b>	<b>\$ 2,188,367</b>	<b>\$ 7,787,855</b>	<b>\$ 6,119,451</b>

Percentages	72%	15%	13%	28%	100%	100%
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*The accompanying notes are an integral part of the financial statements.*



# TreeHouse, Inc.

## Statement of Functional Expenses

*For the Year Ended March 31, 2019*

	Program	Supporting Services			Totals
		Management and General	Fundraising	Total Supporting Services	
Salaries	\$ 2,701,179	\$ 371,412	\$ 303,883	\$ 675,295	\$ 3,376,474
Payroll Taxes	127,088	17,475	14,297	31,772	158,860
Employee Benefits	250,991	34,511	28,236	62,747	313,738
Total Personnel Costs	3,079,258	423,398	346,416	769,814	3,849,072
Facility Rent	181,298	43,386	21,694	65,080	246,378
Costs of Fundraising Events	-	-	382,970	382,970	382,970
Marketing	91,809	137,713	-	137,713	229,522
Special Activities/Outreach	264,717	-	-	-	264,717
Consulting Fees	234,731	59,422	22,562	81,984	316,715
Depreciation	72,102	14,832	4,944	19,776	91,878
Vehicle Expenses	197,381	3,009	3,009	6,018	203,399
Supplies, Postage and Printing	25,211	8,404	8,404	16,808	42,019
Professional Services	12,805	51,218	-	51,218	64,023
Telephone and Utilities	59,661	5,733	3,897	9,630	69,291
Other Expenses	83,929	45,076	18,776	63,852	147,781
Travel and Promotional	25,293	2,968	2,968	5,936	31,229
Seminars and Education	34,114	8,528	-	8,528	42,642
Insurance	28,417	3,157	-	3,157	31,574
Bad Debt Expense	-	-	4,100	4,100	4,100
Repairs and Maintenance	34,091	16,887	-	16,887	50,978
Staff Appreciation	20,644	2,838	2,322	5,160	25,804
Board Expenses	3,390	847	-	847	4,237
Bank Fees	10,561	-	10,561	10,561	21,122
<b>Total Expenses</b>	<b>\$ 4,459,412</b>	<b>\$ 827,416</b>	<b>\$ 832,623</b>	<b>\$ 1,660,039</b>	<b>\$ 6,119,451</b>

Percentages	73%	13%	14%	27%	100%
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*The accompanying notes are an integral part of the financial statements.*

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March 31, 2020 and 2019

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**1. Description**

TreeHouse, Inc. (the “Organization”) is a faith-based, not-for-profit organization incorporated on February 2, 1984, under the laws of the State of Minnesota. The purpose of the Organization is to end hopelessness among teens. We love teens and believe that they are a vital part of our communities. But hopelessness is becoming a defining story for this generation breaking down both teens and communities. Through grace-based programs and environments where teens learn to know a loving God, build resiliency, develop healthy relationships, and plan for the future.

**2. Summary of Significant Accounting Policies**

***Basis of Presentation***

The Organization’s financial statements are presented using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets, revenues, and gains and losses are classified based on the existence and nature of donor-imposed restrictions. Accordingly, net assets of the organization and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions—This class of net assets includes those resources over which the Board of Directors has discretionary control.

Net Assets With Donor Restrictions—This class of net assets is subject to stipulations imposed by donors. Some donor-imposed restrictions are temporary in nature; those restrictions will be met by the passage of time or by actions of the Organization specified by the donor. Other donor-imposed restrictions are perpetual in nature, whereby the donor has stipulated that resources be maintained in perpetuity. Donor-restricted contributions are reported as increases in net assets with donor restrictions. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

***Cash—Restricted Purpose***

Cash for restricted purpose is cash held in a separate bank account that the Organization has set aside to satisfy certain donor-imposed restrictions.

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*March 31, 2020 and 2019*

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**2. Summary of Significant Accounting Policies (Continued)*****Contributions and Contributions Receivable, Net***

Contributions, including unconditional promises to give, are recognized as revenue without donor restrictions or with donor restrictions, based on the existence and nature of any donor restrictions. Conditional promises to give are recorded as revenue upon the occurrence of the specified event which satisfies the conditional nature of the promise.

Donor-restricted contributions are reported in net assets with donor restrictions. When a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statements of Activities as net assets released from restrictions.

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected beyond one year are recorded at the present value of estimated future cash flows, when the discounts are significant. Discounts are determined using approximate interest rates applicable to long-term government securities as of March 31 of the fiscal year in which the promises are received. Amortization of the discounts is recorded as contribution revenue.

The Organization uses the allowance method to estimate uncollectible promises to give. This estimate is based on management's evaluation of individual outstanding commitments. Balances still outstanding after management has used reasonable collection efforts are written off. Management has determined that no allowance was necessary for the years ended March 31, 2020 and 2019.

***Land, Buildings and Equipment***

Land, buildings, and equipment are recorded at cost or at the estimated fair value at the date of donation. Depreciation is computed using the straight-line method over estimated useful lives of 5 to 31.5 years. The cost of maintenance and repairs is charged to expense as incurred; purchases of equipment or expenditures that significantly increase the useful lives of equipment of \$2,000 or more are capitalized.

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*March 31, 2020 and 2019*

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**2. Summary of Significant Accounting Policies (Continued)*****Beneficial Interest in NCF Charitable Fund***

The Organization established a charitable fund with the National Christian Foundation, Inc. (NCF) under the terms of a separate fund agreement. The fund was established by the transfer of endowment funds. The fund agreement indicates NCF has the power to modify the beneficiary, the purpose, and the timing of the distributions if the distributions become unnecessary, the Organization becomes incapable of fulfilling the purpose of the distributions, or the distributions become inconsistent with NCF charitable needs or the community served by NCF. However, the fund was established in a reciprocal arrangement in which the Board and Management expect the Organization to continue to be the beneficiary of the fund in the future. Accordingly, the estimated fair values of the funds have been recognized by the Organization as Beneficial Interest in NCF Charitable Fund, included with Assets Held for Endowment in the Statements of Financial Position. The amount of principal originally contributed to the fund is classified as net assets with donor restrictions.

Under terms of the agreement which established the fund, NCF holds, administers, and invests the assets which have been transferred to it. Distributions are to be requested by the Organization and approved by the board of directors of NCF. Annual adjustments to the fair values of the amounts reported as beneficial interests are recognized as increases (decreases) in beneficial interests and are reflected in net assets with donor restrictions in the Statements of Changes in Net Assets. Annual distributions from these funds are reported as decreases in beneficial interests in assets held by others.

***Fair Value Measurements***

Certain financial instruments are required to be measured annually at fair value. Accounting standards provide for a three-tier fair value hierarchy which is prioritized by the inputs used in measuring fair value:

- Level 1: Observable inputs such as quoted prices in active markets for identical assets
- Level 2: Observable inputs such as quoted prices in active markets for similar assets or other significant observable inputs
- Level 3: Significant unobservable inputs

The Organization's disclosures for assets held for endowment (Note 7) include references to the above inputs.

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*March 31, 2020 and 2019*

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**2. Summary of Significant Accounting Policies (Continued)*****Fund Raising Events***

Revenue from sponsorships and ticket sales related to a fund raising event is recognized when the event takes place. Receipts of sponsorships and proceeds from ticket sales in advance of the related event are reported as Deferred Event Revenue on the Statements of Financial Position. Certain community events are fund raising events specifically for the TreeHouse in that community, and accordingly, the proceeds are classified as donor restricted.

***Contributed Securities***

Donated securities are recorded at fair value at the date of contribution. Realized and unrealized gains and losses are reflected in Investment Income, Net on the Statements of Activities and Changes in Net Assets.

***Contributed Services, Materials and Equipment, and Facilities Use***

The value of contributed services is recognized in the financial statements if the services create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not contributed. The Organization receives donated services from a large number of volunteers assisting in management and program services. However, no amounts have been recognized in the accompanying Statements of Activities and Changes in Net Assets for these services because they do not meet the stated criteria for recognition.

Contributions of materials and equipment are recorded as support at their estimated fair values. Assets contributed with explicit restrictions regarding their use are reported as restricted support; those without restriction are reported as unrestricted support.

Facilities use of churches and schools are treated as contributions in-kind.

***Allocation of Functional Expenses***

Costs of providing programs and supporting service activities have been presented in the Statements of Functional Expenses. Salaries and related costs are allocated among the program and supporting service categories based upon the estimated time expended by the employees in those categories. Other costs are allocated according to management's estimates or on a direct basis.

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*March 31, 2020 and 2019*

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**2. Summary of Significant Accounting Policies (Continued)*****Income Taxes***

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization is a publicly-supported organization and contributions to it qualify as a charitable tax deduction for the contributors as permitted by law.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Adoption of New Accounting Pronouncement***

**Revenue Recognition**—In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers, which affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets. An entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects what it expects in exchange for the goods or services and is effective for the Organization's year ending March 31, 2020. The Organization adopted the new revenue recognition standard using a modified retrospective adoption. There was no adjustment due to the cumulative impact of adopting this standard.

**Restricted Cash**—In 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2016-18, Statement of Cash Flows (Topic 230)—Restricted Cash. The update addresses the classification and presentation of changes in restricted cash on the Statement of Cash Flows and requires that amounts generally described as restricted cash be included with cash when reconciling the beginning and ending cash amounts on the Statements of Cash Flows. The Organization has adjusted the basis of presentation of these financial statements to conform to the new standards on a retrospective basis.

***Recently Issued Accounting Standards***

**Leases**—In February 2016, the FASB issued ASU 2016-02, Leases, which amends the existing accounting standards for lease accounting, including changes to accounting for leases for Lessors. The new lease standard will be effective for the Organization's year ending September 30, 2023.

## Notes to Financial Statements

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March 31, 2020 and 2019

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## 2. Summary of Significant Accounting Policies (Continued)

### *Recently Issued Accounting Standards (Continued)*

The new lease standard requires a modified retrospective adoption. The Organization is evaluating the impact, but does not believe its adoption will have a significant impact on the reporting of the operations of its organization.

### *Subsequent Events*

Management has assessed the effects of subsequent events through November 16, 2020, the date the financial statements were available to be released (Note 17).

## 3. Cash and Restricted Cash Reconciliation

The following table provides a reconciliation of cash and restricted cash reported on the Statements of Financial Position that sum to the total of the same such amounts in the Statements of Cash Flows:

	2020	2019
Cash	\$ 105,642	\$ 328,528
Cash—Restricted Purpose	255,082	323,282
Cash Held for Endowment	476,638	476,638
Total	<u>\$ 837,362</u>	<u>\$ 1,128,448</u>

## 4. Liquidity and Availability of Funds

Financial assets available for general expenditure, that is, without donor restrictions limiting their use, within one year of the statement of financial position date comprise the following at March 31:

	2020	2019
Cash	\$ 105,642	\$ 328,528
Contributions and Other Receivables	273,391	264,313
Total	<u>\$ 379,033</u>	<u>\$ 592,841</u>

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

## Notes to Financial Statements

*March 31, 2020 and 2019***5. Contributions Receivable, Net**

Contributions and other receivables consisted of the following at March 31:

	2020	2019
Unconditional Promises to Give:		
General Operating	\$ 273,391	\$ 264,313
Purpose Restricted:		
Individual TreeHouse Operations	47,820	189,399
Comprehensive Campaign	799,765	-
Other	250	250
Contributions Receivable, Net	<u>\$ 1,121,226</u>	<u>\$ 453,962</u>

At March 31, 2020, unconditional promises to give were scheduled to be received as follows:

	Promises to Give	Allowance	Promises to Give, Net
Within One Year	\$ 721,226	\$ -	\$ 721,226
Two to Five Years	400,000	-	400,000
Totals	<u>\$ 1,121,226</u>	<u>\$ -</u>	<u>\$ 1,121,226</u>

Approximately 18% and 65% of total contributions receivable, or \$200,000 and 294,000 represent contributions receivable from trustees or other related parties for the years ended March 31, 2020 and 2019, respectively. Of that amount, \$229,040 was pledged by two related party individuals for the year ended March 31, 2019.

**6. Land, Buildings and Equipment**

Land, buildings and equipment consisted of the following at March 31:

	2020	2019
Land and Improvements	\$ 93,676	\$ 93,676
Buildings and Improvements	283,097	494,077
Furniture, Equipment, and Software	935,331	483,406
Vehicles	637,968	511,290
Leasehold Improvements	383,605	83,417
Total Land, Buildings and Equipment	<u>2,333,677</u>	<u>1,665,866</u>
Accumulated Depreciation	<u>(1,009,981)</u>	<u>(854,200)</u>
Land, Buildings and Equipment, Net	<u>\$ 1,323,696</u>	<u>\$ 811,666</u>



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March 31, 2020 and 2019

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**6. Land, Buildings and Equipment (Continued)**

Depreciation expense totaled \$192,207 and \$91,878 for the years ended March 31, 2020 and 2019, respectively.

**7. Assets Held for Endowment**

An endowment fund was established to provide growth and income to the Organization. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law—Endowment funds are regulated by the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) as enacted by the State of Minnesota. The Board of Directors of the Organization has interpreted UPMIFA as requiring the preservation of the original gift of donor-restricted endowment funds absent explicit donor stipulations to the contrary. The original gift is valued at fair value on the date of the gift. As a result of this interpretation, the Organization classifies as net assets with donor restrictions—perpetual in nature the original value of the gift donated to the endowment. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by us in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organization
- The investment policies of the Organization

The Organization had the following assets held for its endowment as of March 31:

	2020	2019
Beneficial Interest in NCF Charitable Fund	\$ 258,705	\$ 264,948
Cash Held for Endowment	476,638	476,638
Totals	<u>\$ 735,343</u>	<u>\$ 741,586</u>

The fair value of the beneficial interest in NCF Charitable Fund was measured based on level 3 fair value inputs.

## Notes to Financial Statements

*March 31, 2020 and 2019***7. Assets Held for Endowment (Continued)**

Changes in the fair value of the Organization's Level 3 assets consisted of the following for the years ended March 31:

	2020	2019
Level 3 Assets, Beginning of Year	\$ 264,948	\$ 264,046
Net Increase (Decrease) in Fair Value of Beneficial Interest	(6,243)	902
Level 3 Assets, End of Year	<u>\$ 258,705</u>	<u>\$ 264,948</u>

The net increase (decrease) in the value of beneficial interest is recognized in net assets with donor restrictions on the Statements of Activities and Changes in Net Assets and is a part of the endowment assets.

The fair value of the beneficial interest is reported by the organization holding the underlying investments based on its valuation of those investments and the Organization's interest in the fund. The fund holds various investments including fixed income, equity and alternative investments. The alternative investment values are generally subject to the judgment of the investment managers. Such values may differ significantly from the values that would have been used had a ready market existed for these assets, and the differences could be material.

Assets Held for Endowment as of March 31, 2020 and 2019, and changes in endowment net assets for the years then ended are as follows:

	Restricted by Purpose or Location	Held in Perpetuity	Total
April 1, 2018	\$ 102,307	\$ 633,717	\$ 736,024
Appreciation of Beneficial Interest	902	-	902
Gain on Sale of Real Property			
Held for Endowment	4,660	-	4,660
March 31, 2019	107,869	633,717	741,586
Depreciation of Beneficial Interest	(6,243)	-	(6,243)
March 31, 2020	<u>\$ 101,626</u>	<u>\$ 633,717</u>	<u>\$ 735,343</u>

**Return Objectives and Risk Parameters**—The Board of Directors has adopted an Endowment Investment policy designed to maintain the purchasing power of the endowment assets and to maintain a predictable amount of annual distributions that will keep pace with increasing funding needs. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity as well as the cumulative earnings on those funds that the board has not appropriated for expenditure.

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*March 31, 2020 and 2019*

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**7. Assets Held for Endowment (Continued)**

For those endowment funds held by NCF, the Organization is subject to the investment policy of NCF. Based on this policy, NCF has developed a diversified investment portfolio. The Organization expects its endowment fund, over time, to provide an average annual rate of return of 8%. Actual returns in any given year may vary from this amount.

In general, investments are exposed to various risks, such as interest rate, credit and overall market volatility risks. Due to the level of risk associated with certain investments, it is possible that changes in the values of investments will occur in the near term and such changes could materially affect account balances and the amounts reported in the Statements of Changes in Net Assets.

**Strategies Employed for Achieving Objectives**—To satisfy its long-term rate-of-return objectives, the Organization's strategy is one in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

During the year ended March 31, 2007, the Organization chose to replace some investment securities in the endowment fund with a parcel of real estate consisting of land and a building which was used by the Organization in its operations. This real estate was sold during the year ended March 31, 2019.

**Spending Policy and the Relationship of Investment Objectives to the Spending Policy**—Under the Organization's spending policy, approximately 5% of the fair market value of the endowment fund is available for distribution annually, consistent with the restrictions of the endowment contributions. In establishing this policy, the Organization considered the long-term expected return on its endowment. Accordingly, over the long term, the Organization expects the current spending policy to allow its endowment to grow at an average of 3% annually. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

**8. Note Payable—Related Party**

The Organization obtained a note for \$750,000 from a member of management of the Organization, during the year ended March 31, 2020. No payments are scheduled on the note and interest is stated at 1%, to be paid quarterly.

## Notes to Financial Statements

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*March 31, 2020 and 2019*


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**9. Lease Commitments**

The Organization leases office equipment under operating leases which expire at various dates through March 2023. The Organization leases its administrative office space under a lease agreement expiring March 2029. The Organization also leases program space at certain locations under monthly lease agreements that can be canceled with notification.

Future minimum lease payments required under the non-cancelable leases were as follows for the years ending March 31:

<u>Year</u>	<u>Amount</u>
2021	\$ 274,813
2022	322,722
2023	324,565
2024	329,325
2025	334,814
Thereafter	1,394,143
Totals	<u><u>\$ 2,980,382</u></u>

A portion of the leased office space is subleased to an unaffiliated organization. Lease revenues due under the sublease is as follows for the years ending March 31:

<u>Year</u>	<u>Amount</u>
2021	\$ 16,098
2022	19,436
2023	20,002
2024	20,342
2025	13,778
Totals	<u><u>\$ 89,656</u></u>

Rent expense, including the Organization's share of property taxes and operating expenses totaled approximately \$747,000 and \$268,000 for the years ended March 31, 2020 and 2019, respectively. Rental income under the sublease was approximately \$8,000 for the year ended March 31, 2020. Rent expense includes \$137,912 of donated use of facilities for TreeHouse programming for each of the years ended March 31, 2020 and 2019, respectively.

## Notes to Financial Statements

*March 31, 2020 and 2019***10. Net Assets With Donor Restrictions**

Net assets with donor restrictions consisted of the following at March 31:

	2020	2019
Endowment Funds	\$ 735,343	\$ 741,586
Scholarship Funds	84,227	72,900
Various Individual Houses	219,675	233,952
Comprehensive Campaign	799,765	-
Totals	<u>\$ 1,839,010</u>	<u>\$ 1,048,438</u>

**11. Donated Materials and Services**

Donated materials and services and the related recorded values consisted of the following for the years ended March 31:

	2020	2019
Goods and Services for Special Events	\$ 65,201	\$ 45,770
Use of Facilities	137,912	137,912
Program Outreach Goods and Services	19,031	29,755
Miscellaneous	6,158	-
Totals	<u>\$ 228,302</u>	<u>\$ 213,437</u>
Capitalized Equipment	-	232,268
Totals	<u>\$ 228,302</u>	<u>\$ 445,705</u>

Donated materials and services were used in the Organization's activities as follows:

Programs	\$ 156,943	\$ 167,667
Fund Development, Including Other Event Costs	65,201	45,770
Management and General	6,158	232,268
Totals	<u>\$ 228,302</u>	<u>\$ 445,705</u>

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*March 31, 2020 and 2019*

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**12. Retirement Plan**

All employees of the Organization who have attained age 18, completed 6 months of service and have worked at least 1,000 hours or 20 hours per week are eligible to make contributions to a 403(b) retirement plan. For employees who have attained age 19 and completed one year of service, the Organization makes discretionary contributions. There were no employer contributions for the years ended March 31, 2020 and 2019.

**13. Sale of Property Held in Endowment**

Property held for sale was sold during the year ended March 31, 2019 along with real estate that was held for investment as part of the endowment (Note 7) for total proceeds of \$740,100 less closing costs of \$40,534 for a net amount of \$699,566. The property consisted of two contiguous parcels of real property in Brooklyn Park, Minnesota. Each parcel had a separate structure on it.

The gain on disposal, after taking into account the costs of the sale and book values of the assets, was approximately \$206,000 and was allocated between the parcel held as operating property and the parcel held in the endowment. Management used available market information to estimate the proceeds allocable to each parcel and allocated \$223,000 of the proceeds to the endowment-held property and \$477,000 of the proceeds to the operating property. Due to the fact that depreciation of the property held in the endowment had ceased when the property was transferred into the endowment, the resulting gain on the endowment-held property was approximately \$5,000 compared to the nearly fully depreciated operating property which reflects a gain of approximately \$201,000.

**14. Related Party Transactions**

The Organization received a \$750,000 (Note 8) loan from a member of management. There are no payment terms and the stated interest is 1% due quarterly.

Approximately 18% of the balance of contributions receivable was due from board members and a member of management as of March 31, 2020. Approximately 65% of the balance of contributions receivable was due from board members and a member of management as of March 31, 2019.

Approximately 24% of contribution revenue was from board members and a member of management during the year ended March 31, 2020. Approximately 51% of contribution revenue was received from board members and a member of management during the year ended March 31, 2019.

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*March 31, 2020 and 2019*

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**15. Concentrations*****Contributions Receivable***

Approximately 71% of the balance of contributions receivable was due from two donors as of March 31, 2020. Approximately 61% of the balance of contributions receivable was due from two donors as of March 31, 2019.

***Contributions***

Approximately 31% of total contribution revenue was from two donors during the year ended March 31, 2020. Approximately 59% of total contribution revenue was from three donors during the year ended March 31, 2019.

***Credit Risk***

The Organization places its cash deposits with high-quality financial institutions and seeks to limit the amount of credit exposure to any one financial institution. At various times during the year, the amount on deposit may exceed federally insured limits. The Organization has not experienced any losses related to these deposits.

**16. Reclassifications**

Certain reclassifications have been made to the March 31, 2019 presentation to provide comparability to the March 31, 2020 presentation. Net assets and changes in net assets are unchanged due to these reclassifications.

**17. Subsequent Events**

In March 2020, the United States of America declared a national emergency related to the coronavirus (COVID-19) pandemic and it is anticipated that the impact of this will continue for some time. Future potential impacts may include disruptions or restrictions on the Organization's employees' ability to work, limitations on operations, or other pandemic related issues. There has been no immediate financial impact to the Organization's operations as of March 31, 2020. The future effects of these issues are unknown.

Subsequent to year end, the Organization has elected to change its annual year-end from March 31, 2020 to September 30, 2020 to better align with the school year of the teens services are provided for.