TREEHOUSE

Financial Statements and
Independent Auditor's Report

For the Year Ended September 30, 2021 and the
Six Months Ended September 2020

Contents

For the Year Ended September 30, 2021 and the Six Months Ended September 30, 2020

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CPAs AND BUSINESS ADVISORS

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of TreeHouse, Inc., which comprise the statements of financial position as of September 30, 2021 and 2020, and the related statements of activities and changes in net assets, cash flows and functional expenses for the year ended September 30, 2021 and the six months ended September 30, 2020, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and those standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TreeHouse, Inc. as of September 30, 2021 and 2020, and the changes in its net assets and its cash flows for the year ended September 30, 2021 and the six months ended September 30, 2020 in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 9, 2022, on our consideration of TreeHouse, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering TreeHouse, Inc.'s internal control over financial reporting and compliance.

Boyum & Barenscheer PLLP

Boyum & Barenscheer PLLP
Saint Paul, Minnesota
June 9, 2022

Statements of Financial Position

As of September 30,		2021		2020
ASSETS				
Current				
Cash	$	199,122	$	500,464
Cash—Restricted Purpose		10,272		191,285
Current Portion of Contributions Receivable, Net		242,223		334,426
Prepaid Expenses and Other		105,611		149,648
Total Current Assets		557,228		1,175,823
Land, Buildings and Equipment				
Land, Buildings and Equipment, Net		1,138,612		1,288,881
Other				
Contributions Receivable, Net of Current Portion		200,000		200,000
Assets Held for Endowment		307,420		281,665
Security Deposits		50,100		50,100
Total Other Assets		557,520		531,765
Total Assets	**$**	**2,253,360**	**$**	**2,996,469**
LIABILITIES AND NET ASSETS				
Current				
Accounts Payable	$	145,192	$	61,062
Accrued Expenses		326,910		384,604
Security Deposit Liability		31,200		31,200
Deferred Event Revenue		-		102,855
Note Payable (PPP)		-		783,290
Total Current Liabilities		503,302		1,363,011
Long-Term				
Deferred Rent		270,321		170,975
Lease Incentive		149,996		170,000
Note Payable—Related Party		750,000		750,000
Total Long-Term Liabilities		1,170,317		1,090,975
Total Liabilities		1,673,619		2,453,986
Net Assets				
Net Assets (Deficit) Without Donor Restriction		(649,834)		(864,375)
Net Assets With Donor Restriction:				
Net Assets With Donor Restriction—Purpose/Location/Time Restricted		595,858		773,141
Net Assets With Donor Restriction—Perpetual in Nature		633,717		633,717
Total Net Assets With Donor Restriction		1,229,575		1,406,858
Total Net Assets		579,741		542,483
Total Liabilities and Net Assets	**$**	**2,253,360**	**$**	**2,996,469**

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

For the Year Ended September 30, 2021 and the Six Months Ended September 30, 2020

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Totals	Without Donor Restrictions	With Donor Restrictions	Totals
Revenue and Support						
Contributions	$ 3,750,111	$ 1,400,755	$ 5,150,866	$ 741,049	$ 234,334	$ 975,383
Fundraising Events, Including Event Contributions	1,364,979	-	1,364,979	361,418	293,323	654,741
TreeHouse Partner Network Fees	79,162	-	79,162	99,052	-	99,052
Investment Income, Net	2,289	-	2,289	3,414	-	3,414
Other Income	60,543	-	60,543	15,834	-	15,834
Increase in Beneficial Interest in NCF Charitable Fund	-	25,755	25,755	-	22,960	22,960
Released from Restriction	1,603,793	(1,603,793)	-	982,769	(982,769)	-
Total Other Revenues	3,110,766	(1,578,038)	1,532,728	1,462,487	(666,486)	796,001
Total Revenue and Support	6,860,877	(177,283)	6,683,594	2,203,536	(432,152)	1,771,384
Expenses						
Program Services	4,736,256	-	4,736,256	2,452,983	-	2,452,983
Supporting Services:						
Management and General	931,675	-	931,675	500,826	-	500,826
Fundraising	978,405	-	978,405	346,599	-	346,599
Total Supporting Services	1,910,080	-	1,910,080	847,425	-	847,425
Total Expenses	6,646,336	-	6,646,336	3,300,408	-	3,300,408
Change in Net Assets	214,541	(177,283)	37,258	(1,096,872)	(432,152)	(1,529,024)
Net Assets, Beginning of Year	(864,375)	1,406,858	542,483	232,497	1,839,010	2,071,507
Net Assets (Deficit), End of Year	**$ (649,834)**	**$ 1,229,575**	**$ 579,741**	**$ (864,375)**	**$ 1,406,858**	**$ 542,483**

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

Statements of Cash Flows

For the Year Ended September 30, 2021 and the Six Months Ended September 30, 2020

	2021	2020
Cash Flows from Operating Activities		
Change in Net Assets	$ 37,258	$ (1,529,024)
Adjustments to Reconcile Change in Net Assets to Net Change in Cash and Restricted Cash from Operating Activities:		
Depreciation	251,744	117,958
(Gain) Loss on Investments, Net	(25,755)	(22,960)
Gain on Sale of Land, Buildings and Equipment	(8,875)	-
Gain on Forgiveness of PPP	(1,669,017)	-
Changes in Operating Assets and Liabilities:		
Contributions Receivable	92,203	586,800
Prepaid Expenses and Other	44,037	55,920
Security Deposits	-	(100)
Accounts Payable	84,130	(124,469)
Accrued Expenses and Security Deposit Liability	(57,694)	31,230
Deferred Event Revenue	(102,855)	26,655
Deferred Rent	99,346	22,230
Lease Incentive	(20,004)	(10,000)
Total Adjustments	(1,312,740)	683,264
Cash and Restricted Cash (Used In) Operating Activities	(1,275,482)	(845,760)
Cash Flows from Investing Activities		
Proceeds from Sale of Land, Buildings and Equipment	8,875	-
Purchase of Land, Buildings and Equipment	(101,475)	(83,143)
Cash and Restricted Cash (Used In) Investing Activities	(92,600)	(83,143)
Cash Flows from Financing Activities		
Proceeds from Note Payable—PPP	885,727	783,290
Cash and Restricted Cash Provided By Financing Activities	885,727	783,290
Net Change in Cash and Restricted Cash	(482,355)	(145,613)
Cash and Restricted Cash, Beginning of Year	691,749	837,362
Cash and Restricted Cash, End of Year	**$ 209,394**	**$ 691,749**
Supplemental Disclosure of Cash Flow Information		
Cash Paid During the Year for Interest	$ 7,969	$ 3,750

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

Statements of Functional Expenses

For the Year Ended September 30, 2021 (with Comparative Totals for the Six Months Ended September 30, 2020)

	2021					2020
		Supporting Services				
	Program	Management and General	Fundraising	Total Supporting Services	Totals	Totals
Salaries	$2,846,074	$428,199	$310,624	$ 738,823	$ 3,584,897	$ 2,025,539
Payroll Taxes	133,767	20,126	14,599	34,725	168,492	90,406
Employee Benefits	265,721	39,978	29,001	68,979	334,700	213,454
Total Personnel Costs	3,245,562	488,303	354,224	842,527	4,088,089	2,329,399
Bank Fees	-	10,181	10,181	20,361	20,361	9,750
Board Expenses	-	-	-	-	-	74
Consulting Fees	169,887	84,944	28,315	113,259	283,146	97,954
Costs of Fundraising Events	-	-	432,138	432,138	432,138	106,875
Depreciation	188,808	37,762	25,174	62,936	251,744	117,958
Facility Rent	486,221	138,920	69,460	208,380	694,601	348,951
Insurance	39,004	4,334	-	4,334	43,338	20,154
Interest Expense	-	7,172	797	7,969	7,969	3,751
Marketing	-	-	-	-	-	90,167
Other Expenses	3,003	30,966	26,090	57,056	60,059	14,926
Professional Services	15,859	63,435	-	63,435	79,294	52,711
Repairs and Maintenance	26,337	5,267	3,512	8,779	35,116	6,643
Seminars and Education	45,965	11,491	-	11,491	57,456	2,210
Special Activities/Outreach	179,141	-	-	-	179,141	28,205
Staff Appreciation	9,784	19,568	3,261	22,829	32,613	646
Supplies, Postage and Printing	10,126	3,375	3,375	6,750	16,876	11,166
Telephone and Utilities	32,623	6,117	2,039	8,156	40,779	23,849
Travel and Promotional	158,717	19,840	19,840	39,680	198,397	617
Vehicle Expenses	125,219	-	-	-	125,219	34,402
Total Expenses	**$ 4,736,256**	**$ 931,675**	**$ 978,405**	**$ 1,910,080**	**$ 6,646,336**	**$ 3,300,408**
Percentages	71%	14%	15%	29%	100%	100%

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

TreeHouse, Inc.

Statement of Functional Expenses

For the Six Months Ended September 30, 2020

		Supporting Services			
	Program	Management and General	Fundraising	Total Supporting Services	Totals
Salaries	$ 1,600,176	$ 263,320	$ 162,043	$ 425,363	$ 2,025,539
Payroll Taxes	71,421	11,753	7,232	18,985	90,406
Employee Benefits	168,629	27,749	17,076	44,825	213,454
Total Personnel Costs	1,840,226	302,822	186,351	489,173	2,329,399
Bank Fees	4,875	-	4,875	4,875	9,750
Board Expenses	59	15	-	15	74
Consulting Fees	63,011	26,051	8,892	34,943	97,954
Costs of Fundraising Events	-	-	106,875	106,875	106,875
Depreciation	90,884	19,266	7,808	27,074	117,958
Facility Rent	281,588	40,418	26,945	67,363	348,951
Insurance	18,139	2,015	-	2,015	20,154
Interest Expense	2,963	488	300	788	3,751
Marketing	36,067	54,100	-	54,100	90,167
Other Expenses	12,066	2,581	279	2,860	14,926
Professional Services	10,542	42,169	-	42,169	52,711
Repairs and Maintenance	994	5,516	133	5,649	6,643
Seminars and Education	1,768	442	-	442	2,210
Special Activities/Outreach	28,205	-	-	-	28,205
Staff Appreciation	510	84	52	136	646
Supplies, Postage and Printing	6,700	2,233	2,233	4,466	11,166
Telephone and Utilities	19,587	2,444	1,818	4,262	23,849
Travel and Promotional	397	182	38	220	617
Vehicle Expenses	34,402	-	-	-	34,402
Total Expenses	**$ 2,452,983**	**$ 500,826**	**$ 346,599**	**$ 847,425**	**$ 3,300,408**
Percentages	74%	15%	11%	26%	100%

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

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, 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.

Cash—Restricted Purpose

Cash for restricted purpose is cash that the Organization has set aside to satisfy certain donor-imposed restrictions.

Contributions and Contributions Receivable

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.

2. Summary of Significant Accounting Policies (Continued)

Contributions and Contributions Receivable (Continued)

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 and Changes in Net Assets 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 September 30 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 an allowance of $8,175 and $-0- for the year ended September 30, 2021 and the six months ended September 30, 2020, respectively.

Grant Revenue

Program revenue is derived from cost-reimbursable contracts and grants, which are conditioned upon performance requirements and/or the incurrence of allowable qualifying expenses and are therefore considered conditional contributions. Amounts received are recognized as donor restricted revenue once the conditions are met, which is when the Organization has incurred expenditures in compliance with specific contract or grant provisions. These restrictions are simultaneously released from restriction as the revenue is recognized and are reported as increases in net assets without donor restrictions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statement of financial position; there were no refundable advances related to cost-reimbursable contracts and grants at September 30, 2021 and 2020. The Organization has been awarded cost-reimbursable grants of $37,500 and $28,125 that have not been recognized at September 30, 2021 and 2020 respectively, because qualifying expenditures have not yet been incurred.

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.

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 Activities and 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.

2. Summary of Significant Accounting Policies (Continued)

Fundraising Events

Event revenue from sponsorships and ticket sales related to a fundraising 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 fundraising events specifically for the TreeHouse location in that community, and accordingly, the proceeds are classified as donor restricted. Event revenue included in fundraising events on the Statements of Activities and Changes in Net Assets was approximately $523,000 and $162,000 for the year ended September 30, 2021 and the six months ended September 30, 2020, respectively.

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.

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.

The Organization's Return of Organization Exempt from Income Tax has not been recently audited; and accordingly, the information tax returns for the past three years are open to examination. Management has evaluated its tax positions and has concluded that they do not result in anything that would require either recording or disclosure in the financial statements based on the criteria set forth in ASC 740.

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.

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.

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.

Contributed Nonfinancial Assets—In September 2020, the FASB issued Not-for-Profit Entities (Topic 958) Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets (ASU 2020-07). Effective Organization's year ending September 30, 2022, the amendments in this update apply to nonprofit organizations that receive contributed nonfinancial assets. Contribution revenue may be presented in the financial statements using different terms (for example, gifts, donations, grants, gifts-in-kind, donated services, or other terms). The amendments address presentation and disclosure of contributed nonfinancial assets. The term nonfinancial asset includes fixed assets (such as land, buildings, and equipment), use of fixed assets or utilities, materials and supplies, intangible assets, services, and unconditional promises of those assets.

2. Summary of Significant Accounting Policies (Continued)

Reclassifications

Certain reclassifications have been made to the September 30, 2020 presentation to provide comparability to the September 30, 2021 presentation. Net assets and changes in net assets are unchanged due to these reclassifications.

Subsequent Events

Management has assessed the effects of subsequent events through June 9, 2022, the date the financial statements were available to be released.

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 at September 30:

	2021	2020
Cash	$ 199,122	$ 500,464
Cash—Restricted Purpose	10,272	191,285
Total	$ 209,394	$ 691,749

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 were $-0- and $100,982 at September 30, 2021 and 2020, respectively.

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.

5. Contributions Receivable

Contributions and other receivables consisted of the following at September 30:

	2021	2020
Unconditional Promises to Give, Net:		
General Operating	$ 76,398	$ 77,156
Time Restricted	300,000	-
Purpose Restricted:		
Individual TreeHouse Operations	24,000	57,020
Comprehensive Campaign	50,000	400,000
Other	-	250
Less: Allowance for Doubtful Accounts	(8,175)	-
Contributions Receivable, Net	$ 442,223	$ 534,426

Unconditional promises to give were scheduled to be received as follows at September 30:

	2021	2020
Promises to Give Within One Year	$ 250,398	$ 334,426
Less Allowance for Uncollectible Contributions Receivable	(8,175)	-
Promises to Give Within One Year, Net	242,223	334,426
Promises to Give Within Two to Five Years	200,000	200,000
Total	$ 442,223	$ 534,426

6. Land, Buildings and Equipment

Land, buildings and equipment consisted of the following at September 30:

	2021	2020
Land and Improvements	$ 93,676	$ 93,676
Buildings and Improvements	283,097	283,097
Furniture, Equipment, and Software	1,119,951	1,018,473
Vehicles	615,457	637,968
Leasehold Improvements	383,605	383,605
Total Land, Buildings and Equipment	2,495,786	2,416,820
Accumulated Depreciation	(1,357,174)	(1,127,939)
Land, Buildings and Equipment, Net	$ 1,138,612	$ 1,288,881

Depreciation expense totaled $251,744 and $117,958 for the year ended September 30, 2021 and the six months ended September 30, 2020, 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 the Organization 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 available for its endowment at September 30:

	2021	2020
Beneficial Interest in NCF Charitable Fund	$ 307,420	$ 281,665
Cash Available for Endowment	209,391	352,052
Unconditional Promises to Give, Net: General Operating	116,906	-
Held in Perpetuity	633,717	633,717
Cash Available for Endowment	-	124,586
Unconditional Promises to Give, Net: General Operating	46,558	-
Underwater Endowments	103,783	-
Totals	$ 784,058	$ 758,303

7. Assets Held for Endowment (Continued)

From time to time, certain donor restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). We have interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. As of September 30, 2021, funds with original gift values of $633,717, endowment net assets of $784,058 and deficiencies of $103,783 were reported in net assets with donor restrictions.

The Organization has determined that the change in strategy to an equipping and training strategy from a property driven strategy would affect certain donor gift intentions by approximately $372,000. The Organization plans to ask certain affected donors for written permission to modify the gift agreements and is certain that the historical relationships with the affected donors will result in those donors releasing their gifts from restrictions and allowing their use for general operations.

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

Changes in the fair value of the Organization's Level 3 assets consisted of the following for the year ended September 30, 2021 and six months ended September 30, 2020:

	2021	2020
Level 3 Assets, Beginning of Year	$ 281,665	$ 258,705
Net Appreciation of Beneficial Interest	25,755	22,960
Level 3 Assets, End of Year	$ 307,420	$ 281,665

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.

7. Assets Held for Endowment (Continued)

Changes in endowment net assets for the year ended September 30, 2021 and six months ended September 30, 2020, respectively, are as follows:

	Restricted by Purpose or Location	Held in Perpetuity	Total
April 1, 2020	$ 101,626	$ 633,717	$ 735,343
Net Appreciation of Beneficial Interest	22,960	-	22,960
September 30, 2020	124,586	633,717	758,303
Net Appreciation of Beneficial Interest	25,755	-	25,755
September 30, 2021	$ 150,341	$ 633,717	$ 784,058

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.

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 Activities and 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.

7. Assets Held for Endowment (Continued)

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. Line of Credit

The Organization has a line of credit agreement whereby it may borrow up to $600,000. The agreement expires in June 2022 and requires interest at the Wall Street Journal Prime Rate with a floor of 4.50%, the effective rate at September 30, 2021. The line of credit is secured by substantially all of the Organization's assets and certain covenants including maintaining unrestricted assets of $100,000 at all times. There was no outstanding balance on the line of credit at September 30, 2021. The Organization was not in compliance with the covenants as of September 30, 2021.

9. PPP Loans

The Organization obtained a $783,290 loan from Tradition Capital Bank under the Paycheck Protection Program (PPP) in April 2020, and a second $885,727 PPP loan from Tradition Capital Bank in February of 2021. Under the terms of the PPP, up to 100% of the loan (and related interest) may be forgiven if the proceeds are used for covered expenses and certain other requirements related to wage rates and maintenance of full-time equivalents are met. The Organization applied for forgiveness on the first note and received forgiveness from the Small Business Administration (SBA) on November 2, 2020. The Organization applied for forgiveness on the second note and received forgiveness from the SBA on June 22, 2021. The amounts of loan forgiveness are reported as a component of contributions on the Statements of Activities and Changes in Net Assets in the year ended September 30, 2021.

10. 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.

11. Net Assets With Donor Restrictions

Net assets with donor restrictions consisted of the following at September 30:

	2021	2020
Endowment Funds	$ 784,058	$ 758,303
Scholarship Funds	75,509	87,701
Various Individual Houses	69,920	187,761
Time Restricted	300,000	-
Comprehensive Campaign	88	373,093
Totals	$ 1,229,575	$ 1,406,858

12. Donated Materials and Services

Donated materials and services and the related recorded values consisted of the following for the year ended September 30, 2021 and the six months ended September 30, 2020:

	2021	2020
Use of Facilities	$ 180,230	$ 76,656
Goods and Services for Special Events	5,090	800
Program Outreach Goods and Services	10,900	-
Totals	$ 196,220	$ 77,456

Donated materials and services, included in contributions on the Statements of Activities and Changes in Net Assets, were used in the Organization's activities as follows for the year ended September 30, 2021 and the six months ended September 30, 2020:

	2021	2020
Programs	$ 192,857	$ 76,656
Fund Development, Including Other Event Costs	2,823	800
Management and General	540	-
Totals	$ 196,220	$ 77,456

13. Retirement Plan

Substantially all employees of the Organization who have attained age 18 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 may make discretionary contributions. There were no employer contributions for the year ended September 30, 2021 and the six months ended September 30, 2020, respectively.

14. 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 September 30:

Year	Amount
2022	$ 324,008
2023	326,581
2024	332,069
2025	337,558
2026	343,047
Thereafter	880,944
Totals	$ 2,544,207

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 September 30:

Year	Amount
2022	$ 19,832
2023	20,172
2024	20,511
2025	3,452
Totals	$ 63,967

Rent expense, including the Organization’s share of property taxes and operating expenses totaled $694,601 and $348,951 for the year ended September 30, 2021 and the six months ended September 30, 2020, respectively. Rental income under the sublease was $33,639 and $15,581 for the year ended September 30, 2021 and the six-months ended September 30, 2020, respectively. Rent expense includes $191,130 and $76,656 of donated use of facilities for TreeHouse programming for the year ended September 30, 2021 and the six months ended September 30, 2020, respectively.

15. Related Party Transactions

The Organization received a $750,000 (Note 10) loan from a member of management. There are no payment terms and the stated interest is 1% due quarterly.

Approximately 11% of the balance of contributions receivable was due from a board member as of September 30, 2021. Approximately 19% of the balance of contributions receivable was due from a board member and a member of management as of September 30, 2020.

Approximately 13% of contribution revenue was from board members and a member of management during the year ended September 30, 2021. Approximately 19% of contribution revenue was received from board members and a member of management during the six months ended September 30, 2020.

16. Concentrations

Contributions Receivable

Approximately 90% of the balance of contributions receivable was due from three donors as of September 30, 2021. Approximately 75% of the balance of contributions receivable was due from two donors as of September 30, 2020.

Contributions

Approximately 12% of total contribution revenue was from one donor during the year ended September 30, 2021. Approximately 10% of total contribution revenue was from one donor during the six months ended September 30, 2020.

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.

17. Uncertainty

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 will continue for some time. The potential economic impact brought by, and the duration of, COVID-19 is difficult to assess and will depend on future developments that are highly uncertain and cannot be predicted at this time.

18. Subsequent Events

In early June 2022, the Organization sold a building for approximately $241,000.

Subsequent to year end, the Organization is the process of applying for certain employment tax credits through the Internal Revenue Service through the CARES Act, as amended by the Taxpayer Certainty and Disaster Relief Act of 2020 and American Rescue Plan Act of 2021 which allows a credit against applicable employment taxes for eligible employers that pay qualified wages, including certain health plan expenses, to some or all employees. Approximately $730,000 of employee retention credits are expected.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of TreeHouse, Inc. (TreeHouse), which comprise the statement of financial position as of September 30, 2021, and the related statements of activities and changes in net assets, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 9, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered TreeHouse, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of TreeHouse, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be a material weakness and a deficiency that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

We consider the following deficiency in TreeHouse, Inc.'s internal control to be a material weakness:

Financial Statement Preparation and Accounting Assistance: One of the circumstances described in the standard as constituting a material weakness is when an organization relies on its outside auditors to prepare its audited financial statements and related footnote disclosures in accordance with generally accepted accounting principles because an organization does not have the internal capacity to do so, meaning the resources and/or expertise to ensure that there is full and complete reporting and disclosure.

Management is responsible for establishing and maintaining internal controls and for the fair presentation of the financial position, statements of unrestricted activities, changes in net assets, cash flows, functional expenses, and disclosures in the financial statements, in conformity with U.S. generally accepted accounting principles ("GAAP"). TreeHouse, Inc. does not have a system of internal controls that would enable management to conclude the financial statements and related disclosures are complete and presented in accordance with GAAP. Thus, TreeHouse, Inc. has relied upon us, as the outside accountants, to prepare a draft of the financial statements, including the related footnote disclosures, and identify potential misstatements. By the standard of our profession, however, we cannot substitute for management and/or employees related to internal controls.

The outsourcing of these services is not unusual in organizations of TreeHouse, Inc.'s size and is a result of management's cost benefit decision to rely on our financial reporting expertise rather than incurring the cost of having this specialized function available internally.

A significant deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in TreeHouse, Inc.'s internal control to be a significant deficiency:

Underwater Endowment and Insufficient Liquid Assets: During our audit, we noted that the Organization had insufficient liquid assets available to cover the net appreciation portion of the endowment. In addition, there were insufficient remaining liquid assets to cover the additional net assets with donor restrictions. We recommend that the Organization review their endowment and investment policies to verify if cash funds should be segregated and invested to maintain the endowment. We also recommend that the Organization review their spending and review policies to put in place controls that will prohibit the Organization from spending funds that have not yet been released from donor stipulated restrictions. Failure to do so may result in damage to the Organization's reputation, fines and/or penalties or loss of tax exemption.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether TreeHouse's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of TreeHouse in a separate letter dated June 9, 2022.

Purpose of Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering TreeHouse, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Boyum & Barenscheer PLLP

Saint Paul, Minnesota
June 9, 2022