

**TREEHOUSE, INC.**

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT**

September 30, 2024 and 2023

**TREEHOUSE, INC.**  
**TABLE OF CONTENTS**

---

		<u>Page Number</u>
Independent Auditor's Report		1
<b>FINANCIAL STATEMENTS</b>		
Statements of Financial Position	Statement 1	3
Statements of Activities and Changes in Net Assets	Statement 2	4
Statements of Functional Expenses	Statement 3	5
Statements of Cash Flows	Statement 4	7
Notes to Financial Statements		8



## INDEPENDENT AUDITOR'S REPORT

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

### **Opinion**

We have audited the accompanying financial statements of TreeHouse, Inc. (a nonprofit organization), which comprise the statements of financial position as of September 30, 2024 and 2023, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2024 and 2023, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

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

### **Emphasis of Matter**

As disclosed in Note 14 to the financial statements, during the year ended September 30, 2024, TreeHouse, Inc. experienced a significant decrease in net assets and, at year-end reported a net asset deficiency. Management's evaluation of the events and conditions and management's plans to mitigate these matters are also described in Note 14. Our opinion is not modified with respect to this matter.

### **Responsibilities of Management for the Financial Statements**

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

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

### **Auditor's Responsibilities for the Audit of Financial Statements**

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

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of TreeHouse, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about TreeHouse, Inc.'s ability to continue as a going concern for a reasonable period of time.

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



REDPATH AND COMPANY, LLC  
St. Paul, Minnesota

February 6, 2025

**TREEHOUSE, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
September 30, 2024 and 2023

**Statement 1**

	<u>2024</u>	<u>2023</u>
Assets:		
Current assets:		
Cash and cash equivalents	\$142,623	\$956,525
Cash - restricted purpose	10,350	10,345
Contributions receivable, net	399,276	395,638
Prepaid expenses and other	79,664	64,486
Total current assets	<u>631,913</u>	<u>1,426,994</u>
Noncurrent assets:		
Assets held for endowment	316,548	280,194
Security deposits	35,000	35,000
Operating lease right-of-use asset	1,361,820	1,517,611
Land, buildings and equipment, net	306,679	458,258
Total noncurrent assets	<u>2,020,047</u>	<u>2,291,063</u>
Total assets	<u><u>\$2,651,960</u></u>	<u><u>\$3,718,057</u></u>
Liabilities and net assets:		
Current liabilities:		
Accounts payable	\$90,778	\$94,631
Accrued expenses	246,361	239,594
Line of credit	340,000	-
Operating lease liability, current portion	147,474	144,548
Total current liabilities	<u>824,613</u>	<u>478,773</u>
Noncurrent liabilities:		
Note payable - related party	750,000	750,000
Operating lease liability, net of current portion	1,229,224	1,375,486
Total noncurrent liabilities	<u>1,979,224</u>	<u>2,125,486</u>
Total liabilities	<u>2,803,837</u>	<u>2,604,259</u>
Net assets:		
Net assets (deficit) without donor restriction	<u>(1,045,527)</u>	<u>205,257</u>
Net assets with donor restriction:		
Net assets with donor restriction - purpose/location/time restricted	259,933	274,824
Net assets with donor restriction - perpetual in nature	633,717	633,717
Total net assets with donor restriction	<u>893,650</u>	<u>908,541</u>
Total net assets	<u>(151,877)</u>	<u>1,113,798</u>
Total liabilities and net assets	<u><u>\$2,651,960</u></u>	<u><u>\$3,718,057</u></u>

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

**TREEHOUSE, INC.**

## STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Statement 2

For The Years Ended September 30, 2024 and 2023

	2024			2023		
	Without Donor Restrictions	With Donor Restrictions	Totals	Without Donor Restrictions	With Donor Restrictions	Totals
Revenue and support:						
Contributions and grants	\$2,345,466	\$329,110	\$2,674,576	\$3,010,807	\$425,432	\$3,436,239
Gifts in kind	64,253	-	64,253	785,899	-	785,899
Fundraising events, including event contributions	871,649	-	871,649	752,123	-	752,123
TreeHouse partner network fees	67,959	-	67,959	72,830	-	72,830
Investment income, net	13,891	-	13,891	10,181	-	10,181
Other income	17,543	-	17,543	63,896	-	63,896
Increase in beneficial interest in NCF charitable fund	-	36,587	36,587	-	11,740	11,740
Gain on sale of land, buildings and equipment	-	-	-	373,556	-	373,556
Released from restriction	380,588	(380,588)	-	531,774	(531,774)	-
Total revenue and support	3,761,349	(14,891)	3,746,458	5,601,066	(94,602)	5,506,464
Expenses:						
Program services	3,257,505	-	3,257,505	3,504,918	-	3,504,918
Supporting services:						
Management and general	843,634	-	843,634	977,179	-	977,179
Fundraising	910,994	-	910,994	857,588	-	857,588
Total supporting services	1,754,628	-	1,754,628	1,834,767	-	1,834,767
Total expenses	5,012,133	-	5,012,133	5,339,685	-	5,339,685
Change in net assets	(1,250,784)	(14,891)	(1,265,675)	261,381	(94,602)	166,779
Net assets (deficit) - beginning of year	205,257	908,541	1,113,798	(56,124)	1,003,143	947,019
Net assets (deficit) - end of year	(\$1,045,527)	\$893,650	(\$151,877)	\$205,257	\$908,541	\$1,113,798

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

	2024				
	Supporting Services			Total Supporting Services	Total
	Program Services	Management and General	Fundraising		
Salaries	\$1,901,670	\$468,963	\$341,824	\$810,787	\$2,712,457
Payroll taxes	103,260	25,464	18,561	44,025	147,285
Employee benefits	298,520	73,617	53,659	127,276	425,796
Total personnel costs	<u>2,303,450</u>	<u>568,044</u>	<u>414,044</u>	<u>982,088</u>	<u>3,285,538</u>
Bank fees	-	2,166	8,666	10,832	10,832
Costs of fundraising events	-	-	350,255	350,255	350,255
Depreciation	120,389	24,078	16,052	40,130	160,519
Dues, subscriptions and miscellaneous	81,905	20,476	-	20,476	102,381
Facility lease	241,764	69,075	34,538	103,613	345,377
Insurance	44,008	4,890	-	4,890	48,898
Interest expense	-	14,863	1,651	16,514	16,514
Other expenses	56,796	13,489	710	14,199	70,995
Professional services	125,253	83,502	69,585	153,087	278,340
Repairs and maintenance	8,390	2,097	-	2,097	10,487
Seminars and education	12,414	3,103	-	3,103	15,517
Special activities and outreach	57,664	-	-	-	57,664
Staff and volunteer appreciation	28,293	18,862	-	18,862	47,155
Supplies, postage and printing	20,618	3,437	10,309	13,746	34,364
Telephone and utilities	31,622	5,929	1,976	7,905	39,527
Travel and promotional	51,319	9,623	3,208	12,831	64,150
Vehicle expenses	73,620	-	-	-	73,620
Total expense	<u>\$3,257,505</u>	<u>\$843,634</u>	<u>\$910,994</u>	<u>\$1,754,628</u>	<u>\$5,012,133</u>
Percentages	65%	17%	18%	35%	100%

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

	2023				
	Supporting Services			Total Supporting Services	Total
	Program Services	Management and General	Fundraising		
Salaries	\$1,883,378	\$461,118	\$291,715	\$752,833	\$2,636,211
Payroll taxes	92,976	22,763	14,401	37,164	130,140
Employee benefits	200,495	49,088	31,055	80,143	280,638
Total personnel costs	<u>2,176,849</u>	<u>532,969</u>	<u>337,171</u>	<u>870,140</u>	<u>3,046,989</u>
Bank fees	-	6,829	6,828	13,657	13,657
Costs of fundraising events	-	-	305,556	305,556	305,556
Depreciation	229,946	45,989	30,660	76,649	306,595
Dues, subscriptions and miscellaneous	61,495	26,355	-	26,355	87,850
Facility lease	337,761	96,503	48,252	144,755	482,516
Insurance	41,378	4,598	-	4,598	45,976
Interest expense	-	8,338	926	9,264	9,264
Other expenses	134,347	30,875	1,669	32,544	166,891
Professional services	213,986	187,890	120,041	307,931	521,917
Repairs and maintenance	3,265	921	-	921	4,186
Seminars and education	13,313	3,328	-	3,328	16,641
Special activities and outreach	118,380	-	-	-	118,380
Staff and volunteer appreciation	28,946	20,961	-	20,961	49,907
Supplies, postage and printing	12,761	4,254	4,253	8,507	21,268
Telephone and utilities	21,315	3,997	1,332	5,329	26,644
Travel and promotional	18,210	3,372	900	4,272	22,482
Vehicle expenses	92,966	-	-	-	92,966
Total expense	<u>\$3,504,918</u>	<u>\$977,179</u>	<u>\$857,588</u>	<u>\$1,834,767</u>	<u>\$5,339,685</u>
Percentages	66%	18%	16%	34%	100%

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



**TREEHOUSE, INC.**  
**STATEMENTS OF CASH FLOWS**  
For The Years Ended September 30, 2024 and 2023

**Statement 4**

	2024	2023
Cash flows from operating activities:		
Change in net assets	(\$1,265,675)	\$166,779
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	160,519	306,595
Loss (gain) on investments, net	(36,354)	(11,740)
Gain on sale of land, buildings and equipment	-	(373,556)
Noncash operating lease expense	12,455	2,423
Changes in operating assets and liabilities:		
Contributions receivable	(3,638)	309,725
Employee Retention Credit receivable	-	827,054
Prepaid expenses and other	(15,178)	32,581
Security deposits	-	15,000
Accounts payable	(3,853)	(55,480)
Accrued expenses and security deposit liability	6,767	(68,637)
Deferred rent	-	(409,343)
Lease incentive	-	(129,992)
Net cash provided by (used in) operating activities	<u>(1,144,957)</u>	<u>611,409</u>
Cash flows from investing activities:		
Proceeds from sale of land, buildings and equipment	-	448,966
Purchase of land, buildings and equipment	(8,940)	(150,098)
Net cash provided by (used in) investing activities	<u>(8,940)</u>	<u>298,868</u>
Cash flows from financing activities:		
Proceeds from (payments on) line of credit	<u>340,000</u>	<u>(420,000)</u>
Net change in cash, cash equivalents and restricted cash	(813,897)	490,277
Cash, cash equivalents and restricted cash - beginning of year	<u>966,870</u>	<u>476,593</u>
Cash, cash equivalents and restricted cash - end of year	<u><u>\$152,973</u></u>	<u><u>\$966,870</u></u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u><u>\$16,514</u></u>	<u><u>\$9,264</u></u>

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

---

**Note 1 NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES**

**A. ORGANIZATION**

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 unleash hope among teens. The Organization helps teens build relationships and resiliency rooted in living hope. Each sites hosts programs that give teens a safe space to find support and belonging. Through support group, mentoring, retreats and other off-site activities, teens have the opportunity to build even deeper relationships with peers and caring adults. The Organization both serves teens directly and trains and equips other organizations to carry out their mission across the nation.

**B. 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 as either net assets without donor restrictions or net assets with donor restrictions.

**C. CASH, CASH EQUIVALENTS AND RESTRICTED CASH**

Cash and cash equivalents include all monies in banks and highly liquid investments with maturity dates of less than three months. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

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.

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

The following table provides a reconciliation of cash, cash equivalents 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 on September 30:

	<u>2024</u>	<u>2023</u>
Cash and cash equivalents	\$142,623	\$956,525
Cash - restricted purpose	<u>10,350</u>	<u>10,345</u>
Total	<u><u>\$152,973</u></u>	<u><u>\$966,870</u></u>

**D. SECURITY DEPOSITS**

Security deposits are for deposits held by lessors for leased program space at certain locations.

#### **E. CONTRIBUTIONS RECEIVABLE**

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 \$7,644 and \$7,644 for the years ended September 30, 2024 and 2023, respectively.

#### **F. 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.

#### **G. 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 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.

#### **H. NET ASSETS**

Net assets, revenues, gains and losses are classified based on the existence or absence of donor- or grantor-imposed restrictions. Accordingly, net assets 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. We report contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or 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. We report conditional contributions restricted by donors as increases in net assets without donor restrictions if the restrictions and conditions expire simultaneously in the reporting period.

## **I. REVENUE AND REVENUE RECOGNITION**

The Organization recognizes contributions when cash, securities or other assets, an unconditional promise to give, or a notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. 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. The Organization has been awarded conditional contributions of \$0 that have not been recognized at September 30, 2024 and 2023, because the underlying conditions have not yet been met.

Revenue derived from cost-reimbursable contracts and grants, which are conditioned upon performance requirements and/or the incurrence of allowable qualifying expenses, are 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 Statements of Financial Position; there were no refundable advances related to cost-reimbursable contracts and grants at September 30, 2024 and 2023. The Organization has been awarded cost-reimbursable grants of \$0 and \$15,750 that have not been recognized at September 30, 2024 and 2023 respectively, because qualifying expenditures have not yet been incurred.

Fundraising and event contribution revenue is comprised of an exchange element based upon the direct benefits donors receive and a contribution element for the difference. Event revenue from sponsorships and ticket sales related to a fundraising event is recognized when the event takes place equal to the fair value of direct benefits to donors. The contribution element of the special event revenue immediately, unless there is a right of return if the special event does not take 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 Organization location in that community, and accordingly, the proceeds are classified as donor restricted. Event contribution revenue included in fundraising events on the Statements of Activities and Changes in Net Assets was approximately \$111,000 and \$291,000 for the years ended September 30, 2024 and 2023, respectively.

TreeHouse partner network fees are exchange transactions for services provided, providing limited licenses to use the Organization program and literature. Revenue from TreeHouse partner network fees are recognized over time, as the underlying services are provided to customers. Payments are required as services are provided and billed in accordance with terms and conditions specified in the monthly contracts. Amounts received in advance are deferred to the applicable period.

**J. 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 5) include references to the above inputs.

**K. GIFTS IN KIND**

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, equipment and facilities use of churches and schools are recorded as gifts in kind at their estimated fair values at the date of donation, based on the estimated US wholesale prices of identical or similar products or services using pricing data under a ‘like-kind’ methodology considering the goods or services condition and utility for use at the time of the contribution. Assets contributed with explicit restrictions regarding their use are reported as restricted support; those without restriction are reported as unrestricted support. No gifts in kind were reported as contributions with donor restrictions in 2024 and 2023.

The following represents the Organization’s in-kind contributions recognized within the Statements of Activities and Changes in Net Assets as of September 30:

	<u>2024</u>	<u>2023</u>
Use of facilities	\$26,999	\$684,329
Goods and services for special events	15,179	54,285
Program outreach goods and services	<u>22,075</u>	<u>47,285</u>
Totals	<u>\$64,253</u>	<u>\$785,899</u>

The following represents how donated materials and services were used by the Organization’s activities, recognized within the Statements of Activities and Changes in Net Assets, as of September 30:

	<u>2024</u>	<u>2023</u>
Programs	\$40,889	\$525,994
Management and general	5,485	137,187
Fundraising	<u>17,879</u>	<u>122,718</u>
Totals	<u>\$64,253</u>	<u>\$785,899</u>

#### **L. LEASES**

For leases with an initial term in excess of 12 months, the related leased asset and liability are recognized on the balance sheet as operating or finance leases at the inception of an agreement where it is determined that a lease exists. The Organization has elected to exclude short-term leases for all classes of underlying assets from balance sheet recognition. A lease is considered to be short-term if it contains a lease term of 12 months or less. Lease expense related to short-term leases is recognized on a straight-line basis over the term of the lease. The Organization may enter into leases that contain both lease and non-lease components. The Organization did not elect the practical expedient to combine lease and non-lease components when feasible.

Operating lease assets are included in operating lease right-of-use (“ROU”) assets. ROU assets represent the right to use an underlying asset for the lease term and operating lease liabilities represent the obligation to make the lease payments arising from the related operating lease. The assets and liabilities are recognized based on the present value of future payments over the lease term at the commencement date. The Organization has elected to determine their estimated incremental borrowing rate for all classes of underlying assets when the implicit rate is not readily determinable.

#### **M. 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.

#### **N. ADVERTISING COSTS**

The Organization uses advertising to promote special fundraising events among the audiences it serves. Advertising costs are expensed as incurred. Advertising expense for the years ending September 30, 2024 and 2023 was \$17,441 and \$3,535, respectively.

#### **O. 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. Expenses, other than salaries and related payroll expenses, that are not directly identifiable by program or support service, are allocated based on management estimates of usage.

#### **P. 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.

A tax expense or benefit from an uncertain income tax position (including tax-exempt status) may be recognized only when it is more likely than not that the position will be sustained upon examination by taxing authorities. Management believes the Organization has no uncertain income tax positions that would result in an accrual, expense, or benefit under the more likely than not standard.

**Q. RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS**

The Organization adopted the provisions of FASB Accounting Standards Codification (FASB ASC) 326: *Financial Instruments – Credit Losses* as of October 1, 2023, which replaced the incurred loss impairment method with a method that reflects lifetime expected credit losses. Adoption of the new standard did not impact the Organization’s financial statements.

**Note 2 LIQUIDITY AND AVAILABILITY OF FUNDS**

Financial assets available for general expenditure, that is, without donor restrictions limiting their use, within one year of the Statements of Financial Position date, comprise the following at September 30:

	<u>2024</u>	<u>2023</u>
Financial assets:		
Cash	\$142,623	\$956,525
Cash - restricted purpose	10,350	10,345
Contributions receivable	399,276	395,638
Assets held for endowment	316,548	280,194
Subtotal	<u>868,797</u>	<u>1,642,702</u>
Amounts unavailable due to:		
Net assets restricted for endowment funds	(793,186)	(756,832)
Net assets restricted for other purposes	(443)	(51,688)
Subtotal	<u>(793,629)</u>	<u>(808,520)</u>
Total	<u>\$75,168</u>	<u>\$834,182</u>

Due to the nature of the restrictions from contributions received from donors, the Organization has omitted all net assets with donor restrictions, except those only restricted for time that are expected to be collected within one year.

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. In addition, as described in Note 6, the Organization has one line of credit in the amount of \$600,000 which could be drawn upon in the event of an unanticipated liquidity need.

**TREEHOUSE, INC.**  
NOTES TO FINANCIAL STATEMENTS  
For The Years Ended September 30, 2024 and 2023

**Note 3 CONTRIBUTIONS RECEIVABLE**

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

	<u>2024</u>	<u>2023</u>
Unconditional promises to give, net:		
General operating	\$290,402	\$239,126
Time restricted	100,000	100,000
Purpose restricted:		
Individual TreeHouse operations	16,518	64,156
Less: Allowance for doubtful accounts	<u>(7,644)</u>	<u>(7,644)</u>
Contributions receivable, net	<u>\$399,276</u>	<u>\$395,638</u>

All unconditional promises to give are scheduled to be received within one year.

**Note 4 LAND, BUILDINGS AND EQUIPMENT**

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

	<u>2024</u>	<u>2023</u>
Furniture, equipment and software	\$778,802	\$770,415
Vehicles	385,314	385,314
Leasehold improvements	<u>153,771</u>	<u>153,218</u>
Total land, buildings and equipment	1,317,887	1,308,947
Accumulated depreciation	<u>(1,011,208)</u>	<u>(850,689)</u>
Land, buildings and equipment, net	<u>\$306,679</u>	<u>\$458,258</u>

Depreciation expense totaled \$160,519 and \$306,595 for the years ended September 30, 2024 and 2023, respectively.

**Note 5 ASSETS HELD FOR ENDOWMENT**

**A. GENERAL**

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.



**B. 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

**C. FINANCIAL INFORMATION**

The Organization had the following assets available for its endowment at September 30:

	<u>2024</u>	<u>2023</u>
Beneficial interest in NCF charitable fund	\$316,548	\$280,194
Cash available for endowment	152,973	353,523
Contributions receivable available for endowment	<u>164,196</u>	<u>-</u>
Held in perpetuity	633,717	633,717
Cash available for endowment	-	123,115
Contributions receivable available for endowment	<u>159,469</u>	<u>-</u>
Total	<u><u>\$793,186</u></u>	<u><u>\$756,832</u></u>

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.

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

**TREEHOUSE, INC.**  
NOTES TO FINANCIAL STATEMENTS  
For The Years Ended September 30, 2024 and 2023

Changes in the fair value of the Organization’s Level 3 assets consisted of the following for the years ended September 30:

	<u>2024</u>	<u>2023</u>
Level 3 assets, beginning of year	\$280,194	\$268,454
Net increase (decrease) of beneficial interest	<u>36,354</u>	<u>11,740</u>
Level 3 assets, end of year	<u><u>\$316,548</u></u>	<u><u>\$280,194</u></u>

The net increase 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.

Changes in endowment net assets for the years ended September 30, 2024 and 2023, respectively, are as follows:

	<u>Accumulated investment gains</u>	<u>Held in Perpetuity</u>	<u>Total</u>
September 30, 2022	\$111,375	\$633,717	\$745,092
Net increase of beneficial interest	<u>11,740</u>	<u>-</u>	<u>11,740</u>
September 30, 2023	123,115	633,717	756,832
Net increase of beneficial interest	<u>36,354</u>	<u>-</u>	<u>36,354</u>
September 30, 2024	<u><u>\$159,469</u></u>	<u><u>\$633,717</u></u>	<u><u>\$793,186</u></u>

**D. INVESTMENT 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 Changes in Net Assets.

**E. STRATEGIES EMPLOYED FOR ACHIEVING INVESTMENT 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.

**F. SPENDING POLICY AND HOW THE INVESTMENT OBJECTIVES RELATE 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.

**Note 6 LINE OF CREDIT**

The Organization has a line of credit agreement whereby it may borrow up to \$600,000, which expires on March 31, 2025. The interest rate is the higher of 5.75% or the current index rate, based on the prime rate of interest as published in the Wall Street Journal. The rate at September 30, 2024 and 2023 was 8.00% and 8.50%, respectively. The line of credit is secured by substantially all of the Organization's assets and is subject to certain financial and nonfinancial covenants. There was an outstanding balance on the line of credit of \$340,000 and \$0 at September 30, 2024 and 2023, respectively. The line of credit has a covenant for the Organization to submit its audited financial statements within 30 days after receipt and to provide audited financial statements on an annual basis, prepared by a certified public accountant.

**Note 7 GRANT CONTINGENCIES**

The Organization received a Paycheck Protection Program (PPP) in April 2020, for \$783,290 from Tradition Capital Bank and a second PPP loan from Tradition Capital bank in February of 2021. The Organization received notification of full forgiveness on November 2, 2020 and June 22, 2021, respectively. At which time the entire loan proceeds were recognized as revenue without donor restrictions. The expenditures under the PPP loan program are subject to review and audit by the SBA for six years from the date of forgiveness. Management believes that any liability for disallowances, which may arise as a result of an audit, would not be material.

During the years ended September 30, 2022, the Organization recognized Employee Retention Credit (ERC) revenue of \$1,008,359. The Organization accounted for ERC as a conditional contribution under FASB ASC 958-605. ERC is subject to review and audit by the IRS for a three-to-five-year period. Management believes that any liability for disallowances, which may arise as a result of an audit, would not be material.

**Note 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.

**Note 9 NET ASSETS WITH DONOR RESTRICTIONS**

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

	<u>2024</u>	<u>2023</u>
Endowment funds	\$793,186	\$756,832
Time restricted	100,000	100,000
Various individual houses	443	51,688
Comprehensive campaign	<u>21</u>	<u>21</u>
Total	<u><u>\$893,650</u></u>	<u><u>\$908,541</u></u>

**Note 10 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 years ended September 30, 2024 and 2023.

**Note 11 LEASES**

The Organization leases certain office facilities, program facilities space and equipment at various terms under long-term non-cancelable operating leases. The leases expire at various dates through 2033 and provide renewal options ranging from 1 to 5 years. The Organization includes in the termination of the right-of-use assets and lease liabilities any renewal options when the options are reasonably certain to be exercised. Some of the Organization's operating leases provide for increases in future minimum annual rental payments. Additionally, some of the operating lease agreements requires the Organization to pay real estate taxes, insurance and repairs.

Total lease expense for the year ended September 30, 2024 is as follows:

	<u>Facility</u>	<u>Equipment</u>	<u>Total</u>
Operating lease expense	\$197,655	\$5,201	\$202,856
Short-term lease expense	120,723	365	121,088
Donated lease expense	<u>26,999</u>	<u>-</u>	<u>26,999</u>
Total lease expense	<u><u>\$345,377</u></u>	<u><u>\$5,566</u></u>	<u><u>\$350,943</u></u>

**TREEHOUSE, INC.**  
NOTES TO FINANCIAL STATEMENTS  
For The Years Ended September 30, 2024 and 2023

Total lease expense for the year ended September 30, 2023 is as follows:

	<u>Facility</u>	<u>Equipment</u>	<u>Total</u>
Operating lease expense	\$144,273	\$5,201	\$149,474
Short-term lease expense	244,993	3,542	248,535
Donated lease expense	<u>93,250</u>	<u>-</u>	<u>93,250</u>
Total lease expense	<u>\$482,516</u>	<u>\$8,743</u>	<u>\$491,259</u>

As of September 30, 2024, the weighted average remaining lease term was 8.11 years and the weighted average discount rate was 3.00%. As of September 30, 2023, the weighted average remaining lease term was 9.13 years and the weighted average discount rate was 3.00%.

The following table summarizes the supplemental cash flow information for the year ended September 30:

	<u>2024</u>	<u>2023</u>
<u>Cash paid for amounts included in the measurement of lease liabilities:</u>		
Operating cash flows from operating leases	<u>\$191,763</u>	<u>\$147,194</u>
<u>Right-of-use assets obtained in exchange for lease liabilities:</u>		
Operating leases	<u>\$4,723</u>	<u>\$1,631,460</u>

The future maturities of the lease liabilities are as follows:

<u>Year ending September 30,</u>	<u>Operating Leases</u>
2025	\$193,676
2026	187,146
2027	184,875
2028	184,875
2029	184,875
Thereafter	<u>608,547</u>
Total lease payments	1,543,994
Less: Present value discount	<u>(167,296)</u>
Present value of lease liabilities	<u>\$1,376,698</u>

**Note 12 RELATED PARTY TRANSACTIONS**

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

Approximately 61% and 37% of the balance of contributions receivable was due from three and one members of management as of September 30, 2024 and 2023, respectively.

Approximately 33% and 25% of contribution revenue was from board members and a member of management during the years ended September 30, 2024 and 2023, respectively.

**Note 13 CONCENTRATIONS**

**A. CONTRIBUTIONS RECEIVABLE**

Approximately 86% and 74% of the balance of contributions receivable was due from four and three donors as of September 30, 2024 and 2023, respectively.

**B. CONTRIBUTION REVENUE**

Approximately 33% of total contribution revenue was from two donors during the years ended September 30, 2024 and 2023.

**Note 14 FINANCIAL CONDITION**

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles on the assumption that the Organization will continue as a going concern.

During the year ended September 30, 2024, the Organization had a decrease in net assets of approximately \$1,266,000 and negative cash flow from operating activities of approximately \$1,145,000. As of September 30, 2024, total net assets were a negative \$151,877.

The Organization has been significantly supported by a group of related party donors, who have expressed their intent to continue providing financial support. Furthermore, management is focused on expanding its resources outside the state of Minnesota and is pursuing national expansion efforts to diversify funding sources. Management believes that these initiatives, along with the continued support from related party donors, will generate the necessary revenue to sustain operations for the foreseeable future. However, there is no assurance that these plans will be successfully executed, and the Organization's ability to continue as a going concern is subject to the successful realization of these efforts.

**Note 15 SUBSEQUENT EVENTS**

Management has evaluated subsequent events through February 6, 2025, the date which the financial statements were available to be issued.