

TREE RESEARCH AND EDUCATION ENDOWMENT FUND
FINANCIAL STATEMENTS
YEAR ENDED
DECEMBER 31, 2016

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FINANCIAL STATEMENTS
DECEMBER 31, 2016

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Board of Directors
Tree Research and Education Endowment Fund
Naperville, Illinois

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of **TREE RESEARCH AND EDUCATION ENDOWMENT FUND**, which comprise the statement of financial position as of December 31, 2016 and the related statements of activities, functional expenses and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 auditors' 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 **TREE RESEARCH AND EDUCATION ENDOWMENT FUND** at December 31, 2016, and the results of its changes in net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

As discussed in Note 3, the Fund's beneficial interest in investments held by Chicago Community Trust is considered permanently restricted, with the exception of amounts approved for spending by CCT. During the year ended December 31, 2016, it was determined that certain funds held at CCT were being considered either unrestricted or temporarily restricted, in excess of amounts approved for funding. These funds have been reclassified to permanently restricted effective January 1, 2016.

Sassetti LLC

Oak Park, Illinois
April 14, 2017

TREE RESEARCH AND EDUCATION ENDOWMENT FUND
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2016

ASSETS	
Cash and cash equivalents	\$ 233,946
Pledges receivable	10,550
Beneficial interest in investments held by Chicago Community Trust	3,771,410
Prepaid expenses	<u>4,947</u>
Total Assets	<u>\$ 4,020,853</u>
LIABILITIES	
Accounts payable	\$ 21,142
Accrued expenses	18,707
Grants payable	<u>332,992</u>
Total Liabilities	<u>372,841</u>
NET ASSETS	
Unrestricted	(288,450)
Temporarily restricted	386,853
Permanently restricted	<u>3,549,609</u>
Total Net Assets	<u>3,648,012</u>
Total Liabilities and Net Assets	<u>\$ 4,020,853</u>

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

TREE RESEARCH AND EDUCATION ENDOWMENT FUND
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
PUBLIC SUPPORT AND REVENUE				
Contributions	\$ 430,935	\$ 58,387	\$ 541,896	\$ 1,031,218
Special events	649,217	-	-	649,217
In-kind	97,663	-	-	97,663
Merchandise sales	831	-	-	831
Investment income	22	-	180,925	180,947
Miscellaneous income	1,131	-	-	1,131
Funds approved for spending	-	121,095	(121,095)	-
Transfers to Investments Held by CCT	-	(121,213)	121,213	-
Total public support and revenue	<u>1,179,799</u>	<u>58,269</u>	<u>722,939</u>	<u>\$ 1,961,007</u>
FUNCTIONAL EXPENSES				
Program services	879,849	-	-	879,849
Administrative and general	184,518	-	-	184,518
Fundraising	491,469	-	-	491,469
Total functional expenses	<u>1,555,836</u>	<u>-</u>	<u>-</u>	<u>1,555,836</u>
CHANGE IN NET ASSETS	<u>(376,037)</u>	<u>58,269</u>	<u>722,939</u>	<u>405,171</u>
NET ASSETS				
Beginning of year	734,587	1,232,442	1,275,812	3,242,841
Prior period reclassification	<u>(647,000)</u>	<u>(903,858)</u>	<u>1,550,858</u>	<u>-</u>
Beginning of the year, as adjusted	<u>87,587</u>	<u>328,584</u>	<u>2,826,670</u>	<u>3,242,841</u>
End of year	<u>\$ (288,450)</u>	<u>\$ 386,853</u>	<u>\$ 3,549,609</u>	<u>\$ 3,648,012</u>

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

TREE RESEARCH AND EDUCATION ENDOWMENT FUND
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2016

	Program Services	Administrative and General	Fundraising	Total
Salaries	\$ 95,139	\$ 90,298	\$ 106,930	\$ 292,367
Payroll taxes	8,844	5,154	8,670	22,668
Other employee benefits	8,235	9,995	13,445	31,675
Accounting fees	1,409	29,847	16,043	47,299
Bad debt expense	47,589	-	-	47,589
Bank charges	130	3,709	3,541	7,380
Board expense	5,368	10,447	1,757	17,572
Computer services	3,804	4,202	5,925	13,931
Computer software	949	947	1,264	3,160
Dues and subscriptions	514	514	686	1,714
Insurance	2,796	1,668	2,014	6,478
Legal fees	315	4,085	2,433	6,833
Monetary grants	549,938	-	-	549,938
Office supplies	2,559	3,018	3,413	8,990
Payroll fees	-	1,200	-	1,200
Postage	1,194	1,044	1,377	3,615
Printing	596	536	5,687	6,819
Professional fees	550	5,478	58,933	64,961
Special event	102,005	-	165,667	267,672
In-kind expenses	29,299	-	68,364	97,663
Telephone	2,548	2,587	3,527	8,662
Training	980	420	-	1,400
Travel	10,242	2,370	12,462	25,074
Rent	4,846	6,999	9,331	21,176
Total expenses	<u>\$ 879,849</u>	<u>\$ 184,518</u>	<u>\$ 491,469</u>	<u>\$ 1,555,836</u>

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

TREE RESEARCH AND EDUCATION ENDOWMENT FUND
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 405,171
Adjustments to reconcile net assets to net cash used in operating activities:	
Realized/unrealized gains on investments, net	(161,491)
(Increase)/Decrease in:	
Pledges receivable	45,646
Other contributions and grants receivable	46,931
Beneficial interest in investments held by Chicago Community Trust	(682,543)
Prepaid expenses	4,519
Increase in:	
Accounts payable	3,951
Grants payable	186,384
Accrued expenses	1,718
Net Cash Used in Operating Activities	<u>(149,714)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(149,714)
CASH AND CASH EQUIVALENTS:	
Beginning of year	<u>383,660</u>
End of year	<u><u>\$ 233,946</u></u>

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

TREE RESEARCH AND EDUCATION ENDOWMENT FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations - The objectives of the Tree Research and Education Endowment Fund (the Fund) are both educational and scientific. The Fund provides a greater appreciation of trees through promotion of research, improved technology and the practice of professional arboriculture. The Fund's primary revenues consist of special events and contributions from individual donors and various arboriculture-related companies, both public and private.

Basis of Presentation - These financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

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

Cash and Cash Equivalents - The Fund considers all cash accounts, which are not subject to withdrawal restrictions or penalties, and all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Property and Equipment - Property and equipment are recorded at cost when purchased or at fair value at the date of donation and are being depreciated on a straight-line basis over their estimated useful lives. Acquisitions of property and equipment in excess of \$3,000 are capitalized. During the year ended December 31, 2016, there was no depreciation expense and all property and equipment was fully depreciated.

Classification of Net Assets - Net assets of the Fund are classified as unrestricted, temporarily restricted, or permanently restricted depending on the presence and characteristics of donor-imposed restrictions limiting the Fund's ability to use or dispose of contributed assets or the economic benefits embodied in those assets.

Donor-imposed restrictions that expire with the passage of time or can be removed by meeting certain requirements result in temporarily restricted net assets. Permanently restricted net assets result from donor-imposed restrictions that limit the use of net assets in perpetuity. Earnings, gains, and losses on restricted net assets are classified as unrestricted unless specifically restricted by the donor or by applicable state law.

Contributions - Annual contributions are available for unrestricted use in the related year unless specifically restricted by the donor.

Grants that meet the definition of a contribution and other contributions of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets.

Special Events - Special events consist of raffles, a bike tour, and auctions. The purpose of special events is to raise financial support and public awareness to stimulate and encourage arboricultural research.

TREE RESEARCH AND EDUCATION ENDOWMENT FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Grants and Other Receivables - Pledges receivable are recorded in the fiscal year, in which the notification of an unconditional pledge is received and then are classified as either unrestricted, temporarily restricted or permanently restricted depending on the existence and/or nature of donor restrictions. Pledges receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to pledge receivable. There was no allowance for the year ended December 31, 2016. Bad debt expense for the year ended December 31, 2016 was \$47,589, and related to unfulfilled pledges committed to in prior years.

Income Tax Status - The Fund is exempt from federal income taxes under the provisions of the Internal Revenue Code Section 501(c)(3). However, organizations which are exempt may be subject to unrelated business income taxes when an organization generates revenues from activities which are unrelated to the exempt purpose of the organization. Management does not believe that it has taxable unrelated income for 2016 or prior fiscal years. The Organization's Forms 990, *Return of Organization Exempt from Income Tax*, are subject to examination by the IRS, generally for three years after they were filed.

Donated Goods and Services - Donated services are recognized as contributions at their fair value at the date of donation if the services create or enhance nonfinancial assets or require specialized skills and would otherwise be purchased by the Fund. Donated materials are recorded as contributions at their fair values at the date of donation.

The Fund has a volunteer committee review grant applications and their time is not recorded as a contribution and expenditure because the Fund has no objective basis to measure or value these services. When services are measurable, and meet the definition of services that can be recorded, the determined amount is recorded. Any expenses that would have been incurred from hiring a committee for review of the grants would be recorded as program expenses.

During the year ended December 31, 2016, the Fund recorded in-kind advertising and donated goods of \$97,663.

Joint Costs - the Fund incurs joint costs for special events. These events provide both programming activities and activities that include fundraising appeals. For the year ended December 31, 2016, the Fund incurred \$267,672 in joint costs, allocating \$102,005 and \$165,667 to program and fundraising functional categories, respectively.

Subsequent Events - The Fund has evaluated subsequent events through April 14, 2017, the date these financial statements were available to be issued. There were no subsequent events required to be recognized or disclosed in these financial statements.

2. DESCRIPTION OF PROGRAMS

Directed Grants

Directed grants are funded by a sponsor or donor for a specific project or topic. Proposals for the program are limited to the size specified in the "Request for Proposal". The schedule for submissions of proposals and awarding of the grant is dependent on the individual project.

TREE RESEARCH AND EDUCATION ENDOWMENT FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

2. DESCRIPTION OF PROGRAMS - CONTINUED

Hyland R. Johns Grant

The Hyland R. Johns Grant Program provides funds to priority programs that benefit the arboricultural industry and enhance the many contributions of urban and community forests.

John Z. Duling Grant

The John Z. Duling Grant Program provides seed money to support research projects that address topics that have benefit to the everyday working arborist. Grant awards vary depending on the assessed value of the project to the needs of the arboricultural industry.

Tree Fund Research Fellowship Grant

Starting in 2008, the Tree Research Fellow Grant was designed to address a specific topic as defined by the TREE Fund Trustees and to provide support to a young scientist who is being mentored by an established and published scientist.

Jack Kimmel International Grant

The Jack Kimmell International Grant Program is championed by the Canadian TREE Fund and honors the late Jack Kimmel, former director of parks for the City of Toronto. The program provides much needed funding to arboriculture and urban forestry researchers all over the world.

Arboriculture Education Grant

The Arboriculture Education Grant Program supports the development of unique, creative or innovative educational programs and materials to foster interest in and enthusiasm for urban and community forests.

Ohio Chapter ISA Grant

The Ohio Chapter Arboriculture Education Grant Program funds arboricultural education programs or projects within the state of Ohio which serve a target population of 16 years of age or older.

Education

The Educational programs support numerous public education endeavors. The Tour des Trees provides educational opportunities through presentation and media interviews on the importance of trees and the role of tree research. Programs include information for pre-school to high school age students. Programs also describe the career opportunities in arboriculture.

Scholarships

The Robert Felix Memorial Scholarship Program was established to honor Robert Felix and his commitment to the advancement of the arboriculture through education. The Fund provides scholarships to students pursuing a career in commercial arboriculture.

The John Wright Memorial Scholarship is for high school seniors and returning college students interested in a career in arboriculture.

The Horace M. Thayer Scholarship Program supports college students from Pennsylvania or Delaware enrolled in a program related to the practice of arboriculture and urban forestry.

The Fran Ward Women in Arboriculture Scholarship Program supports female college students from Pennsylvania or Delaware enrolled in a program related to the practice of arboriculture and urban forestry.

TREE RESEARCH AND EDUCATION ENDOWMENT FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

3. INVESTMENT INCOME

During the year ended December 31, 2008, the Fund transferred its endowment assets to Chicago Community Trust (CCT), an unrelated party. The CCT established the Tree Research and Education Endowment Fund, with the Fund named as its sole beneficiary. As a result of the transfer, the investment held at the CCT is presented in the statement of financial position as a beneficial interest in investments held by Chicago Community Trust. The beneficial interest in investments held by Chicago Community Trust as well as any investment income, net of fees, is considered permanently restricted by the Fund until a disbursement to the Fund is approved by CCT, in accordance with CCT's spending policy.

Investment income for the year ended December 31, 2016 consists of the following:

Interest and dividend income, net of fees	\$ 19,456
Realized and unrealized gains, net	<u>161,491</u>
Total	<u>\$ 180,947</u>

4. FAIR VALUE MEASUREMENTS

Generally accepted accounting principles define fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required to be recorded at fair value, the Organization considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of nonperformance.

Generally accepted accounting principles also establish a fair value hierarchy that requires the Organization to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest of input that is significant to the fair value measurement. The three levels of inputs that may be used to measure fair value are as follows:

Level 1	- quoted prices in active markets for identical assets or liabilities;
Level 2	- inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities ; or
Level 3	- unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2016 and 2015.

Investments Held at Chicago Community Trust: Fair values for investments are provided by the trust administrator who determines the fair value by reference to quoted market prices and other relevant information generated by market transactions.

The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Fund believes their valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurements at the reporting date.

TREE RESEARCH AND EDUCATION ENDOWMENT FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

4. FAIR VALUE MEASUREMENTS - CONTINUED

	Asset Fair Value at December 31, 2016			
	Level 1	Level 2	Level 3	Total
Beneficial Interest in Investments				
Held by Chicago Community Trust	\$ -	\$ -	\$ 3,771,410	\$ 3,771,410

The following table sets forth a summary of changes in fair value of the Level 3 assets for the years ended December 31, 2016:

Balance, beginning of year	\$ 2,927,376
Realized and unrealized gains, net	161,491
Reinvested earnings, net of fees	19,434
Contributions	663,109
Balance, end of year	\$ 3,771,410

5. GRANTS PAYABLE

Grants authorized but unpaid at year end are measured at fair value and reported as liabilities. The following is a summary of grants authorized but not yet paid at December 31, 2016:

Hyland R. Johns grants	\$ 72,886
John Z. Duling grants	6,000
Jack Kimmel grants	6,400
Utility Arborist Research Fund project	113,750
Research Fellowship grant	133,956
	\$ 332,992

Grant balances are payable in future years as follows:

Years ending December 31,	
2017	\$ 59,228
2018	195,168
2019	26,500
2020	15,096
2021	37,000
	\$ 332,992

6. PERMANENTLY AND TEMPORARILY RESTRICTED FUNDS

The Fund was established in 2002 specifically to build and manage an endowment fund, the proceeds of which will be used to fund research, education, and community engagement. In 2008, the Fund established and transferred its endowment assets to an agency fund at CCT, with the Fund named as the sole beneficiary. Any subsequent contributions to the endowment are collected by the Fund and transferred to CCT on a monthly basis. The Fund's beneficial interest in the investments held by CCT, including investment income, is considered permanently restricted.

TREE RESEARCH AND EDUCATION ENDOWMENT FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

6. PERMANENTLY AND TEMPORARILY RESTRICTED FUNDS - CONTINUED

CCT's defined spending plan allocates an annual spendable balance to be paid to the Fund based on a five-year rolling average of the Fund's aggregate value at the end of CCT's fiscal year on September 30. CCT releases the restriction on the spendable balance annually following the close of their fiscal year and pays the Fund the balance in two payments of 50% each, annually, unless the Fund directs CCT to hold the funds. If the Fund elects to not receive the spendable balance in any given year, it remains available for the Fund to draw down at any time. Funds made available by CCT but not drawn by the Fund are considered temporarily restricted.

While CCT administers the Fund's endowment as a single fund, the Fund maintains 16 subsidiary accounts to preserve and pursue donor intentions for the funds.

Permanently restricted net assets consisted of the following for the year ended December 31, 2016:

James Barborina Fund	\$ 83,897
Gamma Fund	151,974
John White Fund	68,017
Mark McClure Research Fund	129,658
Illinois Arborists Association Fund	47,821
Safe Arborist's Technique Fund	281,834
John Wright Scholarship Fund	29,834
Utility Arborist Research Fund	778,968
Ohio Chapter ISA Funds	145,680
Bob Skiera Memorial Fund	345,948
Collier Arborist Training Trust	151,263
Bonnie Appleton Fund	82,307
Bartlett Fund	46,922
John Duling Fund	560,909
Robert Felix Fund	665,991
Other restricted amounts	<u>200,387</u>
Total Funds Held by CCT	<u>3,771,410</u>
Less funds approved for spending by CCT	<u>(221,801)</u>
Total permanently restricted net assets	<u><u>\$ 3,549,609</u></u>

Temporarily restricted net assets are available for the following purposes at December 31, 2016:

Utility Arborists Research Grants	\$ 90,010
Other grants	75,042
Funds approved for spending by CCT	<u>221,801</u>
Total temporarily restricted net assets	<u><u>\$ 386,853</u></u>

7. EMPLOYEE BENEFITS

The Fund maintains a 403(B) plan that covers full-time employees. The Fund matches fifty cents per dollar of each employee dollar up to a maximum employee contribution of 4.25% of employee salary up to \$3,500. The Fund contributed \$9,493 for the year ended December 31, 2016.

TREE RESEARCH AND EDUCATION ENDOWMENT FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

8. LEASE COMMITMENTS

The Fund has an office lease that expires in August of 2021. The Fund also rents storage space on a month-to-month basis. Rent expense was \$21,176 for the year ended December 31, 2016. Future minimum lease payments are as follows for the years ending December 31:

2017	\$	26,058
2018		26,836
2019		27,637
2020		28,474
2021		<u>19,359</u>
Total	\$	<u>128,364</u>

9. PRIOR PERIOD RECLASSIFICATION

As discussed in Note 3, the Fund's beneficial interest in investments held by Chicago Community Trust is considered permanently restricted, with the exception of amounts approved for spending by CCT.

During the year ended December 31, 2016, it was determined that certain funds held at CCT were being considered either unrestricted or temporarily restricted, in excess of amounts approved for funding. These funds have been reclassified to permanently restricted effective January 1, 2016.