



TREE FUND
Cultivating Innovation

TRUSTEE HANDBOOK SECTION FIVE: FINANCIAL AND GIFT POLICIES (Updated: January 2019)

SECTION ONE: INTRODUCTION

As in integral part of its core fiduciary duties in governing the organization, the Board of Trustees are responsible for ensuring that appropriate systems are established and followed to:

- Protect TREE Fund from fraud, waste, abuse, mismanagement or the appearance thereof;
- Ensure that management and staff are using Generally Accepted Accounting Principles (GAAP);
- Affirm compliance with all applicable laws and regulations;
- Segregate duties to preclude any individual from wielding undue rights and powers that could create organizational vulnerabilities;
- Produce timely and reliable financial reports;
- Manage efficient, competitive procurement and grant-making processes; and
- Demonstrate to all stakeholders that TREE Fund is operating efficiently and in compliance with its mission and charitable tax status.

On an annual basis, the Executive and Governance Committee shall request that the President and CEO prepare a dashboard-style Statement of Due Diligence for TREE Fund. The Executive and Governance Committee shall review the dashboard and approve, reject or provide an advisory to the statement. The Statement of Due Diligence will be provided to the Board of Trustees at the last scheduled meeting of the year. The dashboard will include the following elements, at a minimum:

- Annual Budget Summary:
 - A macro comparison of year to date actual finances with the approved budget, along with explanation of main deviances (if any) to the budget;
 - Assessment of whether TREE Fund is on-course for the following fiscal year, along with recommendations for any countermeasures needed or already in place;

- Summary of current year research, scholarship, education and directed grants, to include answers to the following questions:
 - Are research grants professionally viable, fiscally sound and in agreement with the individual grant program’s mission?
 - Are scholarships award recipients properly vetted per the individual program parameters?
 - Are educational grants professionally viable and fiscally sound?
- Summary of organizational sustainability, to include:
 - Annual review of liability insurance, with proposed revisions as needed.
 - Confirmation that TREE Fund has adequate human resources to carry out day-to-day operations, development and events, with recommendations for adjustments to resources as needed.
 - Summary of annual audit process and any significant findings.

SECTION TWO: ROUTINE FINANCIAL PROCEDURES

Banking

TREE Fund will maintain its operating accounts in Federally-insured banking institutions. Cash and check deposits should be made within two banking days of receipt. Electronic banking statements may only be accessed by the President/CEO, a designated manager on the staff (hereafter “the office manager”), an accounting professional who may be a staff member or independent contract (hereafter “the accountant”), and the Board of Trustees’ Secretary/Treasurer. Banking reconciliations are to be completed monthly within one week of statement receipt. Reconciled statements will be forwarded to the President/CEO for review and approval and then kept on file.

Bill Processing and Check Signing

The office manager will open and review all invoices (including credit card bills) for accuracy and submit them to the accountant. The accountant will prepare checks and submit them to the President/CEO at least weekly, making recommendations on how payments should be allocated in the chart of accounts. The President/CEO will independently review and approve the invoices and recommended allocations before signing the checks, which will be returned to the accountant for mailing or electronic processing as appropriate. Checks over \$5,000 will require a second signature, from either the Trustees’ Secretary/Treasurer or the Chairman of the Board. The office manager will coordinate to ensure that the three authorized signatories have proper documentation and permissions from all TREE Fund banking institutions.

Credit Cards

Staff members may be provided with credit cards for work-related purchases and travel at the President/CEO’s discretion. The President/CEO will review all staff credit cards bills monthly in parallel

with account allocation recommendations from the accountant. All credit card transactions will be supported with receipts from the time of purchase or expenditure; staff members holding credit cards will provide timely expense reports with their receipts to support processing and payment cycles. The President/CEO’s credit card bill will be reviewed and approved monthly by the Secretary/Treasurer. Credit card bills should be fully paid on time each month to preclude fees and penalties, except in unusual circumstances discussed in the borrowing policy below.

Borrowing

Borrowing funds (to include the use of lines of credit with TREE Fund banking partners and maintaining balances on credit cards beyond their monthly due dates) may occasionally be necessary due to seasonality of revenue sources or major expansions of TREE Fund programs. Funds are to be borrowed only as required to meet such needs, and all borrowing is to be consistent with sound fiscal and management practices. Borrowing is not intended to compensate for inadequate planning or spending above budgeted levels. Within limits deemed appropriate and approved by the Finance Committee prior to the time of borrowing, the President/CEO should ensure that any debt is incurred at the lowest available interest rates and under the shortest term conditions possible. Long-term borrowing is only permitted if rates are favorable to TREE Fund’s investment and operating needs, and with full approval of the Board of Trustees.

Capitalization of Assets

Property, furniture and equipment with a purchase price of less than \$3,000 will be expensed in the year it is purchased. Items valued over \$3,000 with useful lives of greater than one year will be capitalized and depreciated using the straight line method of depreciation over the estimated useful life of the assets, as determined by the President/CEO in consultation with the accountant and office manager.

Grant Retention

The core of TREE Fund’s charitable endeavors is anchored in a grant-making process that awards funds to researchers, educator and other professionals to deliver defined sets of goods, services or reports. To provide some nominal back-end leverage to ensure that research grant reports and other related grant terms and conditions are completed in a timely, compliant fashion, funds will be retained from all grant awards per the following schedule:

<u>Grant Size</u>	<u>Funds Retained Until Final Report Approval</u>
\$1 to \$4,999:	No funds retained
\$5,000 to \$9,999	\$400
\$10,000 to \$19,999	\$800
\$20,000 to \$49,999	\$1,600
\$50,000+	6.0% of total award value

Financial Reporting

TREE Fund manages its finances and posts all transactions on an accrual basis in accordance with GAAP. Statements will be prepared by the accountant and reviewed with the President/CEO within 10 days of monthly close. The office manager will provide the reports to the Finance Committee seven days before its monthly meetings. Copies of the reports will be provided for information to the Audit Committee. Reports should include profit and loss statements, a balance sheet, investment summaries, and sufficient analytical information to compare actual revenues and expenses to budgets, explain variances, and develop corrective actions or variance in work plans should they be warranted.

SECTION THREE: INDEPENDENT FINANCIAL AUDIT

An independent accounting firm will be engaged via a competitive procurement process by the Audit Committee, with support from the President/CEO and accountant, to provide annual audit and tax services. Audit contracts should not exceed five years. At the end of contract, the Audit Committee will assess performance and fees and determine whether an additional contract may be let with the current auditors, or another competitive engagement undertaken. No second contract extensions beyond a total of ten years with the same accounting firm will be made without a new competitive procurement process.

The independent accounting firm works for and directly reports to the Audit Committee, which is tasked by the Board of Trustees with establishing the annual audit cycle (ensuring that all tax and other statutory filings are completed on time) and reviewing and accepting the auditors' findings on behalf of the Board of Trustees. The Chair of the Audit Committee will carry any action items emerging from the audit process to the full Board of Trustees as necessary. All audit and tax documentation will be provided to all Trustees with sufficient time to allow review and comment before filing.

SECTION FOUR: ENDOWMENT POLICIES

About TREE Fund's Endowment

TREE Fund's charitable purpose focuses specifically on building and managing endowment funds, the proceeds of which will be used to fund ongoing research, education, and community engagement in perpetuity, while protecting and preserving the value of the original investments. Endowment gifts will be maintained in perpetuity or until such time or such occurrence as specified or as agreed to by the donor at the time of the gift. A guiding principle is the preservation of principal of the endowment.

In 2008, TREE Fund established and transferred its endowment assets to an agency fund at Chicago Community Trust (CCT), with TREE Fund named as the sole beneficiary. Any subsequent contributions

to the endowment are collected by TREE Fund and transferred to CCT on a monthly basis. TREE Fund's beneficial interest in the investments held by CCT, including investment income, is considered a permanently restricted asset on TREE Fund's books.

Endowment Spending

CCT allocates an annual spendable balance (~4.5% less fees) to be paid to TREE 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 each year. CCT releases the restriction on the spendable balance annually following the close of their fiscal year and pays TREE Fund the balance in two payments of 50% each, annually, unless TREE Fund directs CCT to hold and reinvest the funds. If TREE Fund elects to not receive the spendable balance in any given year, it remains available for TREE Fund to draw down at any time in subsequent. Funds made available by CCT but not drawn by TREE Fund are considered temporarily restricted. TREE Fund may, from time to time, submit requests to CCT concerning distribution from the endowment to TREE Fund in excess of the established CCT spending policy. Such requests require approval from the full Board of Trustees and they may be accepted or rejected, in whole or in part, by CCT at its sole and absolute discretion. Any amount so distributed by CCT from such requests will be managed by TREE Fund solely for its broad general charitable uses and purposes.

Endowment Accounts

While CCT administers the Fund's endowment as a single account within its larger Growth Fund (which includes assets from numerous other charitable organizations), TREE Fund maintains subsidiary internal endowment accounts to preserve and pursue donor intentions for the funds. Each of these and any future subsidiary internal endowment accounts must have a documented purpose and firm funding goal at the time these accounts are established, reflecting donor intentions, methods and provisions for increasing the fund, and planned activities to be funded from within the fund once its funding goal is met. Future subsidiary internal endowment accounts must also have a documented time for achieving full endowment levels (ideally no more than 10 years) and a plan for disposition of funds if the goal is not achieved by that time.

Future instruments of gift establishing new subsidiary internal endowment accounts may be executed on behalf of TREE Fund by the President/CEO upon approval of the Executive Committee. The President/CEO will evaluate whether such new subsidiary internal endowment accounts should be added to the TREE Fund's account with CCT or invested elsewhere and make a recommendation to the Executive Committee for its consideration and action before establishing such new accounts. Should such new accounts be established with other advisors, they will be administered per the investment policies described below.

As of July 2017, the current minimum balance for a new research fund is \$500,000, and the minimum

balance for a new education or community engagement fund is \$250,000 to support increased grant-making levels approved by the Board of Trustees in December 2015. Grant awards from within such new subsidiary internal endowment accounts will not be made until the goals are met, nor will funds be distributed from them for any other purposes.

During the fundraising periods before the goals are met, donors may provide separate un-endowed operating gifts to make awards in support of the desired programs to stimulate awareness and interest in the fundraising campaigns, at the discretion of the President/CEO. Subsidiary internal endowment accounts established prior to 2017 may have lower endowment goals than those defined above, and grants may still be issued from their earnings when the thresholds defined in their instruments of gifts or other formative documents are met.

Unless specifically prohibited in the original instrument of gift or other formative documentation, TREE Fund may continue to transfer current funds or new gifts into any subsidiary internal endowment account beyond its established goal, and may accept gifts from any donors who wish to support the charitable purpose of a given subsidiary internal endowment account. Donors may also designate planned, non-cash or other deferred gifts toward any of the subsidiary internal endowment accounts, within the parameters outlined in the gift acceptance policies defined below.

Endowment Reporting

The accountant will work with the President/CEO each month to reconcile any additions, earnings, and withdrawals posted to these subsidiary internal accounts and balance them with the monthly CCT statement. These reconciled statements will be provided to the Finance Committee for review and approval each month along with internal TREE Fund financial reports, and to the Audit Committee for information at the same time. CCT representatives will provide an annual summary to the Board of Trustees on Growth Fund performance against benchmark metrics, and identify any challenges or opportunities for TREE Fund's endowment in the coming year.

SECTION FIVE: OTHER INVESTMENT POLICIES

While TREE Fund's Endowment is held and managed by CCT, the Board of Trustees may elect to establish additional investment accounts with other managers for permanently or temporarily restricted funds to support the organization's charitable purpose and mission. The investment objective of such accounts will be to preserve principal, maximize the production of income, and maintain the future real value of the accounts over time. Such funds will be invested in high quality securities following prudent investor rules and shall be broadly diversified. The investment approach shall be disciplined and consistent over time and among asset classes. Allocations between asset classes shall be modified when such actions are expected to produce incremental return, to reduce risk, or both.

The Board of Trustees’ oversight role is not in day-to-day investment decisions. Rather, fund assets will be allocated to professional investment managers identified and engaged by the Finance Committee with advice and counsel from the President/CEO. The Board will generally seek investment firms that manage more than \$250 million and investment managers with a successful track record, although smaller firms will be considered if appropriate. The Trustees will give each investment manager full investment discretion with respect to assets under its management subject to this policy statement. Any investment manager engaged by TREE Fund must document in writing for the record that it is covered by liability and fiduciary insurance, fully bonds its employees unless otherwise exempted by law or government regulation, and is not involved in any conflicts of interest that would rise to violations of law in the provision of services under its agreement.

Investments will be managed toward the following target allocations:

<u>Asset Class</u>	<u>Target Range</u>
Equities	50% to 75%
Fixed Income	25% to 50%
Cash	0% to 10%

The goal of such accounts is to achieve a total annual rate of return of 7.0% or more net after fees and commissions on a balanced account. The equity component of the portfolio should return a minimum of 1.0% over an equally weighted S&P 500. Performance for both parameters should be achieved when measured over a three-year period. Fund assets should be invested to maximize return in the long- term as opposed to being invested to minimize short-term volatility. TREE Fund should seek to distribute 4.0% to 6.0% from such investment accounts annually to support its charitable purpose based on a 12-quarter rolling average of the account’s balance.

SECTION SIX: GIFT ACCEPTANCE POLICIES

TREE Fund must ensure that it receives documents, acknowledges and manages all gifts in a manner that fully protects the assets, reputation, and research of the organization and its donors, supports the organization’s charitable mission, and empowers staff and volunteers to fundraise effectively on its behalf. Acceptance of any offerings, property, securities, contributions, donations, bequests or grants (hereafter “gifts”) or pledges to make the same is at the sole discretion of President/CEO, except as in special cases noted below. The President/CEO will consider four criteria when evaluating gifts for acceptance:

- Whether TREE Fund can spend, sell or invest the gift within TREE Fund’s approved policies and procedures in a manner consistent with the organization’s purpose and mission;
- Whether the gift may be legally given and legally received in both the state and country where the gift is being made, and the state where the TREE Fund’s offices are located;
- Whether there are likely to be any tangible or perceived public relations, donor development, or future obligation liabilities associated with acceptance of the gift; and

- Whether acceptance of the gift will, under any reasonable set of observable circumstances, jeopardize a donor's financial security.

In cases where the President/CEO is unable to clearly ascertain whether a gift complies with all four acceptance criteria, or when he or she determines that either accepting or declining the gift may impact negatively on TREE Fund in any way, the President/CEO must provide a summary of the proposed gift and document his or her concerns in writing via the Chairman for consideration by the Executive Committee, acting on the Board of Trustees' behalf.

TREE Fund staff will provide written acknowledgments to all donors meeting Internal Revenue Service (IRS) substantiation requirements for gifts. However, except for gifts of cash, cash equivalents and publicly traded securities, no value shall be ascribed to any receipt or other form of substantiation of a gift received by TREE Fund. Staff will not provide advice about the taxability or other treatment of gifts and will encourage donors to seek guidance from their own professional advisors to assist them in the process of making their gift. TREE Fund will respect the intent of the donor relating to gifts for restricted purposes and those relating to the desire to remain anonymous. With respect to anonymous gifts, TREE Fund will restrict information about the donor to only those staff members with a need to know.

Volunteers wishing to fundraise on TREE Fund's behalf must receive explicit advance approval from TREE Fund staff before embarking upon fundraising activities. Use of TREE Fund's name, marks and logos during volunteer fundraising activities is also subject to explicit advance TREE Fund staff approval. Any gifts received through volunteer fundraising activities must be expeditiously transmitted to TREE Fund's corporate office for processing and gift acknowledgment.

SECTION SEVEN: PLANNED GIVING POLICIES

About Planned Giving

For individuals and families who wish to make legacy gifts to TREE Fund that are guaranteed to support their own philanthropic interests and intentions in perpetuity, planned or deferred gifts may provide the most effective ways of achieving such goals. Unlike annual giving – where a donor contributes to a charity as an outlay of current assets or income – planned gifts are essentially current decisions to make future gifts, most often as part of the distribution of a donor's estate.

As their name suggests, planned gifts require more planning and documentation than most current gifts of income or equity. Because these gifts produce philanthropic benefits to their recipient organizations, there may be benefits to the donors and/or their heirs via reductions in state and/or federal income, capital gains, estate, and/or gift taxes. All prospective planned gift donors will be explicitly encouraged to seek their own professional counsel and have all proposals and illustrations presented to them reviewed by their own financial and legal advisors.

Accepting Planned Gifts

TREE Fund will only accept and approve planned gift arrangements which are structured on a sound business basis and will serve the best interest of the TREE Fund. Outside expertise and opinions shall be sought, when it is deemed necessary, to reach a sound decision.

The President/CEO and his or her designees are authorized to solicit and accept the following planned giving instruments:

- Life insurance policies designating TREE Fund as beneficiary;
- Designated distributions from retirement funds;
- Bequests, where donors designate a percentage or a specific amount of their estate to TREE Fund; note that specific amounts are preferable; and
- Gifts made directly to TREE Fund via transfer of minimum annual distributions from Traditional or Roth Individual Retirement Accounts.

The Executive Committee in consultation with the President/CEO and the Chair of the Development Committee are authorized to accept the following planned giving instruments, which may be solicited by the President/CEO and his or her designees; all such arrangement described below will be reviewed thoroughly by the TREE Fund's own legal counsel before execution:

- Gifts of tangible, non-monetary property valued at more than \$5,000, including buildings, land, or interest in such property via beneficiary deed; such gifts must be valued by qualified, independent, professional appraisers with specific knowledge and experience in the type of property being donated;
- Charitable gift annuities, both immediate and deferred; and
- Charitable remainder trusts with TREE Fund as trustee or co-trustee.

Charitable Gift Annuities

Charitable Gift Annuity contracts will be structured in full compliance with the relevant laws in Illinois and the donor's state(s) of residence, and with current guidance provided by the American Council on Gift Annuities (ACGA), to include all relevant documentation requirements and proper crediting of the gift value. The minimum initial contribution to establish a gift annuity shall be \$10,000 and \$2,000 for each additional contribution or annuity. The number of income beneficiaries shall be no more than two and their minimum age will be at least 50. Payments to the beneficiaries will be based upon the prevailing rates of return recommended by ACGA and will be made quarterly. The annuity obligation shall be reinsured through a commercial life insurance company. The residuum upon the death of the donor(s) will be distributed for the purpose stated in the Gift Annuity Agreement; such gifts should be solicited to support long-term endowment programs, rather than annual operations.

Charitable Remainder Trusts

Charitable Remainder Trust contracts will be structured in full compliance with the relevant laws in Illinois and the donor's state(s) of residence. If this trust is solely managed by TREE Fund, the value of the charitable remainder will be at least \$50,000 for life-income trusts. The minimum initial contribution to establish a charitable remainder trust will be \$100,000. The number of income beneficiaries will be no more than two and their minimum age will be at least 50. Payments to beneficiaries will be based on specific language and requirements of the trust document and will be paid quarterly.