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April 4, 2012

Ms. M. Janet Bornancin, Executive Director
Tree Research and Education Endowment Fund
552 South Washington St., Suite 109
Naperville, Illinois 60540

TRANSMITTED VIA EMAIL

Dear Janet:

Attached is a copy of the tentative and preliminary financial statements for Tree Research and Education Endowment Fund as of December 31, 2011 and 2010.

Please call should you have any questions.

Sincerely,

DUGAN & LOPATKA



Karen M. Olson

KMO:bdb
Attachment

**TREE RESEARCH AND EDUCATION
ENDOWMENT FUND**

**FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2011 AND 2010**

TOGETHER WITH AUDITOR'S REPORT

TENTATIVE AND PRELIMINARY

TREE RESEARCH AND EDUCATION ENDOWMENT FUND
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 118,663	\$ 131,491
Pledges receivable	91,000	50,000
Other contributions and grants receivable	10,444	6,000
Investments held by Chicago Community Trust	1,657,576	1,551,616
Prepaid expenses	8,577	5,799
	<u>1,886,260</u>	<u>1,744,906</u>
PROPERTY AND EQUIPMENT, at cost:		
Furniture and equipment	30,120	30,120
Less - Accumulated depreciation	<u>(27,946)</u>	<u>(23,041)</u>
	<u>2,174</u>	<u>7,079</u>
OTHER ASSETS:		
Pledges receivable, net of current maturities	<u>72,283</u>	<u>48,426</u>
	<u>\$ 1,960,717</u>	<u>\$ 1,800,411</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 32,618	\$ 19,371
Grants payable	95,447	105,732
Deferred revenue	2,500	6,500
Accrued expenses	<u>2,837</u>	<u>2,264</u>
	<u>133,402</u>	<u>133,867</u>
NET ASSETS:		
Unrestricted	434,330	419,438
Temporarily restricted	482,258	358,304
Permanently restricted	<u>910,727</u>	<u>888,802</u>
	<u>1,827,315</u>	<u>1,666,544</u>
	<u>\$ 1,960,717</u>	<u>\$ 1,800,411</u>

The accompanying notes are an integral part of this statement.

TENTATIVE AND PRELIMINARY

TREE RESEARCH AND EDUCATION ENDOWMENT FUND
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

	2011			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
PUBLIC SUPPORT AND REVENUE:				
Contributions	\$ 151,338	\$ 177,516	\$ 26,622	\$ 355,476
Special events	534,781	-	-	534,781
In-kind	137,342	-	-	137,342
Merchandise sales	4,003	-	-	4,003
Investment loss	(13,417)	(15,151)	(4,697)	(33,265)
Miscellaneous income	1,923	-	-	1,923
Net assets released from restrictions:				
Satisfaction of purpose and time restrictions	38,411	(38,411)	-	-
Total public support and revenue	* 854,381	123,954	21,925	1,000,260
FUNCTIONAL EXPENSES:				
Program services	278,311	-	-	278,311
Administration and governance	119,089	-	-	119,089
Fundraising	442,089	-	-	442,089
Total functional expenses	839,489	-	-	839,489
CHANGE IN NET ASSETS	14,892	123,954	21,925	160,771
NET ASSETS, Beginning of year	419,438	358,304	888,802	1,666,544
NET ASSETS, End of year	\$ 434,330	\$ 482,258	\$ 910,727	\$ 1,827,315

The accompanying notes are an integral part of this statement.

TENTATIVE AND PRELIMINARY

TREE RESEARCH AND EDUCATION ENDOWMENT FUND
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010

	2010			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
PUBLIC SUPPORT AND REVENUE:				
Contributions	\$ 97,428	\$ 104,358	\$ 16,616	\$ 218,402
Special events	518,457	-	-	518,457
In-kind	86,549	-	-	86,549
Merchandise sales	2,233	-	-	2,233
Investment income	58,800	80,385	35,633	174,818
Miscellaneous income	6,170	-	-	6,170
Net assets released from restrictions:				
Satisfaction of purpose and time restrictions	57,953	(57,953)	-	-
Total public support and revenue	<u>827,590</u>	<u>126,790</u>	<u>52,249</u>	<u>1,006,629</u>
FUNCTIONAL EXPENSES:				
Program services	259,405	-	-	259,405
Administration and governance	203,752	-	-	203,752
Fundraising	339,327	-	-	339,327
Total functional expenses	<u>802,484</u>	<u>-</u>	<u>-</u>	<u>802,484</u>
CHANGE IN NET ASSETS	25,106	126,790	52,249	204,145
NET ASSETS, Beginning of year	<u>394,332</u>	<u>231,514</u>	<u>836,553</u>	<u>1,462,399</u>
NET ASSETS, End of year	<u>\$ 419,438</u>	<u>\$ 358,304</u>	<u>\$ 888,802</u>	<u>\$ 1,666,544</u>

The accompanying notes are an integral part of this statement.

TENTATIVE AND PRELIMINARY

TREE RESEARCH AND EDUCATION ENDOWMENT FUND
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 160,771	\$ 204,145
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	4,905	5,179
Unrealized (gain) loss on investments	47,725	(161,050)
Change in assets and liabilities:		
(Increase) decrease in pledges receivable	(64,857)	9,858
(Increase) in other contributions and grants receivable	(4,444)	(3,500)
(Increase) in prepaid expenses	(2,778)	(1,073)
Increase in accounts payable	13,247	2,346
(Decrease) in grants payable	(10,285)	(20,228)
Increase (decrease) in deferred revenue	(4,000)	6,500
Increase (decrease) in accrued expenses	573	(4,919)
Net adjustments	<u>(19,914)</u>	<u>(166,887)</u>
Net cash provided by operating activities	140,857	37,258
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments, at Chicago Community Trust	<u>(153,685)</u>	<u>(89,096)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(12,828)	(51,838)
CASH AND CASH EQUIVALENTS, Beginning of year	<u>131,491</u>	<u>183,329</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 118,663</u>	<u>\$ 131,491</u>

The accompanying notes are an integral part of this statement.

TENTATIVE AND PRELIMINARY

TREE RESEARCH AND EDUCATION ENDOWMENT FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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 the 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.

The financial statements were available to be issued on DATE, with subsequent events being evaluated through this date.

Use of 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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Basis of Accounting -

The financial statements of the Fund have been prepared on the accrual basis of accounting.

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.

Credit Risk -

Financial instruments which potentially subject the Fund to concentrations of credit risk consist principally of cash. The Fund places its cash and deposits with high credit quality financial institutions; however, during the year deposits may exceed the federally insured limits.

Property and Equipment -

Acquisitions of property and equipment in excess of \$3,000 are capitalized. Computer equipment is recorded at cost and is depreciated on the straight-line method over its estimated useful life of three years. Depreciation expense for 2011 and 2010 was \$4,905 and \$5,179, respectively.

Net Assets -

Net assets are classified into one of three classes of net assets based on the existence or absence of donor-imposed restrictions. The following is a description of each class:

Unrestricted, operating - Unrestricted net assets include all net assets which are neither temporarily or permanently restricted.

Temporarily restricted - Temporarily restricted net assets include contributed net assets for which donor-imposed time and purpose restrictions have not been met and ultimate purpose of the contribution is not permanently restricted.

TENTATIVE AND PRELIMINARY

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Net Assets - (Continued)

Permanently restricted - Permanently restricted net assets include contributed net assets which require, by donor restriction, that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions.

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 a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets.

Pledges Receivable -

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 uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation 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 pledges receivable. For the years ended December 31, 2011 and 2010, management felt there was no need for an allowance.

(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.

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. No single award will exceed \$10,000.

(2) DESCRIPTION OF PROGRAMS: (Continued)

Tree Research Fellow Grants -

Starting in 2008, the Tree Research Fellow Grant is 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. The grant will support multi-year research projects (three to five years in duration), but no more than one grant can be awarded to any project. Grants are for a total of \$100,000 over three years, with approximately one-third released each of the three years, pending completion of interim and final reports.

Education -

The Educational programs support numerous public education endeavors. The Tour des Trees provides educational opportunities through presentations and media interviews on the importance of trees and the role of tree research. Programs include information for pre-school to high school. Programs also describe the career opportunities in arboriculture. Finally, funds may be provided to underwrite student attendance at the TCI Expo.

Scholarships -

The Robert Felix Memorial Scholarship program was established to honor Robert Felix and his commitment to the advancement of 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. Established in 2008 by the Wright Tree Service, Des Moines, IA and funded through an annual gift, the intent of this award is to enable undergraduate-level students to attend college without accumulating burdensome debt.

Jack Kimmel International Grants -

The Jack Kimmel 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. Projects are expected to be completed within one to three years.

Million Trees NYC Training -

The Million Trees NYC Training program provides experiential learning in tree care to disenfranchised young adults from the four boroughs of New York City. Professional arboriculture training is provided to young adults with the goal of employment within the green industry. The Fund facilitated collaboration between NYC Parks and the Fund partners to provide training, equipment and technical support to the program.

Ohio Chapter ISA Grants -

Starting in 2012, the Ohio Chapter International Society of Arboriculture Education Grant funds arboricultural education programs or projects within the State of Ohio. The purpose of the grant is to raise the public awareness of and support the advancement of knowledge in the field of arboriculture and urban forestry to benefit people, trees and the environment. The grant application process is open to 501(c)(3) organizations including, but not limited to, arboretums, public gardens, high schools, vocational schools, and two and four-year colleges, which serve a target population of 16 years of age and older.

TENTATIVE AND PRELIMINARY

(3) SPECIAL EVENTS:

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

(4) INCOME TAXES:

The Fund is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Fund qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(1).

The Fund files income tax returns in the U.S. federal jurisdiction and Illinois. With few exceptions, the Fund is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2008. The Fund does not expect a material net change in unrecognized tax benefits in the next twelve months.

(5) PLEDGES RECEIVABLE:

Unconditional pledges receivable at December 31, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Receivable in less than one year	\$ 91,000	\$ 50,000
Receivable in greater than one year	<u>77,000</u>	<u>50,000</u>
Total unconditional pledges receivable	168,000	100,000
Less - Discounts to net present value	<u>(4,717)</u>	<u>(1,574)</u>
Net unconditional pledges receivable	<u>\$ 163,283</u>	<u>\$ 98,426</u>

The discount rate used on long-term pledges receivable was 3.25% for 2011 and 2010. The Fund's pledges receivable from the various funds as of December 31, 2011 are due as follows:

	<u>Endowment</u>	<u>Other</u>
2012	\$ 30,000	\$ 61,000
2013	-	26,000
2014	-	26,000
2015	<u>-</u>	<u>25,000</u>
Total	30,000	138,000
Less - Discount	<u>-</u>	<u>(4,717)</u>
	<u>\$ 30,000</u>	<u>\$ 133,283</u>

TENTATIVE AND PRELIMINARY

(6) INVESTMENTS:

During the year ended December 31, 2008, the Board of the Fund voted to have the Chicago Community Trust (CCT), an unrelated party, manage their investments as a component of the CCT. The CCT established the *Tree Research and Education Endowment Fund* as a CCT investment account. Per agreement, the Fund named itself as beneficiary. Interest and/or principal of the established CCT account will be disbursed to the Fund and used in conformity with spending policy and donor restrictions. As a result of the transfer, the investment held at the CCT is presented in the statement of financial position as an asset, *Due from Chicago Community Trust*.

Investment income, fees and gains for the years ended December 31, 2011 and 2010 consist of the following:

	<u>2011</u>	<u>2010</u>
Interest and dividend income	\$ 14,460	\$ 13,768
Net unrealized gain (loss)	<u>(47,725)</u>	<u>161,050</u>
Total	<u>\$ (33,265)</u>	<u>\$ 174,818</u>

(7) FAIR VALUE MEASUREMENTS:

The Accounting Standards Codification (ASC) for Fair Value Measurements establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2: Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from, or corroborated by, observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation. Investments that are included in this category generally include equity and debt positions in private companies.

(7) FAIR VALUE MEASUREMENTS: (Continued)

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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, 2011 and 2010.

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

The preceding methods 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 a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Fund's assets at fair value:

<u>Description</u>	<u>Assets at Fair Value at December 31, 2011</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Due from Chicago Community Trust	\$ <u> -</u>	\$ <u> -</u>	\$ <u>1,657,576</u>	\$ <u>1,657,576</u>

<u>Description</u>	<u>Assets at Fair Value at December 31, 2010</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Due from Chicago Community Trust	\$ <u> -</u>	\$ <u> -</u>	\$ <u>1,551,616</u>	\$ <u>1,551,616</u>

The following table sets forth a summary of changes in the fair value of the Level 3 assets for the years ended December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Balance, beginning of the year	\$ 1,551,616	\$ 1,301,470
Realized and unrealized gains (losses)	(47,725)	161,050
Purchases and sales, net	<u>153,685</u>	<u>89,096</u>
Balance, end of year	\$ <u>1,657,576</u>	\$ <u>1,551,616</u>

TENTATIVE AND PRELIMINARY

(8) GRANTS PAYABLE:

Grants authorized but unpaid at year end are measured at fair value and reported as liabilities in accordance with ASC, *Accounting for Contributions Received and Contributions Made*. The following is a summary of grants authorized and payable at December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Hyland R. Johns grants	\$ 27,007	\$ 47,632
Research Fellow grants	20,000	34,000
John Z. Duling grants	20,000	-
Jack Kimmell grants	27,440	18,600
Scholarships - Robert Felix	-	4,500
- John Wright	<u>1,000</u>	<u>1,000</u>
Total	<u>\$ 95,447</u>	<u>\$ 105,732</u>

(9) PERMANENTLY AND TEMPORARILY RESTRICTED FUNDS:

General Endowment Fund -

During 2002, the Fund initiated an endowment campaign for the purpose of establishing a self-sustaining fund in which investment revenue would support Fund goals. The minimum balance for an established name endowment fund is \$100,000. Until this level is reached, all earnings are to be reinvested into the named account. Contributions to the endowment fund are permanently restricted by donor. After reaching the \$100,000 fund amount, the investment income going forward will be temporarily restricted and expensed based on donor specifications.

John Duling Fund -

During 2000, the Fund established the fund based on John Duling's will. The principal is to be held in perpetuity and the investment income to be used for general operational purposes.

Robert Felix Fund -

During 2001, the Fund established the Robert Felix Scholarship Fund. The principal is to be held in perpetuity and the investment income to be used for funding of arboriculture or related curricula in high school and college level programs as well as promotion of the arboriculture profession at all educational levels. There should be no more than four scholarships per year of up to \$3,000 each.

(9) PERMANENTLY AND TEMPORARILY RESTRICTED FUNDS: (Continued)

Permanently restricted net assets for years ended December 31, 2011 and 2010 consist of:

	<u>2011</u>	<u>2010</u>
James Barborinas Fund	\$ 34,969	\$ 29,505
Gamma Fund	100,600	100,000
John White Fund	30,143	26,731
Mark McClure Research Fund	100,521	100,000
Illinois Arborists Association Fund	31,136	31,822
John Wright Scholarship Fund	15,155	12,729
Utility Arborist Research Fund	<u>127,426</u>	<u>117,239</u>
 Total General Endowment Fund	 439,950	 418,026
 John Duling Fund	 197,532	 197,532
Robert Felix Fund	<u>273,245</u>	<u>273,245</u>
 Total permanently restricted net assets	 <u>\$ 910,727</u>	 <u>\$ 888,802</u>

Temporarily Restricted Funds -

Temporarily restricted net assets for the years ended December 31, 2011 and 2010 are available for the following purposes:

	<u>2011</u>	<u>2010</u>
Safe Arborist's Technique Fund	\$ 17,728	\$ -
Ohio Chapter ISA Funds	129,775	-
Robert Felix Education and Scholarships	197,952	220,906
Research Summit	17,185	17,185
Bob Skiera Memorial Fund	115,618	101,183
Tree Hazard Project	-	14,541
Bacterial Leaf Research	-	4,489
Other restricted amounts	<u>4,000</u>	<u>-</u>
 Total temporarily restricted net assets	 <u>\$ 482,258</u>	 <u>\$ 358,304</u>

(10) ENDOWMENT:

In August, 2008, the Fund adopted Accounting Standards Codification (ASC) *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*. The codification provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The codification also requires additional disclosures about an organization's endowment funds whether or not the organization is subject to UPMIFA.

TENTATIVE AND PRELIMINARY

(10) ENDOWMENT: (Continued)

The State of Illinois enacted UPMIFA effective June 30, 2009, the provisions of which apply to endowment funds existing on or established after that date. The Fund has adopted the above mentioned codification for the year ended December 31, 2009. The Board has determined that the majority of the Fund's permanently restricted net assets meet the definition of endowment funds under UPMIFA. Based on the Fund's interpretation of UPMIFA, the Fund has reviewed all of its endowment funds and determined that funds are properly classified as permanent and temporarily restricted net assets.

The Fund's endowment consists of ten individual funds established for a variety of purposes. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Fund has interpreted the Illinois Prudent Management of Institutional Funds Act (IPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Fund classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Fund in a manner consistent with the standard of prudence prescribed by IPMIFA. In accordance with IPMIFA, the Fund considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Fund, and (7) the Fund's investment policies.

Investment and Spending Policy. The Fund has adopted investment and spending policies, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of these endowment assets over the long term. Endowment assets include those assets of donor-restricted funds that the Fund must hold in perpetuity. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce results that equals or exceeds the assumed spending rate plus the rate of inflation. The Fund expects its endowment funds, over time, to provide an average rate of return of approximately 7%, net of investment fees. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Fund relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Fund targets a diversified asset allocation that places an emphasis on U.S. Treasury securities and equity-based investments to achieve its long-term return objectives within prudent risk parameters.

The Fund's spending policy will be at the discretion of the Board as determined by the governing documents for the various donor-restricted funds that make up the endowments and applicable federal and state law.

(10) ENDOWMENT: (Continued)

Endowment net assets composition by type of fund as of December 31, 2011 and 2010 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds:				
2011	\$ (39,417)	\$ 127,199	\$ 910,727	\$ 998,509
2010	\$ -	\$ 157,495	\$ 888,802	\$ 1,046,297

Endowment changes by net asset classes for the years ended December 31, 2011 and 2010 are as follow:

	<u>2011</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 157,495	\$ 888,802	\$1,046,297
Contributions	-	-	26,622	26,622
Investment income	-	7,968	2,009	9,977
Net depreciation	(39,417)	(32,264)	(6,706)	(78,387)
Appropriated amounts	-	(6,000)	-	(6,000)
Endowment net assets, end of year	<u>\$ (39,417)</u>	<u>\$ 127,199</u>	<u>\$ 910,727</u>	<u>\$ 998,509</u>
	<u>2010</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 105,786	\$ 836,553	\$ 942,339
Contributions	-	-	16,616	16,616
Investment income	-	8,200	2,745	10,945
Net appreciation	-	98,668	32,888	131,556
Appropriated amounts	-	(55,159)	-	(55,159)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 157,495</u>	<u>\$ 888,802</u>	<u>\$1,046,297</u>

(11) EMPLOYEE BENEFITS:

The Fund maintains a 403(b) plan that covers full-time employees. The Fund matches 100% for the first \$750 contributions and 33% for the next \$750 contributions, up to \$1,500. The Fund contributed \$4,207 and \$3,450 for years ended December 31, 2011 and 2010, respectively.

(12) LEASE COMMITMENTS:

The Fund has an office lease that expires in September, 2016. The Fund also rents storage space on a month-to-month basis. There was rent expense of \$17,472 and \$16,639 as of December 31, 2011 and 2010, respectively. Future minimum lease payments are as follow for the years ended December 31:

2012	\$	16,443
2013		16,743
2014		17,043
2015		17,343
2016		13,176

(13) RECLASSIFICATION:

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

(14) 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.

The Fund has a volunteer committee review the grant applications and their time is not recorded as contributions and expenditures 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.

Donated materials are recorded as contributions at their fair values at the date of donation.

TREE RESEARCH AND EDUCATION ENDOWMENT FUND
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2011

	Program Services	Administration and Governance	Fundraising	Total
FUNCTIONAL EXPENSES:				
Salaries	\$ 37,057	\$ 61,034	\$ 118,497	\$ 216,588
Payroll taxes	3,221	4,624	12,479	20,324
Other employee benefits	5,902	9,288	11,024	26,214
Contract labor	11,105	3,384	45,123	59,612
Accounting fees	2,460	6,903	10,168	19,531
Advertising	3,472	-	13,320	16,792
Bank charges	3,717	1,758	10,391	15,866
Board expense	-	6,595	-	6,595
Computer services	4,036	2,118	5,724	11,878
Conferences and meetings	158	-	2,751	2,909
Dues and subscriptions	-	-	380	380
Education and program	2,238	-	-	2,238
Insurance	1,095	1,585	4,516	7,196
Legal fees	55	2,420	4,395	6,870
Liaisons	-	-	3,507	3,507
Lodging	7,940	-	29,484	37,424
Meals	4,124	-	16,349	20,473
Monetary grants	120,720	-	-	120,720
Service rental	340	521	1,405	2,266
Office supplies	382	683	1,370	2,435
Postage	1,208	605	5,088	6,901
Printing	2,320	564	5,114	7,998
Special event - Tour	4,395	-	17,684	22,079
- Auction	645	-	5,822	6,467
In kind expenses	52,244	899	84,199	137,342
Telephone	1,316	2,561	5,147	9,024
Training	360	552	2,207	3,119
Transportation	248	170	1,093	1,511
Travel	4,204	6,963	10,957	22,124
Rent	2,613	4,016	10,843	17,472
Depreciation	736	1,128	3,041	4,905
Miscellaneous	-	718	11	729
Total functional expenses	<u>\$ 278,311</u>	<u>\$ 119,089</u>	<u>\$ 442,089</u>	<u>\$ 839,489</u>

TENTATIVE AND PRELIMINARY