U. S. ENDOWMENT FOR FORESTRY AND COMMUNITIES, INC.

Financial Statements

December 31, 2009 and 2008

(with Independent Auditors' Report thereon)

U. S. ENDOWMENT FOR FORESTRY AND COMMUNITIES, INC.

December 31, 2009 and 2008

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DIXON HUGHES PLLC
Certified Public Accountants and Advisors

Independent Auditors' Report

The Board of Directors
U.S. Endowment for Forestry and Communities, Inc.
Greenville, South Carolina

We have audited the accompanying statements of financial position of U.S. Endowment for Forestry and Communities, Inc. (the "Endowment") as of December 31, 2009 and 2008, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Endowment's management. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the Endowment's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Endowment as of December 31, 2009 and 2008, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 1 and 3 to the financial statements, the Endowment adopted Accounting Standards Update No. 2009-12, "*Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent),*"on January 1, 2009.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Dixon Hughes PLLC

July 9, 2010

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U. S. ENDOWMENT FOR FORESTRY AND COMMUNITIES, INC.

Statements of Financial Position

December 31, 2009 and 2008

	2009	2008
Assets		
Cash and cash equivalents	$ 690,252	$ 232,851
Receivables	214,923	10,000
Prepaid expenses	9,135	8,920
Investments	179,292,704	151,330,446
Property and equipment, net	14,101	18,801
Total assets	$ 180,221,115	$ 151,601,018
Liabilities and Net Assets		
Accounts payable and other accruals	$ 131,672	$ 123,350
Deferred revenue	982,530	-
Total liabilities	1,114,202	123,350
Net assets:		
Unrestricted	(21,382,037)	(48,597,332)
Temporarily restricted	488,950	75,000
Permanently restricted	200,000,000	200,000,000
Total net assets	179,106,913	151,477,668
Total liabilities and net assets	$ 180,221,115	$ 151,601,018

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

U. S. ENDOWMENT FOR FORESTRY AND COMMUNITIES, INC.

Statements of Activities

For the Years Ended December 31, 2009 and 2008

	2009	2008
Unrestricted support, revenues and gains (losses):		
Interest and dividend income, net of investment fees	$ 2,887,412	$ 3,285,185
Net realized and unrealized gains (losses) on investments	26,826,204	(64,488,930)
Support	1,450,238	1,000
Other income	-	10,900
Net assets released from restrictions	75,000	-
Total support, revenues and gains (losses)	31,238,854	(61,191,845)
Expenses:		
Program	3,508,665	916,990
Management and general	514,894	434,683
Total expenses	4,023,559	1,351,673
Increase (decrease) in unrestricted net assets	27,215,295	(62,543,518)
Temporarily restricted support and revenue:		
Program contributions	488,950	75,000
Releases from restriction	(75,000)	-
Increase in temporarily restricted net assets	413,950	75,000
Total increase (decrease) in net assets	27,629,245	(62,468,518)
Net assets at beginning of year	151,477,668	213,946,186
Net assets at end of year	$ 179,106,913	$ 151,477,668

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

U. S. ENDOWMENT FOR FORESTRY AND COMMUNITIES, INC.

Statements of Cash Flows

For the Years Ended December 31, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Increase (decrease) in net assets	$ 27,629,245	$ (62,468,518)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Net realized and unrealized (gains) losses on investments	(26,826,204)	64,488,930
Depreciation	4,700	4,700
Net changes in operating assets and liabilities:		
Receivables	(204,923)	(6,284)
Prepaid expenses	(215)	5,928
Accounts payable and other accruals	8,322	108,961
Deferred revenue	982,530	-
Net cash provided by operating activities	1,593,455	2,133,717
Cash flows from investing activities:		
Sales of investments	61,782,774	94,118,856
Purchases of investments	(62,918,828)	(96,108,024)
Net cash used in investing activities	(1,136,054)	(1,989,168)
Net increase in cash	457,401	144,549
Cash and cash equivalents at beginning of year	232,851	88,302
Cash and cash equivalents at end of year	$ 690,252	$ 232,851

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

1. **Summary of Significant Accounting Policies**

Organization - The U.S. Endowment for Forestry & Communities, Inc. (the "Endowment") is a not-for-profit corporation incorporated and established in 2006 at the request of the governments of the United States and Canada in accordance with the terms of the Softwood Lumber Agreement ("SLA") between the two countries. The Endowment is one of three entities designated to share in a one-time infusion of funds to support "meritorious initiatives" in the United States. It was endowed with $200 million under the terms of the SLA. The Endowment has been chartered with two purposes:1) educational and charitable causes in timber-reliant communities; and 2) educational and public-interest projects addressing forest management issues that affect timber-reliant communities, or the sustainability of forests as sources of building materials, wildlife habitat, bio-energy, recreation, and other values.

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 and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates could also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents - For the purpose of the statements of cash flows, the Endowment considers unrestricted highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

At times throughout the year, the Endowment may temporarily maintain cash balances at financial institutions in excess of FDIC insured limits. Management attempts to minimize this exposure by minimizing un-invested cash balances and monitoring the strength of the financial institutions with which it has accounts.

Grants and Accounts Receivables - Grants and accounts receivable consist of unsecured balances due from grantor agencies for reimbursement of allowable grant expenditures and do not bear interest.

Investments - The Endowment's investments are recorded at fair value.

During 2009, the Endowment adopted the measurement provisions of Accounting Standards Update No. 2009-12, "*Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)*" ("ASU 2009-12"). This guidance allows for the estimation of the fair value of the investment in investment companies for which the investment does not have a readily determinable fair value using net asset value per share or its equivalent. The Endowment has estimated the fair value of its certain investments at the net asset value per share or its equivalent, such as partners' capital per share, without adjustment. The total fair value of these investments is $175,938,204 at December 31, 2009.

Investments in common trust or commingled funds valued at $141,523,197 at December 31, 2009 do not have quoted market prices. The fair value of such investments is based upon the net asset value of the respective funds, which are based upon the estimated fair values of the underlying investments. The fair values of the underlying investments are based upon quoted market prices, where applicable, or upon estimated fair values determined by the respective fund managers and are subject to review by the Endowment and independent annual financial statement audits.

The financial statements also include investments in hedge funds, venture capital funds, international and domestic private equity funds, distressed debt funds, and real estate funds valued at $34,415,009 at December 31, 2009. The fair values of these funds have been estimated by management at net asset value (or its equivalent) in the absence of readily determinable fair values. The recorded market price for such investments is estimated by the individual investment manager of the funds taking into account such factors as the financial condition of each investee, economic and market conditions affecting their operations, any changes in management, the length of time since the initial investment, recent arm's-length transactions involving the securities of the investee, the value of similar securities issued by companies in the same or similar businesses, and limited marketability of the portfolio. The fair value in such investments is subject to review by the Endowment and independent annual financial statement audits.

Investment securities are exposed to several risks, such as changes in interest rates, market fluctuations, and credit risks. Due to the risks associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the Endowment's financial statements.

Property and Equipment - Property and equipment are reported at cost, if purchased, or fair value at the date of donation. The Endowment's policy is to capitalize property and equipment greater than $2,500. Depreciation is computed on a straight-line basis over the estimated useful life of the asset of five years. At December 31, 2009 and 2008, property and equipment consisted of computer software. Depreciation expense and accumulated depreciation was $4,700 for each of the years ended December 31, 2009 and 2008.

Deferred Revenue - Certain grants received by the Endowment and paid in advance are deferred on a progress-to-date basis.

Net Assets - Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Endowment and changes therein are classified and reported as follows:

Permanently Restricted - Net assets subject to donor-imposed stipulations that they be maintained by the Endowment.

Temporarily Restricted - Net assets whose use by the Endowment is subject to donor-imposed stipulations that can be fulfilled by actions of the Endowment pursuant to those stipulations or that expire by the passage of time.

Unrestricted - Net assets that are not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by the Endowment or may otherwise be limited by contractual agreements with outside parties.

Restricted and Unrestricted Revenue and Support - Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a 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 and reported in the Statement of Activities as net assets released from restrictions.

In-Kind Contributions - The Endowment records in-kind contributions at their fair value at the date of the contribution.

Functional Expenses - The cost of providing various programs and supporting services has been reported on a functional basis in the statements of activities. Accordingly, certain costs have been allocated to the program initiatives and supporting services based on estimates made by management.

Fair Value of Financial Instruments - The fair value of the financial instruments of the Endowment are set forth as follows:

Cash and cash equivalents, receivables, prepaid expenses, accounts payable and other accruals, and deferred revenue - The carrying amounts approximate fair value due to the immediate or short-term maturity of these instruments.

Investments - Investments are carried at fair value as determined by quoted market prices or other available information (Note 3).

Income Taxes - The Endowment has obtained nonprofit status under Internal Revenue Code Section 501(c)(3). The Endowment is a nonprofit organization under Internal Revenue Code and is exempt from income taxes except on unrelated business income.

Accordingly, the accompanying financial statements do not reflect a provision or liability for federal and state income taxes. The Endowment has determined that there are no material unrecognized tax benefits or obligations as of December 31, 2009.

Reclassifications - Certain amounts in the 2008 financial statements have been reclassified to conform to the 2009 financial statement presentation.

2. Investments

The estimated fair values of investments at December 31 follows:

	2009	2008
Money market funds	$ 3,354,498	$ 9,236,865
Equity and fixed income funds	141,523,197	99,388,034
Hedge and absolute return funds	27,511,787	32,862,350
Real estate partnership	3,545,965	8,306,480
Private equity partnerships	1,085,008	494,292
Venture capital partnership	735,095	324,901
Distressed debt partnership	1,537,154	717,524
Total investments	$ 179,292,704	$ 151,330,446

Interest and dividend income is reported net of custodial and investment management fees approximating $172,000 and $238,000 for the years ended December 31, 2009 and 2008, respectively.

3. Fair Value of Measurements

The FASB has issued authoritative guidance regarding fair value measurements, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. Fair value as defined under generally accepted accounting principles is an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Endowment utilizes market data or assumptions that market participants would use in pricing the asset or liability. Generally accepted accounting principles establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value.

Investments recorded in the statements of financial position are categorized based on the inputs to valuation techniques as follows:

Level 1 - Quoted prices in active markets for identical assets or liabilities that the Endowment has the ability to access at measurement date. Investments categorized as level one assets are money market funds.

Level 2 - Other significant observable inputs, including quoted prices for similar assets or liabilities. Assets categorized as level 2 assets consist of investments in common trust or commingled funds whereby the Endowment does not own or control individually traded stocks or bonds. There are no publicly quoted market prices, but the net asset value of these funds are based upon the quoted market prices of the underlying investments, where applicable, or upon estimated fair values determined by the respective fund managers.

Level 3 - Significant unobservable inputs, including the Endowment's own assumptions. Investments categorized as level 3 assets consist of illiquid long-term investments for which the fair values have been estimated by management at net asset value or its equivalent in the absence of readily determinable fair values.

During 2009, the Endowment adopted the provisions of ASU 2009-12 which resulted in a change in the classification of fair value assets within the fair value hierarchy.

The following tables sets forth by level within the fair value hierarchy the Endowment's assets accounted for at fair value on a recurring basis as of December 31, 2009 and 2008. Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Endowment's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and their placement within the fair value hierarchy levels.

		Fair value measurements at December 31, 2009 using:		
	Fair value at December 31, 2009	Quoted prices in active markets for identical assets and liabilities (Level 1 inputs)	Quoted prices for similar assets and liabilities (Level 2 inputs)	Significant unobservable inputs (Level 3 inputs)
Assets measured at fair value:				
Money market funds	$ 3,354,498	$ 3,354,498	$ -	$ -
Equity and fixed income funds	141,523,197	-	141,523,197	-
Hedge and absolute return funds	27,511,787	-	-	27,511,787
Real estate partnership	3,545,965	-	-	3,545,965
Private equity partnerships	1,085,008	-	-	1,085,008
Venture capital partnership	735,095	-	-	735,095
Distressed equity partnership	1,537,154	-	-	1,537,154
Totals	$179,292,704	$ 3,354,498	$ 141,523,197	$ 34,415,009

		Fair value measurements at December 31, 2008 using:		
	Fair value at December 31, 2008	Quoted prices in active markets for identical assets and liabilities (Level 1 inputs)	Quoted prices for similar assets and liabilities (Level 2 inputs)	Significant unobservable inputs (Level 3 inputs)
Assets measured at fair value:				
Money market funds	$ 9,236,865	$ 9,236,865	$ -	$ -
Equity and fixed income funds	99,388,034	63,439,730	22,878,189	13,070,115
Hedge and absolute return funds	32,862,350	-	-	32,862,350
Real estate partnership	8,306,480	-	-	8,306,480
Private equity partnerships	494,292	-	-	494,292
Venture capital partnership	324,901	-	-	324,901
Distressed equity partnership	717,524	-	-	717,524
Totals	$151,330,446	$ 72,676,595	$ 22,878,189	$ 55,775,662

A reconciliation of the financial assets of the Endowment measured at fair value on a recurring basis using significant unobservable inputs is summarized as follows:

Fair value at December 31, 2007	$ 53,534,460
Purchases	28,323,926
Sales	(9,252,447)
Realized gains	350,740
Unrealized losses	(17,181,017)
Fair value at December 31, 2008	55,775,662
Purchases	9,183,444
Sales	(14,428,029)
Transfers	(13,070,115)
Realized losses	(1,035,530)
Unrealized losses	(2,010,423)
Fair value at December 31, 2009	$ 34,415,009

Total net losses for level 3 assets for the periods above are included in net realized and unrealized gains (losses) on investments in the statement of activities. Transfers out of Level 3 assets for the year ended December 31, 2009 resulted from the adoption of ASU 2009-12. For 2008, for certain alternative investments in funds of funds, the level 3 activity was estimated using a weighted average for the total fund.

The Endowment has investments in various common and collective equity and fixed income funds of $141,523,197 at December 31, 2009. Interests in these funds are redeemable on a monthly basis with 5 to 30 business days notice and include various domestic large, mid and small cap equity funds equity, international equity funds, fixed income funds in the private, international and government sectors and commodity funds.

The Endowment has investments in absolute return and hedge funds of $27,511,787. The Endowment may redeem its interests in the funds on a quarterly ($11,295,312 at December 31, 2009), semi-annual ($5,715,984 at December 31, 2009) or annual basis ($10,500,491 million at December 31, 2009) with generally 65-95 days notice. The funds peruse multiple strategies to diversify risks and reduce volatility while seeking to deliver positive returns regardless of the direction of the broader market.

The Endowment has an investment in real estate funds of $3,545,965 at December 31, 2009. The fund is generally ineligible for redemption except the Endowment may elect during September of each year to have the fund redeem up to 20% of the units owned for at least 5 years, provided the fund has not commenced a general liquidation. September 2013 would be the first year the Endowment would be eligible to be issued any redemption. Redemptions are paid prior to the end of the subsequent calendar year and at the net asset value determined at the date of the redemption period. The Endowment committed total funds of $16,000,000 and has no unfunded commitments to this fund as of December 31, 2009. The real estate fund generally invests in a variety of real estate assets in the U.S and has an overall objective to provide average long-term returns of 11% to 15%.

The Endowment has investments in international and domestic private equity partnerships of $1,085,008 at December 13, 2009. The Endowment has committed a total of $6,000,000 and has unfunded commitments of $4,792,500 as of December 31, 2009. These funds are ineligible for redemption and the typical life of the partnerships is 12 years from the date of formation but can be extended under certain circumstances. These partnerships generally seek to generate higher returns over the long-term than those generally available on the foreign and domestic securities exchanges through investments in a diversified portfolio of international and domestic private capital funds.

The Endowment has an investment in a venture capital partnership of $735,095 at December 31, 2009. The Endowment has committed a total of $3,000,000 and has unfunded commitments of $2,227,500 as of December 31, 2009. These funds are ineligible for redemption and the typical life of the partnership is 12 years from the date of formation but can be extended under certain circumstances. This partnership seeks to earn returns above those on publically traded stocks by investing in early stage, high growth private companies, principally in the information technology and life sciences/healthcare fields.

The Endowment has an investment in a distressed debt partnership of $1,537,154 at December 31, 2009. The Endowment has committed a total of $2,000,000 and has unfunded commitments of $732,600 as of December 31, 2009. The Endowment may redeem certain portions of its investment on each December 31, provided the fund has not commenced a general liquidation; however, interests in the fund with respect to longer-term investments as defined by the offering memorandum, are not redeemable by the Endowment until the corresponding longer-term investments are realized. The partnership seeks to pursue an investment program comprised of performing restructured debt, stressed debt, distressed debt and mezzanine debt investments that seeks to provide a net internal rate of return in the mid teens.

4. **Employee Benefit Plan**

The Endowment sponsors a Simplified Pension Plan whereby deposits in an amount equal to 11% of each full-time employee's gross pay is deposited into a self-directed individual retirement account. Employees are eligible to participate in the plan from the first day of employment and are fully vested in all funds deposited into their accounts. The Endowment's contribution totaled approximately $43,000 and $41,000 for the years ended December 31, 2009 and 2008, respectively.

5. Operating Lease

The Endowment leases office space under a lease which expires in 2010. The lease agreement provides for options to renew through 2012. Future minimum lease payments under this operating lease are as follows:

2010	$ 2,412

Lease expense for the years ended December 31, 2009 and 2008 was $17,800 and $16,600, respectively.

6. Net Assets

Temporarily restricted net assets are restricted for the following purposes:

Working Forest Coalition	$ 72,500
Advancing Forest Health through Biotechnology	416,450
	$ 488,950

Permanently restricted net asset consists of a $200,000,000 endowment received as a result of the SLA to be invested in perpetuity with the investments gains and investment earnings to be used for the Endowment's set purpose as described in Note 1. As of December 31, 2009 as a result of recent market decline, the Endowment corpus was underwater by $21,310,824. Management believes the investments are not other than temporarily impaired and expect the investments to recover.

7. Endowment Funds

The Endowment was organized to support educational and charitable causes in timber-reliant communities and educational and public interest projects addressing forest management issues that affect timber-reliant communities, or the sustainability of forests as sources of building materials, wildlife habitat, bio-energy, recreation, and other values. The Endowment's funds include donor-restricted endowment funds classified as permanently restricted.

The investment objectives of the donor-restricted endowment funds have been established in conjunction with a comprehensive review of the current and projected financial requirements. The investment objectives are:

- To achieve a favorable long term, real rate of return primarily through capital appreciation.
- To preserve principal through reasonable efforts, but preservation of principal shall not be imposed as a requirement on each individual investment.
- To produce current income, but only as a secondary consideration.
- To reduce risk by diversifying among markets, managers and time frames.

Interpretation of Relevant Law - The Board of Directors of the Endowment has interpreted the South Carolina Uniform Prudent Management of Institutional Funds Act (the "Act") 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. The Endowment has classified 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 required 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, if positive, until those amounts are appropriated for expenditure by the Endowment in a manner consistent with the standard of prudence prescribed by the Act.

Donor-restricted endowment net asset composition by type of fund as of December 31, 2009 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (21,310,824)	$ -	$ 200,000,000	$ 178,689,176

Changes in donor-restricted endowment net asset for the year ended December 31, 2009 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, December 31, 2008	$ (48,526,119)	$ -	$ 200,000,000	$ 151,473,881
Investment return:				
Investment income, net	2,887,412	-	-	2,887,412
Net unrealized and realized investment gains	26,826,204	-	-	26,826,204
Total investment return	29,713,616	-	-	29,713,616
Appropriation of assets for expenditures	(2,498,321)	-	-	(2,498,321)
Endowment net assets, December 31, 2009	$ (21,310,824)	$ -	$ 200,000,000	$ 178,689,176

Donor-restricted endowment net asset composition by type of fund as of December 30, 2008 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (48,526,119)	$ -	$ 200,000,000	$ 151,473,881

Changes in donor-restricted endowment net asset for the year ended December 31, 2008 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, December 31, 2007	$ 14,017,399	$ -	$ 200,000,000	$ 214,017,399
Net asset reclassification based on change in law	(14,017,399)	14,017,399	-	-
Endowment net assets after reclassification	-	14,017,399	200,000,000	214,017,399
Investment return:				
Investment income, net	-	3,285,185	-	3,285,185
Net unrealized and realized investment losses	(47,186,346)	(17,302,584)	-	(64,488,930)
Total investment return	(47,186,346)	(14,017,399)	-	(61,203,745)
Appropriation of assets for expenditures	(1,339,773)	-	-	(1,339,773)
Endowment net assets, December 31, 2008	$ (48,526,119)	$ -	$ 200,000,000	$ 151,473,881

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires the Endowment to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were $21,310,824 and $48,526,119 as of December 31, 2009 and 2008, respectively. These deficiencies resulted from unfavorable market fluctuations.

Return Objectives and Risk Parameters

The Endowment has adopted investment and spending policies for endowment assets that are intended to provide an ongoing stream of funding of the Endowment's set mission. Endowment assets include those assets of donor-restricted funds that the Endowment 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 a high level of total investment return consistent with a prudent level of portfolio risk.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Endowment 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 Endowment targets a diversified asset allocation that places a greater emphasis on equity and fixed income-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Endowment's Board of Directors seeks to address twin objectives of deploying resources to achieve its mission and operating as prudent fiduciaries. The Endowment's long-range target is to distribute grants of up to 5% of the investment corpus annually, with the understanding that the distributions plus inflation (at an assumed rate of 2.5%), modest real growth (1%), and the costs of non-programmatic operating expenses (0.375%) will not exceed total return from investment over rolling 5-year periods. This target assumes an 8.875% average annual rate of return which is a rate within the range of historic market returns. Recognizing that, from time to time, the realities of unfavorable market fluctuations could cause the fair value of its assets to decline below the level that the Endowment is required to retain, in May 2008, the Board amended its policy to address the event of "underwater" conditions. The amended policy provided for the spending of not more than 2.5% of corpus in the event of a decline below the $200 million corpus, and further called for the Board to revisit the policy in the face of "exceptional downturns", defined as declines in the fair value of assets to below $190 million. To offer some level of stability to its emerging mission / programmatic investment during a period of radical declines in the fair market value of its assets, the Board voted to spend an average of $5 million per year over the three-year period from 2009 – 2011. The Board believed that this interim policy was prudent and supportive of both the Endowment's mission and fiduciary obligations.

8. Commitments

The Endowment makes multi-year commitments to fund specific research and public interest projects with other nonprofit organizations and universities. Committed funds totaled approximately $4,570,000 at December 31, 2009. These contracts are committed for varying dates through 2012. Subsequent to year end, the Endowment committed approximately $4,240,000 of additional funds to nonprofit organizations and state agencies for specific research and public interest projects. These funds are committed for varying dates through 2012.

9. Subsequent Events

The Endowment evaluated the effect subsequent events would have on the financial statements through July 9, 2010, which is the date the financial statements were available to be issued.

U.S. ENDOWMENT FOR FORESTRY AND COMMUNITIES, INC.

Schedule of Functional Expenses

For the Years Ended December 31, 2009 and 2008

	2009			2008		
	Programmatic	Management and General	Total	Programmatic	Management and General	Total
Grant expenditures	$ 2,749,915	$ -	$ 2,749,915	$ 486,798	$ -	$ 486,798
Program expenses	451,429	-	451,429	121,452	-	121,452
Compensation - officers	136,620	122,130	258,750	136,620	122,130	258,750
Compensation - non-officers	75,555	69,345	144,900	75,600	68,075	143,675
Compensation - interns	11,021	7,347	18,368	7,591	5,061	12,652
Employee benefits	56,653	50,441	107,094	52,215	46,384	98,599
Travel	20,707	44,548	65,255	31,441	53,969	85,410
Communications	6,765	6,024	12,789	5,273	4,684	9,957
Rent/utilities/supplies	-	37,579	37,579	-	29,952	29,952
Professional services	-	160,989	160,989	-	75,137	75,137
Insurance	-	9,971	9,971	-	12,778	12,778
Other	-	6,520	6,520	-	16,513	16,513
	$ 3,508,665	$ 514,894	$ 4,023,559	$ 916,990	$ 434,683	$ 1,351,673

See accompanying Independent Auditors' Report.