

# **U. S. Endowment for Forestry and Communities, Inc. and Subsidiary**

---

**Consolidated Financial Statements**

**Years Ended December 31, 2015 and 2014**

## **Table of Contents**

<b>Independent Auditors' Report</b> .....	1 – 2
Consolidated Statements of Financial Position .....	3
Consolidated Statements of Activities .....	4
Consolidated Statements of Cash Flows .....	5
Notes to the Consolidated Financial Statements .....	6 – 22
<b>Supplementary Information:</b>	
Consolidated Schedules of Functional Expenses .....	23
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Consolidated Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	24 – 25
Independent Auditors' Report on Compliance for Each Major Program and Report on Internal Control Over Compliance Required By the Uniform Guidance .....	26 – 27
Schedule of Expenditures of Federal Awards .....	28
Schedule of Findings and Questioned Costs .....	29 - 30
Summary Schedule of Prior Audit Findings.....	31



## **Independent Auditors' Report**

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

### ***Report on the Consolidated Financial Statements***

We have audited the accompanying consolidated financial statements of U.S. Endowment for Forestry and Communities, Inc. and Subsidiary (the "Endowment") which comprise the consolidated statements of financial position as of December 31, 2015 and 2014, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Consolidated Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Endowment, as of December 31, 2015 and 2014, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Report on Supplementary Information***

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidated schedules of functional expenses and the accompanying schedule of expenditures of federal awards, as required by the Uniform Guidance are presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The consolidated schedules of functional expenses and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, consolidated schedules of functional expenses and schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with Government Auditing Standards, we have also issued our report dated August 25, 2016 on our consideration of the Endowment's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Endowment's internal control over financial reporting and compliance.

*Dixon Hughes Goodman LLP*

Greenville, South Carolina  
August 25, 2016

**U. S. Endowment for Forestry and Communities, Inc. and Subsidiary**  
**Consolidated Statements of Financial Position**  
**December 31, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 7,199,166	\$ 610,916
Grants receivable	1,626,214	1,518,700
Other receivables	221,079	3,575,000
Other assets	47,711	181,932
Notes receivable, net of allowance for doubtful accounts of approximately \$605,000 and \$345,000	3,231,310	1,410,312
Investments	194,972,576	211,596,560
Property and equipment, net	<u>387,622</u>	<u>403,827</u>
Total assets	<u>\$ 207,685,678</u>	<u>\$ 219,297,247</u>
<b>LIABILITIES AND NET ASSETS</b>		
Accounts payable and other accruals	\$ 1,154,693	\$ 1,256,754
Deferred revenue	127,135	-
Notes payable	161,665	188,048
Other liabilities	<u>25,000</u>	<u>-</u>
Total liabilities	1,468,493	1,444,802
Net assets:		
Unrestricted	5,670,670	6,090,687
Temporarily restricted	546,515	11,761,758
Permanently restricted	<u>200,000,000</u>	<u>200,000,000</u>
Total net assets	<u>206,217,185</u>	<u>217,852,445</u>
Total liabilities and net assets	<u>\$ 207,685,678</u>	<u>\$ 219,297,247</u>

See accompanying notes.

**U. S. Endowment for Forestry and Communities, Inc. and Subsidiary**  
**Consolidated Statements of Activities**  
**For the Years Ended December 31, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>Unrestricted support, revenues and gains:</b>		
Interest and dividend income, net of investment fees	\$ 89,281	\$ 364,639
Net realized and unrealized gains on investments and other investment income (losses)	(5,027,424)	1,740,272
Federal support	2,669,344	1,866,794
Private support	774,324	395,459
Net assets released from restrictions	10,069,688	4,561,507
Total support, revenues and gains	<u>8,575,213</u>	<u>8,928,671</u>
Expenses:		
Program	8,340,625	6,458,096
Management and general	654,605	648,479
Total expenses	<u>8,995,230</u>	<u>7,106,575</u>
Increase (decrease) in unrestricted net assets	<u>(420,017)</u>	<u>1,822,096</u>
<b>Temporarily restricted support and revenue:</b>		
Interest and dividend income, net of investment fees	2,518,883	1,993,462
Net realized and unrealized gains (losses) on investments and other investment income	(4,385,438)	13,755,345
Private support	721,000	368,316
Releases from restriction	(10,069,688)	(4,561,507)
Increase (decrease) in temporarily restricted net assets	<u>(11,215,243)</u>	<u>11,555,616</u>
Total increase (decrease) in net assets	<u>(11,635,260)</u>	<u>13,377,712</u>
Net assets at beginning of year	<u>217,852,445</u>	<u>204,474,733</u>
Net assets at end of year	<u>\$ 206,217,185</u>	<u>\$ 217,852,445</u>

See accompanying notes.

**U. S. Endowment for Forestry and Communities, Inc. and Subsidiary**  
**Consolidated Statements of Cash Flows**  
**For the Years Ended December 31, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
Cash flows used in operating activities:		
Increase (decrease) in net assets	\$ (11,635,260)	\$ 13,377,712
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Net realized and unrealized gains (losses) on investments and other investment income	9,412,862	(15,495,617)
Depreciation	16,205	16,205
Loss on sale of North Star Jefferson, LLC	-	1,371,407
Net changes in operating assets and liabilities:		
Grants receivable	(107,514)	(856,970)
Other receivables	3,353,921	(3,536,186)
Notes receivable	(1,820,998)	(735,167)
Other assets	134,221	152,865
Accounts payable and other accruals	(102,061)	119,217
Deferred revenue	127,135	(66,850)
Other liabilities	25,000	-
	<u>(596,489)</u>	<u>(5,653,384)</u>
Net cash used in operating activities		
Cash flows from investing activities:		
Sales of investments	116,644,264	81,312,022
Purchases of investments	(109,433,142)	(79,405,442)
Proceeds from sale of North Star Jefferson, LLC	-	3,550,000
Purchases of property and equipment	-	(1,592,464)
	<u>7,211,122</u>	<u>3,864,116</u>
Net cash provided by investing activities		
Cash flows from financing activities:		
Repayments of note payable	(26,383)	(111,707)
	<u>(26,383)</u>	<u>(111,707)</u>
Net cash used in financing activities		
Net increase (decrease) in cash	6,588,250	(1,900,975)
Cash and cash equivalents at beginning of year	<u>610,916</u>	<u>2,511,891</u>
Cash and cash equivalents at end of year	<u>\$ 7,199,166</u>	<u>\$ 610,916</u>

See accompanying notes.

## **Notes to the Consolidated Financial Statements**

### **1. Summary of Significant Accounting Policies**

#### ***Organization***

U.S. Endowment for Forestry and Communities, Inc. (the "Endowment") is a not-for-profit organization 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.

The Endowment has a wholly owned subsidiary, Community Wealth Through Forestry, Inc. ("CWF"). The purpose of CWF is to support sustainable green energy development that captures and distributes benefits to rural forest-reliant communities. CWF became operational in November 2011 and its activity has been consolidated in the financial statements for the year ended December 31, 2015 and 2014. As of December 31, 2013, CWF owned 92.76% of the outstanding member units in North Star Jefferson, LLC, a limited liability company. In July 2014, CWF acquired an additional 7.24% of the outstanding member units. On December 31, 2014, CWF sold its investment in North Star Jefferson, LLC for \$3,550,000 which is recorded in other receivables in the statements of financial position. The loss on the sale of this limited liability company for the year ended December 31, 2014 is \$1,371,407 which is reported in program expenses on the statements of activities.

#### ***Principles of Consolidation***

The consolidated financial statements include the accounts of the Endowment and the Subsidiary. All material intercompany accounts and transactions have been eliminated in consolidation.

#### ***Use of Estimates***

The preparation of consolidated 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 consolidated 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 consolidated statements of cash flows, the Endowment considers unrestricted highly liquid investments with a remaining 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.



**U. S. Endowment for Forestry and Communities, Inc. and Subsidiary**  
**Notes to Consolidated Financial Statements**

---

***Grants Receivable***

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

***Notes Receivable***

Notes receivable are due primarily from for-profit organizations that are working on various projects related to the Endowment's purpose and are recorded at estimated net realizable value. Credit is extended to the for-profit organizations and collateral is not required. Notes are due between fiscal years of 2016 to 2020. Interest rates on the notes vary based on the terms of the note. Management reviews the receivables periodically and provides an allowance for uncollectible accounts at a level which, in management's judgment, is adequate to absorb potential losses inherent in uncollectible notes receivables.

***Investments***

The Endowment's investments are recorded at fair value.

The fair values of investments in publically traded money market funds, limited partnerships, equity securities, equity funds, and fixed income funds, which are valued at \$75,059,232 and \$88,468,204 at December 31, 2015 and 2014, respectively, are determined based upon quoted market prices.

Investments in equity, fixed income and real asset common and commingled trust funds, and certain limited partnerships which are valued at \$86,635,255 and \$87,438,066 at December 31, 2015 and 2014, respectively, 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 consolidated financial statements also include investments in directional hedge funds and certain limited partnerships valued at \$31,746,723 and \$32,431,507 at December 31, 2015 and 2014, respectively. The fair values of these funds managed by third parties 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.

See Note 3 for further discussion of the measurements and methodology used by the Endowment to determine the fair value of investments.

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 consolidated financial statements.

**U. S. Endowment for Forestry and Communities, Inc. and Subsidiary  
Notes to Consolidated 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 with value greater than \$2,500. Depreciation is computed on a straight-line basis over the estimated useful life of the assets. Depreciation expense was \$16,205 for the years ended December 31, 2015 and 2014.

***Deferred Revenue***

Certain grants received by the Endowment and paid in advance are deferred until the sub-recipient of the grant submits a reimbursement request which includes documentation of actual expenditures incurred under the grant.

***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:

*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.

*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.

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

***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 Consolidated 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.

**U. S. Endowment for Forestry and Communities, Inc. and Subsidiary**  
**Notes to Consolidated Financial Statements**

---

***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, other accruals and notes payable* - The carrying amounts approximate fair value due to the immediate or short-term maturity of these instruments.

*Notes receivable* - Notes receivable are recorded at carrying amount of approximately \$3,231,000 and \$1,410,000 for the years ended December 31, 2015 and 2014. The fair value of notes receivable is estimated to be approximately \$2,831,000 and \$1,140,000 for the years ended December 31, 2015 and 2014. The fair value was estimated using discounted cash flow analyses, using interest rates for corporate bonds with similar maturities for borrowers of similar credit quality.

*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 not-for-profit status under Internal Revenue Code Section 501(c)(3), and as such, is exempt from income taxes except on unrelated business income. Accordingly, the accompanying consolidated 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, 2015.

Community Wealth through Forestry, Inc. is classified as a C Corporation under the Internal Revenue Code. CWF reported a net income for the year ended December 31, 2015 that was offset by prior year's net losses, therefore there was no tax expense. Accordingly, no provision has been made for federal or state income taxes.

**2. Investments**

The estimated fair values of investments at December 31 follows:

	<u>2015</u>	<u>2014</u>
Cash held in brokerage accounts	\$ 1,531,366	\$ 3,258,783
Money market funds	3,675,065	2,243,552
Publicly traded securities	463,967	988,883
Publicly traded equity funds	42,842,461	53,654,259
Publicly traded fixed income funds	23,106,687	24,060,410
Publicly traded limited partnerships	4,971,052	7,521,100
Equity common and commingled trust funds	54,911,300	57,627,555
Fixed income common and commingled trust funds	24,540,173	25,638,275
Real asset common and commingled trust funds	1,736,832	2,293,451
Directional hedge funds	4,964,973	5,033,528
Futures hedge funds	4,007,046	-
Limited partnerships	<u>28,221,654</u>	<u>29,276,764</u>
Total investments	<u>\$ 194,972,576</u>	<u>\$ 211,596,560</u>

The investments detailed above represent all investments held by the investment manager at December 31, 2015, and do not include programmatic investments.

Interest and dividend income is reported net of custodial and investment management fees approximating \$341,000 and \$371,000 for the years ended December 31, 2015 and 2014, respectively. Other investment fees incurred for the direct sales and purchases of investments are recorded as transaction costs and are netted with realized and unrealized gains/losses.

### **3. Fair Value of Measurements**

Accounting standards establish 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 below:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Endowment has the ability to access.

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 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 to the valuation methodology are unobservable and significant to the fair value measurement.

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. All assets reported at fair value have been valued using a market approach, except for Level 3 assets.

For level 3 assets, the Endowment's management's consulting with its investment committee and a third-party investment advisory firm, determines the fair value measurement valuation policies and procedures. At least annually, management and the investment committee determines if the current valuation techniques used in the fair value measurements are still appropriate and evaluates and adjusts unobservable inputs used in the fair value measurements based on current market conditions and third-party information. There were no changes in the valuations techniques during 2015.

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 Endowment believes its 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.

**U. S. Endowment for Forestry and Communities, Inc. and Subsidiary**  
**Notes to Consolidated Financial Statements**

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, 2015 and 2014:

	Fair value at December 31, 2015	Fair value measurements at December 31, 2015 using:		
		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	<u>\$ 3,675,065</u>	<u>\$ 3,675,065</u>	<u>\$ -</u>	<u>\$ -</u>
Publically traded securities:				
Energy	<u>463,967</u>	<u>463,967</u>	<u>-</u>	<u>-</u>
Publically traded equity funds:				
Mid-cap	<u>12,910,358</u>	<u>12,910,358</u>	<u>-</u>	<u>-</u>
Large cap	<u>11,091,864</u>	<u>11,091,864</u>	<u>-</u>	<u>-</u>
International	<u>18,840,239</u>	<u>18,840,239</u>	<u>-</u>	<u>-</u>
	<u>42,842,461</u>	<u>42,842,461</u>	<u>-</u>	<u>-</u>
Publically traded fixed income funds:				
Taxable bonds	<u>19,417,287</u>	<u>19,417,287</u>	<u>-</u>	<u>-</u>
Index and other	<u>3,689,400</u>	<u>3,689,400</u>	<u>-</u>	<u>-</u>
	<u>23,106,687</u>	<u>23,106,687</u>	<u>-</u>	<u>-</u>
Publically traded limited partnerships	<u>4,971,052</u>	<u>4,971,052</u>	<u>-</u>	<u>-</u>
Equity common and commingled trust funds:				
Global	<u>46,631,217</u>	<u>-</u>	<u>46,631,217</u>	<u>-</u>
Lower volatile equity	<u>8,280,083</u>	<u>-</u>	<u>8,280,083</u>	<u>-</u>
	<u>54,911,300</u>	<u>-</u>	<u>54,911,300</u>	<u>-</u>
Fixed income common and commingled trust funds:				
High quality bond	<u>15,115,880</u>	<u>-</u>	<u>15,115,880</u>	<u>-</u>
Global bond	<u>2,816,138</u>	<u>-</u>	<u>2,816,138</u>	<u>-</u>
Treasury securities	<u>1,350,432</u>	<u>-</u>	<u>1,350,432</u>	<u>-</u>
Mortgage pass through	<u>5,257,723</u>	<u>-</u>	<u>5,257,723</u>	<u>-</u>
	<u>24,540,173</u>	<u>-</u>	<u>24,540,173</u>	<u>-</u>
Real asset common and commingled trust funds:				
Multi-strategy commodities	<u>1,300,525</u>	<u>-</u>	<u>1,300,525</u>	<u>-</u>
Natural resource stock index	<u>436,307</u>	<u>-</u>	<u>436,307</u>	<u>-</u>
	<u>1,736,832</u>	<u>-</u>	<u>1,736,832</u>	<u>-</u>
Futures hedge funds:				
Diversifying Company	<u>4,007,046</u>	<u>-</u>	<u>-</u>	<u>4,007,046</u>
Directional hedge funds:				
Relative value and event driven	<u>4,964,973</u>	<u>-</u>	<u>-</u>	<u>4,964,973</u>
Limited partnerships	<u>28,221,654</u>	<u>-</u>	<u>5,446,950</u>	<u>22,774,704</u>
Totals	<u>\$ 193,441,210</u>	<u>\$ 75,059,232</u>	<u>\$ 86,635,255</u>	<u>\$ 31,746,723</u>

**U. S. Endowment for Forestry and Communities, Inc. and Subsidiary**  
**Notes to Consolidated Financial Statements**

	<u>Fair value measurements at December 31, 2014 using:</u>			
	<u>Fair value at December 31, 2014</u>	<u>Quoted prices In active markets for identical assets and liabilities (Level 1 inputs)</u>	<u>Quoted prices for similar assets and liabilities (Level 2 inputs)</u>	<u>Significant Unobservable inputs (Level 3 inputs)</u>
Assets measured at fair value:				
Money market funds	\$ 2,243,552	\$ 2,243,552	\$ -	\$ -
Publically traded securities:				
Energy	988,883	988,883	-	-
Publically traded equity funds:				
Mid-cap	18,942,164	18,942,164	-	-
Large cap	16,626,514	16,626,514	-	-
International	12,866,886	12,866,886	-	-
	<u>5,218,695</u>	<u>5,218,695</u>	-	-
	<u>53,654,259</u>	<u>53,654,259</u>	-	-
Publically traded fixed income funds:				
Taxable bonds	16,423,535	16,423,535	-	-
Index and other	7,636,875	7,636,875	-	-
	<u>24,060,410</u>	<u>24,060,410</u>	-	-
Publically traded limited partnerships	7,521,100	7,521,100	-	-
Equity common and commingled trust funds:				
Global	48,117,984	-	48,117,984	-
Lower volatile equity	9,509,571	-	9,509,571	-
	<u>57,627,555</u>	-	<u>57,627,555</u>	-
Fixed income common and commingled trust funds:				
High quality bond	15,006,182	-	15,006,182	-
Global bond	4,049,315	-	4,049,315	-
High Yield	3,877,514	-	3,877,514	-
Treasury securities	1,370,264	-	1,370,264	-
Mortgage pass through	1,335,000	-	1,335,000	-
	<u>25,638,275</u>	-	<u>25,638,275</u>	-
Real asset common and commingled trust funds:				
Multi-strategy commodities	1,712,513	-	1,712,513	-
Natural resource stock index	580,938	-	580,938	-
	<u>2,293,451</u>	-	<u>2,293,451</u>	-
Directional hedge funds:				
Relative value and event driven	5,033,528	-	-	5,033,528
Limited partnerships	29,276,764	-	1,878,785	27,397,979
Totals	<u>\$ 208,337,777</u>	<u>\$ 88,468,204</u>	<u>\$ 87,438,066</u>	<u>\$ 32,431,507</u>

**U. S. Endowment for Forestry and Communities, Inc. and Subsidiary**  
**Notes to Consolidated Financial Statements**

The following table illustrates the activity of Level 3 assets measured at fair value on a recurring basis from December 31, 2014 to December 31, 2015:

	Fair Value Measurements Using Unobservable Inputs (Level 3)							
	Diversifying Company Futures Hedge	Relative Value and Event Driven	Natural Resources Partnership	Private Equity Partnerships	Venture Capital Partnership	Distressed Debt Partnership	Alpha Port Segregated Portfolio	Equity Market Portfolio
Beginning balance, December 31, 2014	\$ -	\$ 5,033,528	\$ -	\$ 4,932,938	\$ 4,030,696	\$ 908,547	\$ 2,472,951	\$ 2,276,394
Total gains or losses included in changes in net assets:								
Unrealized gains (losses)	7,046	(68,555)	(16,054)	758,082	241,044	31,581	51,813	51,953
Purchases, issuances/subscriptions, and sales:								
Purchases	4,000,000	-	20,000	575,000	245,250	-	-	115,000
Sales/distributions	-	-	-	(938,935)	(517,471)	(291,800)	(2,524,764)	(2,443,347)
Ending balance, December 31, 2015	<u>\$ 4,007,046</u>	<u>\$ 4,964,973</u>	<u>\$ 3,946</u>	<u>\$ 5,327,085</u>	<u>\$ 3,999,519</u>	<u>\$ 648,328</u>	<u>\$ -</u>	<u>\$ -</u>

	Fair Value Measurements Using Unobservable Inputs (Level 3)							
	Debt Focused Fund	Absolute Return Fund	Global Financial Markets Fund	Global Multi- disciplinary Fund	Long/Short Investments Fund	U.S. Equity Markets Fund		Total
Beginning balance, December 31, 2014	\$ 2,507,373	\$ 2,181,173	\$ 2,208,542	\$ 1,587,624	\$ 2,484,172	\$ 1,807,569		\$ 32,431,507
Total gains or losses included in changes in net assets:								
Unrealized gains (losses)	20,846	44,108	10,730	234,316	(68,734)	(221,893)		1,076,283
Purchases, issuances/subscriptions, and sales:								
Purchases	-	-	-	-	-	-		4,955,250
Sales/distributions	-	-	-	-	-	-		(6,716,317)
Ending balance, December 31, 2015	<u>\$ 2,528,219</u>	<u>\$ 2,225,281</u>	<u>\$ 2,219,272</u>	<u>\$ 1,821,940</u>	<u>\$ 2,415,438</u>	<u>\$ 1,585,676</u>		<u>\$ 31,746,723</u>

**U. S. Endowment for Forestry and Communities, Inc. and Subsidiary**  
**Notes to Consolidated Financial Statements**

The following table illustrates the activity of Level 3 assets measured at fair value on a recurring basis from December 31, 2013 to December 31, 2014:

	<b>Fair Value Measurements Using Unobservable Inputs (Level 3)</b>						
	<b>Relative Value and Event Driven</b>	<b>Realty Investors Partnership</b>	<b>Private Equity Partnerships</b>	<b>Venture Capital Partnership</b>	<b>Distressed Debt Partnership</b>	<b>Alpha Port Segregated Portfolio</b>	<b>Equity Market Portfolio</b>
Beginning balance, December 31, 2013	\$ 2,030,691	\$ 20,225	\$ 4,722,137	\$ 3,452,867	\$ 1,701,387	\$ -	\$ -
Total gains or losses included in changes in net assets:							
Unrealized gains (losses)	(47,274)	723,737	216,236	553,478	(167,393)	222,951	26,394
Realized gains (losses)	-	(722,884)	487,042	334,191	301,484	-	-
Purchases, issuances/subscriptions, and sales:							
Purchases	3,050,111	-	530,000	150,000	-	2,250,000	2,250,000
Sales/distributions	-	(21,078)	(1,022,477)	(459,840)	(926,931)	-	-
Ending balance, December 31, 2014	<u>\$ 5,033,528</u>	<u>\$ -</u>	<u>\$ 4,932,938</u>	<u>\$ 4,030,696</u>	<u>\$ 908,547</u>	<u>\$ 2,472,951</u>	<u>\$ 2,276,394</u>

	<b>Fair Value Measurements Using Unobservable Inputs (Level 3)</b>						
	<b>Debt Focused Fund</b>	<b>Absolute Return Fund</b>	<b>Global Financial Markets Fund</b>	<b>Global Multi-disciplinary Fund</b>	<b>Long/Short Investments Fund</b>	<b>U.S. Equity Markets Fund</b>	<b>Total</b>
Beginning balance, December 31, 2013	\$ 2,308,563	\$ 2,074,296	\$ 2,114,313	\$ 1,583,635	\$ 2,309,450	\$ 1,622,675	\$ 23,940,239
Total gains or losses included in changes in net assets:							
Unrealized gains (losses)	198,810	106,877	94,229	3,989	174,722	184,894	2,291,650
Realized gains (losses)	-	-	-	-	-	-	399,833
Purchases, issuances/subscriptions, and sales:							
Purchases	-	-	-	-	-	-	8,230,111
Sales/distributions	-	-	-	-	-	-	(2,430,326)
Ending balance, December 31, 2014	<u>\$ 2,507,373</u>	<u>\$ 2,181,173</u>	<u>\$ 2,208,542</u>	<u>\$ 1,587,624</u>	<u>\$ 2,484,172</u>	<u>\$ 1,807,569</u>	<u>\$ 32,431,507</u>



## **U. S. Endowment for Forestry and Communities, Inc. and Subsidiary**

### **Notes to Consolidated Financial Statements**

---

Total net gains or 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. There were no transfers in or out of Level 3 for the years ended December 31, 2015 and 2014.

The fair values of investments in publically traded money market funds, equity securities, and equity, fixed income and limited partnership funds are determined based upon market closing process, using a market approach.

#### ***Alternative Investments***

Alternative investments include all investments for which a readily determinable fair value does not exist. For the Endowment, alternative investments include its investments in common and commingled equity, fixed income and real asset trust funds, directional hedge funds and various limited partnership funds. In accordance with accounting principles generally accepted in the United States, the Endowment estimates the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using net asset value per share or its equivalent. Unless it is possible that all or a portion of the investments will be sold for an amount different from net asset value, the Endowment applies a practical expedient and concludes that the net asset value reported by the underlying funds approximates the fair value of these investments. The Endowment has estimated the fair value of its alternative investments at the net asset value per share or its equivalent, such as partners' capital per share, without adjustment. The following are descriptions of each alternative investment:

The Endowment has investments in various common and commingled trust equity funds of \$54,911,300 and \$57,627,555 at December 31, 2015 and 2014, respectively. Interests in these funds are generally redeemable on a monthly basis with 5 to 30 business days' notice and include various U.S domestic large, mid and small cap securities and international equity securities including equity securities of companies located in the less developed countries of the world.

The Endowment has investments in various common and commingled trust fixed income funds of \$24,540,173 and \$25,638,275 at December 31, 2015 and 2014, respectively. Interests in these funds are generally redeemable on a monthly basis with 5 to 30 business days' notice and include various fixed income investments in the sovereign bonds and other fixed income securities in the U.S and worldwide in an attempt to outperform both the broad U.S. bond market and the broad worldwide bond market. These funds also invest in investment grade inflation-indexed securities, including U.S. Treasury inflation indexed securities and no-U.S. dollar denominated inflation-indexed securities.

The Endowment has investments in common and commingled trust real asset funds of \$1,736,832 and \$2,293,451 at December 31, 2015 and 2014, respectively. Interests in these funds are generally redeemable on a daily or monthly basis with 5 to 30 days business notice and include various assets across a broad spectrum of commodity and natural resource-oriented asset categories pursuing a multi-strategy approach to investing in the commodities and natural resource markets, which include futures, options on futures and forward contracts on exchange traded agricultural goods, metals, minerals, energy products, natural resources and foreign currencies.

The Endowment has an investment in a sector based fund of \$1,946,950 and \$1,878,786 at December 31, 2015 and 2014. The Endowment has no future funding commitments for this fund. The Endowment may redeem certain portions of its investment as of the last business day of each fiscal month. Partial redemption must be made in increments of \$1 million and no partial redemptions if remaining shares would be less \$1 million. The fund's investment strategies include but are not limited to sector-based fundamental long/short equity (including, but not limited to investments in the healthcare, financial, consumer/retail, technology, energy, cyclical, and media sectors), short and medium term trading portfolios, global macro trading, special situations, distressed companies and arbitrage opportunities, both within and outside U.S. markets.

## **U. S. Endowment for Forestry and Communities, Inc. and Subsidiary**

### **Notes to Consolidated Financial Statements**

---

The Endowment has an investment in a partial inflation hedge fund of \$3,500,000 at December 31, 2015. The Endowment has no future funding commitments for this fund. The Endowment can redeem its interests in this fund on a daily basis with 3 days business notice. The fund's investment objective is to provide diversification and inflation protection and to generate higher risk-adjusted total returns than leading commodity market benchmarks. The fund seeks to achieve its objective by investing in a long-only, unleveraged portfolio of exchange-traded futures and forward contracts on tangible commodities to obtain broadly diversified exposure to all principal groups in the global commodity markets, including energies, metals, and agriculture.

The Endowment has investments in futures hedge funds of \$4,007,046 at December 31, 2015. The Endowment may redeem its interests in the funds on a quarterly basis with 95 days' notice. The funds pursue multiple strategies to provide investors with net returns over a full market cycle that are favorable to capital markets on a risk-adjusted basis.

The Endowment has investments in directional hedge funds of \$4,964,973 and \$5,033,528 at December 31, 2015 and 2014, respectively. The Endowment may redeem its interests in the funds on an annual basis with generally 65-95 days' notice. The funds pursue 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 a natural resources partnership of \$3,946 at December 31, 2015. The Endowment has committed a total of \$2,000,000 and has unfunded commitments of \$1,980,000. 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. The partnership invests primarily in limited partnerships, which in turn, make oil, gas, and other natural resource-related investments with the objective of obtaining long-term growth of capital.

The Endowment has investments in international and domestic private equity partnerships of \$5,327,085 and \$4,932,938 at December 31, 2015 and 2014, respectively. The Endowment has committed a total of \$8,500,000 and has unfunded commitments of \$2,972,500 as of December 31, 2015. 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 \$3,999,519 and \$4,030,696 at December 31, 2015 and 2014, respectively. The Endowment has committed a total of \$4,500,000 and has unfunded commitments of \$1,562,250 as of December 31, 2015. 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 \$648,328 and \$908,547 at December 31, 2015 and 2014, respectively. The Endowment has committed a total of \$2,000,000 and has unfunded commitments of \$305,200 as of December 31, 2015. 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.

**U. S. Endowment for Forestry and Communities, Inc. and Subsidiary**  
**Notes to Consolidated Financial Statements**

---

The Endowment has an investment in Commonfund SS Alpha Port Segregated Portfolio of \$-0- and \$2,472,951 at December 31, 2015 and 2014, respectively. This fund was liquidated during 2015 and there are no future funding commitments.

The Endowment has an investment in Commonfund SS Equity Market Neutral Company of \$-0- and \$2,276,394 at December 31, 2015 and 2014, respectively. This fund was liquidated during 2015 and there are no future funding commitments.

The Endowment has an investment in a debt focused fund of \$2,528,219 and \$2,507,372 at December 31, 2015 and 2014, respectively. The Endowment has no future funding commitments for this fund. The Endowment may redeem certain portions of its investment quarter end. The fund is a special situation fund that seeks to earn superior risk-adjusted returns while emphasizing preservation of capital. The fund's investment strategies are primarily in the leveraged issuer, distressed debt, and reorganized equity markets of North America and Europe, in addition to other markets including Australia and New Zealand. The fund invests primarily in public debt and equity securities, bank debt and vendor payables.

The Endowment has an investment in an absolute return fund of \$2,225,281 and \$2,181,173 at December 31, 2015 and 2014, respectively. The Endowment has no future funding commitments for this fund. The Endowment may not redeem their shares, in whole or in part, until an effective 24 months following the date the shares were purchased, the initial redemption date. Beginning the next year after the initial redemption date, 50% of the shares held may be redeemed on each successive annual anniversary. The fund currently seeks to achieve its investment objectives through the investment of substantial portion of its assets in a master fund, that invests and trades primarily in fixed income securities worldwide and in derivatives on those securities. Options, futures, forward contracts, swaps, and other derivatives comprise a substantial portion of the fund's portfolio.

The Endowment has an investment in a global financial markets fund of \$2,219,272 and \$2,208,542 at December 31, 2015 and 2014, respectively. The Endowment has no future funding commitments for this fund. The Endowment may not redeem their shares, in whole or in part, until 1 year after purchase. Beginning the next year after, 25% of the shares held may be redeemed on each successive annual anniversary. The fund's principal strategy is to identify and exploit inefficiencies in global financial markets while minimizing exposure to market risk through hedging and other investment strategies that are general intended not to be market-sensitive.

The Endowment has an investment in a global multi-disciplinary fund of \$1,821,940 and \$1,587,624 at December 31, 2015 and 2014, respectively. The Endowment has no future funding commitments for this fund. The Endowment may not redeem their shares, in whole or in part, until 1 year after purchase. Beginning the next quarter, shares may be redeemed without penalty. The fund seeks to profit from a global multi-disciplinary approach that uses a variety of trading strategies, including, but not limited to, model-based trading and discretionary and relative value trading. The fund invests in a broad array of securities and derivatives under a range of different market scenarios.

**U. S. Endowment for Forestry and Communities, Inc. and Subsidiary**  
**Notes to Consolidated Financial Statements**

The Endowment has an investment in a long/short investments fund of \$2,415,438 and \$2,484,172 at December 31, 2015 and 2014, respectively. The Endowment has no future funding commitments for this fund. The Endowment may redeem their shares, in whole or in part, as of any calendar quarter-end. However, only 25% of the shares may be redeemed each quarter. The fund seeks to deliver superior absolute returns by employing global and opportunistic long/short strategy for investing in distressed debt, value equities and event equities.

The Endowment has an investment in an U.S. equity markets fund of \$1,585,676 and \$1,807,569 at December 31, 2015 and 2014, respectively. The Endowment has no funding commitments for this fund. The Endowment may not redeem their shares, in whole or in part, until 1 year after purchase. Beginning the next quarter, shares can be redeemed as of each quarter end. The fund invests primarily in equities and equity-related securities and derivative instruments but has flexibility with respect to the types of securities or other instruments used in pursuing its trading strategies.

**4. Property and Equipment**

Property and equipment at December 31, 2015 and 2014 consists of the following:

	<u>2015</u>	<u>2014</u>
Land	\$ 137,794	\$ 137,794
Building and equipment	<u>324,101</u>	<u>324,101</u>
Total property and equipment	<u>461,895</u>	<u>461,895</u>
Less: accumulated depreciation	<u>(74,273)</u>	<u>(58,068)</u>
	<u>\$ 387,622</u>	<u>\$ 403,827</u>

**5. Note Payable**

	<u>2015</u>	<u>2014</u>
Note payable to a bank with six interest only payments through October 2011; then thirty monthly payments of \$2,361 including principal and interest at prime minus .26%. The note was refinanced in 2014 with monthly payments of \$2,756 including principal and interest at 3.75% from June 2014 through May 2021. The note is collateralized by the building.	<u>\$ 161,665</u>	<u>\$ 188,048</u>

Future maturities of debt is as follows:

2016	\$ 27,488
2017	28,537
2018	29,625
2019	30,755
2020	31,929
Thereafter	<u>13,331</u>
	<u>\$ 161,665</u>

**U. S. Endowment for Forestry and Communities, Inc. and Subsidiary**  
**Notes to Consolidated Financial Statements**

On February 4, 2015, the Endowment entered into a line of credit with a financial institution. The principal amount of the line of credit is \$5,000,000 with monthly interest payments; interest rate is LIBOR market index plus 2%. There was no balance on the line of credit as of December 31, 2015. The line of credit matures on February 4, 2017. The line of credit is secured by investments.

**6. 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 \$117,000 and \$109,000 for the years ended December 31, 2015 and 2014, respectively.

In March 2014, The Endowment began sponsoring a 457(b) Deferred Compensation Plan for certain of its management employees. Contributions are based on agreements between individual employees and the Endowment and may not exceed the lesser of \$17,500 or 100% of employee compensation. Amounts accrued on deferred compensation are payable to plan participants upon severance from employment or attaining age 70 ½. The market value of investments and the related obligation to covered employees was \$34,362 and \$17,475 at December 31, 2015 and 2014, respectively.

**7. Net Assets**

Temporarily restricted net assets are restricted for the following purposes at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Consortium for Advanced Wood-to-Energy Solutions	\$ 50,000	\$ 10,000
Deepwater Horizon Project Tracker	42,000	18,000
NRCS – DoD Forest Conservation	60,000	-
Endowment earnings to support ongoing programs (See Note 8)	-	11,596,560
Hardwood check-off	-	30,963
Jobs Corps Gulf Forest Restoration	-	88,335
North American Forest Partnership	227,500	-
National Conservation Easement Database Phase II	60,000	17,400
Savannah River Project	100,000	-
Wood-to-Energy Check-off	6,515	-
Other	500	500
	<u>\$ 546,515</u>	<u>\$ 11,761,758</u>

Permanently restricted net assets 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.

**U. S. Endowment for Forestry and Communities, Inc. and Subsidiary**  
**Notes to Consolidated Financial Statements**

---

**8. 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 Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) 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 follows the laws of UPMIFA in Delaware, the incorporation state, and South Carolina, the state in which the Endowment is headquartered. 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 UPMIFA.

Donor-restricted endowment net asset composition by type of fund as of December 31, 2015 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ (5,027,424)</u>	<u>\$ -</u>	<u>\$ 200,000,000</u>	<u>\$ 194,972,576</u>

**U. S. Endowment for Forestry and Communities, Inc. and Subsidiary**  
**Notes to Consolidated Financial Statements**

Changes in donor-restricted endowment net asset for the year ended December 31, 2015 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, December 31, 2014	\$ -	\$ 11,596,560	\$ 200,000,000	\$ 211,596,560
Investment return:				
Investment income, net	-	2,518,883	-	2,518,883
Net unrealized and realized investment gains	<u>(5,027,424)</u>	<u>(4,385,438)</u>	-	<u>(9,412,862)</u>
Total investment return	<u>(5,027,424)</u>	<u>(1,866,555)</u>	-	<u>(6,893,979)</u>
Appropriation of assets for expenditures	<u>-</u>	<u>(9,730,005)</u>	<u>-</u>	<u>(9,730,005)</u>
Endowment net assets, December 31, 2015	<u>\$ (5,027,424)</u>	<u>\$ -</u>	<u>\$ 200,000,000</u>	<u>\$ 194,972,576</u>

Donor-restricted endowment net asset composition by type of fund as of December 31, 2014 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 11,750,924</u>	<u>\$ 200,000,000</u>	<u>\$ 211,750,924</u>

Changes in donor-restricted endowment net asset for the year ended December 31, 2014 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, December 31, 2013	\$ (1,992,477)	\$ -	\$ 200,000,000	\$ 198,007,523
Investment return:				
Investment income, net	252,205	1,993,462	-	2,245,667
Net unrealized and realized investment gains	<u>1,740,272</u>	<u>13,755,345</u>	-	<u>15,495,617</u>
Total investment return	<u>1,992,477</u>	<u>15,748,807</u>	-	<u>17,741,284</u>
Appropriation of assets for expenditures	<u>-</u>	<u>(4,152,247)</u>	<u>-</u>	<u>(4,152,247)</u>
Endowment net assets, December 31, 2014	<u>\$ -</u>	<u>\$ 11,596,560</u>	<u>\$ 200,000,000</u>	<u>\$ 211,596,560</u>

***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 UPMIFA requires the Endowment to retain as a fund of perpetual duration. Deficiencies of this nature were reported in unrestricted net assets as of December 31, 2015 of \$5,027,424. These deficiencies resulted from unfavorable market fluctuations. There were no deficiencies of this nature reported in unrestricted net assets as of December 31, 2014.

**U. S. Endowment for Forestry and Communities, Inc. and Subsidiary**  
**Notes to Consolidated Financial Statements**

---

***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 Board of Directors adopted changes to its investment and spending policies in December 2012 effective for 2013 and onward. Under the policies the near-term target is to distribute grants or program investments of up to 3.5% and provide for operating expenses of .375% of the investment corpus annually against an overall expected return of 6.5%. The amended policy does not supersede a "downside policy" adopted in May 2008 to address significant market declines. Under those circumstances a spending rate of not more than 2.5% of corpus would go into effect in the event of a decline below the \$200 million corpus, and that policy 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.

**9. 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 \$10,368,000 at December 31, 2015. These contracts are committed for varying dates through 2019.

**10. Contingencies**

From time to time, the Endowment is a defendant in legal actions involving claims arising in the normal course of business. Management believes that, as a result of legal defenses, none of these activities should have a material adverse effect on its consolidated financial condition. However, the ultimate outcome of these matters cannot be estimated at the present time.

**11. Subsequent Events**

After December 31, 2015, the Endowment made multi-year commitments to fund specific research and public interest projects with other nonprofit organizations and universities. Committed funds totaled approximately \$3,286,000. These contracts are committed for varying dates through 2025.

The Endowment evaluated the effect subsequent events would have on the consolidated financial statements through August 25, 2016, which is the date the consolidated financial statements were available to be issued.



***Supplemental Information***

**U. S. Endowment for Forestry and Communities, Inc. and Subsidiary**  
**Consolidated Schedules of Functional Expenses**  
**For the Years Ended December 31, 2015 and 2014**

	2015			2014		
	<u>Programmatic</u>	<u>Management and General</u>	<u>Total</u>	<u>Programmatic</u>	<u>Management and General</u>	<u>Total</u>
NorthStar Jefferson	\$ -	\$ -	\$ -	\$ 1,592,663	\$ -	\$ 1,592,663
All other programs	7,188,723	-	7,188,723	3,961,846	-	3,961,846
Compensation - officers	251,547	62,887	314,434	242,038	60,510	302,548
Compensation - non-officers	571,138	282,115	853,253	519,034	233,200	752,234
Employee benefits	206,620	83,245	289,865	207,966	80,257	288,223
Travel	86,152	54,987	141,139	22,372	74,355	96,727
Communications	25,188	10,148	35,336	17,177	6,629	23,806
Utilities/Supplies/Other	-	21,622	21,622	-	44,536	44,536
Professional services	11,257	74,523	85,780	-	110,408	110,408
Insurance	-	31,338	31,338	-	29,160	29,160
Interest expense	-	6,692	6,692	-	9,424	9,424
Taxes/other	-	27,048	27,048	-	-	-
Reserve for uncollectible notes receivable	-	-	-	(105,000)	-	(105,000)
	<u>\$ 8,340,625</u>	<u>\$ 654,605</u>	<u>\$ 8,995,230</u>	<u>\$ 6,458,096</u>	<u>\$ 648,479</u>	<u>\$ 7,106,575</u>

See independent auditors' report.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF CONSOLIDATED  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING  
STANDARDS***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the consolidated financial statements of U.S. Endowment for Forestry and Communities, Inc. and Subsidiary (the "Endowment"), which comprises the consolidated statements of financial position as of December 31, 2015, and the related consolidated statements of activities, and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated August 25, 2016.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the consolidated financial statements, we considered the Endowment's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Endowment's internal control. Accordingly, we do not express an opinion on the effectiveness of the Endowment's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Endowment's consolidated financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Endowment's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Endowment's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Endowment's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Dixon Hughes Goodman LLP*

**Greenville, South Carolina  
August 25, 2016**



## **INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

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

### ***Report on Compliance for Each Major Federal Program***

We have audited U.S. Endowment for Forestry and Communities, Inc. and Subsidiary (the "Endowment") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Endowment's major federal program for the year ended December 31, 2015. The Endowment's major federal program are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for the Endowment's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Endowment's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for its major federal program. However, our audit does not provide a legal determination of the Endowment's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the Endowment complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2015.

***Report on Internal Control Over Compliance***

Management of the Endowment is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Endowment's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Endowment's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

***Purpose of this Report***

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Dixon Hughes Goodman LLP*

**Greenville, South Carolina  
August 25, 2016**

**U. S. Endowment for Forestry and Communities, Inc. and Subsidiary**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended December 31, 2015**

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>	<u>Expenditures to Subrecipients</u>
<b>U. S. Department of Agriculture</b>			
<u>Direct Program:</u>			
Rural Development	10.351	\$ 50,000	\$ 50,000
Forestry Research	10.652	41,271	39,347
Cooperative Forestry Assistance	10.664	1,473,720	806,884
Wood Utilization Assistance	10.674	637,456	123,944
Forest Stewardship Program	10.678	88,338	-
Environmental Quality Incentives Program	10.912	305,945	275,000
Healthy Forest Reserve	10.922	<u>75,000</u>	<u>75,000</u>
Total U.S. Department of Agriculture		<u>2,671,730</u>	<u>1,370,175</u>
<b>Environmental Protection Agency</b>			
<u>Direct Program:</u>			
Healthy Watersheds Consortium Grant Program	66.441	1,516	-
<b>U. S. Department of Defense</b>			
<u>Direct Program:</u>			
Basic and Applied Scientific Research	12.300	<u>110,234</u>	<u>-</u>
Total expenditures of Federal awards		<u>\$ 2,783,480</u>	<u>\$ 1,370,175</u>

**1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the U.S. Endowment for Forestry and Communities, Inc. and Subsidiary (the "Endowment") under programs of the federal government for the year ended December 31, 2015. The information in this Schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Because the Schedule presents only a selected portion of the operations of the Endowment, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Association.

**2. Summary of Significant Account Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The Endowment has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**U. S. Endowment for Forestry and Communities, Inc. and Subsidiary  
Schedule of Findings and Questioned Costs**

**Section I—Summary of Auditors' Results**

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ Yes  X  No
- Significant deficiencies identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes  X  None reported

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes  X  No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? \_\_\_\_\_ Yes  X  No
- Significant deficiencies identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes  X  None reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 200.516 of Uniform Guidance? \_\_\_\_\_ Yes  X  No

Identification of major programs:

CFDA Numbers

10.664

Name of Federal Program or Cluster

Cooperative Forestry Assistance

Dollar threshold used to distinguish between type A and type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

X  Yes \_\_\_ No



**U. S. Endowment for Forestry and Communities, Inc. and Subsidiary  
Schedule of Findings and Questioned Costs (continued)**

---

---

**Section II— Consolidated Financial Statement Findings**

---

There were none.

---

**Section III— Federal Award Findings and Questioned Costs**

---

There were none.

**U. S. Endowment for Forestry and Communities, Inc. and Subsidiary  
Summary Schedule of Prior Audit Findings**

---

There were no reported findings in 2014 or 2013.