

ANNUAL REPORT 2009



American Chestnut
Tree in Autumn

A Word From the Chairman & the President

The U.S. Endowment for Forestry and Communities celebrated its third anniversary as an institution in November 2009. We've faced and addressed many challenges in a short time. We've built a new organization, engaged those committed to sustainable forestry across America and established a programmatic strategy. All of this during the worst recession we've ever experienced. Two analogies of our experience come to mind: building a fire truck on the way to the fire; and, sipping water from a fire hose. Whichever you prefer, we're thrilled to report positive movement in all our focus areas.

Programs Gain Traction

Still maturing by any measure, our incredible Board and Staff are especially heartened by the pace of implementation in the past year. We continued to expand the breadth and depth of our programs. In the pages that follow, you'll read more about three of those initiatives: Forest Investment Zones, the Forest Health Initiative and a broad-ranging collaborative to create the nation's first-ever database of conservation easements. Each speaks to the vision and willingness to "do what others can't or won't" to meet our twin goals of sustainable forestry and healthy forest-reliant communities.

Our Theory of Change

The Endowment operates under a simply depicted "theory of change" that focuses work in three areas: retaining and restoring healthy working forests; promoting and capturing multiple value streams; and enhancing community capacity, collaboration and leadership. We continue to make great progress as we join with a broad spectrum of interests to create North America's first commodity check-off designed to grow the market for sustainably produced forest products. Furthermore, we are making great strides in establishing a continental benchmark on the state of woody biomass used to produce energy.



Mack L. Hogans, Chairman

Emerging Investments

While we won't be featuring it in great detail in this report, we can't contain our excitement about a new joint-venture with the USDA Natural Resources Conservation Service (NRCS). Under a challenge grant funding model through the Service's Conservation Innovation Grants program, the Endowment and NRCS will co-invest \$4 million in an initiative called, "Healthy Watersheds through Healthy Forests." Through additional on-the-ground match, this \$6 million program seeks to link "downstream water consumers with upstream water producers" (i.e. forest landowners) to create a sustained source of funds to promote well-managed forests for the watershed benefits (and much more) that they provide. We'll be sharing more about this initiative on our web site and in future reports.

Board Leadership Shifts

As a testament to the Endowment's stability as we enter our fourth year, we are proud that we still have engagement by all of our original Board and Staff. We've just been joined by Stephane Rousseau, a Senior Vice President with privately-held Kruger, Inc. Stephane will be the first new addition to the Board serving as the Government of Canada's "liaison." He replaces John Weaver who retired as Chairman at AbitibiBowater and relocated to Georgia. Additionally, on behalf of all in the Endowment, we express our thanks to Dick Molpus, our inaugural Chairman, who ably led the Endowment through these formative years. Both John and Dick will remain on the Board — John in an "American" slot and Dick as Past Chairman.

As we conclude the first decade of this new millennium, we are very excited about the potential that is the Endowment. We know that through our commitment to partnerships and collaboration, great things will come to America's working forests.



Carlton N. Owen, President & CEO

The People of the U.S. Endowment

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Arthur Williams, IV

January–May
Furman University

Michelle Christensen

June–December
Portland State University

**U.S. Endowment
Headquarters
P.O. Box 2364
Greenville, SC 29602**

Mission

The Endowment works collaboratively with partners in the public and private sectors to advance systemic, transformative and sustainable change for the health and vitality of the nation's working forests and forest-reliant communities.

Vision

America's forests are sustainably managed to meet broad societal objectives such as marketable products, clean waters, wildlife habitats and other ecological services, while ensuring healthy and vibrant forest-reliant communities.

History

The U.S. Endowment for Forestry and Communities, Inc. (the Endowment) is a not-for-profit public charity. It was established September 21, 2006, at the request of the governments of the United States and Canada in accordance with the terms of the 2006 Softwood Lumber Agreement between the two countries.

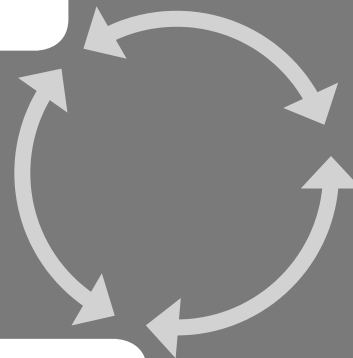
Theory of Change

The Endowment operates under a simply depicted "theory of change" that focuses on work in three areas: retaining and restoring healthy working forests; promoting and capturing multiple value streams; and enhancing community capacity, collaboration and leadership. While many of the programmatic investments undertaken in 2009 don't lend themselves to simple characterization, all are closely aligned and integrate well under this theory.

**Forest Value
Streams**

**Healthy
Working
Forests**

**Healthy
Forest-Reliant
Communities**



Forest Health Initiative: Advancing Forest Health through Biotechnology

The Challenge

Some 58 million acres¹ of the nation's forests — an area larger than 70,000 Central Parks — are experiencing increasing levels of disease and mortality because of endemic or exotic pests and diseases. Most predictions are that the number of affected acres will increase significantly because of the effects of climate change.

In the first half of the last century, American cities and rural areas experienced firsthand the devastating effects of such losses, as exotic pests virtually eliminated American elms and the once mighty American chestnut — a fixture along the Appalachian Mountains.

Meeting the Challenge

As more threats follow (opposite page), forest managers are left to fight 21st century challenges with tools of the 19th and 20th centuries. The Endowment, in seeking to “do what others can't or won't,” issued a \$1 million challenge grant in the belief that we must plumb the potential of biotechnology as a tool that might play a role in addressing emerging forest health challenges.

While the potential of biotechnology — especially that developed in laboratories — is founded on sound science, the Endowment's challenge was rooted in a commitment that scientific advances must be viewed in concert with the environmental risks and social acceptability of the tool as well as regulatory protocols and approvals.

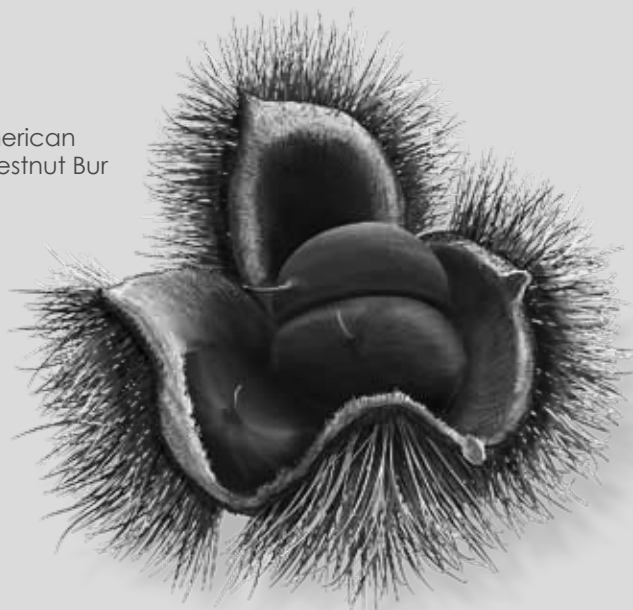
Opportunity

What would it mean to Appalachia — an area that has suffered like few others from resource and wealth extraction — if a tree with the potential of the American chestnut (wood that is rot resistant, a world-class sequester of carbon, superior food for wildlife and people and much more) — were available for planting on tens of thousands of acres of old mining lands? What would it mean to future generations if through the power of modern science, if instead of decades, only a few years were needed to develop new generations of trees that could survive and thrive under the onslaught of a changing climate, pests and diseases?

Identifying the Test Organism

Rather than take a simply academic view of the challenges, the Endowment sought to test all aspects of the biotechnology issue using a real-world example. Thus, the American chestnut (the Endowment's featured Tree of the Year) was chosen as the test tree. Over a three-year period — about a tenth of the time already invested to develop and test traditional disease-resistant trees — the Endowment and its partners are taking a “Manhattan Project Approach” to vetting all aspects of modern biotechnology in hopes of adding a safe, cost-effective new tool for use in the challenges facing America's forests.

American Chestnut Bur



¹USDA Forest Service 2001. 2000 RPA assessment of forest and range lands. USDA Forest Service, FS-687, February 2001

Funding Partners

USDA Forest Service – \$3 million
 Duke Energy – \$1.5 million
 U.S. Endowment – \$1 million

Forest Health Initiative Steering Committee*

Ann Bartuska
 Deputy Chief for
 Research & Development,
 USDA Forest Service

Carlton Owen
 President & CEO,
 U.S. Endowment

Paul Trianosky
 Director of Forests,
 The Nature Conservancy

Peter Roussoupoulos
 Retired Scientist

Steven Hamburg
 Chief Scientist,
 Environmental
 Defense Fund

Mariann Quinn
 Director of
 Environmental Policy,
 Duke Energy

**Participation does not serve as an endorsement of the use of biotechnology; rather, as an acknowledgement of the need to assess its potential for possible use under the right circumstances.*

Achieving Success Means Addressing Three Legs of Work Concurrently

- **Science:** Proving the possibility of using genetic modification to yield a tree that is blight resistant — work being led by State University of New York at Syracuse, University of Georgia and Pennsylvania State University.
- **Regulatory:** Assessing the ability to gain regulatory approvals and meet acceptable protocols from federal agencies.**
- **Social/Environmental:** Gaining public acceptance for potential deployment of a modified tree by addressing social and environmental issues and concerns.

***Genetic testing of the American chestnut triggers oversight and engagement by all three agencies with regulatory purview over biotechnology use in trees: USDA Animal Plant Health Inspection Service (APHIS), Environmental Protection Agency (EPA) and Food and Drug Administration (FDA).*

What is Biotechnology?

Humans have been using biotechnology — manipulating sexual techniques to yield enhanced or hybrid plants — for centuries. From the dozens of varieties of roses to the vigor and productivity of crops, humans depend on biotechnology daily. For thousands of years, biotechnology was limited to the slow and laborious process of manipulation in the greenhouse or field. A new variety of flower might take decades to perfect. With the advent of modern genetic mapping and tools, there is potential to dramatically shorten time from concept to product on one hand and to more narrowly focus the types of traits and genes used to achieve the desired result on the other. In short, when using sexual techniques, one cannot select only for those genes and the desired attributes. Yet with asexual technologies (the lab), one can explicitly select only the genes that yield the desired outcome.

Emerging Threats to America's Forests

A partial list of diseases and pests that are now threatening America's forests:

- **Mountain pine beetle** – an endemic pest exploding across Canada and the western U.S.
- **Emerald ash borer** – threatening ash trees across the northern tier of states
- **Black walnut fungus** – killing walnuts across the Rocky Mountains
- **Asian long-horned beetle** – attacking hardwood forests from the Great Lakes to New England
- **Oak wilt** – hitting oak forests from East to West
- **Hemlock woolly adelgid** – wiping hemlocks out across eastern forests
- **Dogwood anthracnose** – killing wild dogwoods on both coasts, moving from North to South

Forest Investment Zones: Innovation Laboratories Rising From the Grassroots

The Challenge:

Not long ago, people in forest-reliant communities across the nation were able to look to large, vertically integrated paper and lumber companies to provide well-paid, stable jobs with good benefits and pensions to carry them through retirement. These jobs and the companies that provided them served as powerful community anchors supporting civic and cultural institutions that contributed to a high quality of community life.

In recent decades, the face of rural forested areas has been changing, driven by macro trends like climate change, globalization and population migration, as well as micro trends like changes in societal values and investment priorities. The results have been unemployment for many, decline in forest health, increased forest fragmentation and community disenfranchisement. These trends are consistent across ownership patterns and forest type. While the immediate impacts of these changes are felt locally, they have national and global ramifications.

The Opportunity:

Solutions require visible demonstrations of a new way forward. To that end, the Endowment has launched its Forest Investment Zones Initiative founded on the belief that individual rural communities must work together at a regional scale if they are to reverse the trend and restore hope. And, too, that lessons learned by pilot regions will provide valuable guidance to others.

Each Forest Investment Zone is operating with a multi-year commitment from the Endowment (up to \$2 million each over five years). While each operates in a different part of the country, all are committed to a triple-bottom-line approach to sustainable forestry that focuses on the health of forests, as well as the social and economic health of surrounding communities.

The Forest Investment Zones:

In all three zones — The Northern Forest Zone; the Central Appalachia Zone; and the Dry Forest Zone — collaborators are passionately addressing forest health and community development across their respective regions, using innovation and entrepreneurialism as key drivers.

Our Hope:

The work of our partners in the Forest Investment Zones Initiative shows promise in developing the capacity to slow the fragmentation of working forestland, redevelop the infrastructure to support

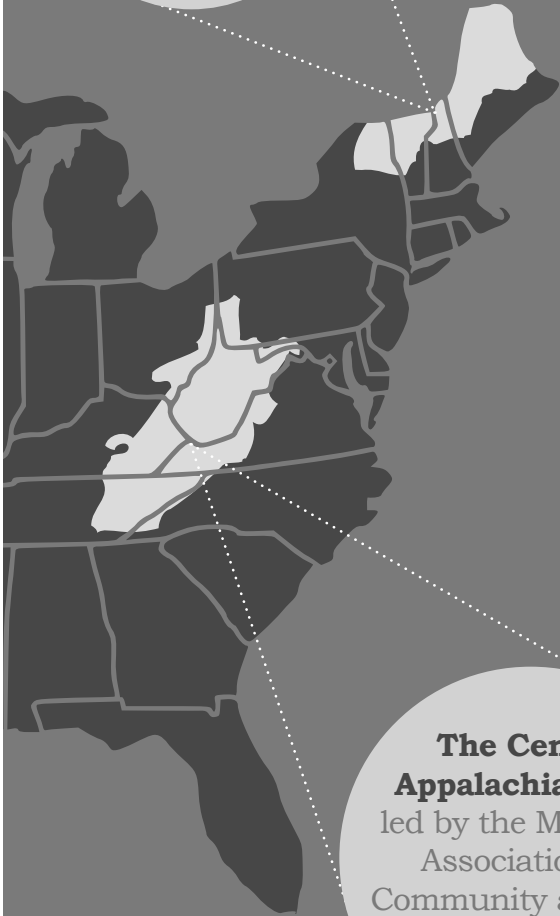
Collectively, the three Zones represent a significant portion of the nation's forests (approaching 10%) and a potentially historic opportunity to leverage local and regional capacities into a national movement to bring new life and long-term sustainability to forests and forest-reliant communities. The Endowment has committed more than \$6 million over five years beginning in 2009 to advance this work, which will leverage at least an additional \$3 million in matching investments from local and regional funders.

The Zone teams have independently identified a remarkably similar set of activities as foundational to their success. It also allows unprecedented opportunity for learning and sharing resources across the differing regions of the country.

forest-based economies, build community assets, restore damaged ecosystems, secure access to benefits, create new value streams and engage local participation in the management of forestland.



The Northern Forest Zone, led by the Northern Forest Center



The Central Appalachia Zone, led by the Mountain Association for Community and Economic Development (MACED)

Core Strategies Being Pursued:

- Biomass energy utilization
- Monetizing ecosystem services
- Forest product value-chain creation and capture
- Community forest ownership
- Informing public policy

Only a few short months into the initiative, progress and learning in areas of carbon credit sales, community forest ownership and woody biomass facility feasibility determinations are already emerging.

Dry Forest Zone

The Dry Forest Zone is a public-lands dominated area (70 percent of all forests in the Zone are publicly-owned). One focus is on woody biomass utilization, predominantly as a mechanism to reduce the risk of catastrophic wildfire and provide jobs in forest restoration. With their help, a large plant is being sited in the southern part of the region with involvement from The Collins Companies.

"We have been long awaiting an opportunity like this: To scale-up across a whole landscape what we have pioneered only in small pockets of a very unhealthy forested region. Thanks to the Endowment, we can aspire to help many communities instead of just a few."

– Wade Mosby, SVP, The Collins Companies

Central Appalachia Zone

A Zone where small, family ownerships dominate the forested landscape is the Central Appalachia Zone (the average forest ownership in the Southern Appalachians is only 30 acres). These Zone partners are forging the Appalachian Carbon Partnership (ACP) where carbon credits are aggregated across several landowners and then sold. Participation in the ACP provides small landowners access to this revenue-generating opportunity. The first sale occurred in October. It included 14,500 tons of carbon generated from 5,006 acres of forestland and distributed \$65,000 to the landowners.

"Partnering with the Endowment has meant connecting to some of the best and brightest at work in forest-dependent communities in the country. Exposure to the work of our peer Zone partners promises to be one of the most fruitful elements of our shared efforts. We are already sharing best practices at the community level, smart policy research, different ecosystem services strategies and approaches to moving elements of the wood products industry to think outside of the box."

– Justin Maxson, President, MACED

Northern Forest Zone

The Northern Forest Zone is an area of relatively intact, working forest landscapes with low- to- moderate land and timber values. Predominantly threatened with forestland ownership conversion, Zone partners are using community-owned forests as one mechanism to ensure the benefits from working forests are retained in the region over the long-term. The Grand Lakes Stream community forest, a 27,080-acre parcel held by the Down East Lakes Land Trust, is being managed for multiple benefits that range from recreation to the harvest of forest products.

"Our traditional economy of forest-based manufacturing has been in decline for decades. And while we know our world-class forest asset can also be the foundation of a vital economy in the future, it is the getting there that is hard! The Forest Investment Zone Initiative will be instrumental during this transition by supporting tangible change that community leaders can see and feel. And this, in turn, inspires all of us."

– Rachael Stuart, Senior Program Director, New Hampshire Charitable Foundation

National Conservation Easement Database (NCED)

Planning sound economic or conservation investments without an understanding of what lands will remain in working forests over the long-term is akin to driving with a blindfold. You can do it, but the results won't be satisfactory.

That's why after completing two studies — "Forest Conservation Easements: Who's Keeping Track?" and "Considerations for Creating a National Conservation Easement Database" — the Endowment opted to provide \$1 million to create the nation's first database of conservation easements. NCED is being designed as a data layer that will overlay a similar database of publicly-owned conservation lands.

"For the first-time, planners of all kind will be able to start from a holistic understanding of the current protected lands estate," said Earnest Cook, Senior Vice President at Trust for Public Land.

"We believe that with the commitments of the three federal agencies who hold the lion's share of the nation's conservation easements and that of the granddaddy of land trusts, The Nature Conservancy, to share their data, we instantly will have critical mass," said Endowment President Carlton Owen. *"On that foundation, we can work with state and local agencies and the nation's 1,700-plus land trusts to create a single, up-to-date, sustainable national system for managing and accessing data about conservation easements."*

Creators of NCED

The Trust for Public Land
NatureServe
Conservation Biology Institute
Ducks Unlimited
Defenders of Wildlife

Cooperators in NCED

USDA Forest Service
Natural Resources Conservation Service
U.S. Fish & Wildlife Service
The Nature Conservancy
Land Trust Alliance

The Gaylord and Dorothy Donnelley Foundation is providing additional financial support



American
Chestnut
Nuts

What is a Conservation Easement?

A conservation easement is a legal agreement between a landowner and an eligible organization (e.g. federal, state or local government; or qualified land trust) that restricts future activities on the land to protect its conservation value.

How Long Have Easements Been in Use?

The first conservation easements in the U.S. were reportedly developed in the late 1880s to protect parkways designated by Fredrick Law Olmstead in Boston. In the 1930s, the federal government began using them to protect scenic lands along the Blue Ridge and Natchez Trace parkways in the South. It wasn't until the 1970s and '80s that the modern use of conservation easements by land trusts became routine.

Emerging Endowment Investments

Healthy Watersheds through Healthy Forests:

A three-year, \$6 million initiative to connect “forests to faucets” by linking up-stream water producers (forest landowners) with downstream water consumers in a sustainable symbiotic relationship. Partners: USDA Natural Resources Conservation Service, \$2 million; Endowment, \$2 million; on-the-ground match in three watersheds, \$2 million.

Featured Watersheds:

- Charlottesville, VA
- Philadelphia, PA
- Raleigh, NC

Enhancing Sawmill Viability via Green Energy Production:

A one-year feasibility study including NorthWestern Energy and eight Montana sawmills. A \$125,000 State of Montana grant with \$50,000 from the Endowment. Project led by Montana Community Development Center.

Forested Landscape Planning Initiative:

A two-year project led by the Open Space Institute to assess the conservation status and potential of large forested parcels in the eastern U.S. It is a \$300,000 project with \$25,000 in Endowment funds.

American Chestnut
Leaves and Flowers



The 2009 Financial Report

Administrative Expenditures

	2009*	2008	2007
Staff Salaries and Benefits	\$229,523	\$241,651	\$210,466
Office and General Expenses	55,011	60,616	41,851
Board and Staff Travel	44,548	60,089	46,135
Professional Fees	166,173	72,327	40,393
Total	495,255	434,683	338,845

Program Income and Expenditures

Program Income (public and private support)	\$2,931,648	\$76,000	\$200,041,425
Program Expenditures (grants, workshops and related expenses)	3,430,453	916,990	328,007

Investment Income and Expenditures

Investment Interest and Dividend Income	\$2,965,000	\$2,775,262	\$3,235,682
Investment Realized and Unrealized Capital Gains and (Losses)	29,898,677	(62,668,991)	10,682,829
Investment Fees and Expenses	171,750	237,846	121,285
Investments at Fair Value, End of Year			
Operating Funds	2,979,178	4,967,777	5,927,744
Endowment Corpus	179,245,703	147,765,640	207,988,767
Total	\$182,224,881	\$152,733,417	\$213,916,511

Visit www.usendowment.org for more info.

*The 2009 information is from the internal books and records of the Endowment, and in a format consistent with IRS Form 990. A copy of the full audited financial statements and IRS Form 990 will be posted on the Endowment's web site when available. All 2008 & 2007 data are directly from IRS Form 990.

Tree of the Year

American Chestnut

Castanea dentate

The American chestnut, aka “The Redwood of the East,” once dominated forests from Maine to Mississippi. Reaching heights of 150 feet and growing to 10 feet in diameter, the fast-growing tree produced wood that was naturally rot resistant, yielding raw material for homes, furniture, fences and fires, as well as nuts that were a preferred food for wildlife and people. Once numbering in the billions and constituting perhaps 25 percent of all trees in the rugged Appalachian Mountains, chestnut succumbed in less than a generation to two pests — chestnut blight (discovered in New York in 1904) and root rot or ink disease, both caused by exotic fungi.

For decades, government, university and private scientists have sought resistant trees as a means to eventually restore chestnut to the landscape. Several organizations including the non-profits American Chestnut Cooperators Foundation and The American Chestnut Foundation (TACF) have been working to breed blight-resistant trees. Among the more promising work is TACF's “backcross” with Chinese chestnut.

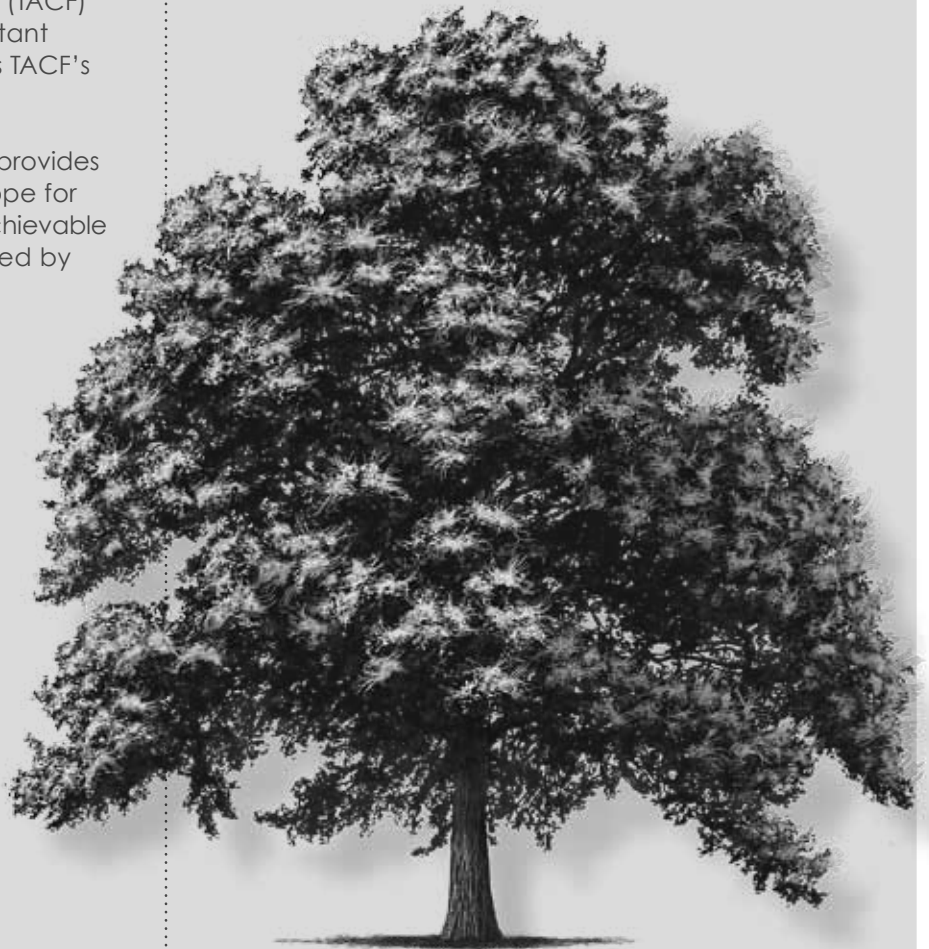
The Endowment's Forest Health Initiative provides not only another tool that could offer hope for long-term restoration but perhaps one achievable in a fraction of the time and cost required by traditional efforts.

Range Map



■ = American Chestnut Country

Flowering American Chestnut Tree





American
Chestnut
Sprout

The wood fiber used to make this paper is independently certified by one of the world's premier forest certification standards as coming from responsibly managed forests. Certification ensures that the Endowment's publications meet strict environmental and socio-economic principles consistent with our mission.