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

Consolidated Financial Statements

December 31, 2013 and 2012

(with Independent Auditors'
Report thereon)

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

December 31, 2013 and 2012
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DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

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, 2013 and 2012, 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, 2013 and 2012, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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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 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audit of States, Local Governments and Non-Profit Organizations*, is 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 September 25, 2014 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.

September 25, 2014

Dixon Hughes Goodman LLP

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

Consolidated Statements of Financial Position

December 31, 2013 and 2012

	2013	2012
Assets		
Cash and cash equivalents	$ 2,511,891	$ 1,872,505
Grants receivable	661,730	565,131
Other receivables	38,814	48,893
Due from investment broker	-	8,632,843
Prepaid expenses	17,860	10,976
Notes receivable, net of allowance for doubtful accounts of approximately $338,000 and $541,000	675,145	449,583
Investments	198,007,523	177,547,761
Financing costs	525,179	353,800
Property and equipment, net	3,345,449	2,067,600
Other assets	316,937	-
Total assets	$ 206,100,528	$ 191,549,092
Liabilities and Net Assets		
Accounts payable and other accruals	$ 1,259,190	$ 1,623,017
Deferred revenue	66,850	535,410
Notes payable	299,755	318,688
Total liabilities	1,625,795	2,477,115
Net assets:		
Unrestricted	4,268,591	(11,264,458)
Temporarily restricted	206,142	336,435
Permanently restricted	200,000,000	200,000,000
Total net assets	204,474,733	189,071,977
Total liabilities and net assets	$ 206,100,528	$ 191,549,092

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

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

Consolidated Statements of Activities

For the Years Ended December 31, 2013 and 2012

	2013	2012
Unrestricted support, revenues and gains:		
Interest and dividend income, net of investment fees	$ 3,447,883	$ 2,008,944
Net realized and unrealized gains on investments	16,010,269	14,957,582
Federal support	2,619,791	1,800,815
Non-federal support	194,805	79,944
Net assets released from restrictions	424,543	68,488
Total support, revenues and gains	22,697,291	18,915,773
Expenses:		
Program	6,535,706	7,309,524
Management and general	628,536	610,630
Total expenses	7,164,242	7,920,154
Increase in unrestricted net assets	15,533,049	10,995,619
Temporarily restricted support and revenue:		
Non-federal support	294,250	341,418
Releases from restriction	(424,543)	(68,488)
Increase (decrease) in temporarily restricted net assets	(130,293)	272,930
Total increase in net assets	15,402,756	11,268,549
Net assets at beginning of year	189,071,977	177,803,428
Net assets at end of year	$ 204,474,733	$ 189,071,977

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

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

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Increase in net assets	$ 15,402,756	$ 11,268,549
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Net realized and unrealized gains on investments	(16,010,269)	(14,957,582)
Depreciation	16,205	16,205
Net changes in operating assets and liabilities:		
Grants receivables	(96,599)	(222,177)
Other receivable	10,079	(13,566)
Notes receivable	(225,562)	1,764,667
Due from investment broker	8,632,843	(6,632,843)
Prepaid expenses	(6,884)	2,985
Other assets	(316,937)	-
Accounts payable and other accruals	(363,827)	456,685
Deferred revenue	(468,560)	(634,384)
Net cash provided by (used in) operating activities	6,573,245	(8,951,461)
Cash flows from investing activities:		
Sales of investments	234,004,281	122,587,467
Purchases of investments	(238,453,774)	(111,438,744)
Investment in North Star Jefferson, LLC	-	138,066
Purchases of property and equipment	(1,294,054)	(1,631,363)
Net cash provided by (used in) investing activities	(5,743,547)	9,655,426
Cash flows from financing activities:		
Repayments of note payable	(18,933)	(18,397)
Financing costs	(171,379)	(353,800)
Net cash used in financing activities	(190,312)	(372,197)
Net increase in cash	639,386	331,768
Cash and cash equivalents at beginning of year	1,872,505	1,540,737
Cash and cash equivalents at end of year	$ 2,511,891	$ 1,872,505

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

1. **Summary of Significant Accounting Policies**

Organization - The 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.

During 2011, the Endowment formed 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, 2013 and 2012. As of December 31, 2013 and 2012, CWF owned 92.76% and 75%, respectively, of the outstanding member units in North Star Jefferson, LLC, a limited liability company. The activity of the limited liability company has been consolidated in the financial statements for the year ended December 31, 2013 and 2012 (See Note 4).

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.

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 - The Endowment's 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 2014 to 2017, and accrued interest is deferred for the first three years of the note and then due semi-annually. Interest rates on the notes are 3% per annum simple interest. 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 money market funds, limited partnerships, and publically traded securities, equity, and fixed income funds, which are valued at $82,018,818 and $3,875,236 at December 31, 2013 and 2012, 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 $91,402,522 and $144,435,855 at December 31, 2013 and 2012, 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 $23,940,239 and $29,236,670 at December 31, 2013 and 2012, 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.

Due from Investment Broker - Amounts due from investment broker consists of funds that were not settled as a result of investment sales at December 31; these funds were awaiting transfer to the Endowment's investment money market account.

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, 2013 and 2012.

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.

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, due from broker, 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 $675,000 and $450,000 for the years ended December 31, 2013 and 2012. The fair value of notes receivable is estimated to be approximately $580,000 and $367,000 for the years ended December 31, 2013 and 2012. 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 nonprofit 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 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, 2013. Fiscal years ending on or after December 31, 2010 remain subject to examination by federal and state tax authorities.

Community Wealth through Forestry, Inc. is classified as a C Corporation under the Internal Revenue Code. CWF reported a net loss for the years ended December 31, 2013 and 2012, 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:

	2013	2012
Cash held in brokerage accounts	$ 645,944	$ -
Money market funds	1,136,567	3,875,236
Publically traded securities	1,012,564	-
Publically traded equity funds	40,613,100	-
Publically traded fixed income funds	32,520,355	-
Publically traded limited partnerships	6,736,232	-
Equity common and commingled trust funds	57,562,338	98,079,995
Fixed income common and commingled trust funds	27,920,440	31,037,137
Real asset common and commingled trust funds	2,711,182	15,318,723
Directional hedge funds	2,030,691	19,439,650
Limited partnerships	25,118,110	9,797,020
Total investments	$ 198,007,523	$ 177,547,761

The investments detailed above represent all investments held by the investment manager at December 31, 2013, and do not include programmatic investments.

Interest and dividend income is reported net of custodial and investment management fees approximating $286,000 and $190,000 for the years ended December 31, 2013 and 2012, 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 2013.

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.

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, 2013 and 2012:

		Fair value measurements at December 31, 2013 using:		
	Fair value at December 31, 2013	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	$ 1,136,567	$ 1,136,567	$ -	$ -
Publically traded securities:				
Energy	876,701	876,701	-	-
Utilities	135,863	135,863	-	-
	1,012,564	1,012,564	-	-
Publically traded equity funds:				
Mid-cap	12,657,867	12,657,867	-	-
Large cap	8,852,244	8,852,244	-	-
International	12,585,573	12,585,573	-	-
Other	6,517,416	6,517,416	-	-
	40,613,100	40,613,100	-	-
Publically traded fixed income funds:				
Taxable bonds	19,942,791	19,942,791	-	-
Corporate and government bonds	5,120,135	5,120,135	-	-
Index and other	7,457,429	7,457,429	-	-
	32,520,355	32,520,355	-	-
Publically traded limited partnerships	6,736,232	6,736,232	-	-
Equity common and commingled trust funds:				
Global	51,525,737	-	51,525,737	-
SSG equity	6,036,601	-	6,036,601	-
	57,562,338	-	57,562,338	-
Fixed income common and commingled trust funds:				
High quality bond	14,497,620	-	14,497,620	-
Real return bond	1,323,562	-	1,323,562	-
Global bond	4,831,939	-	4,831,939	-
High yield	7,267,319	-	7,267,319	-
Total fixed income funds	27,920,440	-	27,920,440	-
Real asset common and commingled trust funds:				
Multi-strategy commodities	2,049,100	-	2,049,100	-
Natural resource stock index	662,082	-	662,082	-
	2,711,182	-	2,711,182	-
Directional hedge funds:				
Relative value and event driven	2,030,691	-	-	2,030,691
Limited partnerships	25,118,110	-	3,208,562	21,909,548
Totals	$ 197,361,579	$ 82,018,818	$ 91,402,522	$ 23,940,239

		Fair value measurements at December 31, 2012 using:		
	Fair value at December 31, 2012	**Quoted prices in active markets for identical assets and liabilities (Level 1 inputs)**	**Quoted prices for similar assets and liabilities (Level 2 inputs)**	**Significant unobservable inputs (Level 3 inputs)**
Assets measured at fair value:				
Money market funds	$ 3,875,236	$ 3,875,236	$ -	$ -
Equity common and commingled trust funds:				
Global	75,245,565	-	75,245,565	-
S&P 500 index	12,601,488	-	12,601,488	-
SSG equity	10,232,942	-	10,232,942	-
	98,079,995	-	98,079,995	-
Fixed income common and commingled trust funds:				
High quality bond	20,051,449	-	20,051,449	-
Real return bond	5,617,746	-	5,617,746	-
Global bond	5,367,942	-	5,367,942	-
	31,037,137	-	31,037,137	-
Real asset common and commingled trust funds:				
Multi-strategy commodities	7,967,124	-	7,967,124	-
Natural resource stock index	7,351,599	-	7,351,599	-
	15,318,723	-	15,318,723	-
Directional hedge funds:				
Relative value and event driven	12,327,926	-	-	12,327,926
Diversified	7,111,724	-	-	7,111,724
	19,439,650	-	-	19,439,650
Limited partnerships	9,797,020	-	-	9,797,020
Totals	$177,547,761	$ 3,875,236	$144,435,855	$ 29,236,670

The following table illustrates the activity of Level 3 assets measures at fair value on a recurring basis from December 31, 2012 to December 31, 2013:

	Fair Value Measurements Using Unobservable Inputs (Level 3)					
	Relative Value and Event Driven	**Diversified**	**Realty Investors Partnership**	**Private Equity Partnerships**	**Venture Capital Partnership**	**Distressed Debt Partnership**
Beginning balance, December 31, 2012	$ 12,327,926	$ 7,111,724	$ 1,117,042	$ 3,764,297	$ 2,627,740	$ 2,287,941
Total gains or losses included in changes in net assets:						
Unrealized gains (losses)	407,835	561,268	578,530	583,689	705,670	138,892
Realized gains (losses)	239,969	(642,251)	(460,630)	151,737	132,180	136,429
Purchases, issuances/subscriptions, and sales:						
Purchases	-	-	-	-	-	-
Issuances/subscriptions	-	-	-	582,500	247,500	62,600
Sales/distributions	(10,945,039)	(7,030,741)	(1,214,717)	(360,086)	(260,223)	(924,475)
Ending balance, December 31, 2013	$ 2,030,691	$ -	$ 20,225	$ 4,722,137	$ 3,452,867	$ 1,701,387

	Fair Value Measurements Using Unobservable Inputs (Level 3)						
	[redacted] **Fund**	[redacted] **Fund**	[redacted] **Fund**	[redacted] **Fund**	[redacted] **Fund**	[redacted] **Fund**	**Total**
Beginning balance, December 31, 2012	$ -	$ -	$ -	$ -	$ -	$ -	$ 29,236,670
Total gains or losses included in changes in net assets:							
Unrealized gains (losses)	308,563	74,296	114,313	83,635	309,450	122,675	3,988,816
Realized gains (losses)	-	-	-	-	-	-	(442,566)
Purchases, issuances/subscriptions, and sales:							
Purchases	2,000,000	2,000,000	2,000,000	1,500,000	2,000,000	1,500,000	11,000,000
Issuances/subscriptions	-	-	-	-	-	-	892,600
Sales/distributions	-	-	-	-	-	-	(20,735,281)
Ending 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

The following table illustrates the activity of Level 3 assets measures at fair value on a recurring basis from December 31, 2011 to December 31, 2012:

	Fair Value Measurements Using Unobservable Inputs (Level 3)							
	Global Hedged	**Relative Value and Event Driven**	**Diversified**	**Realty Investors Partnership**	**Private Equity Partnerships**	**Venture Capital Partnership**	**Distressed Debt Partnership**	**Total**
Beginning balance, December 31, 2011	$ 7,942,453	$ 21,054,894	$ 11,192,859	$ 1,587,245	$ 3,020,395	$ 2,280,221	$ 1,987,112	$ 49,065,179
Total gains or losses included in changes in net assets:								
Unrealized gains (losses)	759,506	1,424,713	(101,703)	7,845,832	173,333	62,366	215,634	10,379,681
Realized gains (losses)	(206,942)	481,162	20,568	(7,514,017)	228,722	(10,179)	26,595	(6,974,091)
Purchases, issuances/subscriptions, and sales:								
Purchases	-	-	-	-	-	-	-	-
Issuances/subscriptions	-	-	-	-	1,047,500	405,000	58,600	1,511,100
Sales/distributions	(8,495,017)	(10,632,843)	(4,000,000)	(802,018)	(705,653)	(109,668)	-	(24,745,199)
Ending balance, December 31, 2012	$ -	$ 12,327,926	$ 7,111,724	$ 1,117,042	$ 3,764,297	$ 2,627,740	$ 2,287,941	$ 29,236,670

Total net losses for level 3 assets for the periods above are included in net realized and unrealized gains (losses) on investments in the statement of activities. There were no transfers in or out of Level 3 for the years ended December 31, 2013 and 2012.

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 $57,562,338 and $98,079,995 at December 31, 2013 and 2012, 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 $27,920,440 and $31,037,137 at December 31, 2013 and 2012, 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 $2,711,182 and $15,318,723 at December 31, 2013 and 2012, 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 Amici Fund of $1,488,443 at December 31, 2013. The Endowment has no unfunded commitments as of December 31, 2013. The Endowment may redeem certain portions of its investment on each quarter end, after the first 12 months of holding. Before the first 12 months of holding there is a 2.5% redemption penalty. The funds objective is to achieve positive absolute returns in all market environments with a hedged portfolio of long and short-sale positions and a concurrent focus on capital preservation.

The Endowment has an investment in Balyasny Fund of $1,720,119 at December 31, 2013. The Endowment has no unfunded commitments as of December 31, 2013. 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.

The Endowment has investments in directional hedge funds of $2,030,691 and $19,439,650 at December 31, 2013 and 2012, respectively. The Endowment may redeem its interests in the funds on a quarterly ($-0- and $7,111,724 at December 31, 2013 and 2012, respectively), or annual basis ($2,030,691 and $12,327,926 at December 31, 2013 and 2012, respectively) 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 real estate fund of $20,225 and $1,117,042 at December 31, 2013 and 2012, respectively. The fund is generally ineligible for redemption except the Endowment may elect during September of each year to have the fund redeem up to 20% of the units owned for at least 5 years, provided the fund has not commenced a general liquidation. September 2013 would be the first year the Endowment would be eligible to be issued any redemption. Redemptions are paid prior to the end of the subsequent calendar year and at the net asset value determined at the date of the redemption period. The Endowment committed total funds of $16,000,000 and has no unfunded commitments to this fund as of December 31, 2013. The real estate fund generally invests in a variety of real estate assets in the U.S. This fund is currently in liquidation.

The Endowment has investments in international and domestic private equity partnerships of $4,722,137 and $3,764,297 at December 31, 2013 and 2012, respectively. The Endowment has committed a total of $6,000,000 and has unfunded commitments of $1,577,500 as of December 31, 2013. 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 $3,452,867 and $2,627,740 at December 31, 2013 and 2012, respectively. The Endowment has committed a total of $3,000,000 and has unfunded commitments of $457,000 as of December 31, 2013. These funds are ineligible for redemption and the typical life of the partnership is 12 years from the date of formation but can be extended under certain circumstances. This partnership seeks to earn returns above those on publically traded stocks by investing in early stage, high growth private companies, principally in the information technology and life sciences/healthcare fields.

The Endowment has an investment in a distressed debt partnership of $1,701,387 and $2,287,941 at December 31, 2013 and 2012, respectively. The Endowment has committed a total of $2,000,000 and has unfunded commitments of $366,200 as of December 31, 2013. 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.

The Endowment has an investment in [redacted] Fund of $2,308,563 at December 31, 2013. The Endowment has no unfunded commitments as of December 31, 2013. 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 [redacted] Fund of $2,074,296 at December 31, 2013. The Endowment has no unfunded commitments as of December 31, 2013. The Endowment may not redeem their shares, in whole or in part, until an effective 24 months following the date the shares were purchased, 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 FFI Fund Ltd., a Cayman Islands company, which in turn 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 [redacted] Fund of $2,114,313 at December 31, 2013. The Endowment has no unfunded commitments as of December 31, 2013. 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 [redacted] Fund of $1,583,635 at December 31, 2013. The Endowment has no unfunded commitments as of December 31, 2013. 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.

The Endowment has an investment in [redacted] Fund of $2,309,450 at December 31, 2013. The Endowment has no unfunded commitments as of December 31, 2013. 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 [redacted] Fund of $1,622,675 at December 31, 2013. The Endowment has no unfunded commitments as of December 31, 2013. 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. Business Combination

During 2011, CWF entered into an operating agreement with North Star Renewable Power, LLC ("NSRP") to form a limited liability company, North Star Jefferson, LLC ("NSJ"). The purpose of NSJ is to develop, construct, finance and operate a biomass fired renewable energy power plant in Jefferson County, Georgia.

On January 13, 2012, CWF acquired a controlling interest in NSJ and as of December 31, 2012, CWF had acquired 75% of the outstanding member units of NSJ through additional capital contributions. Therefore, for 2012 the operations of NSJ are consolidated with CWF. The operations of NSJ are still in the start-up phase and the payments in 2012 include development fees to NSRP, design fees, attorney fees, bond financing fees and down payments on equipment. At the date CWF acquired a controlling interest, the fair values of the controlling and non-controlling interests were determined to be negligible. There was no resulting goodwill recorded from this acquisition of NSJ. The assets acquired and the liabilities assumed at the acquisition date and consolidated into CWF were approximately $1,600,000 and $141,000, respectively. As of December 31, 2012, the assets of NSJ which were consolidated into CWF are approximately $1,000 in cash, $354,000 in capitalized bond financing costs and

$1,631,000 in capitalized project costs. Liabilities consolidated into CWF are approximately $80,000. Operating costs expensed on the consolidated statement of activities and included in the decrease in consolidated net assets for the year ended December 31, 2012 are approximately $1,250,000.

As of December 31, 2013, CWF's ownership interest in NSJ increased to 92.76%. Therefore, the 2013 operations of NSJ are consolidated with CWF.

Management assessed impairment of the assets of NSJ as of December 31, 2013 and 2012, respectively, and determined that no impairment existed.

On July 10, 2014, NSJ and CWF entered into a purchased agreement with Georgia Renewable Power ("GRP") whereby GRP will pay $11,500,000 for 3,000,000 membership units of NSJ. After this purchase GRP will be the majority unit holder and CWF will be the minority unit holder. In addition, GRP has assumed all management responsibilities from the purchase date and forward.

On July 16, 2014, a settlement agreement and release was entered into on civil action filed by CWF on July 1, 2013 against NSRP. The settlement was negotiated in that CWF paid approximately $750,000 to or on behalf of NSRP for full settlement of all claims against or from CWF as well as the purchase of the remaining ownership units held by NSRP.

5. **Property and Equipment**

Property and equipment at December 31, 2013 and 2012 consists of the following:

	2013	2012
Land	$ 206,339	$ 137,794
Building	324,101	324,101
Total property and equipment	530,440	461,895
Less: accumulated depreciation	(41,863)	(25,658)
	488,577	436,237
Construction in progress	2,856,872	1,631,363
	$ 3,345,449	$ 2,067,600

6. **Note Payable**

	2013	2012
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 matures in 2014 and was refinanced subsequent to year end, see Note 12. The note is collateralized by the building.	$ 299,755	$ 318,688
Total long-term debt	$ 299,755	$ 318,688

Future maturities of debt after the refinance in June 2014 (note 12) is as follows:

2014	$ 111,769
2015	26,478
2016	27,488
2017	28,537
2018	29,625
Thereafter	75,828
	$ 299,755

7. **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 $87,000 and $78,000 for the years ended December 31, 2013 and 2012, respectively.

8. **Net Assets**

Temporarily restricted net assets are restricted for the following purposes at December 31, 2013 and 2012:

	2013	2012
Forest Health Initiative Phase II	$ 50,000	$ 50,000
Forest Investment Zones	-	35,668
Hardwood check-off	-	2,500
Mississippi River Trust Project	13,342	167,750
National Conservation Easement Database Phase II	35,000	50,000
Paper & Pack check-off	13,300	12,500
Water from Forest Convening	-	18,017
Watershed Protection	15,000	-
US Summit	34,000	-
Savannah River Project	15,000	-
Clean Water State Revolving Funds	27,500	-
Other	3,000	-
	$ 206,142	$ 336,435

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. As of December 31, 2013, as a result of recent market declines, the fair value of Endowment assets was less than the Endowment corpus by $1,992,477, which has been absorbed by unrestricted net assets.

9. **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, 2013 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (1,992,477)	$ -	$ 200,000,000	$ 198,007,523

Changes in donor-restricted endowment net asset for the year ended December 31, 2013 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, December 31, 2012	$ (13,819,422)	$ -	$ 200,000,000	$ 186,180,578
Investment return:				
Investment income, net	3,412,042	-	-	3,412,042
Net unrealized and realized investment gains	16,010,269	-	-	16,010,269
Total investment return	19,422,311	-	-	19,422,311
Appropriation of assets for expenditures	(7,595,366)	-	-	(7,595,366)
Endowment net assets, December 31, 2013	$ (1,992,477)	$ -	$ 200,000,000	$ 198,007,523

Donor-restricted endowment net asset composition by type of fund as of December 31, 2012 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (13,819,422)	$ -	$ 200,000,000	$ 186,180,578

Changes in donor-restricted endowment net asset for the year ended December 31, 2012 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, December 31, 2011	$ (24,261,098)	$ -	$ 200,000,000	$ 175,738,902
Investment return:				
Investment income, net	1,986,795	-	-	1,986,795
Net unrealized and realized investment losses	14,957,582	-	-	14,957,582
Total investment return	16,944,377	-	-	16,944,377
Appropriation of assets for expenditures	(6,502,701)	-	-	(6,502,701)
Endowment net assets, December 31, 2012	$ (13,819,422)	$ -	$ 200,000,000	$ 186,180,578

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 that are reported in unrestricted net assets were $1,992,477 and $13,819,422 as of December 31, 2013 and 2012, respectively. These deficiencies resulted from unfavorable market fluctuations.

Return Objectives and Risk Parameters

The Endowment has adopted investment and spending policies for endowment assets that are intended to provide an ongoing stream of funding of the Endowment's set mission. Endowment assets include those assets of donor-restricted funds that the Endowment must hold in perpetuity. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce a high level of total investment return consistent with a prudent level of portfolio risk.

Strategies Employed for Achieving Objectives

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Endowment's Board of Directors seeks to address twin objectives of deploying resources to achieve its mission and operating as prudent fiduciaries. The Endowment's Board of Directors adopted changes to its investment and spending policies in December 2012 effective for 2013. Under the new 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.

10. **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 $3,974,000 at December 31, 2013. These contracts are committed for varying dates through 2015.

11. **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.

12. **Subsequent Events**

On June 17, 2104, the Endowment entered into a promissory note with a financial institution to refinance a promissory note maturing in 2014. The principal amount of the new loan is approximately $200,858 with monthly principal and interest payments, including related interest of 3.75% for a term of 7 years.

On January 15, 2014, the Endowment entered into a line of credit with a financial institution. The principal amount of the line of credit is $10,000,000 with monthly interest payments; interest rate is LIBOR market index plus 2%. The line of credit matures on January 22, 2015.

See Note 4 for additional subsequent events related to ownership of North Star Jefferson, LLC.

The Endowment evaluated the effect subsequent events would have on the financial statements through September 25, 2014, which is the date the financial statements were available to be issued.

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

Consolidated Schedules of Functional Expenses

For the Years Ended December 31, 2013 and 2012

	2013			2012		
	Programmatic	**Management and General**	**Total**	**Programmatic**	**Management and General**	**Total**
Grant expenditures:						
NorthStar Jefferson	$ 275,691	$ -	$ 275,691	$ 1,313,616	$ -	$ 1,313,616
Other	5,588,785	-	5,588,785	5,072,434	-	5,072,434
Program expenses	92,690	-	92,690	72,938	-	72,938
Compensation - officers	228,854	57,213	286,067	226,138	56,534	282,672
Compensation - non-officers	338,153	199,706	537,859	283,510	196,595	480,105
Compensation - interns	27,492	6,873	34,365	26,406	6,602	33,008
Employee benefits	156,105	75,637	231,742	138,013	66,871	204,884
Travel	16,308	58,092	74,400	28,169	55,488	83,657
Communications	14,658	7,102	21,760	8,633	4,181	12,814
Rent/utilities/supplies	-	40,604	40,604	-	32,146	32,146
Professional services	-	159,897	159,897	-	166,623	166,623
Insurance	-	14,013	14,013	-	11,628	11,628
Interest expense	-	9,399	9,399	-	9,935	9,935
Reserve for uncollectible notes receivable	(203,030)	-	(203,030)	139,667	-	139,667
Other	-	-	-	-	4,027	4,027
	$ 6,535,706	$ 628,536	$ 7,164,242	$ 7,309,524	$ 610,630	$ 7,920,154

See accompanying 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, 2013, 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 September 25, 2014.

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.

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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

September 25, 2014

Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in Accordance with OMB Circular A-133

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 Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Endowment's major federal programs for the year ended December 31, 2013. The Endowment's major federal programs 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 programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Endowment's major federal programs 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 each 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 each of its major federal programs for the year ended December 31, 2013.

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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 each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Dixon Hughes Goodman LLP

September 25, 2014

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

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2013

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Expenditures
U. S. Department of Agriculture		
Direct Program:		
Forestry Research	10.652	$ 492,047
Cooperative Forestry Assistance	10.664	347,021
Forest Stewardship Program	10.678	199,088
Soil and Water Conservation	10.902	95,431
Environmental Quality Incentives Program	10.912	864,514
Total U.S. Department of Agriculture		1,998,101
U. S. Department of the Interior Fish and Wildlife Service		
Direct Program:		
Service Training and Technical Assistance	15.649	118,110
U. S. Department of Defense		
Direct Program:		
Basic and Applied Scientific Research	12.300	136,798
Total expenditures of Federal awards		$ 2,253,009

1. **Basis of Presentation**

The accompanying schedule of expenditures of Federal awards includes the Federal grant activity of U.S. Endowment for Forestry and Communities, Inc. and Subsidiary and is presented on the accrual basis of accounting.

2. **Sub recipients**

Of the Federal expenditures presented in this schedule, U.S. Endowment for Forestry and Communities, Inc. and Subsidiary provided Federal awards to sub recipients as follows:

Program Title	Federal CFDA Number	Amount Provided to Sub recipients
Forestry Research	10.652	$ 422,638
Cooperative Forestry Assistance	10.664	$ 21,121
Soil and Water Conservation	10.902	$ 75,000
Environmental Quality Incentives	10.912	$ 839,514

U.S. ENDOWMENT FOR FORESTRY AND COMMUNITIES, INC. AND SUBSIDIARY
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2013

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 section 510(a) of Circular A-133?	______	Yes	X	No

Section I—Summary of Auditors' Results (continued)

Identification of major programs:

CFDA Numbers	*Name of Federal Program or Cluster*
10.652	Forestry Research
10.912	Environmental Quality Incentives

Dollar threshold used to distinguish between type A and type B programs:	$ 300,000
Auditee qualified as low-risk auditee?	_X_ Yes ___ No

Section II— Consolidated Financial Statement Findings

There were none.

Section III— Federal Award Findings and Questioned Costs

There were none.

Section II— Consolidated Financial Statement Findings

None reported.

Section III— Federal Award Findings and Questioned Costs

None reported.

U.S. ENDOWMENT FOR FORESTRY AND COMMUNITIES, INC. AND SUBSIDIARY
Summary Schedule of Prior Audit Findings
For the Year Ended December 31, 2013

There were no reported findings in 2012.

Finding 2011-1: Monitoring

Status: Resolved - Management has taken appropriate action to contact sub recipients and provide them with the information required by this compliance requirement.