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

Financial Statements

December 31, 2007

(with Independent Auditors' Report thereon)
U. S. ENDOWMENT FOR FORESTRY 
AND COMMUNITIES, INC.

December 31, 2007

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Independent Auditors’ Report

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

We have audited the accompanying statement of financial position of U.S. Endowment for Forestry and Communities, Inc. (the “Endowment”) as of December 31, 2007, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Endowment’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the Endowment’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of U.S. Endowment for Forestry and Communities, Inc. as of December 31, 2007, and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

April 3, 2008

Dixon Hughes PLC
## U. S. ENDOWMENT FOR FORESTRY AND COMMUNITIES, INC.

Statement of Financial Position
December 31, 2007

### Assets

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$88,302</td>
</tr>
<tr>
<td>Receivables</td>
<td>$3,716</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>$14,848</td>
</tr>
<tr>
<td>Investments</td>
<td>$213,830,208</td>
</tr>
<tr>
<td>Property and equipment, net</td>
<td>$23,501</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>$213,960,575</strong></td>
</tr>
</tbody>
</table>

### Liabilities and Net Assets

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable and other accruals</td>
<td>$14,389</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>$14,389</strong></td>
</tr>
<tr>
<td>Net assets</td>
<td></td>
</tr>
<tr>
<td>Unrestricted</td>
<td>$13,946,186</td>
</tr>
<tr>
<td>Permanently restricted</td>
<td>$200,000,000</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td><strong>$213,946,186</strong></td>
</tr>
<tr>
<td><strong>Total liabilities and net assets</strong></td>
<td><strong>$213,960,575</strong></td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
U. S. ENDOWMENT FOR FORESTRY AND COMMUNITIES, INC.

Statement of Activities
For the Year Ended December 31, 2007

Unrestricted support, revenues and gains:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest and dividend income, net of investment fees</td>
<td>$3,909,411</td>
</tr>
<tr>
<td>Net realized and unrealized gains on investments</td>
<td>10,728,845</td>
</tr>
<tr>
<td>Support</td>
<td>26,825</td>
</tr>
<tr>
<td>In-kind contributions</td>
<td>15,000</td>
</tr>
<tr>
<td>Other income</td>
<td>6,003</td>
</tr>
<tr>
<td><strong>Total support, revenues and gains</strong></td>
<td><strong>14,686,084</strong></td>
</tr>
</tbody>
</table>

Expenses:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program - workshop</td>
<td>59,304</td>
</tr>
<tr>
<td>General and administrative</td>
<td>609,381</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td><strong>668,685</strong></td>
</tr>
</tbody>
</table>

Increase in unrestricted net assets: $14,017,399

Permanently restricted support and revenue:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Endowment contribution</td>
<td>200,000,000</td>
</tr>
<tr>
<td>Increase in permanently restricted net assets</td>
<td>200,000,000</td>
</tr>
<tr>
<td><strong>Total increase in net assets</strong></td>
<td><strong>214,017,399</strong></td>
</tr>
</tbody>
</table>

Net assets at beginning of year: $(71,213)

Net assets at end of year: $213,946,186

The accompanying notes are an integral part of these financial statements.
U. S. ENDOWMENT FOR FORESTRY AND COMMUNITIES, INC.
Statement of Cash Flows
For the Year Ended December 31, 2007

Cash flows from operating activities:
  Increase in net assets $ 214,017,399
  Adjustments to reconcile increase in net assets to net cash provided by operating activities:
    Net realized and unrealized gains on investments (10,728,845)
    Net changes in operating assets and liabilities:
      Receivables (3,716)
      Prepaid expenses (14,848)
      Accounts payable and accruals (8,361)
  Net cash provided by operating activities 203,261,629

Cash flows from investing activities:
  Sale of investments 32,885,014
  Purchases of investments (235,986,377)
  Purchases of property and equipment (23,501)
  Net cash used in investing activities (203,124,864)

Cash flows from financing activities:
  Payments on line of credit (60,000)
  Net increase in cash 76,765

Cash at beginning of year 11,537
Cash at end of year $ 88,302

Supplemental disclosure of cash flow information:
  Cash paid during the year:
    Interest $ 3,067
    In-kind donations $ 15,000
    In-kind expenses $ (15,000)

The accompanying notes are an integral part of these financial statements.
1. **Summary of Significant Accounting Policies**

**Organization** - The U.S. Endowment for Forestry & Communities, Inc. (the “Endowment”) is a not-for-profit corporation incorporated and established in 2006 at the request of the governments of the United States and Canada in accordance with the terms of the Softwood Lumber Agreement (“SLA”) between the two countries. The Endowment is one of three entities designated to share in a one-time infusion of funds to support “meritorious initiatives” in the U.S. It is being endowed with $200 million under the terms of the SLA. The Endowment has been chartered with two purposes:1) educational and charitable causes in timber-reliant communities; and 2) educational and public-interest projects addressing forest management issues that affect timber-reliant communities, or the sustainability of forests as sources of building materials, wildlife habitat, bio-energy, recreation, and other values. The Endowment is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

**Basis of Accounting** - The financial statements presented herein have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States and require management to make estimates and develop assumptions that affect the amounts reported in the financial statements and related footnotes. Actual results may differ from management’s estimates.


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

**Concentration of Credit Risk Arising from Cash Deposits in Excess of Insured Limits** - At times throughout the year, the Endowment may maintain cash balances at financial institutions in excess of FDIC insured limits. Based on the credit ratings of these institutions, management believes there is no significant credit risk related to these deposits.

**Investments** - Investments consist of marketable equity and debt securities and money market funds and certificates of deposit with an original maturity of greater than three months. Investments in marketable equity and debt securities are reported at their estimated fair values based upon quoted market prices. Certificates of deposit and money market funds are reported at cost which approximates market value. All gains and investment income are unrestricted.
The Endowment’s investments are managed by an investment firm that utilizes several different investment managers investing funds through several different investment classes.

The Endowment also invests in alternative investments that are defined as venture capital, international and domestic private equity investments, and hedge funds. The recorded market price for alternative investments is estimated by the individual investment manager of the fund 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. Management believes the estimated fair values of the Endowment’s alternative investments are reasonably stated at December 31, 2007.

Certain alternative investments require as much as ninety days notice to liquidate, while other investments are committed to for the life of the fund. Because of the liquidation restrictions and the inherent uncertainty of valuation of the alternative investments, the fair values estimated by the individual investment manager, in the absence of readily ascertainable market values, may not necessarily represent the amounts that could be realized from sales or other dispositions of investments, and the differences may be material. As of December 31, 2007, alternative investments comprise 25% of the reported fair value of the investment portfolio.

Property and Equipment – Property and equipment are reported at cost, if purchased, or fair value at the date of donation. Depreciation is computed on a straight-line basis over the estimated useful life of the assets of five years. At December 31, 2007, property and equipment consisted of computer software.

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

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

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Net Assets – The Endowment’s net assets and its support and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions using two classifications: unrestricted and permanently restricted. Below is a summary of these classifications:
Unrestricted:  Assets and contributions that are not restricted by donors or for which restrictions have expired are unrestricted.

Permanently Restricted:  Assets and contributions for which the donor stipulates that resources be maintained permanently are permanently restricted. The donor permits the Endowment to use or expend all of the income derived from the donated assets. Such assets are comprised of an endowment, which is subject to the restrictions of gift instruments requiring that the principal be invested in perpetuity with spending of the related investment income for Endowment support and programs.

Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates could also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Investments

The estimated fair values of investments at December 31, 2007 follows:

Fixed income:
- United States $ 30,141,999
- Private 7,845,178
- Global 3,440,867
- High Yield 1,605,738

Total Fixed: 43,033,782

Equity:
- Large cap 20,562,425
- United States all cap 35,873,873
- Emerging market 11,554,212
- International 19,778,831
- United States large cap growth 6,611,517
- United States large cap value 2,729,525
- United States mid cap 849,186

Total Equity: 97,959,569

Commodities 13,384,539

Alternative investments:
- Private capital 278,191
- Hedge funds 53,256,269

Total Alternative Investments: 53,534,460

Money market funds and certificates of deposit 5,917,858

Total investments $ 213,830,208
Interest and dividend income is reported net of custodial and investment management fees approximating $121,218 for the year ended December 31, 2007.

3. **Line of Credit**

The Endowment has a $150,000 revolving unsecured line of credit which expires April, 2008. There were no outstanding borrowings under the line of credit at December 31, 2007.

4. **Employee Benefit Plan**

The Endowment has 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-direct 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 $36,000 for the year ended December 31, 2007.

4. **Operating Lease**

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>$14,470</td>
</tr>
<tr>
<td>2009</td>
<td>14,470</td>
</tr>
<tr>
<td>2010</td>
<td>2,412</td>
</tr>
<tr>
<td></td>
<td><strong>$31,352</strong></td>
</tr>
</tbody>
</table>

Total lease expense for the year ended December 31, 2007 was $9,647.