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

Financial Statements

December 31, 2008 and 2007

(with Independent Auditors'
Report thereon)

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

December 31, 2008 and 2007

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DIXON HUGHES PLLC
Certified Public Accountants and Advisors

Independent Auditors' Report

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

We have audited the accompanying statements of financial position of U.S. Endowment for Forestry and Communities, Inc. (the "Endowment") as of December 31, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Endowment's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of U.S. Endowment for Forestry and Communities, Inc. as of December 31, 2008 and 2007, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

As discussed in Note 3 to the financial statements, the Endowment adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements,* on January 1, 2008.

Dixon Hughes PLLC

May 12, 2009

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

Statements of Financial Position

December 31, 2008 and 2007

	2008	2007
Assets		
Cash and cash equivalents	$ 232,851	$ 88,302
Receivables	10,000	3,716
Prepaid expenses	8,920	14,848
Investments	151,330,446	213,830,208
Property and equipment, net	18,801	23,501
Total assets	$ 151,601,018	$ 213,960,575
Liabilities and Net Assets		
Accounts payable and other accruals	$ 123,350	$ 14,389
Total liabilities	123,350	14,389
Net assets:		
Unrestricted	(48,597,332)	13,946,186
Temporarily restricted	75,000	-
Permanently restricted	200,000,000	200,000,000
Total net assets	151,477,668	213,946,186
Total liabilities and net assets	$ 151,601,018	$ 213,960,575

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

U. S. ENDOWMENT FOR FORESTRY AND COMMUNITIES, INC.
Statements of Activities
For the Years Ended December 31, 2008 and 2007

	2008	2007
Unrestricted support, revenues and gains (losses):		
Interest and dividend income, net of investment fees	$ 3,285,185	$ 3,909,411
Net realized and unrealized gains (losses) on investments	(64,488,930)	10,728,845
Support	1,000	26,825
In-kind contributions	-	15,000
Other income	10,900	6,003
Total support, revenues and gains (losses)	(61,191,845)	14,686,084
Expenses:		
Program	916,990	59,304
Management and general	434,683	609,381
Total expenses	1,351,673	668,685
Increase (decrease) in unrestricted net assets	(62,543,518)	14,017,399
Temporarily restricted support and revenue:		
Program contributions	75,000	-
Increase in temporarily restricted net assets	75,000	-
Permanently restricted support and revenue:		
Endowment contribution	-	200,000,000
Increase in permanently restricted net assets	-	200,000,000
Total increase (decrease) in net assets	(62,468,518)	214,017,399
Net assets at beginning of year	213,946,186	(71,213)
Net assets at end of year	$ 151,477,668	$ 213,946,186

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

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

Statements of Cash Flows

For the Years Ended December 31, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Increase (decrease) in net assets	$ (62,468,518)	$ 214,017,399
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Net realized and unrealized (gains) losses on investments	64,488,930	(10,728,845)
Depreciation	4,700	-
Net changes in operating assets and liabilities:		
Receivables	(6,284)	(3,716)
Prepaid expenses	5,928	(14,848)
Accounts payable and other accruals	108,961	(8,361)
Net cash provided by operating activities	2,133,717	203,261,629
Cash flows from investing activities:		
Sales of investments	94,118,856	32,885,014
Purchases of investments	(96,108,024)	(235,986,377)
Purchases of property and equipment	-	(23,501)
Net cash used in investing activities	(1,989,168)	(203,124,864)
Cash flows from financing activities:		
Payments on line of credit	-	(60,000)
Net increase in cash	144,549	76,765
Cash at beginning of year	88,302	11,537
Cash at end of year	$ 232,851	$ 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 was endowed with $200 million under the terms of the SLA. The Endowment has been chartered with two purposes:1) educational and charitable causes in timber-reliant communities; and 2) educational and public-interest projects addressing forest management issues that affect timber-reliant communities, or the sustainability of forests as sources of building materials, wildlife habitat, bio-energy, recreation, and other values. The Endowment is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

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

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

Concentration of Credit Risk Arising from Cash Deposits in Excess of Insured Limits - 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.

Investments - The Endowment's investments are managed by an investment firm that utilizes numerous investment managers investing funds through several different investment classes. Investments consist of marketable equity and debt securities, money market funds and certificates of deposit with an original maturity of greater than three months, corporate debt, asset backed securities, collateralized mortgage obligations, futures contracts, swap agreements, warrants, option contracts, forward contracts, federal, state and municipal obligations and foreign obligations. 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. Other investment values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly. Unrealized gains and losses are included in the change in unrestricted net assets in the accompanying statement of activities.

The Endowment also invests in alternative investments that are defined as venture capital, international and domestic private equity investments, distressed debt, real estate 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. Valuations provided by the general partners and investment managers are evaluated by management through accounting and financial reporting processes to review and monitor existence and valuation assertions. Management has instituted processes in the areas of due diligence, ongoing monitoring and financial reporting. Specific efforts employed by management include ongoing interaction with the fund managers to include onsite visits and interviews, ongoing monitoring of portfolio holdings, activities and performance. Management also reviews interim financial information and reviews details of investment holdings to obtain an understanding of the underlying investments. Monitoring also includes obtaining and reviewing audited financial statements noting the type of opinion, basis of accounting, procedures pertaining to the valuation of alternative investments and comparison of audited valuation to the funds valuation. Management believes the estimated fair values of the Endowment's alternative investments are reasonably stated at December 31, 2008 and 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. As of December 31, 2008 and 2007, unfunded commitments totaled approximately $11,905,900 and $24,715,000, respectively. 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, 2008 and 2007, alternative investments comprise 37% and 25% of the reported fair value of the investment portfolio, respectively.

Property and Equipment - Property and equipment are reported at cost, if purchased, or fair value at the date of donation. The Endowment's policy is to capitalize property and equipment greater than $2,500. Depreciation is computed on a straight-line basis over the estimated useful life of the asset which is five years. At December 31, 2008 and 2007, property and equipment consisted of computer software. Depreciation expense and accumulated depreciation was $4,700 and $-0- at December 31, 2008 and 2007, respectively.

Net Assets - Financial statement presentation follows the recommendation of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards No. 117, *Financial Statements for Not-for-Profit Organizations* ("SFAS No. 117"). SFAS No. 117 requires an organization's net assets, revenues, expenses, and gains and losses to be classified based on the existence or absence of donor-imposed restrictions. Under SFAS No. 117, the Endowment is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. The Endowment had unrestricted, temporarily restricted, and permanently restricted net assets at December 31, 2008 and 2007.

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

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

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

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

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

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

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

Fair Value Measurements - SFAS No. 157, *Fair Value Measurements* ("SFAS 157") was issued in 2006 and defines fair value, established a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 was effective for the Endowment's financial assets and liabilities for the year ended December 31, 2008. The FASB approved a one-year deferral of the adoption of SFAS 157 as it relates to non-financial assets and liabilities measured at fair value on a nonrecurring basis with the issuance in February 2008 of FASB Staff Position FAS 157-2, *Effective Date of FASB Statement No. 157*, as a result of which implementation by the Endowment is now required for the year ending December 31, 2009. The partial adoption of SFAS 157 in 2008 had no material impact on the financial condition, statement of activities, or cash flows, but resulted in certain additional disclosures reflected in Note 3. The Endowment is in the process of evaluating SFAS 157 as it relates to non-financial assets and liabilities but does not believe it will have a material impact on the financial statements.

New Accounting Pronouncements - FASB interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, ("FIN 48") was issued in 2006 and clarifies the accounting for the recognition and measurement of uncertainties in income taxes for all entities, including not-for-profit organizations. In accordance with FASB Staff Position No. FIN 48-3, *Effective Date of FASB Interpretation No.48 for Certain Nonpublic Enterprises* ("FSP FIN 48-3"), the Endowment has elected to defer application of the provisions of FIN 48 as of and for the year ended December 31, 2008. The Endowment continues to account for uncertain tax positions in accordance with the principles of Statement of Financial Standards No. 5, *Accounting for Contingencies*, under which liabilities for uncertain tax positions are recognized in the financial statements when it becomes probable a liability has been incurred and the amount can be reasonably estimated. Unless the deferral is extended further, the Endowment will be required to adopt the provisions of FIN 48 for the year ended December 31, 2009. The Endowment has not yet determined the effects the adoption of the provisions of FIN 48 will have on the financial statements.

2. Investments

The estimated fair values of investments at December 31 follows:

	2008	2007
Fixed income	$ 20,133,895	$ 43,033,782
Equities	63,429,183	97,959,569
Commodities	2,389,715	13,384,539
Alternative investments	55,775,662	53,534,460
Money market funds and certificates of deposit	9,601,991	5,917,858
Total investments	$ 151,330,446	$ 213,830,208

Interest and dividend income is reported net of custodial and investment management fees approximating $238,000 and $121,000 for the year ended December 31, 2008 and 2007, respectively.

3. **Fair Value of Financial Assets**

In 2008, the Endowment adopted the provisions of Statement of Financial Accounting Standard No. 157, *Fair Value Measurements* ("SFAS 157"). Using the provisions within SFAS No. 157, the Endowment has characterized its investments, based on the priority of the inputs used to value the investments, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities [Level 1], and the lowest priority to unobservable inputs [Level 3].

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

Level 1 - These are investments where values are based on unadjusted quoted prices for identical assets in an active market that the Endowment has the ability to access. The investments are exchange-traded equity and debt securities and money market funds.

Level 2 - These are investments where values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the investments. These investments are comprised of corporate debt, asset backed securities, collateralized mortgage obligations, futures contracts, swap agreements, warrants, option contracts, forward contracts, federal, state and municipal obligations and foreign obligations.

Level 3 - These are investments where values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect assumptions of management about assumptions market participants would use in pricing the investments. The investments are comprised of alternative investments such as private partnerships and hedge funds.

There were no changes during the year ended December 31, 2008 to the Endowment's valuation techniques used to measure fair value of investments on a recurring basis.

The following table sets forth by level within SFAS 157's fair value hierarchy the Endowment's investments accounted for at fair value on a recurring basis as of December 31, 2008. As required by SFAS 157, assets and liabilities are classified in the entirety based on the lowest level of input that is significant to the fair value measurement. The Endowment's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

	Fair value measurements at December 31, 2008 using:		
Description	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			
Investments	$ 72,676,595	$ 22,878,189	$ 55,775,662

The following table illustrates the activity of Level 3 investments from December 31, 2007 to December 31, 2008:

Fair value at December 31, 2007	$ 53,534,460
Purchases	28,323,926
Sales	(9,252,447)
Realized gains	350,740
Unrealized losses	(17,181,017)
Fair value at December 31, 2008	$ 55,775,662

For certain alternative investments in funds of funds, the level 3 activity was estimated using a weighted average for the total fund. There were no transfers in or out of Level 3 during the year ended December 31, 2008.

4. **Line of Credit**

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

5. **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 $41,000 and $36,000 for the year ended December 31, 2008 and 2007, respectively.

6. **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:

2009	$ 14,470
2010	2,412
	$ 16,882

Lease expense for the year ended December 31, 2008 and 2007 was $16,600 and $9,647, respectively.

7. **Net Assets**

Temporarily restricted net assets are restricted for the following purposes:

Bio-energy	$ 75,000

Permanently restricted net asset consists of a $200,000,000 endowment received as a result of the SLA to be invested in perpetuity with the investments gains and investment earnings to be used for the Endowment's set purpose as described in Note 1. As of December 31, 2008 as a result of recent market decline, the Endowment corpus was underwater by $48,669,554. Management believes the investments are not other than temporarily impaired and expect the investments to recover.

8. **Subsequent Events**

The Endowment has contracts with a federal agency for receipt of grants totaling $820,000 and a private grant totaling $1,500,000. As of the report date, $500,000 of these grants has been received by the Endowment.

U.S. ENDOWMENT FOR FORESTRY AND COMMUNITIES, INC.
Schedule of Functional Expenses
For the Years Ended December 31, 2008 and 2007

	2008			2007		
	Programmatic	**Management and General**	**Total**	**Programmatic**	**Management and General**	**Total**
Grant expenditures	$ 486,798	$ -	$ 486,798	$ -	$ -	$ -
Program expenses	121,452	-	121,452	59,304	-	59,304
Compensation - officers	136,620	122,130	258,750	-	245,250	245,250
Compensation - non-officers	75,600	68,075	143,675	-	110,071	110,071
Compensation - interns	7,591	5,061	12,652	-	6,698	6,698
Employee benefits	52,215	46,384	98,599	-	77,269	77,269
Travel	31,441	53,969	85,410	-	70,858	70,858
Communications	5,273	4,684	9,957	-	7,295	7,295
Rent/utilities/supplies	-	29,952	29,952	-	27,422	27,422
Professional services	-	75,137	75,137	-	26,072	26,072
Insurance	-	12,778	12,778	-	7,201	7,201
Other	-	16,513	16,513	-	31,245	31,245
	$ 916,990	$ 434,683	$ 1,351,673	$ 59,304	$ 609,381	$ 668,685