U. S. Endowment for Forestry and Communities, Inc. and Subsidiaries

Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

DIXON HUGHES GOODMAN LLP

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Independent Auditors' Report

The Board of Directors
U.S. Endowment for Forestry and Communities, Inc. and Subsidiaries
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 Subsidiaries (the "Endowment") which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated statements of activities, cash flow, and functional expenses 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, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Endowment adopted FASB ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* in 2018. Our opinion is not modified with respect to this matter.

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 schedule of expenditures of federal awards, as required by the Uniform Guidance is presented for purposes of additional analysis and are not a required part of the consolidated financial statements. The schedule of expenditures of federal awards is 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, the schedule of expenditures of federal awards is 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 26, 2019 on our consideration of the Endowment's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Endowment's internal control over financial reporting and compliance.

Dixon Hughes Goodman LLP

Greenville, South Carolina
September 26, 2019

U. S. Endowment for Forestry and Communities, Inc. and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2018 and 2017

		2018		As Adjusted 2017
ASSETS				
Cash and cash equivalents	$	**16,195,846**	$	16,115,465
Grants receivable		**2,985,407**		2,334,470
Other receivables, net of allowance for doubtful accounts of approximately $723,000 in 2018 and $0 in 2017		**2,758,833**		1,935,712
Other assets		**240,518**		95,188
Notes receivable, net of allowance for doubtful accounts of approximately $1,502,000 in 2018 and $1,611,000 in 2017		**1,183,340**		1,653,541
Investments		**201,429,295**		221,406,784
Property and equipment, net		**7,607,837**		855,527
Total assets	$	**232,401,076**	$	244,396,687
LIABILITIES AND NET ASSETS				
Accounts payable and other accruals	$	**2,952,787**	$	2,086,312
Other liabilities		**5,040,781**		-
Total liabilities		**7,993,568**		2,086,312
Net assets:				
Net assets without donor restrictions:				
Without donor restrictions		**21,956,571**		20,622,653
Noncontrolling interest		**(672,418)**		(500,009)
With donor restrictions		**203,123,355**		222,187,731
Total net assets		**224,407,508**		242,310,375
Total liabilities and net assets	$	**232,401,076**	$	244,396,687

U. S. Endowment for Forestry and Communities, Inc. and Subsidiaries
Consolidated Statements of Activities
For the Years Ended December 31, 2018 and 2017

	2018	2017
Without donor restrictions support, revenues and gains:		
Interest and dividend income, net of investment fees	**$ 277,414**	$ 216,808
Federal support	**5,268,929**	4,036,920
Private support	**710,730**	29,405
Sales	**-**	4,802
Gain on sale of NSJ	**-**	3,550,000
Other income	**214,566**	-
Net assets released from restrictions	**10,446,764**	11,379,388
Total support, revenues and gains	**16,918,403**	19,217,323
Expenses:		
Program	**15,018,921**	12,478,135
Management and general	**737,973**	1,014,148
Total expenses	**15,756,894**	13,492,283
Increase in net assets without donor restrictions	**1,161,509**	5,725,040
With donor restrictions support and revenue:		
Interest and dividend income, net of investment fees	**1,621,064**	3,278,163
Net realized and unrealized gains (losses) on investments and other investment income	**(13,181,553)**	26,001,355
Private support	**2,942,877**	2,297,092
Releases from restriction	**(10,446,764)**	(11,379,388)
Increase (decrease) in net assets with donor restrictions	**(19,064,376)**	20,197,222
Total increase (decrease) in net assets	**(17,902,867)**	25,922,262
Net assets at beginning of year	**242,310,375**	216,388,113
Net assets at end of year	**$ 224,407,508**	$ 242,310,375

See accompanying notes.

U. S. Endowment for Forestry and Communities, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows provided by operating activities:		
Increase (decrease) in net assets	**$ (17,902,867)**	$ 25,922,262
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Net realized and unrealized gains on investments and other investment income	**13,181,553**	(26,001,355)
Depreciation	**53,633**	37,428
Loss on disposals of property and equipment, net	**109,000**	-
Net changes in operating assets and liabilities:		
Grants receivable	**(650,937)**	(576,741)
Other receivables	**(823,121)**	1,227,249
Other assets	**(145,330)**	(11,718)
Notes receivable	**470,201**	881,538
Accounts payable and other accruals	**866,475**	(510,213)
Other liabilities	**5,040,781**	(25,000)
Net cash provided by operating activities	**199,388**	943,450
Cash flows from investing activities:		
Sales of investments	**47,162,549**	74,744,000
Purchases of investments	**(40,366,613)**	(68,995,285)
Purchases of property and equipment	**(6,914,943)**	(47,616)
Net cash provided by (used in) investing activities	**(119,007)**	5,701,099
Cash flows from financing activities:		
Repayments of note payable	**-**	(134,311)
Net cash used in financing activities	**-**	(134,311)
Net increase in cash	**80,381**	6,510,238
Cash and cash equivalents at beginning of year	**16,115,465**	9,605,227
Cash and cash equivalents at end of year	**$ 16,195,846**	$ 16,115,465

See accompanying notes.

U. S. Endowment for Forestry and Communities, Inc. and Subsidiaries
Consolidated Statements of Functional Expenses
For the Years Ended December 31, 2018 and 2017

	2018			2017		
	Programmatic	Management and General	Total	Programmatic	Management and General	Total
Oregon Torrefaction and Restoration Fuels	**$ 576,214**	**$ 4,225**	**$ 580,439**	$ 422,544	$ -	$ 422,544
All other programs	**12,956,062**	**-**	**12,956,062**	10,317,648	-	10,317,648
Compensation - officers	**280,078**	**70,019**	**350,097**	273,280	68,320	341,600
Compensation - non-officers	**720,571**	**304,999**	**1,025,570**	684,166	326,990	1,011,156
Training/Recruitment	**10,400**	**5,463**	**15,863**	-	1,688	1,688
Employee benefits	**287,573**	**59,406**	**346,979**	192,472	64,481	256,953
Travel	**118,188**	**70,065**	**188,253**	83,766	71,065	154,831
Communications	**48,287**	**22,232**	**70,519**	25,112	19,856	44,968
Utilities/Supplies/Other	**12,491**	**39,918**	**52,409**	-	54,517	54,517
Professional services	**-**	**114,612**	**114,612**	9,017	78,271	87,288
Insurance	**9,057**	**16,941**	**25,998**	12,842	19,123	31,965
Interest expense	**-**	**-**	**-**	-	4,618	4,618
Taxes/other	**-**	**30,093**	**30,093**	-	305,219	305,219
Reserve for uncollectible			**-**			
notes receivable	**-**	**-**	**-**	457,288	-	457,288
	$ 15,018,921	**$ 737,973**	**$ 15,756,894**	$ 12,478,135	$ 1,014,148	$ 13,492,283

See accompanying notes.

Notes to the Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Organization

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

The Endowment has a wholly owned subsidiary, Community Wealth Through Forestry, Inc. ("CWF"). The purpose of CWF is to support sustainable green energy development that captures and distributes benefits to rural forest-reliant communities. CWF became operational in November 2011 and its activity has been consolidated in the financial statements for the year ended December 31, 2018 and 2017.

The Endowment has a wholly owned subsidiary, Restoration Fuels, LLC ("RF"). The purpose of RF is to advance forest health through production of environmentally-friendly fuel for energy. RF became operational in January 2018 and its activity has been consolidated in the financial statements for the year ended December 31, 2018.

On July 25, 2016, the Endowment invested $1,500,000 for a 70% interest in Oregon Torrefaction, LLC, a limited liability company ("OT"), with the remaining ownership being designated as a noncontrolling interest in the consolidated financial statements. The purpose of OT is to advance forest health and rural, forest-rich community vitality with the principal immediate objective to produce torrefied biomass fuel. OT's activity is included in the consolidated financial statements for the years ended December 31, 2018 and 2017.

Principles of Consolidation

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

For consolidated subsidiaries that are less than wholly-owned, the third party holdings of equity interests are referred to as noncontrolling interest. The portion of net assets without donor restrictions of the subsidiary is presented as noncontrolling interest on the consolidated statement of financial position. The changes in net assets without donor restrictions related to the noncontrolling interest are outlined in the table below:

	Total	Endowment	Non-controlling Interest
Balances, December 31, 2017	$ (1,666,699)	$ (1,166,690)	$ (500,009)
Expenses in excess of revenues	(594,695)	(419,286)	(175,409)
Contributions	10,000	7,000	3,000
Balances, December 31, 2018	$ (2,251,394)	$ (1,578,976)	$ (672,418)

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. As of December 31, 2018, approximately $8,500,000 was invested in ICS sweeps which distribute to institutions at the $250,000 limit to manage the FDIC exposure.

Grants Receivable

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

Notes Receivable

Notes receivable are due primarily from for-profit organizations that are working on various projects related to the Endowment's purpose and are recorded at estimated net realizable value. Credit is extended to the for-profit organizations and collateral is not required in some cases. Notes are due between fiscal years of 2019 to 2014. Interest rates on the notes vary based on the terms of the note. Management reviews the receivables periodically and provides an allowance for uncollectible accounts at a level which, in management's judgment, is adequate to absorb potential losses inherent in uncollectible notes receivables.

Investments

The Endowment's investments are recorded at fair value.

The fair values of investments in publically traded money market funds, limited partnerships, equity securities, equity funds, and fixed income funds, which are valued at $75,126,119 and $84,644,706 at December 31, 2018 and 2017, 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 $103,426,303 and $112,753,440 at December 31, 2018 and 2017, 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 certain private limited partnerships valued at $18,874,513 and $15,095,679 at December 31, 2018 and 2017, respectively. 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 4 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.

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 $5,000. Depreciation is computed on a straight-line basis over the estimated useful life of the assets. Depreciation expense was $53,633 and $37,428 for the years ended December 31, 2018 and 2017, respectively.

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:

> *Without Donor Restrictions* - Net assets that are not subject to donor-imposed restrictions. Net assets may be designated for specific purposes by the Endowment or may otherwise be limited by contractual agreements with outside parties.
>
> *With Donor Restrictions* - 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, as well as net assets subject to donor-imposed stipulations that they be maintained in perpetuity by the Endowment.

With Donor Restrictions and Without Donor Restrictions Revenue and Support

Contributions received are recorded as without donor restrictions revenue and support or with donor restrictions revenue and 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 net assets without donor restrictions 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 net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Consolidated Statement of Activities as net assets released from restrictions.

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, other assets, accounts payable, and other accruals* - The carrying amounts approximate fair value due to the immediate or short-term maturity of these instruments.
>
> *Notes receivable* - Notes receivable amount of approximately $2,685,000 and $3,264,000 as of December 31, 2018 and 2017. The fair value of notes receivable is estimated to be approximately $1,311,000 and $1,453,000 as of December 31, 2018 and 2017. 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 4).

Income Taxes

The Endowment has obtained tax exempt status under Internal Revenue Code Section 501(c)(3), and as such, is exempt from income taxes except on unrelated business income. Accordingly, the accompanying consolidated financial statements do not reflect a provision or liability for Federal and state income taxes. The Endowment has determined that there are no material unrecognized tax benefits or obligations as of December 31, 2018.

CWF is classified as a C Corporation under the Internal Revenue Code. CWF reported net income for the year ended December 31, 2018, therefore, there was tax expense. Accordingly, a provision has been made for Federal and state income taxes.

RF is a limited liability company under the Internal Revenue Code. RF reported a net loss for the year ended December 31, 2018, therefore, there was no tax expense. Accordingly, no provision has been made for Federal or state income taxes.

OT is a limited liability company under the Internal Revenue Code. OT reported a net loss for the year ended December 31, 2018, therefore, there was no tax expense. Accordingly, no provision has been made for Federal or state income taxes.

New Accounting Standards

During fiscal year 2018, the Endowment adopted Financial Accounting Standards Board ("FASB") ASU No. 2016-14 – *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* The Update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity of resources, and the lack of consistency in the type of information provided about expenses and investment return. The fiscal year 2017 consolidated financial statements have been adjusted to reflect retrospective application of the new accounting guidance, except for the disclosure around liquidity and availability of resource. This disclosure has been presented for 2018 only as allowed by ASU No. 2016-14.

A recap of the net asset reclassifications driven by the adoption of ASU 2016-14 as of December 31, 2017 is as follows:

	ASU 2016-14 Classification:		
Net Asset Classification	**Without donor restrictions**	**With donor restrictions**	**Total Net Assets**
As previously presented:			
Unrestricted	$ 20,122,644	$ -	$ 20,122,644
Temporarily restricted	-	22,187,731	22,187,731
Permanently restricted	-	200,000,000	200,000,000
Net assets as reclassified	$ 20,122,644	$ 222,187,731	$ 242,310,375

2. Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the consolidated statement of financial position date, comprise the following:

Financial assets at December 31, 2018:

Cash and cash equivalents	$	16,195,846
Grants receivables		2,985,407
Other receivables		2,758,833
Notes receivable		1,183,340
	$	23,123,426

As noted in Note 9, the endowment funds consist of donor-restricted endowments specified for a variety of purposes. Income from donor-restricted endowments is restricted for specified purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

As part of the Endowment's liquidity management plan, cash in excess of daily requirements is invested in short-term investments.

3. Investments

The estimated fair values of investments at December 31 follows:

	2018	2017
Cash held in brokerage accounts	**$ 4,002,360**	$ 8,912,959
Money market funds	**713,908**	1,645,255
Publically traded securities	**1,004,837**	952,107
Publically traded equity funds	**46,173,111**	56,162,230
Publically traded fixed income funds	**24,400,484**	22,205,142
Publically traded limited partnerships	**2,833,779**	3,679,972
Equity common and commingled trust funds	**59,034,111**	66,500,978
Fixed income common and commingled trust funds	**27,950,117**	27,569,036
Real asset common and commingled trust funds	**2,028,086**	3,170,399
Directional hedge funds	**-**	46,854
Futures hedge funds	**-**	456,310
Limited partnerships	**14,413,989**	15,009,863
Private limited partnerships	**18,874,513**	15,095,679
Total investments	**$ 201,429,295**	$ 221,406,784

The investments detailed above represent all investments held by the investment manager at December 31, 2018 and 2017, and do not include programmatic investments.

Interest and dividend income is reported net of custodial and investment management fees and approximated $330,000 and $452,000 for the years ended December 31, 2018 and 2017, 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.

4. 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, management consults with its investment committee and a third-party investment advisory firm, to establish 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 2018.

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, 2018 and 2017:

		Fair value measurements at December 31, 2018 using:		
	Fair value at December 31, 2018	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	$ 713,908	$ 713,908	$ -	$ -
Publically traded securities:				
Energy	1,004,837	1,004,837	-	-
Publically traded equity funds:				
Mid-cap	11,669,974	11,669,971	-	-
Large cap	14,340,889	14,340,889	-	-
International	20,162,251	20,162,251	-	-
	46,173,114	46,173,111	-	-
Publically traded fixed income funds:				
Taxable bonds	19,426,312	19,426,312	-	-
Index and other	4,974,172	4,974,172	-	-
	24,400,484	24,400,484	-	-
Publically traded limited partnerships	2,833,779	2,833,779	-	-
Private limited partnerships	18,874,513	-	-	18,874,513
Total investments included in the fair value hierarchy	94,000,635	$ 75,126,119	$ -	$ 18,874,513
Investments at net asset value	103,426,303			
Total investments	$ 197,426,938			

The following table sets forth a summary of the Endowment's investments with a reported estimated fair value using net asset value per share at December 31, 2018 and 2017:

	Fair value at December 31, 2018	Fair value at December 30, 2017	Redemption Frequency	Redemption Notice Period	Redemption Terms
Equity common and commingled trust funds (a)	**$ 59,034,111**	$ 66,500,978	monthly	5 – 30 days	none
Fixed income common and commingled trust funds (b)	**27,950,117**	27,569,036	monthly	5 – 30 days	none
Real asset common and commingled trust funds (c)	**2,028,086**	3,170,399	daily	2 days	none
Futures hedge funds (d)	**-**	456,310	quarterly	95 days	none
Direction hedge funds (e)	**-**	46,854	annually	65-95 days	none
Partnerships measured at NAV:					
Sector based (f)	**1,997,545**	2,011,380	monthly	Last business day	$1 million increments no partial redemptions
Partial inflation hedge fund (g)	**1,862,811**	1,929,924	daily	3 days	none
Debt focused (h)	**2,276,476**	2,725,456	quarterly	90 days	none
Absolute return fund (j)	**2,250,771**	2,174,574	annually	N/A	Redeem 50% of shares after 24 months annually
Global financial markets fund (i)	**-**	1,303,426	annually	N/A	Redeem 25% of shares after 1 year on annual basis
Global multi-disciplinary fund (j)	**1,870,041**	1,649,599	quarterly	N/A	Redeem shares after 1 year on a quarterly basis
Long/short investments fund (k)	**1,639,667**	1,821,212	quarterly	N/A	Redeem 25% of shares each quarter
Private equity (l)	**1,321,423**	128,260	manager's discretion	N/A	10-year maturity with potential 2 one-year extensions
U.S. equity markets fund (m)	**1,195,255**	1,266,032	quarterly	N/A	Redeem shares after 1 year on a quarterly basis
Total partnerships	**14,413,989**	15,009,863			
Total investments at net asset value	**$ 103,426,303**	$ 112,753,440			

	Fair value at December 31, 2017	Fair value measurements at December 31, 2017 using: Quoted prices In active markets for identical assets and liabilities (Level 1 inputs)	Quoted prices for similar assets and liabilities (Level 2 inputs)	Significant Unobservable inputs (Level 3 inputs)
Assets measured at fair value:				
Money market funds	$ 1,645,255	$ 1,645,255	$ -	$ -
Publically traded securities:				
Energy	952,107	952,107	-	-
Publically traded equity funds:				
Mid-cap	12,517,872	12,517,872	-	-
Large cap	14,843,659	14,843,659	-	-
International	28,800,699	28,800,699	-	-
	56,162,230	56,162,230	-	-
Publically traded fixed income funds:				
Taxable bonds	15,215,251	15,215,251	-	-
Index and other	6,989,891	6,989,891	-	-
	22,205,142	22,205,142	-	-
Publically traded limited partnerships	3,679,972	3,679,972	-	-
Private limited partnerships	15,095,679	-	-	15,095,679
Total investments included in the fair value hierarchy	99,740,385	$ 84,644,706	$ -	$ 15,095,679
Investments at net asset value	112,753,440			
Total investments	$ 212,493,825			

(a) The funds 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.
(b) The funds 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.
(c) The fund includes 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.
(d) The funds pursue multiple strategies to provide investors with net returns over a full market cycle that are favorable to capital markets on a risk-adjusted basis.
(e) 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.
(f) 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.
(g) The fund's investment objective is to provide diversification and inflation protection and to generate higher risk-adjusted total returns than leading commodity market benchmarks. The fund seeks to achieve its objective by investing in a long-only, unleveraged portfolio of exchange-traded futures and forward contracts on tangible commodities to obtain broadly diversified exposure to all principal groups in the global commodity markets, including energies, metals, and agriculture.
(h) 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.

(i) 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.
(j) 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.
(k) 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.
(l) The fund's investment objective is to generate long-term capital appreciation across management buyouts, leveraged acquisitions, build-ups, recapitalizations, control restructurings growth equity transactions, and pre-public offering opportunities.
(m) 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.

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

The following table illustrates the activity of Level 3 assets measured at fair value on a recurring basis from December 31, 2017 to December 31, 2018:

	Fair Value Measurements Using Unobservable Inputs (Level 3)						
	Natural Resources Partnerships	Private Equity Partnerships	Venture Capital Partnership	Distressed Debt Partnership	Property Fund	Offshore Limited Partnership	Total
Beginning balance, December 31, 2017	$ 784,526	$ 6,097,289	$ 3,873,169	$ 433,658	$ 2,277,775	$ 1,629,262	$15,095,679
Total gains or losses included in changes in net assets:							
Unrealized gains	94,084	906,503	554,630	6,149	117,358	253,268	1,931,992
Purchases, issuances/subscriptions, and sales:							
Purchases	500,000	1,220,020	537,500	-	836,400	1,507,076	4,600,996
Sales/distributions	(136,080)	(1,527,027)	(645,925)	(187,317)	-	(257,805)	(2,754,154)
Ending balance, December 31, 2018	$ 1,242,530	$ 6,696,785	$ 4,319,374	$ 252,490	$ 3,231,533	$ 3,131,801	$18,874,513

The following table illustrates the activity of Level 3 assets measured at fair value on a recurring basis from December 31, 2016 to December 31, 2017:

	Fair Value Measurements Using Unobservable Inputs (Level 3)						
	Natural Resources Partnership	**Private Equity Partnerships**	**Venture Capital Partnership**	**Distressed Debt Partnership**	**Property Fund**	**Offshore Limited Partnership**	**Total**
Beginning balance, December 31, 2016	$ 224,531	$ 5,905,417	$ 3,670,605	$ 538,112	$ -	$ -	$10,338,665
Total gains or losses included in changes in net assets:							
Unrealized gains	155,823	1,260,432	354,117	35,546	56,962	235,605	2,098,485
Purchases, issuances/subscriptions, and sales:							
Purchases	460,000	601,500	415,000	-	2,250,000	1,517,882	5,244,382
Sales/distributions	(55,828)	(1,670,060)	(566,553)	(140,000)	(29,187)	(124,225)	(2,585,853)
Ending balance, December 31, 2017	$ 784,526	$ 6,097,289	$ 3,873,169	$ 433,658	$ 2,277,775	$ 1,629,262	$15,095,679

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 an investment in a natural resources partnership of $1,242,530 and $784,526 at December 31, 2018 and 2017, respectively. The Endowment has committed a total of $4,000,000 and has unfunded commitments of $2,860,000 and $1,360,000 as of December 31, 2018 and 2017, respectively. These funds are ineligible for redemption and the typical life of the partnerships is 12 years from the date of formation but can be extended under certain circumstances. The partnership invests primarily in limited partnerships, which in turn, make oil, gas, and other natural resource-related investments with the objective of obtaining long-term growth of capital.

The Endowment has investments in international and domestic private equity partnerships of $6,696,785 and $6,097,289 at December 31, 2018 and 2017, respectively. The Endowment has committed a total of $12,500,000 and has unfunded commitments of $4,157,750 and $5,357,250 as of December 31, 2018 and 2017, respectively. 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 $4,319,374 and $3,873,169 at December 31, 2018 and 2017, respectively. The Endowment has committed a total of $6,500,000 and has unfunded commitments of $2,386,200 and $2,923,750 as of December 31, 2018 and 2017, respectively. 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 $252,490 and $433,658 at December 31, 2018 and 2017, respectively. The Endowment has committed a total of $2,000,000 and has unfunded commitments of $305,200 as of December 31, 2018 and 2017. 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 a property fund of $3,231,533 and $2,277,775 at December 31, 2018 and 2017, respectively. The Endowment has committed a total of $3,000,000 and has unfunded commitments of $- and $750,000 as of December 31, 2018 and 2017, respectively. The Endowment may redeem certain portions of its investment quarterly upon 45 day notice subsequent to the third anniversary of the date of the first investment made by the fund. The partnership seeks to pursue an investment program comprised of high-quality assets including student and senior housing, medical office and life science properties and storage properties that target a gross annual return 9-10%.

The Endowment has an investment in a secured debt asset fund of $3,131,801 and $1,629,262 at December 31, 2018 and 2017, respectively. The Endowment has committed a total of $5,000,000 and has unfunded commitments of $1,958,046 and $3,465,122 as of December 31, 2018 and 2017, respectively. The Endowment may not withdraw capital from the fund during the investment period (3 years) and the post-investment period (3 years with two 1 year extensions). The partnership seeks to acquire secured debt assets to provide 6% annual cash distributions paid quarterly

Total net gains or losses for level 3 assets for the periods above are included in net realized and unrealized gains (losses) on investments in the statement of activities. There were no transfers in or out of Level 3 for the years ended December 31, 2018 and 2017.

5. Property and Equipment

Property and equipment at December 31, 2018 and 2017 consists of the following:

	2018	2017
Land	**$ 137,794**	$ 137,794
Building and equipment	**698,380**	902,668
Construction in progress	**6,978,764**	63,821
Total property and equipment	**7,814,938**	1,104,283
Less: accumulated depreciation	**(207,101)**	(248,756)
	$ 7,607,837	$ 855,527

6. Other Liabilities

In January 2018, the Endowment received $5 million as the custodial partner attendant to an impact directed environmental agreement in connection to the Endowment's mission to support forestry in North America. The Endowment acts as custodian of the funds; the funds will be reflected as an asset and liability in the Consolidated Statement of Financial Position and investment income is recorded as both an asset and liability when earned. Management fees are earned by the Endowment in connection with the agreed level of custodial activities. As of December 31, 2018, approximately $5,039,000 was recorded as other liabilities on the consolidated statement of financial position, with an offsetting asset record in cash and cash equivalents.

In February 2017, the Endowment entered into a line of credit with a financial institution. The principal amount of the line of credit is $5,000,000 with monthly interest payments; interest rate is LIBOR market index plus 2%. There was no balance on the line of credit as of December 31, 2018. The line of credit was renewed in February 2019 and expires on November 1, 2020. The line of credit is secured by investments.

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 $155,000 and $147,000 for the years ended December 31, 2018 and 2017, respectively.

In March 2014, the Endowment began sponsoring a 457(b) Deferred Compensation Plan for certain of its management employees. Contributions are based on agreements between individual employees and the Endowment and may not exceed the lesser of $17,500 or 100% of employee compensation. Amounts accrued on deferred compensation are payable to plan participants upon separation from employment or attaining age 70 ½. The market value of investments and the related obligation to covered employees was approximately $90,000 and $72,000 at December 31, 2018 and 2017, respectively.

8. Net Assets

Net assets with donor restrictions that are restricted for the following purposes at December 31, 2018 and 2017:

	2018	2017
Cellulosic Nanofibrils GRAS Study	**$ 428,045**	$ -
NRCS – DoD Forest Conservation	**55,000**	60,000
Endowment earnings to support ongoing programs (See Note 9)	**1,429,295**	21,406,784
Forest Conservation Fund	**526,586**	526,733
North American Forest Partnership	**-**	43,990
Forest Resilience Bonds	**500,000**	-
Savannah River Project	**114,465**	107,631
Other	**69,964**	42,593
	$ 3,123,355	$ 22,187,731

Net assets with donor restrictions that are permanently restricted 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.

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 net assets with donor restrictions.

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 net assets with donor restrictions held in perpetuity (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the 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 net assets with donor restrictions, in perpetuity is classified as net assets with donor restrictions, 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, 2018 is as follows:

	Net Assets With Donor Restrictions- Time Restricted	Net Assets With Donor Restrictions- In Perpetuity	Total
Donor-restricted endowment funds	$ 1,429,295	$ 200,000,000	$ 201,429,295

Changes in donor-restricted endowment net asset for the year ended December 31, 2018 are as follows:

	Net Assets With Donor Restrictions- Time Restricted	Net Assets With Donor Restrictions- In Perpetuity	Total
Endowment net assets, December 31, 2017	$ 21,406,784	$ 200,000,000	$ 221,406,784
Investment return:			
Investment income, net	1,621,064	-	1,621,064
Net unrealized and realized investment losses	(13,181,553)	-	(13,181,553)
Total investment return	(11,560,489)	-	(11,560,489)
Appropriation of assets for expenditures	(8,417,000)	-	(8,417,000)
Endowment net assets, December 31, 2018	$ 1,429,295	$ 200,000,000	$ 201,429,295

Donor-restricted endowment net asset composition by type of fund as of December 31, 2017 is as follows:

	Net Assets With Donor Restrictions- Time Restricted	Net Assets With Donor Restrictions- In Perpetuity	Total
Donor-restricted endowment funds	$ 21,406,784	$ 200,000,000	$ 221,406,784

Changes in donor-restricted endowment net asset for the year ended December 31, 2017 are as follows:

	Net Assets With Donor Restrictions- Time Restricted	Net Assets With Donor Restrictions- In Perpetuity	Total
Endowment net assets, December 31, 2016	$ 1,154,144	$ 200,000,000	$ 201,154,144
Investment return:			
Investment income, net	3,278,163	-	3,278,163
Net unrealized and realized investment gains	26,001,355	-	26,001,355
Total investment return	29,279,518	-	29,279,518
Appropriation of assets for expenditures	(9,026,878)	-	(9,026,878)
Endowment net assets, December 31, 2017	$ 21,406,784	$ 200,000,000	$ 221,406,784

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. There were no deficiencies of this nature reported in unrestricted net assets as of December 31, 2018 and 2017.

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 July 2017. Under the policies the near-term target is to distribute grants or program investments of up to 3.5% and provide for operating expenses of .375% of the investment corpus annually against an overall expected return of 6.5%. The amended policy does not supersede a "downside policy" adopted in May 2008 to address significant market declines. Under those circumstances, a spending rate of not more than 2.5% of corpus would go into effect in the event of a decline below the $200 million corpus, and that policy further called for the Board to revisit the policy in the face of "exceptional downturns," defined as declines in the fair value of assets to below $190 million.

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 $23,576,000 at December 31, 2018. These contracts are committed for varying dates through 2021.

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

After December 31, 2018, the Endowment made multi-year commitments to fund specific research and public interest projects with other nonprofit organizations and universities. Committed funds totaled approximately $12,847,000. These contracts are committed for varying dates through 2023.

The Endowment evaluated the effect subsequent events would have on the consolidated financial statements through September 26, 2019, which is the date the consolidated financial statements were available to be issued.

Supplemental Information

DIXON HUGHES GOODMAN LLP

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 Subsidiaries
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 Subsidiaries (the "Endowment"), which comprises the consolidated statement of financial position as of December 31, 2018, 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 26, 2019.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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.

DIXON HUGHES GOODMAN LLP

Compliance and Other Matters

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

Purpose of this Report

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

Dixon Hughes Goodman LLP

Greenville, South Carolina
September 26, 2019

DIXON HUGHES GOODMAN LLP

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

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

Report on Compliance for Each Major Federal Program

We have audited U.S. Endowment for Forestry and Communities, Inc. and Subsidiaries (the "Endowment") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Endowment's major federal program for the year ended December 31, 2018. The Endowment's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for the 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 the major federal program for the year ended December 31, 2018.

DIXON HUGHES GOODMAN LLP

Report on Internal Control Over Compliance

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

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

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

Purpose of this Report

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

Dixon Hughes Goodman LLP

Greenville, South Carolina
September 26, 2019

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Expenditures	Expenditures to Subrecipients
Research and Development - cluster			
U. S. Department of Agriculture			
Direct Program:			
Forestry Research	10.652	$ 260,448	$ 174,285
Total Research and Development - cluster		260,448	174,285
U. S. Department of Agriculture			
Direct Program:			
Plant and Animal Disease, Pest Control, and Animal Care	10.025	170,458	170,458
Cooperative Forestry Assistance	10.664	502,383	115,144
Wood Utilization Assistance	10.674	1,099,345	830,059
Soil and Water Conservation	10.902	866,492	620,301
Environmental Quality Incentives Program	10.912	666,435	461,263
Regional Conservation Partnership Program	10.932	81,337	81,337
Total U. S. Department of Agriculture		3,646,898	2,452,847
Environmental Protection Agency			
Direct Program:			
Healthy Watersheds Consortium Grant Program	66.441	546,076	526,213
U.S. Department of Defense			
Direct Program:			
Legacy Resource Management Program	12.632	98,839	12,041
Total expenditures of Federal awards		$ 4,291,813	$ 2,991,101

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of the U.S. Endowment for Forestry and Communities, Inc. and Subsidiary (the “Endowment”) under programs of the federal government for the year ended December 31, 2018. The information in this Schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Because the Schedule presents only a selected portion of the operations of the Endowment, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Endowment.

2. Summary of Significant Account Policies

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

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

3. Contingencies

The Endowment's federal programs are subject to financial and compliance audits by grantor agencies which, if instances of material noncompliance are found, may result in disallowed expenditures and affect its continued participation in specific programs. The amount, if any, of expenditures, which may be disallowed by the grantor agencies, cannot be determined at this time. However, the Endowment expects such amounts, if any, to be immaterial.

4. Categorization of Expenditures

The categorization of expenditures by program included in the schedule of expenditures of federal awards is based upon the grant documents. Changes in the categorization of expenditures occur based upon revisions to the Catalog of Federal Domestic Assistance (CFDA), which is issued in June and December of each year. The schedule of expenditures of federal awards for the year ended December 31, 2018 reflects CFDA changes issued through March 2018.

Section I—Summary of Auditors' Results

Financial Statements

Type of auditors' report issued on whether the consolidated financial statements were presented in accordance with GAAP:	Unmodified	

Internal control over financial reporting:

• Material weakness(es) identified?	_____ Yes	X No
• Significant deficiencies identified that are not considered to be material weaknesses?	_____ Yes	X None reported
Noncompliance material to financial statements noted?	_____ Yes	X No

Federal Awards

Internal control over major programs:

• Material weakness(es) identified?	_____ Yes	X No
• Significant deficiencies identified that are not considered to be material weaknesses?	_____ Yes	X None reported
Type of auditors' report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with 200.516 of Uniform Guidance?	_____ Yes	X No

Identification of major programs:

CFDA Numbers	*Name of Federal Program or Cluster*
10.902	Soil and Water Conservation
10.664	Cooperative Forestry Assistance

Dollar threshold used to distinguish between type A and type B programs:		$ 750,000
Auditee qualified as low-risk auditee?	X Yes	_____ No

Section II— Consolidated Financial Statement Findings

There were none.

Section III— Federal Award Findings and Questioned Costs

There were none.