

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

---

**Consolidated Financial Statements**

**Years Ended December 31, 2019 and 2018**





## Table of Contents

<b>Independent Auditors' Report</b> .....	1 – 2
Consolidated Statements of Financial Position .....	3
Consolidated Statements of Activities .....	4
Consolidated Statements of Cash Flows .....	5
Consolidated Statements of Functional Expenses.....	6
Notes to the Consolidated Financial Statements .....	7 – 21
<b>Supplementary Information:</b>	
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 <i>Government Auditing Standards</i> .....	22 – 23
Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required By the Uniform Guidance .....	24 – 25
Schedule of Expenditures of Federal Awards .....	26 – 27
Schedule of Findings and Questioned Costs .....	28 – 29



## 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, 2019 and 2018, and the related consolidated statements of activities, cash flows, 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 auditors' 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, 2019 and 2018, 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 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. 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 is not a required part of the consolidated financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates 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 October 8, 2020 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  
October 8, 2020



**U. S. Endowment for Forestry and Communities, Inc. and Subsidiaries**  
**Consolidated Statements of Financial Position**  
**December 31, 2019 and 2018**

	<u><b>2019</b></u>	<u><b>2018</b></u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 3,521,455	\$ 11,156,745
Restricted cash	5,052,302	5,039,101
Grants receivable	3,823,109	2,985,407
Other receivables, net of allowance for doubtful accounts of \$0 in 2019 and approximately \$723,000 in 2018	1,647,810	2,758,833
Other assets	363,202	240,518
Notes receivable, net of allowance for doubtful accounts of approximately \$491,000 in 2019 and \$1,502,000 in 2018	2,329,928	1,183,340
Investments	230,682,480	201,429,295
Property and equipment, net	<u>15,645,665</u>	<u>7,607,837</u>
Total assets	<u><u>\$ 263,065,951</u></u>	<u><u>\$ 232,401,076</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
Accounts payable and other accruals	\$ 2,419,774	\$ 2,952,787
Other liabilities	<u>5,252,303</u>	<u>5,040,781</u>
Total liabilities	<u>7,672,077</u>	<u>7,993,568</u>
Net assets:		
Net assets without donor restrictions:		
Without donor restrictions	22,594,391	21,956,571
Noncontrolling interest	(704,856)	(672,418)
With donor restrictions	<u>233,504,339</u>	<u>203,123,355</u>
Total net assets	<u>255,393,874</u>	<u>224,407,508</u>
Total liabilities and net assets	<u><u>\$ 263,065,951</u></u>	<u><u>\$ 232,401,076</u></u>

See accompanying notes.



**U. S. Endowment for Forestry and Communities, Inc. and Subsidiaries**  
**Consolidated Statements of Activities**  
**For the Years Ended December 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>Without donor restrictions support, revenues and gains:</b>		
Interest and dividend income, net of investment fees	\$ 121,967	\$ 277,414
Federal support	7,339,009	5,268,929
Private support	687,886	710,730
Other income	283,233	214,566
Net assets released from restrictions	9,695,397	10,446,764
Total support, revenues and gains	<u>18,127,492</u>	<u>16,918,403</u>
Expenses:		
Program	16,771,911	15,018,921
Management and general	750,199	737,973
Total expenses	<u>17,522,110</u>	<u>15,756,894</u>
Increase in net assets without donor restrictions	<u>605,382</u>	<u>1,161,509</u>
<b>With donor restrictions support, revenues and gains:</b>		
Interest and dividend income, net of investment fees	(84,759)	1,621,064
Net realized and unrealized gains (losses) on investments and other investment income	37,512,944	(13,181,553)
Private support	2,648,196	2,942,877
Net assets released from restrictions	(9,695,397)	(10,446,764)
Increase (decrease) in net assets with donor restrictions	<u>30,380,984</u>	<u>(19,064,376)</u>
Total increase (decrease) in net assets	<u>30,986,366</u>	<u>(17,902,867)</u>
Net assets at beginning of year	<u>224,407,508</u>	<u>242,310,375</u>
Net assets at end of year	<u>\$ 255,393,874</u>	<u>\$ 224,407,508</u>

See accompanying notes.



**U. S. Endowment for Forestry and Communities, Inc. and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**For the Years Ended December 31, 2019 and 2018**

	<u><b>2019</b></u>	<u><b>As Adjusted 2018</b></u>
Cash flows provided (used) by operating activities:		
Increase (decrease) in net assets	\$ <b>30,986,366</b>	\$ (17,902,867)
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Net realized and unrealized gains (losses) on investments and other investment income	(37,512,944)	13,181,553
Depreciation	22,443	53,633
Loss on disposals of property and equipment, net	283,828	109,000
Net changes in operating assets and liabilities:		
Grants receivable	(837,702)	(650,937)
Other receivables	1,111,023	(823,121)
Other assets	(122,684)	(145,330)
Notes receivable	(1,146,588)	470,201
Accounts payable and other accruals	(533,013)	866,475
Other liabilities	<u>211,522</u>	<u>5,040,781</u>
Net cash provided (used) by operating activities	<u>(7,537,749)</u>	<u>199,388</u>
Cash flows from investing activities:		
Sales of investments	329,845,124	47,162,549
Purchases of investments	(321,585,365)	(40,366,613)
Purchases of property and equipment	<u>(8,344,099)</u>	<u>(6,914,943)</u>
Net cash used by investing activities	<u>(84,340)</u>	<u>(119,007)</u>
Net increase (decrease) in cash	(7,622,089)	80,381
Cash and cash equivalents at beginning of year	<u>16,195,846</u>	<u>16,115,465</u>
Cash and cash equivalents at end of year	\$ <u><u>8,573,757</u></u>	\$ <u><u>16,195,846</u></u>
Reconciliation of cash and cash equivalents:		
Cash and cash equivalents	\$ 3,521,455	\$ 11,156,745
Restricted cash	<u>5,052,302</u>	<u>5,039,101</u>
	\$ <u><u>8,573,757</u></u>	\$ <u><u>16,195,846</u></u>

See accompanying notes.



**U. S. Endowment for Forestry and Communities, Inc. and Subsidiaries**  
**Consolidated Statements of Functional Expenses**  
**For the Years Ended December 31, 2019 and 2018**

	<b>2019</b>			<b>2018</b>		
	<b>Program</b>	<b>Management and General</b>	<b>Total</b>	<b>Program</b>	<b>Management and General</b>	<b>Total</b>
Oregon Torrefaction and Restoration Fuels	\$ 1,945,037	\$ -	\$ 1,945,037	\$ 576,214	\$ 4,225	\$ 580,439
Community Wealth Through Forestry	-	20,303	20,303	-	-	-
All other programs	13,308,973	-	13,308,973	12,956,062	-	12,956,062
Compensation - officers	290,019	72,505	362,524	280,078	70,019	350,097
Compensation - non-officers	784,779	341,164	1,125,943	720,571	304,999	1,025,570
Training/Recruitment	44	17,217	17,261	10,400	5,463	15,863
Employee benefits	276,240	58,016	334,256	287,573	59,406	346,979
Travel	96,586	72,897	169,483	118,188	70,065	188,253
Communications	46,854	22,677	69,531	48,287	22,232	70,519
Utilities/Supplies/Other	-	34,012	34,012	-	39,918	39,918
Professional services	12,434	67,960	80,394	12,491	114,612	127,103
Insurance	10,840	16,261	27,101	9,057	16,941	25,998
Interest expense	-	1,675	1,675	-	-	-
Taxes/other	105	25,512	25,617	-	30,093	30,093
	<u>\$ 16,771,911</u>	<u>\$ 750,199</u>	<u>\$ 17,522,110</u>	<u>\$ 15,018,921</u>	<u>\$ 737,973</u>	<u>\$ 15,756,894</u>

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 years ended December 31, 2019 and 2018. CWF was dissolved in December of 2019.

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 years ended December 31, 2019 and 2018.

The Endowment has a wholly owned subsidiary, Timberhauling.com ("TH"). The purpose of TH is to provide a technology platform for Timber Haulers. TH became operational in June 2019 and its activity has been consolidated in the financial statements for the year ended December 31, 2019.

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, 2019 and 2018.

#### ***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:

	<u><b>Total</b></u>	<u><b>Endowment</b></u>	<u><b>Non-controlling Interest</b></u>
Balances, December 31, 2018	\$ (2,251,394)	\$ (1,578,976)	\$ (672,418)
Expenses in excess of revenues	(726,227)	(690,789)	(35,438)
Contributions	10,000	7,000	3,000
Balances, December 31, 2019	<u>\$ (2,967,621)</u>	<u>\$ (2,262,765)</u>	<u>\$ (704,856)</u>



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

### **Notes to Consolidated Financial Statements**

---

#### ***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, 2019 and 2018, \$0 and approximately \$8,500,000 was invested in ICS sweeps, respectively, 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 2020 to 2026. 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 publicly traded money market funds, equity securities, equity funds, and fixed income funds, which are valued at \$2,454,253 and \$75,126,119 at December 31, 2019 and 2018, respectively, are determined based upon quoted market prices.

Investments in equity, fixed income and real asset common and commingled trust funds, directional hedge funds, and certain limited partnerships which are valued at \$199,466,885 and \$103,426,303 at December 31, 2019 and 2018, 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 \$24,774,677 and \$18,874,513 at December 31, 2019 and 2018, 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.



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

### **Notes to Consolidated Financial Statements**

---

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 \$22,443 and \$53,633 for the years ended December 31, 2019 and 2018, 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.

#### ***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 among the programs and supporting services benefited. Some expenses, including supplies and materials, are directly identifiable and are charged to accordingly. Allocations of significant costs, including compensation and related expenses, contractors, and professional and consultant fees, are based on estimates of time and effort and other reasonable methods.

#### ***Fair Value of Financial Instruments***

The fair value of the financial instruments of the Endowment are set forth as follows:

*Cash and cash equivalents, grants and others receivables, other assets, accounts payable and other accrual, and other liabilities* - The carrying amounts approximate fair value due to the immediate or short-term maturity of these instruments.



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

### **Notes to Consolidated Financial Statements**

---

*Notes receivable* - Notes receivable amount of approximately \$2,821,000 and \$2,685,000 as of December 31, 2019 and 2018. The fair value of notes receivable is estimated to be approximately \$2,203,000 and \$1,311,000 as of December 31, 2019 and 2018. 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, 2019.

CWF is classified as a C Corporation under the Internal Revenue Code. CWF reported a net loss for the years ended December 31, 2019 and 2018, therefore, there was no tax expense. Accordingly, no provision has been made for Federal or state income taxes.

RF is a limited liability company under the Internal Revenue Code. RF reported a net loss for the years ended December 31, 2019 and 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 years ended December 31, 2019 and 2018, therefore, there was no tax expense. Accordingly, no provision has been made for Federal or state income taxes.

TH is a limited liability company under the Internal Revenue Code. TH reported a net loss for the year ended December 31, 2019, therefore, there was no tax expense. Accordingly, no provision has been made for Federal or state income taxes.

#### ***Recent Accounting Pronouncements***

In 2019, the Endowment adopted ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. This ASU was issued to address diversity in practice in the classification and presentation of changes in restricted cash on the statement of cash flows. The amendments in this ASU require that a statement of cash flows explain the change during the period in the total of cash and amounts generally described as restricted cash. The 2018 consolidated financial statements have been adjusted to reflect retrospective application of the new accounting guidance by adding a reconciliation of cash and cash equivalents.



**U. S. Endowment for Forestry and Communities, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

---

**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:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 3,521,455	\$ 11,156,745
Grants receivable	3,823,109	2,985,407
Other receivable	<u>1,647,810</u>	<u>2,758,833</u>
	<u>\$ 8,992,374</u>	<u>\$ 16,900,985</u>

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:

	<u>2019</u>	<u>2018</u>
Cash held in brokerage accounts	\$ 3,986,665	\$ 4,002,360
Money market funds	2,454,253	713,908
Publicly traded securities	-	1,004,837
Publicly traded equity funds	-	46,173,111
Publicly traded fixed income funds	-	24,400,484
Publicly traded limited partnerships	-	2,833,779
Equity common and commingled trust funds	113,075,866	59,034,111
Fixed income common and commingled trust funds	47,248,542	27,950,117
Real asset common and commingled trust funds	12,312,658	2,028,086
Directional hedge funds	16,360,783	-
Limited partnerships	10,469,036	14,413,989
Private limited partnerships	<u>24,774,677</u>	<u>18,874,513</u>
Total investments	<u>\$ 230,682,480</u>	<u>\$ 201,429,295</u>

The investments detailed above represent all investments held by the investment manager at December 31, 2019 and 2018, and do not include programmatic investments.

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:



**U. S. Endowment for Forestry and Communities, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

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 2019.

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, 2019 and 2018:

	Fair value at December 31, 2019	Fair value measurements at December 31, 2019 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	<u>\$ 2,454,253</u>	<u>\$ 2,454,253</u>	<u>\$ -</u>	<u>\$ -</u>
Private limited partnerships	<u>24,774,677</u>	<u>-</u>	<u>-</u>	<u>24,774,677</u>
Total investments included in the fair value hierarchy	<u>27,228,930</u>	<u>\$ 2,454,253</u>	<u>\$ -</u>	<u>\$ 24,774,677</u>
Investments at net asset value	<u>199,466,885</u>			
Total investments	<u>\$ 226,695,815</u>			



**U. S. Endowment for Forestry and Communities, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

	Fair value at December 31, 2018	Fair value measurements at December 31, 2018 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	\$ 713,908	\$ 713,908	\$ -	\$ -
Publicly traded securities:				
Energy	1,004,837	1,004,837	-	-
Publicly traded equity funds:				
Mid-cap	11,669,971	11,669,971	-	-
Large cap	14,340,889	14,340,889	-	-
International	20,162,251	20,162,251	-	-
	46,173,111	46,173,111	-	-
Publicly 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	-	-
Publicly 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	94,000,632	\$ 75,126,119	\$ -	\$ 18,874,513
Investments at net asset value	103,426,303			
Total investments	\$ 197,426,935			

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, 2019 and 2018:

	Fair value at December 31, 2019	Fair value at December 30, 2018	Redemption Frequency	Redemption Notice Period	Redemption Terms
Equity common and commingled trust funds (a) \$	113,075,866	\$ 59,034,111	monthly	5 – 30 days	none
Fixed income common and commingled trust funds (b)	47,248,542	27,950,117	monthly	5 – 30 days	none
Real asset common and commingled trust funds (c)	12,312,658	2,028,086	daily	2 days	none
Diversifying(d)	16,360,783	-	quarterly	95 days	Redeem 25% of shares
Partnerships measured at NAV:					
Sector based (e)	2,205,894	1,997,545	monthly	Last business day	\$1 million increments no partial redemptions
Partial inflation hedge fund (f)	-	1,862,811	daily	3 days	none
Debt focused (g)	2,245,603	2,276,476	quarterly	90 days	none
Absolute return fund (h)	2,357,059	2,250,771	annually	N/A	Redeem 50% of shares after 24 months annually
Global multi-disciplinary fund (i)	-	1,870,041	quarterly	N/A	Redeem shares after 1 year on a quarterly basis
Long/short investments fund (j)	1,463,554	1,639,667	quarterly	N/A	Redeem 25% of shares each quarter
Private equity (k)	2,196,926	1,321,423	manager's discretion	N/A	10-year maturity with potential 2 one-year extensions
U.S. equity markets fund (l)	-	1,195,255	quarterly	N/A	Redeem shares after 1 year on a quarterly basis
Total partnerships	10,469,036	14,413,989			
Total investments at net asset value	\$ 199,466,885	\$ 103,426,303			

(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.



**U. S. Endowment for Forestry and Communities, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

---

- (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 non-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 seeks to provider investors with a marketable alternative strategies investment program capable of producing consistently positive returns regardless of the direction of the broader markets. The long-term return objective is to outperform 3-month Treasury bills by more than 400 basis points annually, net of fees and expenses. The goal of the Fund is to offer access to a moderate volatility investment program with little or no net market exposure, yielding consistent returns independent of market direction. The Fund allocates assets to investment funds managed by third party investment managers("Third Party Investment Funds") in four broad investment categories: event-driven, credit, equity market neutral and absolute return multi-strategy managers. Some or all of the marketable alternative strategies may be deployed across U.S. and non-U.S. markets.
- (e) 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.
- (f) 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.
- (g) 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.
- (h) The fund investment strategy is to achieve absolute returns primarily by seeking investment opportunities from inefficiencies in financial markets worldwide. The fund seeks to achieve this objective through investing and trading primarily in fixed income securities worldwide and in derivatives relating to those securities.
- (i) 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.
- (j) 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.
- (k) 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.
- (l) 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 publicly traded money market funds, equity securities, and equity, fixed income and limited publicly 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, 2018 to December 31, 2019:



**U. S. Endowment for Forestry and Communities, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

	Fair Value Measurements Using Unobservable Inputs (Level 3)								
	Private Credit Fund	Real Estate Opportunity Fund	Natural Resources Partnerships	Private Equity Partnerships	Venture Capital Partnership	Distressed Debt Partnership	Property Fund	Offshore Limited Partnership	Total
Beginning balance, December 31, 2018	\$ -	\$ -	\$ 1,242,530	\$ 6,696,785	\$ 4,319,374	\$ 252,490	\$ 3,231,533	\$ 3,131,801	\$ 18,874,513
Total gains or losses included in changes in net assets:									
Unrealized gains	219,912	404,075	30,440	1,147,099	1,092,197	31,265	89,597	313,165	3,327,750
Purchases, issuances/subscriptions, and sales:									
Purchases	1,530,632	4,164,529	498,000	1,127,500	668,750	-	128,983	1,009,208	9,127,602
Sales/distributions	-	(241,953)	(140,756)	(1,489,049)	(884,058)	(141,600)	(3,450,113)	(207,659)	(6,555,188)
Ending balance, December 31, 2019	<u>\$ 1,750,544</u>	<u>\$ 4,326,651</u>	<u>\$ 1,630,214</u>	<u>\$ 7,482,335</u>	<u>\$ 5,196,263</u>	<u>\$ 142,155</u>	<u>\$ -</u>	<u>\$ 4,246,515</u>	<u>\$ 24,774,677</u>

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 Partnership	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	<u>\$ 1,242,530</u>	<u>\$ 6,696,785</u>	<u>\$ 4,319,374</u>	<u>\$ 252,490</u>	<u>\$ 3,231,533</u>	<u>\$ 3,131,801</u>	<u>\$18,874,513</u>

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:



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

### **Notes to Consolidated Financial Statements**

---

The Endowment has an investment in a private credit fund of \$1,750,544 and \$0 at December 31, 2019 and 2018, respectively. The Endowment has committed a total of \$5,000,000 and has unfunded commitments of \$3,469,000 as of December 31, 2019. These funds can be redeemed with 5-90 days advance notice (15% of prevailing NAV with 5 business days prior written notice). The partnership invests primarily in U.S. corporate middle market direct lending, with some exposure to non-U.S. corporate middle market direct lending, real estate lending and private credit opportunities.

The Endowment has an investment in a real estate opportunity fund of \$4,326,651 and \$0 at December 31, 2019 and 2018, respectively. The Endowment has committed a total of \$12,000,000 and has unfunded commitments of \$10,287,707 as of December 31, 2019. These funds can be redeemed quarterly with 120 days advance notice prior to the last business day of the calendar quarter. The partnership invests primarily in non-core private real estate funds. The objective of the fund is to deliver non-core real estate exposure primarily through external real estate managers.

The Endowment has an investment in a natural resources partnership of \$1,630,214 and \$1,242,530 at December 31, 2019 and 2018, respectively. The Endowment has committed a total of \$4,000,000 and has unfunded commitments of \$1,638,000 and \$2,860,000 as of December 31, 2019 and 2018, 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 \$7,482,335 and \$6,696,785 at December 31, 2019 and 2018, respectively. The Endowment has committed a total of \$12,500,000 and has unfunded commitments of \$18,789,118 and \$4,157,750 as of December 31, 2019 and 2018, 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 \$5,196,263 and \$4,319,374 at December 31, 2019 and 2018, respectively. The Endowment has committed a total of \$14,000,000 and has unfunded commitments of \$9,217,500 and \$2,386,200 as of December 31, 2019 and 2018, 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 publicly 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 \$142,155 and \$252,490 at December 31, 2019 and 2018, respectively. The Endowment has committed a total of \$2,000,000 and has unfunded commitments of \$305,200 and \$305,200 as of December 31, 2019 and 2018. 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 \$0 and \$3,231,533 at December 31, 2019 and 2018, respectively. The Endowment has committed a total of \$3,000,000 and has unfunded commitments of \$16,835,471 and \$0 as of December 31, 2019 and 2018, 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%.



**U. S. Endowment for Forestry and Communities, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

---

The Endowment has an investment in an offshore limited partnership fund of \$4,246,515 and \$3,131,801 at December 31, 2019 and 2018, respectively. The Endowment has committed a total of \$5,000,000 and has unfunded commitments of \$948,838 and \$1,958,046 as of December 31, 2019 and 2018, 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, 2019 and 2018.

## **5. Property and Equipment**

Property and equipment at December 31, 2019 and 2018 consists of the following:

	<u>2019</u>	<u>2018</u>
Land	\$ 137,794	\$ 137,794
Building and equipment	324,116	698,380
Construction in progress	<u>15,322,848</u>	<u>6,978,764</u>
Total property and equipment	<u>15,784,758</u>	<u>7,814,938</u>
Less: accumulated depreciation	<u>(139,093)</u>	<u>(207,101)</u>
	<u>\$ 15,645,665</u>	<u>\$ 7,607,837</u>

## **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, 2019 and 2018, approximately \$5,052,000 and \$5,039,000, respectively, was recorded within 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, 2019 and 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 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 \$168,000 and \$155,000 for the years ended December 31, 2019 and 2018, 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 \$115,000 and \$90,000 at December 31, 2019 and 2018, respectively.



**U. S. Endowment for Forestry and Communities, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

---

**8. Net Assets**

Net assets with donor restrictions that are restricted for the following purposes at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Cellulosic Nanofibrils GRAS Study	\$ 428,045	\$ 428,045
NRCS – DoD Forest Conservation	27,500	55,000
Endowment earnings to support ongoing programs (See Note 9)	30,682,480	1,429,295
Forest Conservation Fund	806,586	526,586
Sustainable Forestry and Land Retention	300,000	-
Forest Resilience Bonds	434,000	500,000
Savannah River Project	62,293	114,465
Other	763,435	69,964
	<u>\$ 33,504,339</u>	<u>\$ 3,123,355</u>

Net assets with donor restrictions that are endowed 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.



**U. S. Endowment for Forestry and Communities, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

Donor-restricted endowment net asset composition by type of fund as of December 31, 2019 is as follows:

	<b>Net Assets With Donor Restrictions- Time <u>Restricted</u></b>	<b>Net Assets With Donor Restrictions- In <u>Perpetuity</u></b>	<b><u>Total</u></b>
Donor-restricted endowment funds	<b><u>\$ 30,682,480</u></b>	<b><u>\$ 200,000,000</u></b>	<b><u>\$ 230,682,480</u></b>

Changes in donor-restricted endowment net asset for the year ended December 31, 2019 are as follows:

	<b>Net Assets With Donor Restrictions- Time <u>Restricted</u></b>	<b>Net Assets With Donor Restrictions- In <u>Perpetuity</u></b>	<b><u>Total</u></b>
Endowment net assets, December 31, 2018	<b>\$ 1,429,295</b>	<b>\$ 200,000,000</b>	<b>\$ 201,429,295</b>
Investment return:			
Investment fees, net	<b>(84,759)</b>	<b>-</b>	<b>(84,759)</b>
Net unrealized and realized investment gains	<b><u>37,512,944</u></b>	<b><u>-</u></b>	<b><u>37,512,944</u></b>
Total investment return	<b><u>37,428,185</u></b>	<b><u>-</u></b>	<b><u>37,428,185</u></b>
Appropriation of assets for expenditures	<b><u>(8,175,000)</u></b>	<b><u>-</u></b>	<b><u>(8,175,000)</u></b>
Endowment net assets, December 31, 2019	<b><u>\$ 30,682,480</u></b>	<b><u>\$ 200,000,000</u></b>	<b><u>\$ 230,682,480</u></b>

Donor-restricted endowment net asset composition by type of fund as of December 31, 2018 is as follows:

	<b>Net Assets With Donor Restrictions- Time <u>Restricted</u></b>	<b>Net Assets With Donor Restrictions- In <u>Perpetuity</u></b>	<b><u>Total</u></b>
Donor-restricted endowment funds	<b><u>\$ 1,429,295</u></b>	<b><u>\$ 200,000,000</u></b>	<b><u>\$ 201,429,295</u></b>

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

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



### ***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, 2019 and 2018.

### ***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 \$19,511,000 at December 31, 2019. These contracts are committed for varying dates through 2023.

## **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, 2019, the Endowment made multi-year commitments to fund specific research and public interest projects with other nonprofit organizations and universities. Committed funds totaled approximately \$7,761,000. These contracts are committed for varying dates through 2023.



**U. S. Endowment for Forestry and Communities, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

---

Subsequent to the consolidated statement of financial position date, the World Health Organization declared the outbreak of COVID-19, a novel strain of Coronavirus, a pandemic. The coronavirus outbreak is disrupting supply chains and affecting production and sales across a range of industries. The extent of the impact of the outbreak on the Endowment's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on customers, employees and vendors, and governmental, regulatory and private sector responses. The consolidated financial statements do not reflect any adjustments as a result of the subsequent increase in economic uncertainty.

In response to the COVID-19 pandemic, the Coronavirus Aid, Relief and Economic Security (CARES) Act was signed into law on March 27, 2020. One provision of the CARES Act is the establishment of the Paycheck Protection Program (PPP) under the Small Business Administration's 7(a) program. The PPP provides for loans to be made to small businesses effected by the COVID-19 pandemic. If certain criteria are met, small businesses receiving PPP loans may have all or a portion of the loans forgiven, effectively converting the outstanding balance and accrued interest to a grant. Any portion of PPP loans not forgiven have a term of two years and bear interest at 1.0%, with repayments deferred for six months. In April 2020, the Endowment received a PPP loan of approximately \$253,000.

The Endowment evaluated the effect subsequent events would have on the consolidated financial statements through October 8, 2020, which is the date the consolidated financial statements were available to be issued.



## ***Supplemental Information***



**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 statements of financial position as of December 31, 2019 and 2018, and the related consolidated statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 8, 2020.

***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.



***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  
October 8, 2020



**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 each of the Endowment's major federal programs for the year ended December 31, 2019. The Endowment's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the Endowment's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 programs. However, our audit does not provide a legal determination of the Endowment's compliance.

***Opinion on Each Major Federal Programs***

In our opinion, the Endowment complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of the major federal programs for the year ended December 31, 2019.



***Report on Internal Control Over Compliance***

Management of the Endowment is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Endowment's internal control over compliance with the types of requirements that could have a direct and material effect on each of the major federal programs 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  
October 8, 2020



**U. S. Endowment for Forestry and Communities, Inc. and Subsidiaries**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended December 31, 2019**

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>	<u>Expenditures to Subrecipients</u>
<b>Research and Development - cluster</b>			
<i>U. S. Department of Agriculture</i>			
<u>Direct Program:</u>			
Forestry Research	10.652	\$ <u>216,176</u>	\$ <u>211,482</u>
Total Research and Development - cluster		<u>216,176</u>	<u>211,482</u>
<i>U. S. Department of Agriculture</i>			
<u>Direct Program:</u>			
Cooperative Forestry Assistance	10.664	624,494	251,141
Wood Utilization Assistance	10.674	1,146,869	285,674
Soil and Water Conservation	10.902	1,942,686	1,720,341
Environmental Quality Incentives Program	10.912	504,314	187,232
Regional Conservation Partnership Program	10.932	<u>20,795</u>	<u>20,795</u>
Total U. S. Department of Agriculture		<u>4,455,334</u>	<u>2,676,665</u>
<i>Environmental Protection Agency</i>			
<u>Direct Program:</u>			
Healthy Watersheds Consortium Grant Program	66.441	<u>1,085,581</u>	<u>1,065,178</u>
<i>U.S Department of Commerce</i>			
<u>Direct Program:</u>			
Economic Adjustment Assistance	11.307	<u>49,482</u>	<u>-</u>
<i>U.S. Department of Defense</i>			
<u>Direct Program:</u>			
Protecting Private Working Forests	12.004	8,270	-
Legacy Resource Management Program	12.632	<u>233,427</u>	<u>42,609</u>
Total U. S. Department of Defense		<u>241,697</u>	<u>42,609</u>
Total expenditures of Federal awards		<u>\$ 5,832,094</u>	<u>\$ 3,784,452</u>



**U. S. Endowment for Forestry and Communities, Inc. and Subsidiaries**  
**Notes to Schedule of Expenditures of Federal Awards**  
**Year Ended December 31, 2019**

---

**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, 2019. 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, 2019 reflects CFDA changes issued through August 2019.



**U. S. Endowment for Forestry and Communities, Inc. and Subsidiaries**  
**Schedule of Findings and Questioned Costs**  
**Year Ended December 31, 2019**

---



---

**Section I—Summary of Auditors' Results**

---

Consolidated 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  
consolidated 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

12.632  
66.441  
10.674

Legacy Resource Management Program  
Healthy Watersheds Consortium Grant Program  
Wood Utilization Assistance

Dollar threshold used to distinguish  
between type A and type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

  X   Yes \_\_\_\_\_ No



**U. S. Endowment for Forestry and Communities, Inc. and Subsidiaries**  
**Schedule of Findings and Questioned Costs (continued)**

---

---

**Section II— Consolidated Financial Statement Findings**

---

There were none.

---

---

**Section III— Federal Award Findings and Questioned Costs**

---

There were none.