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

Consolidated Financial Statements

Years Ended December 31, 2020 and 2019

Table of Contents

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, 2020 and 2019, 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, 2020 and 2019, 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.

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 *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (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 September 9, 2021 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 9, 2021

U. S. Endowment for Forestry and Communities, Inc. and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2020 and 2019

	2020	2019
ASSETS		
Cash and cash equivalents	**$ 2,316,343**	$ 3,521,455
Restricted cash	**5,060,032**	5,052,302
Grants receivable	**3,124,287**	3,823,109
Other receivables	**731,690**	1,647,810
Other assets	**448,369**	363,202
Notes receivable, net of allowance for doubtful accounts of approximately $0 in 2020 and $491,000 in 2019	**2,205,093**	2,329,928
Investments	**247,828,142**	230,682,480
Property and equipment, net	**19,802,511**	15,645,665
Total assets	**$ 281,516,467**	$ 263,065,951
LIABILITIES AND NET ASSETS		
Accounts payable and other accruals	**$ 2,892,117**	$ 2,419,774
Other liabilities	**5,515,132**	5,252,303
Total liabilities	**8,407,249**	7,672,077
Net assets:		
Net assets without donor restrictions:		
Without donor restrictions	**22,355,249**	22,594,391
Noncontrolling interest	**-**	(704,856)
With donor restrictions	**250,753,969**	233,504,339
Total net assets	**273,109,218**	255,393,874
Total liabilities and net assets	**$ 281,516,467**	$ 263,065,951

U. S. Endowment for Forestry and Communities, Inc. and Subsidiaries
Consolidated Statements of Activities
For the Years Ended December 31, 2020 and 2019

	2020	2019
Without donor restrictions:		
Interest and dividend income, net of investment fees	$ 149,940	$ 121,967
Federal support	7,646,699	7,339,009
Private support	748,813	687,886
Other income	342,687	283,233
Net assets released from restrictions	9,696,199	9,695,397
Total support, revenues and gains	18,584,338	18,127,492
Expenses:		
Program	17,441,315	16,771,911
Management and general	677,309	750,199
Total expenses	18,118,624	17,522,110
Increase in net assets without donor restrictions	465,714	605,382
With donor restrictions support, revenues and gains:		
Interest and dividend income, net of investment fees	(517,834)	(84,759)
Net realized and unrealized gains on investments and other investment income	25,471,496	37,512,944
Private support	1,992,167	2,648,196
Net assets released from restrictions	(9,696,199)	(9,695,397)
Increase in net assets with donor restrictions	17,249,630	30,380,984
Total increase in net assets	17,715,344	30,986,366
Net assets at beginning of year	255,393,874	224,407,508
Net assets at end of year	$ 273,109,218	$ 255,393,874

U. S. Endowment for Forestry and Communities, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2020 and 2019

	2020	2019
Cash flows used by operating activities:		
Increase in net assets	$ 17,715,344	$ 30,986,366
Adjustments to reconcile increase in net assets to net cash used by operating activities:		
Net realized and unrealized gains on investments and other investment income	(25,471,496)	(37,512,944)
Depreciation	203,834	22,443
Loss on disposals of property and equipment, net	-	283,828
Net changes in operating assets and liabilities:		
Grants receivable	698,822	(837,702)
Other receivables	916,120	1,111,023
Other assets	(85,167)	(122,684)
Notes receivable	124,835	(1,146,588)
Accounts payable and other accruals	472,343	(533,013)
Other liabilities	262,829	211,522
Net cash used by operating activities	(5,162,536)	(7,537,749)
Cash flows from investing activities:		
Sales of investments	101,559,642	329,845,124
Purchases of investments	(93,233,808)	(321,585,365)
Purchases of property and equipment	(4,360,680)	(8,344,099)
Net cash provided (used) by investing activities	3,965,154	(84,340)
Net decrease in cash and cash equivalents	(1,197,382)	(7,622,089)
Cash and cash equivalents at beginning of year	8,573,757	16,195,846
Cash and cash equivalents at end of year	$ 7,376,375	$ 8,573,757
Reconciliation of cash and cash equivalents:		
Cash and cash equivalents	$ 2,316,343	$ 3,521,455
Restricted cash	5,060,032	5,052,302
	$ 7,376,375	$ 8,573,757

U. S. Endowment for Forestry and Communities, Inc. and Subsidiaries
Consolidated Statements of Functional Expenses
For the Years Ended December 31, 2020 and 2019

	2020			2019		
	Program	Management and General	Total	Program	Management and General	Total
Oregon Torrefaction, Timberhauling.com, ForesTrust and Restoration Fuels	**$ 2,370,723**	**$ -**	**$ 2,370,723**	$ 1,945,037	$ -	$ 1,945,037
Community Wealth Through Forestry	**-**	**-**	**-**	-	20,303	20,303
All other programs	**13,029,779**	**-**	**13,029,779**	13,308,973	-	13,308,973
Compensation - officers	**525,262**	**131,316**	**656,578**	290,019	72,505	362,524
Compensation - non-officers	**983,322**	**350,884**	**1,334,206**	784,779	341,164	1,125,943
Training/Recruitment	**2,203**	**458**	**2,661**	44	17,217	17,261
Employee benefits	**355,503**	**73,883**	**429,386**	276,240	58,016	334,256
Travel	**13,449**	**8,667**	**22,116**	96,586	72,897	169,483
Communications	**75,063**	**15,600**	**90,663**	46,854	22,677	69,531
Utilities/Supplies/Other	**34,471**	**7,164**	**41,635**	-	34,012	34,012
Professional services	**34,370**	**83,958**	**118,328**	12,434	67,960	80,394
Insurance	**17,170**	**3,568**	**20,738**	10,840	16,261	27,101
Interest expense	**-**	**1,811**	**1,811**	-	1,675	1,675
Taxes/other	**-**	**-**	**-**	105	25,512	25,617
	$ 17,441,315	**$ 677,309**	**$ 18,118,624**	$ 16,771,911	$ 750,199	$ 17,522,110

Notes to the Consolidated Financial Statements

1. Description of Organization and 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 consolidated financial statements for the year ended December 31, 2019. 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 consolidated financial statements for the years ended December 31, 2020 and 2019.

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 consolidated financial statements for the years ended December 31, 2020 and 2019.

The Endowment has a wholly owned subsidiary, ForesTrust, LLC ("FT"). The purpose of FT is to provide a cost-effective network to accurately and efficiently track wood and wood fiber from the forest to the consumer. FT became operational in September 2020 and its activity has been consolidated in the consolidated financial statements for the year ended December 31, 2020.

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, 2020 and 2019. OT was dissolved in August of 2020.

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 for the year ended December 31, 2019.

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, 2019	$ (2,967,621)	$ (2,262,765)	$ (704,856)
Revenues in excess of expenses	2,967,621	2,262,765	704,856
Balances, December 31, 2020	$ -	$ -	$ -

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 the Federal Deposit Insurance Corporation (“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.

Restricted Cash

Restricted cash consists of funds received from the Commonwealth of Virginia and Mountain Valley Pipeline, LLC that are to be used to provide mitigation of the forest fragmentation impacts from the Mountain Valley Pipeline project. The Endowment is required to hold the funds, together with any interest and investment returns thereon, in a separate account to be used for funding of the forest mitigation projects.

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 2021 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 $129,613 and $2,454,253 at December 31, 2020 and 2019, 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 $205,023,298 and $199,466,885 at December 31, 2020 and 2019, 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 statements of financial position also include investments in certain private limited partnerships valued at $42,519,689 and $24,774,677 at December 31, 2020 and 2019, 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 $203,834 and $22,443 for the years ended December 31, 2020 and 2019, 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 on the consolidated 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.

Notes receivable - Notes receivable amount of approximately $2,205,000 and $2,330,000 as of December 31, 2020 and 2019. The fair value of notes receivable is estimated to be approximately $2,135,000 and $2,203,000 as of December 31, 2020 and 2019. 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, 2020.

RF is a limited liability company under the Internal Revenue Code. RF reported a net loss for the years ended December 31, 2020 and 2019, 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, 2020 and 2019, 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 years ended December 31, 2020 and 2019, therefore, there was no tax expense. Accordingly, no provision has been made for Federal or state income taxes.

FT is a limited liability company under the Internal Revenue Code. FT reported a net loss for the year ended December 31, 2020, therefore, there was no tax expense. Accordingly, no provision has been made for Federal or state income taxes.

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 statements of financial position date, comprise the following:

Financial assets at December 31:

	2020	2019
Cash and cash equivalents	**$ 2,316,343**	$ 3,521,455
Grants receivable	**3,124,287**	3,823,109
Other receivable	**731,690**	1,647,810
	$ 6,172,320	$ 8,992,374

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:

	2020	2019
Cash held in brokerage accounts	**$ 155,543**	$ 3,986,665
Money market funds	**129,613**	2,454,253
Equity common and commingled trust funds	**117,886,788**	113,075,866
Fixed income common and commingled trust funds	**45,730,351**	47,248,542
Real asset common and commingled trust funds	**13,626,011**	12,312,658
Directional hedge funds	**22,166,070**	16,360,783
Limited partnerships	**5,614,077**	10,469,036
Private limited partnerships	**42,519,689**	24,774,677
Total investments	**$ 247,828,142**	$ 230,682,480

The investments detailed above represent all investments held by the investment manager at December 31, 2020 and 2019, 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 interest and dividend income.

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 2020.

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, 2020 and 2019:

		Fair value measurements at December 31, 2020 using:		
	Fair value at December 31, 2020	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	$ 129,613	$ 129,613	$ -	$ -
Private limited partnerships	42,519,689	-	-	42,519,689
Total investments included in the fair value hierarchy	42,649,302	$ 129,613	$ -	$ 42,519,689
Investments at net asset value	205,023,298			
Total investments	$ 247,672,600			

	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	$ 2,454,253	$ 2,454,253	$ -	$ -
Private limited partnerships	24,774,677	-	-	24,774,677
Total investments included in the fair value hierarchy	27,228,930	$ 2,454,253	$ -	$ 24,774,677
Investments at net asset value	199,466,885			
Total investments	$ 226,695,815			

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, 2020 and 2019:

	Fair value at December 31, 2020	Fair value at December 30, 2019	Redemption Frequency	Redemption Notice Period	Redemption Terms
Equity common and commingled trust funds (a)	**$ 117,886,788**	$ 113,075,866	monthly	5 – 30 days	none
Fixed income common and commingled trust funds (b)	**45,730,351**	47,248,542	monthly	5 – 30 days	none
Real asset common and commingled trust funds (c)	**13,626,012**	12,312,658	daily	2 days	none
Diversifying(d)	**22,166,070**	16,360,783	quarterly	120 days	Redeem 25% of shares
Partnerships measured at NAV:					
Sector based (e)	**-**	2,205,894	monthly	Last business day	$1 million increments no partial redemptions
Debt focused (f)	**-**	2,245,603	quarterly	90 days	none
Absolute return fund (g)	**1,210,922**	2,357,059	annually	N/A	Redeem 50% of shares after 24 months annually quarterly basis
Long/short investments fund (h)	**-**	1,463,554	quarterly	N/A	Redeem 25% of shares each quarter
Private equity (i)	**4,403,155**	2,196,926	manager's discretion	N/A	10-year maturity with potential 2 one-year extensions
Total partnerships	**5,614,077**	10,469,036			
Total investments at net asset value	**$ 205,023,298**	$ 199,466,885			

(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 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 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.
(g) 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.
(h) 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.
(i) 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.

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, 2019 to December 31, 2020:

	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	Offshore Limited Partnership	Total
Beginning balance, December 31, 2019	$ 1,750,544	$ 4,326,651	$ 1,630,214	$ 7,482,335	$ 5,196,263	$ 142,155	$ 4,246,515	$ 24,774,677
Total gains or losses included in changes in net assets:								
Unrealized gains/(losses)	190,794	565,691	(221,423)	2,620,806	3,417,855	(10,525)	246,203	6,809,401
Purchases, issuances/subscriptions, and sales:								
Purchases	600,886	8,806,213	560,000	1,834,750	2,270,500	-	-	14,072,349
Sales/distributions	-	(140,372)	(145,000)	(903,882)	(956,334)	-	(991,150)	(3,136,738)
Ending balance, December 31, 2020	$ 2,542,224	$ 13,558,183	$ 1,823,791	$ 11,034,009	$ 9,928,284	$ 131,630	$ 3,501,568	$ 42,519,689

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:

	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 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	$ 1,750,544	$ 4,326,651	$ 1,630,214	$ 7,482,335	$ 5,196,263	$ 142,155	$ -	$ 4,246,515	$ 24,774,677

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 private credit fund of $2,542,224 and $1,750,544 at December 31, 2020 and 2019, respectively. The Endowment has committed a total of $5,000,000 and has unfunded commitments of $2,868,482 and $3,469 000 as of December 31, 2020 and 2019, respectively. 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 $13,558,183 and $4,326,651 at December 31, 2020 and 2019, respectively. The Endowment has committed a total of $21,000,000 and has unfunded commitments of $8,029,258 and $10,287,707 as of December 31, 2020 and 2019, respectively. 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 $1,823,791 and $1,630,214 at December 31, 2020 and 2019, respectively. The Endowment has committed a total of $4,000,000 and has unfunded commitments of $1,802,000 and $1,638,000 as of December 31, 2020 and 2019, 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 $11,034,009 and $7,482,335 at December 31, 2020 and 2019, respectively. The Endowment has committed a total of $24,500,000 and has unfunded commitments of $13,175,000 and $18,789,118 as of December 31, 2020 and 2019, 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 $9,928,284 and $5,196,263 at December 31, 2020 and 2019, respectively. The Endowment has committed a total of $14,000,000 and has unfunded commitments of $6,947,000 and $9,217,500 as of December 31, 2020 and 2019, 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 $131,630 and $142,155 at December 31, 2020 and 2019, respectively. The Endowment has committed a total of $2,000,000 and has unfunded commitments of $305,200 as of December 31, 2020 and 2019. 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 an offshore limited partnership fund of $3,501,568 and $4,246,515 at December 31, 2020 and 2019, respectively. The Endowment has committed a total of $5,000,000 and has unfunded commitments of $948,838 as of December 31, 2020 and 2019, 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 on investments in the consolidated statements of activities. There were no transfers in or out of Level 3 for the years ended December 31, 2020 and 2019.

5. Property and Equipment

Property and equipment at December 31, 2020 and 2019 consists of the following:

	2020	**2019**
Land	**$ 615,868**	$ 137,794
Building	**324,101**	324,116
Machinery and equipment	**7,072,227**	-
Construction in progress	**12,133,242**	15,322,848
Total property and equipment	**20,145,438**	15,784,758
Less: accumulated depreciation	**(342,927)**	(139,093)
	$ 19,802,511	$ 15,645,665

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 on the Consolidated statements 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, 2020 and 2019, approximately $5,060,000 and $5,052,000, respectively, was recorded within other liabilities on the consolidated statements of financial position, with an offsetting asset record in restricted cash.

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, 2020 and 2019. The line of credit was renewed in November 2020 and expires on November 1, 2022. The line of credit is secured by investments.

In response to the COVID-19 pandemic, the Coronavirus Aid, Relief and Economic Security (CARES) Act provides for the establishment of the Paycheck Protection Program (PPP), a new loan program under the Small Business Administration's 7(a) program providing loans to qualifying businesses. Additionally, loans originated under this program may be forgiven, in whole or in part, if certain criteria are met. The Endowment received a PPP loan totaling $253,289 and has elected to account for the funds received in accordance with ASC Topic 470, Debt. In order to be forgiven, funds from these loans may only be used to satisfy payroll costs, costs used to continue health care benefits, mortgage payments, rent, utilities, and interest on certain other debt obligations. The Endowment believes it has used the proceeds of the loan for qualifying expenses under the PPP. The loan accrues interest at a rate of 1% and has an original maturity date of two years which can be extended to five years by mutual agreement of the Endowment and the lender. Payments are deferred during the deferral period, which began on the loan origination date and extends for 10 months beyond the last day of the Endowment's covered period. Any unforgiven portion of the PPP loan is payable in equal installments of principal and interest from the end of the deferral period through the scheduled maturity date. In addition, to the extent the loan is not forgiven, any interest accrued during the deferral period is due on the date of the first payment after the end of the deferral period. See Note 12 for further information regarding the PPP loan.

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 $207,000 and $168,000 for the years ended December 31, 2020 and 2019, 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 $128,000 and $115,000 at December 31, 2020 and 2019, respectively.

8. Net Assets

Net assets with donor restrictions that are restricted for the following purposes at December 31, 2020 and 2019:

	2020	2019
Cellulosic Nanofibrils GRAS Study	**$ 578,675**	$ 428,045
NRCS – DoD Forest Conservation	**27,500**	27,500
Endowment earnings to support ongoing programs (See Note 9)	**47,828,142**	30,682,480
Forest Conservation Fund	**831,586**	806,586
Environmental Impact Funds- Pennsylvania	**215,000**	300,000
Forest Resilience Bonds	**216,667**	434,000
Savannah River Project	**47,745**	62,293
Other	**1,008,654**	763,435
	$ 50,753,969	$ 33,504,339

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.

Donor-restricted endowment net asset composition by type of fund as of December 31, 2020 is as follows:

	Net Assets With Donor Restrictions- Time Restricted	Net Assets With Donor Restrictions- In Perpetuity	Total
Donor-restricted endowment funds	$ 47,828,142	$ 200,000,000	$ 247,828,142

Changes in donor-restricted endowment net asset for the year ended December 31, 2020 are as follows:

	Net Assets With Donor Restrictions- Time Restricted	Net Assets With Donor Restrictions- In Perpetuity	Total
Endowment net assets, December 31, 2019	$ 30,682,480	$ 200,000,000	$ 230,682,480
Investment return:			
Investment fees, net	(517,834)	-	(517,834)
Net unrealized and realized investment gains	25,471,496	-	25,471,496
Total investment return	24,953,662	-	24,953,662
Appropriation of assets for expenditures	(7,808,000)	-	(7,808,000)
Endowment net assets, December 31, 2020	$ 47,828,142	$ 200,000,000	$ 247,828,142

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

	Net Assets With Donor Restrictions- Time Restricted	Net Assets With Donor Restrictions- In Perpetuity	Total
Donor-restricted endowment funds	$ 30,682,480	$ 200,000,000	$ 230,682,480

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

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

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 net assets without donor restrictions as of December 31, 2020 and 2019.

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 of Directors, 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 $15,322,000 at December 31, 2020. 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.

As of December 31, 2020, RF was involved in an ongoing dispute which was settled in April 2021 for $450,000. This settlement is reflected in property and equipment, net and accounts payable and other accruals on the consolidated statements of financial position as of December 31, 2020.

In March 2020, 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 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.

12. Subsequent Events

In May 2021, the Endowment applied for forgiveness of the PPP loan discussed in Note 6. In July 2021, the PPP loan was forgiven in its entirety.

In June 2021, the Endowment entered into a Subscription Agreement to purchase an interest in Commonfund Private Credit Fund II, L.P. with a total capital commitment of $7,000,000.

The Endowment evaluated the effect subsequent events would have on the consolidated financial statements through September 9, 2021, which is the date the consolidated financial statements were available to be issued.

Supplementary 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, 2020 and 2019, 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 September 9, 2021.

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) as a basis for designing 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 consolidated financial statements. 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 9, 2021

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, 2020. 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 federal statutes, regulations, and terms and conditions of its federal awards applicable to its federal program.

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 the major federal program for the year ended December 31, 2020.

DHG

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
September 9, 2021

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	$ 11,786	$ -
Total Research and Development - cluster		11,786	-
U. S. Department of Agriculture			
Direct Program:			
Cooperative Forestry Assistance	10.664	491,778	268,910
Wood Utilization Assistance	10.674	2,041,311	237,366
Soil and Water Conservation	10.902	1,500,507	1,140,656
Environmental Quality Incentives Program	10.912	323,295	191,534
Regional Conservation Partnership Program	10.932	26,169	26,169
Total U. S. Department of Agriculture		4,383,060	1,864,635
Environmental Protection Agency			
Direct Program:			
Healthy Watersheds Consortium Grant Program	66.441	772,511	752,641
U.S Department of Commerce			
Direct Program:			
Economic Adjustment Assistance	11.307	220,058	160,873
U.S. Department of Defense			
Direct Program:			
Protecting Private Working Forests	12.004	11,665	-
Legacy Resource Management Program	12.632	352,959	57,493
Total U. S. Department of Defense		364,624	57,493
Total expenditures of Federal awards		$ 5,752,039	$ 2,835,642

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, 2020. 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, 2020 reflects CFDA changes issued through August 2020 and addendum dated December 2020.

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*
10.902	Soil and Water Conservation

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.