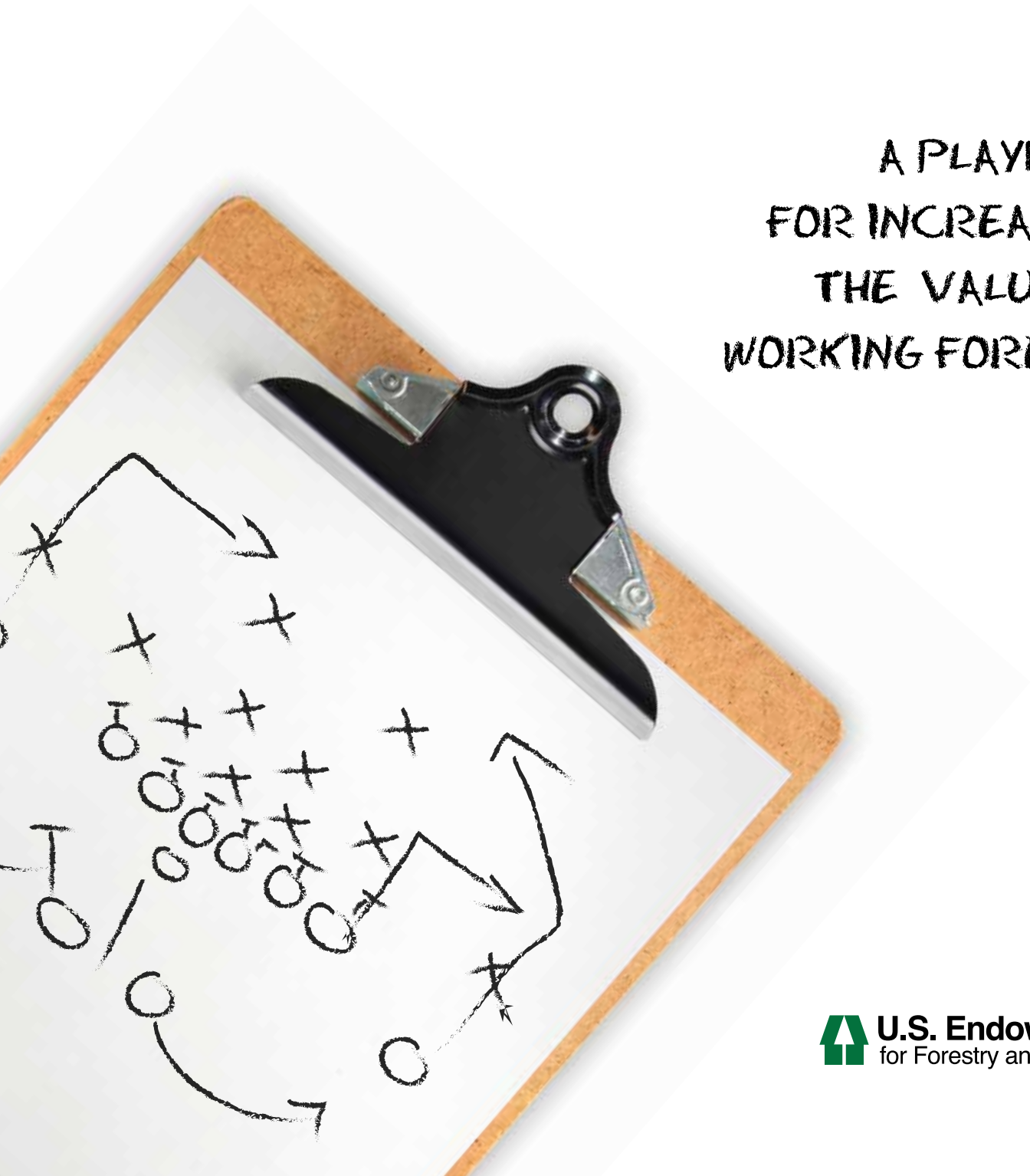


Annual Report 2013

A PLAYBOOK
FOR INCREASING
THE VALUE OF
WORKING FORESTS





Mack L. Hogans

Mack L. Hogans
Chairman



Carlton N. Owen

Carlton N. Owen
President & CEO

A Word from the Chairman

It has been a privilege to be part of both the "Coaching Staff" and "Cheering Squad" for this All-Star Team. In just seven years, the Endowment has developed into an organization with amazing influence on America's forests and rural communities. Each time governmental leaders from the U.S. and Canada share an appreciation with me for the Endowment's work, I point to a wonderful volunteer board and a small but dedicated staff. As of November 2013, I completed my service, having acted as Chairman for the last four years.

Our numerous successes are a direct result of commitment to mission and wise risk-taking. My favorites include:

- **Check-Offs** - We pioneered the work leading to the first research and promotion program for a forest product - softwood lumber. The anticipated \$15 million generated annually will grow markets for renewable products. In late 2013 the paper & packaging sector followed with an overwhelming vote to create their own program, which could generate up to \$25 million annually for research and promotion.
- **Biotechnology** - Through collaboration with researchers and others, we helped plumb the potential of biotechnology to advance forest health at a pace and scale unprecedented in the forestry community.
- **Regional Collaboration** - Our significant investment in Forest Investment Zones enabled collaboration at new cross-boundary levels in the Dry, Northern, and Central Appalachian Forest Zones.

Much remains to be done but I'm confident that the Endowment team will meet the challenge with systemic, transformative, and sustainable change.

Let me say a word of appreciation to three of our inaugural coaching staff - David Dodson, Mil Duncan and Karl Stauber - for their outstanding leadership and, a hardy welcome to our top-rated recruits, Judith Stockdale and Colin Moseley. Finally, in that regard, we leave the team in great hands with Head Coach John Weaver as the new Chairman.

Thoughts from the President

Our nation's forests truly are a natural resource of great strategic value. Managed sustainably they provide more than 5,000 products used in daily living as well as ecosystem services such as water, air, wildlife habitat, and recreation opportunities.

Our forest-centric mission, embedded in the 2006 Softwood Lumber Agreement, is deployed through a "playbook" designed to support the North American forest industry by adding value to forests.

With a corpus of just under \$200 million, we are small compared to other foundations, but we multiply on-the-ground impacts through a commitment to leveraging every dollar by building bridges with the usual, and often new, players.

This report reflects our work, who we are, and how we do business. We invite you to "get in the game" with us.

Our 2013 investment highlights include:

- Planting the first American chestnut genetically modified to be disease and blight resistant;
- Embarking on the next frontier for the forest industry and green products: nanotechnology;
- Seeking new ways to help minority landowners enhance and steward their forest assets;
- Hosting the second Canada/U.S. Forest Health Summit, delivering even more strategic collaboration for the citizens and forests of both countries; and
- Joining the Southern Loggers Cooperative to invest in diesel depots to improve timber harvester's economic vitality.

And, 2014 holds even more promise for new wins for America's forests and people.



Mission

The Endowment works collaboratively with partners in the public and private sectors to advance systemic, transformative, and sustainable change for the health and vitality of the nation's working forests and forest-reliant communities.

Vision

America's forests are sustainably managed to meet broad societal objectives such as marketable products, clean waters, wildlife habitats and other ecological services, while ensuring healthy and vibrant forest-reliant communities.

History

The U.S. Endowment for Forestry and Communities, Inc. (the Endowment) is a not-for-profit public charity. It was established September 21, 2006, at the request of the governments of the United States and Canada in accordance with the terms of the 2006 Softwood Lumber Agreement between the two countries.

Theory of Change

The Endowment operates under a "theory of change" that focuses on work in three areas: retaining and restoring healthy working forests; promoting and capturing multiple value streams; and enhancing community capacity, collaboration, and leadership.

While many of our programmatic investments don't lend themselves to simple characterization, all are closely aligned and integrate well under this theory.

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Chair, Audit Committee
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Tamar Datan
Leesburg, VA

David Dodson¹
Chair, Governance & Nominating Committee
Durham, NC

Mil Duncan¹
Vice Chair
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Ottawa, Canada

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Karl Stauber¹
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John Weaver
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Peter Stangel
Senior Vice President
Aiken, SC

Interns

George Flowers
Furman University

Anne-Marie Melief
Furman University

1. Ended service, November 2013

2. Began service, November 2013

Ultimately Support the North American Forest Industry

Increase the Value of Forests

We huddle with all the players, seeking a win for all. By creating a welcoming and outcome-oriented environment, cross-sector and international boundary collaboration reaches new levels.



“Collaboration at new levels and across sectors and borders is essential to solving forest health challenges. If we take the right approach we’ll create lots of family-supporting jobs along the way.”

Jim Hubbard

Deputy Chief
State & Private Forestry
USDA Forest Service

The State and Future of U.S. Forestry and the Forest Industry

The forest products industry and forestry sector in the United States have experienced extreme volatility, unprecedented challenges, and substantial change over the past two decades. In many areas, old operating assumptions have been discarded at an increasingly rapid pace, and practitioners, policy makers, researchers, and educators have struggled to keep up.

To address these challenges, the Endowment huddled with a group of leaders in Washington, D.C. in May to discuss this changing context and its implications for forests and forestry at an event co-sponsored with the USDA Forest Service and hosted by the Society of American Foresters and Resources for the Future.

Among the many outcomes and recommendations from the workshop was strong recognition that to keep pace in the face of global competition, the U.S. forestry sector needs to demonstrate increased investment in research and product development and improvements that open currently restricted markets, increase raw material utilization, and appeal to a younger, more diverse, and broader workforce and customer base.

Healthy Watersheds through Healthy Forests

Forested watersheds provide drinking water for two out of three Americans. Protecting those watersheds from risks such as wildfire, development, and insects and diseases is a daunting task.

Traditional game plans to protect watersheds call for government grants or heavy-handed regulation. Since 2009 the Endowment has invested \$4 million and leveraged \$3.2 million more to create a new playbook. We are helping communities generate new funding sources to protect their watersheds and integrate this approach with traditional treatment and storage strategies.

For example, in partnership with the USDA Natural Resources Conservation Service, the Endowment helped Raleigh, NC establish a watershed protection fee that generates nearly \$2 million annually. Other funding options include conservation ballot initiatives and changes in base water rates to include watershed protection.

The next play includes teaming-up with the American Water Works Association, a non-profit dedicated to managing and treating water. Together, we will engage water utilities and the water community to develop forested watershed protection strategies.



“Protecting water sources is the first step toward ensuring safe, adequate supplies of affordable drinking water. The American Water Works Association is pleased to join with the Endowment in its efforts to help local communities protect the forested watersheds that provide the majority of Americans with their drinking water. This work supports our mission to effectively manage water, the world’s most important natural resource.”

David LaFrance

Executive Director
American Water Works Association

Systemic, Transformative & Sustainable Change

Our game plan for systemic, transformative, and sustainable change includes borrowing from the playbook of winners, solid team play, showing up early and staying late, and practice, practice, practice.



"Our commitment to environmental stewardship and forestry innovation dates back to 1890. Check-off programs for the forest products industry will help ensure that our industry has a bright future."

Colin Moseley

Chairman
Green Diamond
Resource Company

Check-off Programs for Forest Products

The Endowment helped bring the forest products industry into the game of USDA Research and Promotion programs - known as check-off programs - to grow markets for sustainably produced forest products. These programs have done wonders for a range of farm and ranch products from cotton (The Fabric of Our Lives) to cows (Got Milk?).

Our first scoring drive was in 2011 when the Softwood Lumber Industry voted to create a check-off program that should generate about \$15 million annually to grow that sector.

Our second scoring drive took place late in the fourth quarter of 2013, when the world's paper and paper-based packaging producers voted overwhelmingly to implement a check-off program to help grow awareness and markets. This drive was co-funded by the Endowment and demonstrates this sector's strong desire to remain competitive.

And, quite honestly, we're trying to run-up the score. The Endowment is recruiting a third check-off player - hardwood lumber and hardwood plywood - and others are being visited.

These three sectors combined stand to generate \$55 million annually to improve their products and grow markets for forest landowners and forest products producers. The resulting win means maintaining or adding thousands of family-supporting jobs in timber harvesting, manufacturing, sales, construction, and consumer products.



Growing Markets

Restoring demand for forest products made in the U.S. will help revitalize the forest industry and provide an economic incentive to keep forests working and healthy. We take calculated risks on new plays to restore existing markets and create new ones.



"Oregon is committed to making the LEAF pilot project successful. This project fits perfectly with our new Forest Biomass Strategy and the Governor's Energy Action Plan."

Matt Krumenauer
Senior Policy Analyst
Oregon Department of Energy

Wood-to-Energy Initiative

The Endowment took to the field to explore opportunities in woody biomass in 2008 and expanded the Initiative in 2010. To date, \$7.4 million in direct funding from the Endowment and the USDA Forest Service has generated a \$96 million impact in leveraged investments, research, and education for the understanding and advancement of sustainable wood-to-energy applications through the Woody Biomass Joint Venture.

Highlights from 2013 include:

- **Local Energy for America Fund (LEAF):** Capital is scarce to convert small-scale facilities to clean and efficient, wood-derived thermal energy. This Endowment-led pilot combines private and philanthropic capital into a fund to accelerate conversions, which in turn will grow the wood-to-energy market. Oregon's Department of Energy matched an initial \$750,000 from the Endowment to support projects across the state as well as put a star player in the LEAF-Oregon coordinator role. New Hampshire is the next pilot under development.
- **Efficiency standards for commercial-scale biomass thermal energy systems:** Biomass acceptance has been hindered because no standards were available to compare this renewable energy source with traditional fuels. Through a team effort led by the Biomass Thermal Energy Council (BTEC), and with the Endowment, USDA Forest Service, and West Penn Power Fund playing financial supporting roles, these standards are now in the works, which will make it easier for architects and engineers to consider biomass in their planning. A defined and tested tool to inform rules and incentives will encourage state and federal lawmakers and regulators to consider biomass for reducing the environmental impact of heating and cooling.
- **Comprehensive woody biomass user database:** Who's on the team? Until the www.wood2energy.org website was created through an Endowment grant to the University of Tennessee, many of the players were unknown. This is now the most comprehensive source of interactive information on woody biomass users with 23,000 facilities listed. In late 2013 the Biomass Power Association, Biomass Thermal Energy Council and Pellet Fuels Institute joined the Endowment and the USDA Forest Service to upgrade and maintain the database.

Advance Forest Health

The Hall of Fame is made up of
risk-takers who never quit.



“At Duke Energy, we work with environmental stakeholders at the national, state and local levels to identify and advance environmental and energy policies for the good of people, profits and the planet. We look forward to more opportunities to advance biotechnology as a tool for forest health in partnership with the Forest Health Initiative.”

Mariann Quinn

Director of Environmental
Policy and Strategy
Duke Energy

Return of the American Chestnut

The pressing need for a score makes the “two-minute drill” a potent strategy. If it’s late in the game for any tree species, it’s the American chestnut. Battered by blight and fungus, it’s essentially extinct in the wild. But, genetic engineering offered some tantalizing opportunities to dramatically accelerate progress toward a resistant tree. The Endowment pledged \$1 million, matched by \$5 million from USDA Forest Service and Duke Energy, and our team of scientists and conservation organizations went into a no-huddle offense.

In spring of 2013, we conducted our first test-planting of an American chestnut in Virginia, with genes inserted in the laboratory from the related, and blight and fungus resistant, Chinese chestnut. It may not be a touchdown yet, but we are in the red zone.

This quick success with 21st Century technology to address the American chestnut’s woes is just one example of the Endowment’s Forest Health Initiative. With more than 35 partners, we are rushing downfield to increase the potential of biotechnology as a tool for forest health and to develop guidance for using biotechnology in environmentally responsible ways. Investing in genetic engineering is a calculated risk, but early indications are that it might just pay off.



Invigorating Forest-Rich Communities

A good coach brings out the best in the team by building on hidden strengths. Healthy and productive forests are a winning play for building rural family and community wealth.



"The NRCS collaboration with the Endowment is an exciting example of Secretary Vilsack's strategy for private sector partnerships. From national funding to NRCS "boots on the ground" we are fully engaged in this effort to serve socially disadvantaged forest landowners in the South."

Leonard Jordan

Associate Chief for Conservation
USDA Natural Resources
Conservation Service

Retaining African American Owned Forests

For millions of rural African American families, discrimination, unclear titles, taxes, and lack of effective management have turned land from an asset to a liability. The tragic result? Black-owned agricultural land decreased from 15 million to less than three million acres over the past century.

Despite the loss, the \$14 billion current value of Black-owned rural land is a vital asset for building rural family and community wealth.

Answering a strong call from USDA Secretary Tom Vilsack to restore value to rural minority-owned land, the Endowment invested \$1 million to test models of support for Black forest landowners through the new Sustainable Forestry and African American Land Retention program. Our teammates at the Natural Resources Conservation Service and the USDA Forest Service are providing \$900,000 in matching funds, as well as technical assistance, forest management planning, and subsidies for forest improvements to participating landowners.

The wager is that improved sustainable forest management and access to emerging wood markets will increase the profitability of Black land ownership and help stem the land drain. To test the concept, networks of USDA and state agencies, nonprofits, universities, and forestry corporations led by trusted community organizations will work with landowners to improve forest management and increase profitably in Northeastern North Carolina, Coastal South Carolina, and West Alabama.



"The program will bring African American families together to solve two perplexing problems - wealth creation and land retention. For me, it's about the future of the Lacey family, our property, and our grandchildren."

Jerry Lacey

Alabama forest owner
Project Leader LRLEAN



Do What Others Can't or Won't

"Nanotechnology – A New Frontier for Forests"

Imagine a football helmet that is lighter, stronger, and more protective. Cellulosic nanomaterial from our forests might make it possible. Throughout history, forests have fueled our nation's growth, whether for energy, ship-building, rails, homes, or paper and fiber. Cellulosic nanomaterial may be the next chapter in the playbook for our forests. Wood-based nanomaterial is renewable, has exceptional strength and is considerably lighter than traditional materials. Potential applications include ballistic glass replacements, body armor, auto and aerospace structural materials, flexible electronic circuits, solar panels, and much more.

In the near future, new jobs will emerge based on nanomaterial production, development of finished products, and transportation to markets around the world.

The Endowment and USDA Forest Service have committed to a shared investment of \$4 million and a full-time coordinator to help a cadre of players reach commercialization benchmarks, including the first commercial cellulosic nanomaterial facility in the U.S. by 2016.

Bridge Builders

U.S./Canada Forest Health Summit

Defeating tough opponents requires the offensive and defensive squads to work in harmony. That's the Endowment's goal for the Summits that are bringing together the resources of the U.S and Canadian Forest Services. Why build this bridge? Overcoming the challenges that face forests—pests, disease, fire, climate change, and sagging markets, to name a few – will be more likely if the U.S. and Canada cooperate. The two Summits advance a shared strategic vision for forest health across international boundaries.

Through the Summit process, 11 specific actions were identified to address markets, wildland fire, forest inventory, and pests. Examples include creation of a coalition to advance a "green bio-economy," real-time assessments of stand and tree-level data, a North American response plan to catastrophic fire, and much more.

Risk Takers

Forests and Gulf Restoration

The Endowment and American Forest Foundation have joined forces with the five Gulf State Foresters to revitalize the forest economy and ecosystems damaged by the Deepwater Horizon oil spill. Healthy forests are essential for clean, abundant water, wildlife habitat, and storm protection. The goal is to secure funding and

implement projects that will pay dividends to the region long after the settlement funds are gone. Region-wide approaches to growing the forest economy, forested watershed health and resiliency, and native forest ecosystems are plays being considered.

Statements of Financial Activity (For the 12 Months ended December 31)

Program Income and Expenses

	2013*	2012	2011
Program Income (public and private support)	\$3,134,000	\$2,222,000	\$3,136,000
Program Expenditures (grants, program-related investments, workshops and related expenses)	5,252,000	7,310,000	5,903,000

Administrative Expenses

Personnel, General and Administrative	\$624,000	\$611,000	\$439,000
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Investment Income and Expense

Investment and Dividend Income	\$4,005,000	\$2,010,000	\$2,749,000
Realized and Unrealized Gains (Losses)	14,497,000	14,958,000	(13,374,000)
Total Increase (Decrease) in Net Assets	\$15,760,000	\$11,269,000	(\$13,831,000)
Net Assets at Beginning of Period	189,072,000	177,803,000	191,634,000
Net Assets at End of Period	\$204,832,000	\$189,072,000	\$177,803,000

Leverage

**From 2007 - 2013, a \$22,487,000
Endowment investment leveraged
\$151,041,000 for a total of \$173,528,000
for projects.**

Grantee Match
\$132,780,000

Partner Match
\$18,261,000

Endowment
\$22,487,000



* 2013 information is preliminary pending completion of year-end closing and audit procedures.

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