

ANNUAL REPORT 2008



A Word From The Chairman & The President

Our focus in 2008 has been on implementation — putting programmatic investments in place to begin producing fruit — building on the “root system” we established in 2007.

Programmatic Actions

We saw some of our earliest work come to conclusion — a study of the status of community-based forestry among them. Additionally, we announced an ambitious multi-million-dollar, multi-year program (Forest Investment Zones) that will begin rolling out in early 2009. In the pages that follow, we list all of the 2008 work with more detailed focus on just a few.

Operating Conditions and Financial Realities

Our Board of Directors, which is unmatched in depth and breadth of relevant experience and commitment, excelled against seemingly limitless external challenges and instability. With great foresight, the Board adopted a contingency plan for significant market downturns in May not knowing just how quickly such policy guidance would be needed. Yet, even against unprecedented market volatility that led the Endowment's corpus to slide by nearly \$80 million from its peak, the Board made programmatic commitments for the next three to five years. In slowing the rate of projected payout over the next few years, we believe the Board exhibited the best balance of “commitment to mission” and to “fiduciary responsibility.” These decisions, combined with a lean staffing model, position the Endowment very favorably for the future.



Lodgepole
Mid-Stage

Partnering and Leveraging

We entered into funding partnerships with the U.S.D.A. Forest Service and have a collaborative study on the status of woody biofuels that engages the Canadian and U.S. governments and their forest industries. We intend to grow these and other partnerships in 2009.

Convenings

On three very different topics (logging and transportation; conservation easements; and retention of landscape-scale working forests) the collective experiences, energies and insights from cross-sector gatherings opened the doors to new ways of seeing needs and the potential of new partnerships.

Lessons Learned

There are many dedicated people and organizations working hard to make a difference in the health of the nation's forests and its rural communities. Our contributions are only possible as we build on the works of those who have come before us and as we partner to extend our collective vision and reach.

Looking Ahead

The Endowment is rising to the spirit and intent of those who envisioned a new not-for-profit dedicated to making a difference at the nexus of healthy working forests and the communities that depend upon them. As we enter our third year, we look to even greater opportunities and successes.

Dick Molpus, Chairman

Carlton Owen, President & CEO

The People of the U.S. Endowment

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Interns*

Matthew Rutledge

January–February

Cameron Tommey

March–May

Sara Sharp

June–Mid-August

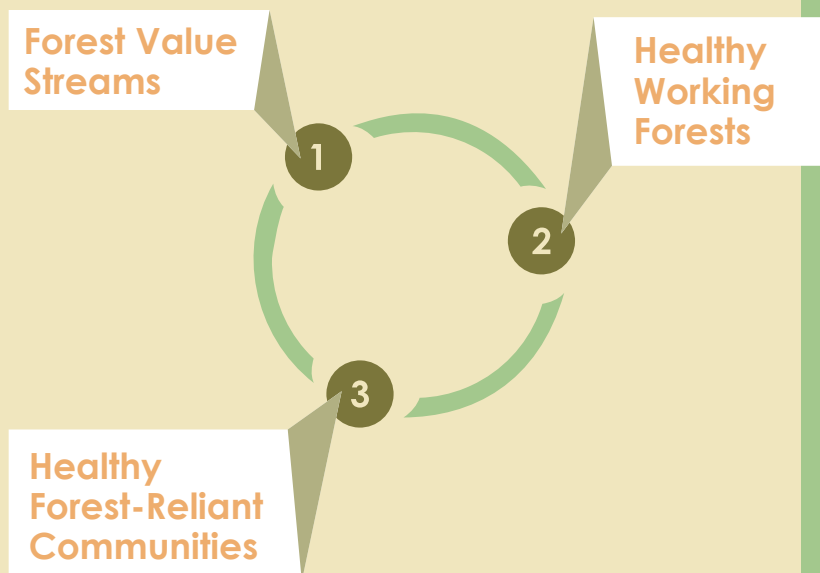
Arthur Williams, IV

Mid-August–December

*All from Furman University

Theory of Change

The Endowment operates under a simply depicted "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 the programmatic investments undertaken in 2008 don't lend themselves to simple characterization, all are closely aligned and integrate well under this theory.



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.

Conserving Working Forest Landscapes – Locally, Regionally and Nationally

Forging Partnerships for a Brighter Future

Increasing rates of working forest losses tells only part of the story. Fragmentation of those forests that remain — fewer large intact blocks of forests that exhibit all ecological functions of a healthy forest — is greatly exacerbating the problem.

Longtime Speaker of the U.S. House of Representatives Tip O'Neill once declared, *"All politics is local."* We believe there is a corollary — *"All working forest conservation is local."* The Endowment is working closely with a range of partners at multiple levels to ensure that America's working forests and all of their benefits — social, environmental and economic — are available for future generations.

Partnership for Southern Forestland Conservation

The Endowment, along with the Forest Service, Southern Group of State Foresters, The Conservation Fund, The Nature Conservancy (TNC), Department of Defense (DoD), Forest Landowners Association and others have created a loose confederation of interests quickly enlisting other supporters in the Partnership for Southern Forestland Conservation (the Partnership). Participants in the Partnership come to the table with differing objectives and interests that all intersect at the need to protect landscape-scale working forests.

"An often overlooked benefit of working forests is national defense. Working forests make especially good neighbors for DoD installations and ranges that are vital to the training needs of our armed forces," says Bruce Beard, Environmental Readiness, DoD.



Lodgepole
Pine Cone

TNC views working forests as important contributors to its conservation mission and sustainable management as a critical conservation strategy. *"We're excited about participating in the Partnership,"* says Paul Trianosky, Director of Forest Conservation for TNC's Southern U. S. Region, *"and believe this effort holds great promise to achieve conservation in large landscapes across the South."*

The Partnership has established a goal of protecting an additional 20 million acres of working forest landscapes by 2020 — that's an area slightly larger than the state of Maine!

All-Star Leadership

The Partnership won't seek to acquire lands or conservation interests in working forests directly. That will be the role of the individual partners. Gary Myers, the longtime director of the Tennessee Wildlife Resources Agency, and Brian Dangler, a forester with extensive private forest management experience, serve as Partnership Co-coordinators.

Fast Facts

- Fully one-third of the U.S. is covered by forests.
- The U.S.D.A. Forest Service projects that up to 44 million acres of forest lands in the U.S. will be lost to development by 2030 with the lion's share occurring across the South.
- How large is 44 million acres? That's the size of Georgia — the largest state east of the Mississippi River (and the nation's No. 1 state for commercial forest land) — with Vermont thrown in for good measure.

Coalition for Working Forest Conservation

Just as surely as highways, factories and schools are vital parts of the nation's infrastructure, so too are working forests. The Endowment joined with the newly-formed National Alliance of Forest Owners (NAFO) and a diverse group of interests representing private forest owners, conservation organizations and natural resources agencies to ensure that working forests are viewed as a vital part of the nation's strategic natural resource infrastructure.

The broad national coalition that is emerging will build a framework to sustain and enhance the nation's working forests at the landscape-level. To be successful, the cooperators agree that such a framework should:

- Strengthen existing and emerging markets for goods and services working forests can provide
- Support and align public and private investments and partnerships to maintain working forest landscapes
- Align government policies to support the long-term viability of working forests



Lodgepole
Seedling
Stage

Expanding Our Commitment to Openness and Transparency ... by the Numbers

External Complaints Policy

May 20, 2008

The Board adopted a formal process to ensure a consistent means to deal with any formal or informal complaints lodged against a staff member or organization action.

Number of Complaints Filed in 2008: 0

Blog

July 9, 2008

In an effort to further enhance communication regarding Board and Staff thinking on various topics, the Endowment launched an interactive Blog.

Number of Blog Stories in 2008: 9

Enhancing Grantee Interaction

The Endowment is committed to continual improvement in its interaction with potential grantees. Staff contacted every person/organization that had responded to a Request for Pre-proposals asking for their input about improvement opportunities. Input led to significant changes in the Endowment's online grants system.

Number of Surveys Conducted in 2008: 2

Number of Responses: 72 (67% response rate)

Public Accessibility

When conducting an Internet search via Google using only "U.S. Endowment" as the search phrase, how does the U.S. Endowment for Forestry and Communities rate?

Number Ranking of Top Responses: 1st and 2nd

Visit www.usendowment.org for more info.



Programmatic Investments at a Glance:

Vibrant Communities

PROJECT:	"The Status of Community-based Forestry and Community-owned Forests in the U.S."	"National Community Forest Trust"	"Understanding Community Resilience and Identifying Tools for Assessing Resilience"
INTENT:	State-of-the-issue report on community-based forestry and community-owned forests nationally	Augment local and regional capacity through development of a national support system for communities wishing to acquire forest lands	State-of-the-issue report on community resilience and assessment tools
PARTNER:	Community Forest Consortium	The Conservation Fund	Yellow Wood Associates
ENDOWMENT INVESTMENT:	\$183,995	\$100,000 / Total Investment \$200,000 (Funding Partner: Ford Foundation)	\$28,000
STATUS:	Complete; Report available via website	In progress (2-year initiative)	In progress

Healthy Working Forest Landscapes

PROJECT:	Convening – "The State of Timber Harvesting and Transportation in the U.S."	Convening – "The State of Conservation Easement Information Management in the U.S."	"A Work Plan and Business Plan to Acquire and Distribute Conservation Easement Data"
INTENT:	Assess the potential for the Endowment in strengthening timber harvesting and transportation systems	Assess the state of systems to monitor and manage conservation easement data nationally	Follow-up to convening to identify considerations for developing a national conservation easement database.
PARTNER:	The Endowment	Forest Service; Fish & Wildlife Service; Natural Resources Conservation Service; Ducks Unlimited; Land Trust Alliance; The Nature Conservancy; National Fish & Wildlife Foundation; others	Danyelle O'Hara, Consultant
ENDOWMENT INVESTMENT:	\$9,465	\$4,349	\$10,740
STATUS:	Complete; Report available via website	Complete; Report available via website	Complete; Report available via website

Integrated Activities: Value Streams/Healthy Working Forests

PROJECT:	"The Status of Wood-based Bioenergy/Biofuels Technologies and Industries in North America"	"Community-scale Woody Biomass Applications"
INTENT:	A state-of-the-issue report and information management system regarding the current and emerging woody biomass/biofuels industry in the U.S. and Canada.	State-of-the-issue report on community-scale (non-industrial; non-residential) uses of woody biomass across North America with best-in-class examples from Europe
PARTNER:	University of Tennessee	Biomass Energy Research Center
ENDOWMENT INVESTMENT:	\$25,000 / Total Investment \$199,638 (Funding Partners: U.S. Forest Service; Forest Service of Canada; American Forest & Paper Association; Forest Products Association of Canada)	\$25,000 / Total Investment: \$99,500 (Funding Partners: U.S. Forest Service; Forest Service of Canada; American Forest & Paper Association; Forest Products Association of Canada)
STATUS:	In progress	In progress

Integrated Activities: Miscellaneous

ADDITIONAL PROGRAMATIC EXPENDITURES:	\$14,771
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Programmatic Investments at a Glance:

Identifying and Capturing Value Streams

PROJECT:	"The Status of and Opportunities for Business Clustering Within the Forest Products Sector in the U.S."	"Commodity Check-offs and Their Potential for North American Softwood Lumber"	Convening – "Considering Forest Industry Interest in a Wood Products Check-off"
INTENT:	Assess opportunities, benefits and challenges to clustering of forest-sector businesses.	State-of-the-issue report on commodity check-offs and their potential to grow markets for sustainably produced forest products	Roll-out results of report and determine industry interest in developing a forest products check-off for North America lumber or building products
PARTNER:	Mississippi State University (Cooperators: University of Missouri; Dovetail Associates)	Phoenix Strategies	The Endowment
ENDOWMENT INVESTMENT:	\$123,168	\$147,290	\$50,000
STATUS:	Complete; Report in Development	Complete; Reports available via website	Complete; Blue Ribbon Commission being formed to develop draft check-off

Healthy Working Forest Landscapes

PROJECT:	"Advancing Forest Health Through Biotechnology"	Convening – "Conserving Working Forest Landscapes"	"Conserving Working Forest Landscapes across the Southern U.S."
INTENT:	Determine the state-of-the-science along with social and regulatory potential to use biotechnology to address emerging forest health threats from pests and diseases	Developing a collaborative approach to protect landscape scale working forests across the U.S.	Develop a South-wide initiative to increase working forest conservation, especially of landscape-level forests across the South to 20,000,000 additional acres by 2020
PARTNER:	Multi-party to be determined	The Endowment and National Alliance of Forest Owners (NAFO)	Partnership for Southern Forestland Conservation
ENDOWMENT INVESTMENT:	\$1,000,000 / Total Investment \$5,500,000-\$10,000,000 (Funding Partners: U.S. Forest Service; Duke Energy; others)	\$10,000 / Total Investment \$20,000 (Funding Partner: NAFO)	\$150,000 / Total Investment \$450,000 (Funding Partners: U.S. Forest Service; others)
STATUS:	Begins in 2009 (3-year initiative)	Complete; developing follow-up mechanism (consortium)	In progress (3-year initiative)

Integrated Activities: Vibrant Communities/Value Streams/Healthy Working Forests

PROJECT:	"Forest Investment Zones: Co-creating Innovation and Learning at the Regional Level"	"Working Forests Marketplace"
INTENT:	Partner with three regional intermediary organizations to invest in sustainable forestry practices at the regional level that retain and restore healthy working forests, and provide multiple value streams which contribute to the social and economic health of forest-reliant communities	Link grassroots investors with sustainable enterprises to conserve working forests in America
PARTNER:	Mountain Association for Community Economic Development; Northern Forest Center; Sustainable Northwest	The Conservation Fund
ENDOWMENT INVESTMENT:	\$6,000,000+ / Total Investment: Unknown at present	\$1,000,000 / Total Investment: \$1,750,000 (Funding Partner: The Conservation Fund)
STATUS:	Begins in 2009 (5-year initiative)	Begins in 2009 (3-year initiative)

Total

TOTAL MULTI-YEAR ENDOWMENT COMMITMENT

\$8,881,778

Engaging Communities in Forest Management

Understanding the Practice and Place of Community-Based Forestry

Community-based Forestry (CBF) is founded on collaboration among diverse interests and demonstrates that rural communities can look to the forests surrounding them to aid in revitalizing their economies, protecting habitat for important species and providing ecological services like clean water and air. Their search is for approaches to the management of forest ecosystems, whether publicly or privately owned, that (over the long-term) integrate equity, sustainable forest management and community development. The Endowment sponsored a "state-of-the-issue" assessment, *The Status of Community-Based Forestry in the United States* report, by the Community Forest Consortium — a collaboration of CBF interests.

CBF is having an impact

CBF's collaborative processes are serving to reduce conflicts among place-based communities, interest groups and public agencies, especially when it comes to the management of public lands. They are increasing the quality and quantity of management while saving money by forestalling litigation. Hazardous fuels reduction and watershed health improvement projects are among the more prominent works. And CBF is promoting the practice of sustainable forestry by creating a culture of long-term stewardship through education and training in the science of sustainability.

CBF played a positive role in advances in the 2008 Farm Bill, expansion of stewardship contracting on federal lands and enhancements to *Community Wildfire Protection Plans*.

While gains are not across the board, CBF has also played an important role in some western communities where restoration of access to public lands has aided in retaining or rebuilding local business infrastructure as a direct

result of a more consistent supply of raw materials. In the East, community acquisition of forestland has helped secure a productive forestland base and prevent fragmentation as a first step in redeveloping the local forest-based economy.

"CBF practices have grown, matured, and expanded over the last decade, with promising results." – Marcy Lyman, Community Forest Consortium

Across the nation, CBF projects serve as incubators yielding quality jobs and opportunities to create new products and businesses as well as new product marketing systems. And they are creating potential for regional economic development by combining traditional forest products with renewable energy and ecosystem services markets.

Building social assets and community capacity in rural communities both in terms of individual and community wealth, learning and leadership are undergirded by building trust, encouraging reciprocity, cooperation and facilitating information flow.

The Road Ahead

Though the practice of CBF nationally is diverse and growing, it faces challenging issues. Among them:

- Balancing local collaboration and project implementation with engaging in policy — especially as relates to federal lands;
- Gaining access or strong relationships with urban centers for markets and political support; and
- Identifying consistent financial support for general operating expenses as well as for capital and education programs.

"CBF shows promise as a component of strategies to revitalize rural communities and their economies by building confidence, capacity and creating new economic opportunities." – Lynn Jungwirth, Watershed Research and Training Center



Lodgepole
Pine Branch



Growing Markets for Environmentally-Preferable Wood-Based Products

“Got Milk?”

“Beef: It’s What’s for Dinner!”

“Pork: The Other White Meat”

Broad initiatives like these, designed to research, promote and grow markets for America’s commodity producers, are called “check-offs.” In 2008, the Endowment studied the potential of commodity check-offs for North American markets for environmentally-preferable wood-based products. The study yielded many lessons, among them:

- In 1996 Congress passed legislation explicitly extending check-offs to forest products;
- Other commodity producers from mangos to milk found check-offs highly successful in building consumer support and growing markets;
- Overseen by the Department of Agriculture, check-offs are among the most democratic of promotional tools as producers voluntarily align to influence their futures;
- While the assessment on a single product is small, cumulative collections across an entire sector can provide substantial pools of funding (dairy nearly \$280 million; beef \$80 million); and
- North American producers representing nearly 60 percent of wood products production are favorably disposed to the potential of a check-off.

What’s at Stake?

U.S.D.A. Forest Service and industry studies suggest the potential of an additional 14.4 bbf (billion board feet) of annual growth in wood markets. That’s a 22-percent increase against peak markets of 2005 and 35 percent more than 2008.

Why Does the Endowment Care About Wood Markets?

Simply put, there are many things that the private sector can do that a non-profit can’t. If the Endowment is to meet its vision, we must have a vibrant forest products industry that provides robust markets for trees, which in turn supports jobs and families in rural communities. Check-offs have proven especially successful at growing markets for locally-produced products. Additionally, the Endowment is doing just what foundations should do — *“that which others can’t or won’t.”*

Next Steps

After completing Phase I (evaluating potential) and Phase II (assessing interest), the Endowment will oversee Phase III. This final phase will involve working with a Blue Ribbon Commission of sector leaders to develop the specifics of a check-off for potential vote and implementation perhaps in early 2011. While the Endowment has invested approximately \$200,000 in Phases I and II, all of Phase III support (approximately \$500,000) will be provided through a grant from a third party.



Mature
Lodgepole
Pine

The 2008 Financial Report

Administrative Expenditures

	2008	2007
Staff Salaries and Benefits	\$505,644	\$439,427
Office and General Expenses	62,871	76,658
Board and Staff Travel	83,765	70,858
Professional Fees	75,136	21,072
Miscellaneous	1,822	1,366
Total	729,238	609,381

Program Income Expenditures

Program Income (public and private support)	\$76,000	\$41,425
Program Expenditures (grants, workshops, and related expenses)	\$602,375	\$73,905

Administrative Expenditures

Investment Interest and Dividend Income	\$2,775,262	\$3,235,682
Investment Realized and Unrealized Capital Gains and Losses	(62,668,991)	10,682,829
Investment Fees and Expenses	159,390	124,285
Investments at fair value, end of year		
Operating Funds	\$4,967,777	\$5,929,744
Endowment Corpus	147,765,640	207,988,767
Total	\$152,733,417	\$213,918,511

Visit www.usendowment.org for more info.

NOTE: This information is from the internal books and records of the Endowment and is unaudited. A copy of the full audited financial statements will be posted on the Endowment's website when available.

Tree of the Year

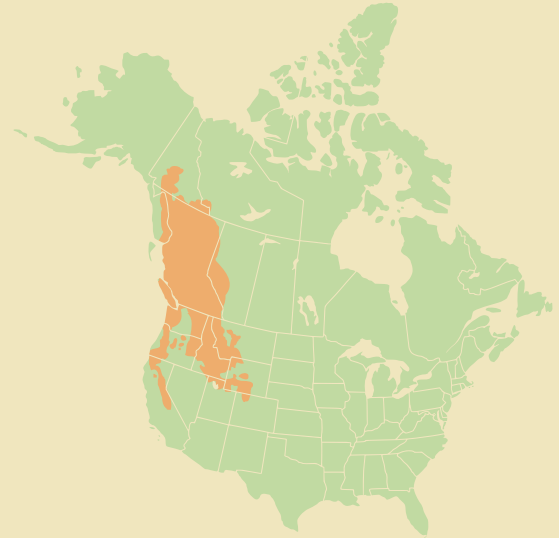
Lodgepole Pine

Pinus contorta

The lodgepole pine tree, one of five western pine species, covers some 15 million acres in the Western U.S. and 50 million acres in Canada. A softwood, lodgepole today has a variety of uses including studs, plywood, paneling, furniture and pulp production. Although lodgepole forests typically grow in fairly dense stands with a sparse understory, they are important for many wildlife species including big game, wolverine, goshawk and prairie falcon.

In recent years, millions of acres of lodgepole forests have been lost to unprecedented attacks by the native mountain pine beetle, which is exploding in numbers and impact because of climate change. Once the beetle kills the standing tree, the only alternative is salvage harvesting or the all-too-frequent catastrophic wildfire. Because of the extent of the losses — nearly half of all lodgepole in Canada already — many communities across the tree's range are experiencing devastating economic impacts that may persist for decades beyond the current recession.

Range Map



 = Lodgepole Pine Country



Lodgepole Pine Stand Damaged by Pine Beetles



Lodgepole
Pine Sapling

The wood fiber used to make this paper is independently certified by one of the world's premier forest certification standards as coming from responsibly managed forests. Certification ensures that the Endowment's publications meet strict environmental and socio-economic principles consistent with our mission.