



U.S. Endowment
for Forestry and Communities

WORKING WITH NATURE

ANNUAL REPORT | 2017

TABLE OF CONTENTS

| | |
|---|-----------|
| LETTER FROM THE CHAIRMAN AND PRESIDENT | 2 |
| ABOUT THE ARTIST / <i>MAC STONE</i> | 4 |
| HEALTHY AND EFFICIENT ECOSYSTEMS | 5 |
| Prescribed Fire | 6 |
| Harney Community Energy | 7 |
| Healthy Watersheds Through Healthy Forests | 8 |
| Forest Health Initiative | 9 |
| Torrefied Biofuel | 10 |
| ADAPTING TO ENVIRONMENTAL CHANGE | 11 |
| Blue Ribbon Commission Report on Research & Development | 12 |
| Rural Development Innovators Group | 13 |
| Building With Nature's Products | 14 |
| Green Concrete & Plastics | 15 |
| FIRE! THOUGHTS ON MARKETS AND CONSERVATION | 16 |
| SAVING ALL THE PIECES | 17 |
| Enviva Forest Conservation Fund | 18 |
| Sustainable Forestry & Land Retention | 19 |
| Department of Defense | 20 |
| State Of America's Forests | 21 |
| BOARD OF DIRECTORS | 22 |
| STAFF | 23 |
| FINANCIALS | 24 |
| MISSION / VISION / / HISTORY / THEORY OF CHANGE | 25 |

LETTER FROM THE PRESIDENT & CHAIRMAN OF THE BOARD

OUR ELEVENTH ANNUAL REPORT uses a different lens to view how the Endowment goes about advancing its mission. “Working with Nature” showcases how almost all of our programmatic investments seek to leverage lessons from natural systems. It also tells those stories in nature’s language set in the context of outstanding photography generously supplied by our colleague and friend, Mac Stone (read more about Mac on page 4).

This year we explore how our work mimics nature via healthy and efficient ecosystems; adapting to environmental change; and, saving all the pieces. Too, we combine several of these vignettes with links to audio or video clips that explores our work more deeply. We hope our partners—both those who share in funding the work and those who are doing the work on the ground—gain your appreciation for all they are doing for America’s forests and the rural communities nested within them.

BOARD CHANGES

Each year not only turns a new page in our work but also in the people who help lead it. In late 2017 we said goodbye to John Kulhavi who has done a marvelous job of leading our Investment Committee for nearly six years. Under John’s leadership our financial resources are better positioned to weather the uncertainties that are the reality of financial markets.

Likewise we expressed appreciation to Alicia Cramer for two years of service and saw her transition from a Board role to Senior Vice President on the staff. While we had been thinking about adding bench strength with rich forest sector experience for some time, we hadn’t anticipated that such would come from within our own family.

To fill behind John and Alicia, we were especially pleased to welcome two exceptionally qualified additions in Kevin Schuyler and Rachel Jacobson. Kevin comes to the Endowment with experience in managing funds for our long-time partner, The Nature Conservancy, and several years as a principal in CornerStone Partners. Rachel has served many of our federal partners, holding senior leadership roles with the Department’s of Defense and Interior before joining DC-based WilmerHale.

STAFF CHANGES

The year was also one of great change for our staff. We were blessed not only to have Alicia join the “other side of the team” but to also make another gain with a “repurposed” addition as Matt Krumenauer shifted from a consulting role to a full time staff position. We deepened our finance team with the addition of Joie Moré who is truly “new” to the Endowment team. And, we rekindled our university internship program when Elly Gay joined after graduating

from Furman University. While the total team expanded significantly, shortly after year-end a planned retirement will see us contract to 8.5 full-time equivalents – still among the most leanly staffed foundations of our size. While moss grows in the forest, you won’t find any on our hardworking staff.

“IF A MAN DOES NOT
KNOW TO WHAT PORT
HE IS SAILING, NO
WIND IS FAVORABLE.

—SOCRATES

FINAL WORDS

It is our privilege to hold leadership positions in such an outstanding organization. Unlike the literally hundreds of trade organizations that represent some aspect of the forest sector, at the Endowment we are charged with supporting the greater sector and to do so in ways that build bridges and benefit the forest industry in all its forms in the U.S. as well as Canada. It is an awesome responsibility

that we do not take lightly. Our nation, continent, and indeed the entire world, benefit from our important work. Thus, we close the book on 2017 and look expectantly to 2018.



CARLTON N. OWEN
PRESIDENT & CEO




COLIN MOSELEY
CHAIRMAN OF THE BOARD



ABOUT THE ARTIST

MAC **STONE** is an internationally acclaimed conservation photographer and the executive director of Naturaland Trust in Greenville, SC. His work frequently documents the intersection of mankind and nature, highlighting the importance of wild lands, particularly wetlands of the southeast. Stone's images have been widely published including *BBC*, *National Geographic*, *Bing*, *CNN*, *WWF*, *NPR*, *Audubon Magazine* and many others.

You can find more of his photography at MacStonePhoto.com or enjoy his  TED talk which has received over a million views. Stone's 5-year project documenting the Everglades watershed, resulted in an award-winning book, *Everglades: America's Wetland*, which is now in its second printing and can be found wherever books are sold.

HEALTHY AND EFFICIENT ECOSYSTEMS

“THE MORE OUR WORLD FUNCTIONS LIKE THE NATURAL
WORLD, THE MORE LIKELY WE ARE TO ENDURE ON
THIS HOME THAT IS OURS, BUT NOT OURS ALONE.

—*Janine M. Benyus*



PRESCRIBED FIRE
BARBOUR, MACON, AND RUSSELL COUNTIES, ALABAMA

In the past year we have seen the terrifying destruction caused by wildfires—more than 85 percent of which are historically caused by humans. Yet there are times when humans need to strike a match. Through prescribed burns, landowners and land managers can replicate natural fire conditions to improve the health of ecosystems. Strategic use of fire to restore longleaf pine ecosystems in the Southeast will improve habitat for the gopher tortoise and other threatened or endangered species as well as contribute to soil health, forest health, and water quality. The Endowment is partnering with the Natural Resources Conservation Service to aid landowners in implementing low-intensity burns in landscapes where fire was once a natural phenomenon.



HARNEY COMMUNITY ENERGY
BURNS, OREGON



The new district heating plant in Harney County, Oregon, sources wood from local forests to heat the elementary school, courthouse, and other public buildings. By removing excess dead and dying trees from National Forests and private lands, the renewable energy solution reduces wildfire risks and creates healthier forest ecosystems. The conversion to wood-based energy also avoids the cost of buying fossil fuels while keeping energy dollars local. This innovative public-private partnership of the Endowment, Meyer Memorial Trust, and county government multiplies economic, ecological, and social benefits throughout the rural community.





HEALTHY WATERSHEDS THROUGH HEALTHY FORESTS
UPPER NEUSE RIVER BASIN, NORTH CAROLINA

Intact forests can be huge water filtration systems, but increased development around urban areas impairs this natural function. An Endowment–Natural Resources Conservation Service investment in local land trusts in Raleigh, North Carolina, led the water utility to institute a user fee to fund permanent conservation of important tracts of the city’s forested watershed. The result: natural water filtration and abundant clean water for local consumers. Since the program’s inception in 2012, \$15.5 million has enabled permanent protection of more than 7,600 acres of crucial land—including some 80 miles of streams.





FOREST HEALTH INITIATIVE / foresthealthinitiative.org
APPALACHIAN FORESTS

Trees evolved over eons as they adapted to environmental changes. When pushed by a rapidly changing climate and nonnative pests, however, many trees can't adapt quickly enough, and for some, time is running out. The Endowment, along with our partners at the U.S. Forest Service, Duke Energy, a half-dozen universities, and more than two dozen environmental groups, is working at the speed of need to help nature help itself. With the American chestnut as the test organism, the partners are using genetic modification to plumb the potential of modern bioscience to address invasive pests and diseases. The outcome could mean restoration of a signature tree species to Appalachian forests from Georgia to New England.



TORREFIED BIOFUEL
GRANT COUNTY, OREGON

Symbiosis is the interaction of often dissimilar organisms in close union, to the mutual benefit of all. The Endowment has applied this idea of unlikely but beneficial partnerships to ongoing work to find markets for the low-value, dead, and dying trees that are clogging our National Forests. The Ochoco Lumber Company, the Bonneville Environmental Foundation, the U.S. Forest Service, and various local landowners, service providers, and developers—certainly a surprising mix—are joining the Endowment in developing the first full-scale facility that will roast wood to make a green energy product. This torrefied wood burns like coal but has a small environmental footprint. The torrefaction facility will demonstrate commercial production of a valuable product that can turn a high-cost problem into an economic opportunity.



ADAPTING TO ENVIRONMENTAL CHANGE

“IT IS NOT THE MOST INTELLECTUAL OF THE SPECIES THAT SURVIVES...BUT THE ONE THAT IS ABLE BEST TO ADAPT AND ADJUST TO THE CHANGING ENVIRONMENT IN WHICH IT FINDS ITSELF.

—Leon C. Megginson



**BLUE RIBBON COMMISSION REPORT ON R&D
NATIONAL**

To realize the full benefit of America’s forests, society—and industry in particular—must work to retain them and keep them healthy and productive. Many traditional markets for forest products have dwindled because of economic conditions, changing consumer preferences, and competition from substitute products or overseas producers. Whereas other manufacturing sectors have responded to similar challenges by investing an average 3.4 percent of annual sales in innovation, adaptation, and research, the forest products sector invests only 0.5 to 0.6 percent in research and development. A high-level commission convened by the Endowment lays out the issues and recommends actions in “Final Report of the Blue Ribbon Commission on Forest and Forest Products Research and Development in the 21st Century.”





Rural communities across the nation are facing challenges of increasing magnitude. But communities in every corner of the country have begun to respond to changing economies and conditions through innovation and adaptation. The Endowment-funded Rural Development Innovators Group is working to spotlight innovation in communities from East Burke, Vermont, to Orleans, California, and from Wisconsin Rapids, Wisconsin, to rural Appalachia.



Innovative examples include:

- In a region adapting to major shifts in its historic forest products industries—and related community economic challenges—the potential of modern wood heat to be a new economic opportunity led to a new pellet mill for rural northeastern Vermont. The project, now known as Kingdom Pellets, will create 20 direct jobs and support local loggers, foresters, and landowners.
- Wallowa County was once one of Eastern Oregon’s major timber producers. The legacy of past harvests, changes in federal land management, and decades of fire suppression left this northeast Oregon region’s forests in poor health even as mill closures left its communities reeling. Integrated Biomass LLC, a public-private partnership, is a new economic catalyst in the region, using market-based solutions to help reestablish forest health and create jobs by utilizing the byproducts of regional forest restoration and stewardship projects.






**BUILDING WITH NATURE'S PRODUCTS
NATIONAL**



Wood construction contributes directly to climate change mitigation by ensuring long-term carbon storage while avoiding the carbon-intensive processes associated with concrete and steel production. Now architects, builders, and policymakers are aspiring to a lofty new goal: collaborating on code adjustments that will permit wood-frame construction as high as 20 stories by 2021. Work to update the International Building Code to allow use of mass timbers is being funded by the Endowment in collaboration with the American Wood Council and the Softwood Lumber Board. One kind of mass timber, called cross-laminated timber, has been likened to plywood on steroids.



**GREEN CONCRETE AND PLASTICS
NATIONAL**

Adaptation requires pioneering ideas and new ways of thinking. Researchers across the country are doing just that as they endeavor to break wood fiber down to its most basic building blocks—cellulosic nanocrystals and nanofibrils—and then use these nanomaterials in applications ranging from advanced food coatings to concrete reinforcement. The work will create markets for low-value dead and dying trees while simultaneously allowing more sustainable manufacture of plastics, composites, and other materials. The Endowment is collaborating with the U.S. Forest Service’s Forest Products Laboratory and the agency’s State & Private Forestry mission area in leading the way. 





THOUGHTS ON MARKETS AND CONSERVATION

FIRE! THE WORD CAN INVOKE IMAGES OF DESTRUCTION. But for many forest ecosystems it is vital to health and sustainability. After a fire the blackened canvas is quickly punctured by green as pioneer species sprout—soon to be followed by the seedlings of the next generation.

Sadly, for all-too-many forests, once natural rejuvenating fires have been supplanted by catastrophic ones that burn everything back to mineral soil. In these cases, while the landscape will gradually recover, the results are more devastating: damaged watersheds; soil erosion; wildlife habitat loss; and, more recently thousands of homes and dozens of lives.

Through much of the 20th century, we tried to prevent and extinguish all forest fires, even in forests that are fire dependent. Smokey Bear: you remember him. As we doused the fires, forests that had evolved with fire grew unchecked. They became dense with dangerous fuel loads. New tree-killing insects and diseases were introduced through global trade. A changing climate intensified droughts. No surprise, then, that this past year, nearly 8.5 million acres of America’s forestland was damaged by wildfire – that’s the equivalent of 10,000 Central Parks!

Wildfires would be less catastrophic if we were doing what good stewards do—promoting healthy, resilient forests. We know what to do: use natural fires or go in with chainsaws and cut, pile, and burn small trees to mimic natural processes. But treating acres in this way is prohibitively expensive and the backlog of acres needing treatment is a growing tsunami. Without managed fire or additional manual work, a treated forest soon grows back to an unnatural condition. Taxpayer subsidized work alone isn’t the solution. For challenges this big we need the power of markets to move the mountains of material necessary to restore health and resilience.

Fire will not cease to be a part of our natural systems. But if we learn to better prepare our ecosystems for such events and maintain healthy forests, we may reach a point where catastrophic ones are less common. Smokey Bear’s former message, “Only you can prevent forest fires,” has rightly been replaced with “Only you can prevent wildfires.”



SAVING ALL THE PIECES

“THE LAST WORD IN IGNORANCE IS THE MAN WHO SAYS OF AN ANIMAL OR PLANT, “WHAT GOOD IS IT?”
...TO KEEP EVERY COG AND WHEEL IS THE FIRST PRECAUTION OF INTELLIGENT TINKERING.

—Aldo Leopold



ENVIVA FOREST CONSERVATION FUND / envivaforestfund.org
NORTH CAROLINA & VIRGINIA

Healthy, productive working forests demand a long-term vision for management. And sometimes the management plan is simple: leave it alone. The Enviva Forest Conservation Fund highlights this approach by permanently protecting priority bottomland and wetland forests. These environmentally sensitive lands offer a wide range of economic and environmental benefits, but they are threatened by conversion to nonforest uses. Saving the pieces contributes to more productive managed forests in the region. The Endowment manages the 10-year, \$5 million fund supported by Enviva Partners, LP, the world's largest producer of wood energy pellets. Through the first two years, seven projects have been funded. When these projects are completed, an estimated 10,500 acres of sensitive wetland forest and other habitats will have been protected.






SUSTAINABLE FORESTRY AND LAND RETENTION *THE SOUTH*

Patterns of land transfer among family members in the American South have led to fractured and contentious landownership. The Endowment's work with African American families endeavors to correct this situation by helping family members obtain clear title to "heirs properties" and bringing together disparate parcels to create contiguous, productive tracts of forestland that can grow assets for future generations. In the six years since its inception, the program has worked with nearly 700 landowners across seven states to resolve title issues, implement forest management plans, and carry out successful stewardship practices in concert with the Natural Resources Conservation Service, U.S. Forest Service, state forestry agencies, and local program leaders.





DEPARTMENT OF DEFENSE
FORT BENNING & FORT STEWART, GEORGIA

Land is gold to the military. Training requires vast areas that can accommodate large equipment and expansive exercises, but many military installations that were once remote are now being hemmed in by development sprawl and urban expansion. To combat this, the Endowment has partnered with branches of the military to protect critical tracts of land—much of it forested—that create buffers between the installations and future growth. These working forest buffers ensure that the military can continue its vital training missions while also maintaining habitats for wildlife species of concern. 



STATE OF AMERICA'S FORESTS / usaforests.org
NATIONAL

Our nation's forests are diverse and expansive, covering one-third of the American landscape. It can be difficult to fathom this colossal expanse—a patchwork quilt of forest types and sizes. The Endowment's newly launched website, *State of America's Forests*, is a dynamic medium where users can gain a comprehensive understanding of our nation's forests, where they are located, and how they contribute to each of our lives. The interactive website helps tell the story of American forests while encouraging the user to delve deeper into verified data and peer-reviewed studies. Ultimately, *State of America's Forests* will be a portal that connects the American public with one of our most diverse and invaluable resources.



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INTERN

ELLY GAY
2017-2018 IMPACT INTERN
GREENVILLE, SC

* COMPLETED SERVICE, NOVEMBER 2017

** STARTED SERVICE, NOVEMBER 2017

*** COMPLETED BOARD SERVICE, AUGUST 2017

† DECEASED

STATEMENTS OF FINANCIAL ACTIVITY

FOR THE 12 MONTHS ENDED DECEMBER 31

| | 2017* | 2016 | 2015 |
|---|-------------|-------------|-------------|
| PROGRAM INVESTMENT | | | |
| Partner Investment (public and private support) | \$7,288,000 | \$7,993,765 | \$4,084,669 |

| | | | |
|--|---------------------|---------------------|---------------------|
| PROGRAM EXPENDITURES: | | | |
| Grants and contracts | \$11,012,000 | \$11,378,416 | \$8,381,506 |
| Impact Investments (\$15,035,000 cumulative) | 0 | \$3,500,000 | \$2,612,864 |
| Total | \$11,012,000 | \$14,878,416 | \$10,994,370 |

| | | | |
|---------------------------------------|-----------|-----------|-----------|
| OPERATION EXPENSE | | | |
| Personnel, general and administrative | \$715,000 | \$681,154 | \$654,605 |

| | | | |
|---------------------------------------|----------------------|----------------------|----------------------|
| INVESTMENT ACTIVITY | | | |
| Income, realized and unrealized gains | \$26,122,000 | \$13,993,175 | -\$6,804,699 |
| Total Increase in Net Assets | \$21,683,000 | \$9,927,370 | -\$11,756,141 |
| Net Assets at Beginning of Period | \$217,890,000 | \$207,962,432 | \$219,718,573 |
| Net Assets at End of Period | \$239,573,000 | \$217,889,802 | \$207,962,432 |

| | | | |
|--|----------------------|----------------------|--|
| CUMULATIVE LEVERAGE (2007-2017) | | | |
| Endowment investments of \$58 million leveraged \$434 million in internal and external investments for a total of \$492 million. | Endowment Investment | \$58,452,000 | |
| | Partner Investment | \$61,237,000 | |
| | External Investment | \$373,133,000 | |
| | | \$492,822,000 | |

*2017 information is preliminary pending completion of year-end closing and audit procedures.

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. 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.

INITIATIVES

