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

Consolidated Financial Statements

Years Ended December 31, 2016 and 2015

DIXON HUGHES GOODMAN LLP

Table of Contents

DIXON HUGHES GOODMAN LLP

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, 2016 and 2015, and the related consolidated statements of activities and cash flows 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 auditor's 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, 2016 and 2015, 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.

Emphasis of a Matter
As discussed in Note 1 to the consolidated financial statements, the Endowment elected to early adopt ASU 2015-07, "Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)". Our opinion is not modified with respect to this change.

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 consolidated schedules of functional expenses and the accompanying schedule of expenditures of federal awards, as required by the Uniform Guidance are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. The consolidated schedules of functional expenses and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate 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 consolidated schedules of functional expenses and schedule of expenditures of federal awards are 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 August 29, 2017 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
August 29, 2017

U. S. Endowment for Forestry and Communities, Inc. and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2016 and 2015

	2016	2015
ASSETS		
Cash and cash equivalents	**$ 9,605,227**	$ 7,199,166
Grants receivable	**1,757,729**	1,626,214
Other receivables	**3,162,961**	221,079
Other assets	**83,470**	47,711
Notes receivable, net of allowance for doubtful accounts of approximately $1,153,000 and $605,000	**2,535,079**	3,231,310
Investments	**201,154,144**	194,972,576
Property and equipment, net	**845,339**	387,622
Total assets	**$ 219,143,949**	$ 207,685,678
LIABILITIES AND NET ASSETS		
Accounts payable and other accruals	**$ 2,596,525**	$ 1,154,693
Deferred revenue	**-**	127,135
Notes payable	**134,311**	161,665
Other liabilities	**25,000**	25,000
Total liabilities	**2,755,836**	1,468,493
Net assets:		
Unrestricted net assets:		
Unrestricted	**14,046,190**	5,670,670
Noncontrolling interest	**351,414**	-
Temporarily restricted	**1,990,509**	546,515
Permanently restricted	**200,000,000**	200,000,000
Total net assets	**216,388,113**	206,217,185
Total liabilities and net assets	**$ 219,143,949**	$ 207,685,678

U. S. Endowment for Forestry and Communities, Inc. and Subsidiaries
Consolidated Statements of Activities
For the Years Ended December 31, 2016 and 2015

	2016	2015
Unrestricted support, revenues and gains:		
Interest and dividend income, net of investment fees	**$ 221,183**	$ 89,281
Net realized and unrealized gains on investments and other investment losses	**5,027,424**	(5,027,424)
Federal support	**4,974,675**	2,669,344
Private support	**676,090**	774,324
Sales	**2,912,026**	-
Net assets released from restrictions	**9,711,069**	10,069,688
Total support, revenues and gains	**23,522,467**	8,575,213
Expenses:		
Program	**14,114,379**	8,340,625
Management and general	**681,154**	654,605
Total expenses	**14,795,533**	8,995,230
Increase (decrease) in unrestricted net assets	**8,726,934**	(420,017)
Temporarily restricted support and revenue:		
Interest and dividend income, net of investment fees	**3,161,593**	2,518,883
Net realized and unrealized gains (losses) on investments and other investment income	**5,550,470**	(4,385,438)
Private support	**2,443,000**	721,000
Releases from restriction	**(9,711,069)**	(10,069,688)
Increase (decrease) in temporarily restricted net assets	**1,443,994**	(11,215,243)
Total increase (decrease) in net assets	**10,170,928**	(11,635,260)
Net assets at beginning of year	**206,217,185**	217,852,445
Net assets at end of year	**$ 216,388,113**	$ 206,217,185

See accompanying notes.

U. S. Endowment for Forestry and Communities, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2016 and 2015

	2016	2015
Cash flows used in operating activities:		
Increase (decrease) in net assets	**$ 10,170,928**	$ (11,635,260)
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Net realized and unrealized (gains) losses on investments and other investment income	**(10,577,894)**	9,412,862
Depreciation	**25,562**	16,205
Net changes in operating assets and liabilities:		
Grants receivable	**(131,515)**	(107,514)
Other receivables	**(2,941,882)**	3,353,921
Notes receivable	**696,231**	(1,820,998)
Other assets	**(35,759)**	134,221
Accounts payable and other accruals	**1,441,832**	(102,061)
Deferred revenue	**(127,135)**	127,135
Other liabilities	**-**	25,000
Net cash used in operating activities	**(1,479,632)**	(596,489)
Cash flows from investing activities:		
Sales of investments	**71,516,913**	116,644,264
Purchases of investments	**(67,120,587)**	(109,433,142)
Purchases of property and equipment	**(483,279)**	-
Net cash provided by investing activities	**3,913,047**	7,211,122
Cash flows from financing activities:		
Repayments of note payable	**(27,354)**	(26,383)
Net cash used in financing activities	**(27,354)**	(26,383)
Net increase in cash	**2,406,061**	6,588,250
Cash and cash equivalents at beginning of year	**7,199,166**	610,916
Cash and cash equivalents at end of year	**$ 9,605,227**	$ 7,199,166

See accompanying notes.

Notes to the Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Organization

U.S. Endowment for Forestry and Communities, Inc. (the "Endowment") is a not-for-profit organization incorporated and established in 2006 at the request of the governments of the United States and Canada in accordance with the terms of the Softwood Lumber Agreement ("SLA") between the two countries. The Endowment is one of three entities designated to share in a one-time infusion of funds to support "meritorious initiatives" in the United States. It was endowed with $200 million under the terms of the SLA. The Endowment has been chartered with two purposes: 1) educational and charitable causes in timber-reliant communities; and 2) educational and public-interest projects addressing forest management issues that affect timber-reliant communities, or the sustainability of forests as sources of building materials, wildlife habitat, bio-energy, recreation and other values.

The Endowment has a wholly owned subsidiary, Community Wealth Through Forestry, Inc. ("CWF"). The purpose of CWF is to support sustainable green energy development that captures and distributes benefits to rural forest-reliant communities. CWF became operational in November 2011 and its activity has been consolidated in the financial statements for the year ended December 31, 2016 and 2015.

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 to be supplied to Portland General Electric and any other purchasers. Activity is reflected for the period July 25, 2016 through December 31, 2016 and has been consolidated in the financial statements for the year ended December 31, 2016.

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 unrestricted net assets of the subsidiary is presented as noncontrolling interest on the consolidated statement of financial position. The changes in unrestricted net assets related to the noncontrolling interest are outlined in the table below:

	Total	Endowment	Non-controlling Interest
Balances, December 31, 2015	$ -	$ -	$ -
Revenues in excess of expenses	(1,271,381)	(889,967)	(381,414)
Contributions	100,000	70,000	30,000
Balances, December 31, 2016	$ (1,171,381)	$ (819,967)	$ (351,414)

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates could also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For the purpose of the consolidated statements of cash flows, the Endowment considers unrestricted highly liquid investments with a remaining maturity of three months or less when purchased to be cash equivalents.

At times throughout the year, the Endowment may temporarily maintain cash balances at financial institutions in excess of FDIC insured limits. Management attempts to minimize this exposure by minimizing un-invested cash balances and monitoring the strength of the financial institutions with which it has accounts.

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. Notes are due between fiscal years of 2017 to 2019. 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 publically traded money market funds, limited partnerships, equity securities, equity funds, and fixed income funds, which are valued at $78,747,786 and $75,059,232 at December 31, 2016 and 2015, respectively, are determined based upon quoted market prices.

Investments in equity, fixed income and real asset common and commingled trust funds, and certain limited partnerships which are valued at $102,470,520 and $108,403,080 at December 31, 2016 and 2015, respectively, do not have quoted market prices. The fair value of such investments is based upon the net asset value of the respective funds, which are based upon the estimated fair values of the underlying investments. The fair values of the underlying investments are based upon quoted market prices, where applicable, or upon estimated fair values determined by the respective fund managers and are subject to review by the Endowment and independent annual financial statement audits.

The consolidated financial statements also include investments in certain private limited partnerships valued at $10,338,665 and $9,978,898 at December 31, 2016 and 2015, 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 3 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.

In January 2015, the FASB issued ASU 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) (“ASU 2015-07”). ASU 2015-07 removes the requirement to categorize investments for which fair value is measured using the net asset value of the investment as a practical expedient within the fair value hierarchy. ASU 2015-07 also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value practical expedient. Investments for which the practical expedient is not applied will continue to be included in the fair value hierarchy. The requirements of ASU 2015-07 are effective for non-public business entities for fiscal years beginning after December 15, 2016, with early adoption permitted. The ASU should be applied retrospectively to all periods presented. As permitted by the standard, the Endowment has adopted ASU 2015-07 for the year ended December 31, 2016, with retrospective application for the year ended December 31, 2015.

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 $2,500. Depreciation is computed on a straight-line basis over the estimated useful life of the assets. Depreciation expense was $25,562 and $16,205 for the years ended December 31, 2016 and 2015, respectively.

Deferred Revenue

Certain grants received by the Endowment and paid in advance are deferred until the sub-recipient of the grant submits a reimbursement request which includes documentation of actual expenditures incurred under the grant.

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:

Unrestricted - Net assets that are not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by the Endowment or may otherwise be limited by contractual agreements with outside parties.

Temporarily Restricted - 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.

Permanently Restricted - Net assets subject to donor-imposed stipulations that they be maintained in perpetuity by the Endowment.

Restricted and Unrestricted Revenue and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted 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 unrestricted net assets 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 temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Consolidated Statement of Activities as net assets released from restrictions.

In-Kind Contributions

The Endowment records in-kind contributions at their fair value at the date of the contribution.

Functional Expenses

The cost of providing various programs and supporting services has been reported on a functional basis in the statements of activities. Accordingly, certain costs have been allocated to the program initiatives and supporting services based on estimates made by management.

Fair Value of Financial Instruments

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

Cash and cash equivalents, receivables, prepaid expenses, accounts payable, other accruals and notes payable - The carrying amounts approximate fair value due to the immediate or short-term maturity of these instruments.

Notes receivable - Notes receivable amount of approximately $2,535,000 and $3,231,000 as of December 31, 2016 and 2015. The fair value of notes receivable is estimated to be approximately $2,143,000 and $2,831,000 as of December 31, 2016 and 2015. 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 3).

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, 2016.

CWF is classified as a C Corporation under the Internal Revenue Code. CWF reported a net loss for the year ended December 31, 2016, 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 year ended December 31, 2016, therefore, there was no tax expense. Accordingly, no provision has been made for Federal or state income taxes.

2. Investments

The estimated fair values of investments at December 31 follows:

	2016	2015
Cash held in brokerage accounts	**$ 9,597,173**	$ 1,531,366
Money market funds	**1,599,359**	3,675,065
Publically traded securities	**1,048,907**	463,967
Publically traded equity funds	**50,557,903**	42,842,461
Publically traded fixed income funds	**21,081,024**	23,106,687
Publically traded limited partnerships	**4,460,593**	4,971,052
Equity common and commingled trust funds	**57,279,163**	54,911,300
Fixed income common and commingled trust funds	**24,214,681**	24,540,173
Real asset common and commingled trust funds	**1,921,210**	1,736,832
Directional hedge funds	**2,647,605**	4,964,973
Futures hedge funds	**270,097**	4,007,046
Limited partnerships	**16,137,764**	18,242,756
Private limited partnerships	**10,338,665**	9,978,898
Total investments	**$ 201,154,144**	$ 194,972,576

The investments detailed above represent all investments held by the investment manager at December 31, 2016 and 2015, and do not include programmatic investments.

Interest and dividend income is reported net of custodial and investment management fees and approximated $313,000 and $341,000 for the years ended December 31, 2016 and 2015, respectively. Other investment fees incurred for the direct sales and purchases of investments are recorded as transaction costs and are netted with realized and unrealized gains/losses.

3. 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 2016.

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, 2016 and 2015:

		Fair value measurements at December 31, 2016 using:		
	Fair value at December 31, 2016	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	$ 1,599,359	$ 1,599,359	$ -	$ -
Publically traded securities:				
Energy	1,048,907	1,048,907	-	-
Publically traded equity funds:				
Mid-cap	12,771,496	12,771,496	-	-
Large cap	15,138,795	15,138,795	-	-
International	22,647,612	22,647,612	-	-
	50,557,903	50,557,903	-	-
Publically traded fixed income funds:				
Taxable bonds	15,947,147	15,947,147	-	-
Index and other	5,133,877	5,133,877	-	-
	21,081,024	21,081,024	-	-
Publically traded limited partnerships	4,460,593	4,460,593	-	-
Private limited partnerships	10,338,665	-	-	10,338,665
Total investments included in the fair value hierarchy	89,086,451	$ 78,747,786	$ -	$ 10,338,665
Investments at net asset value	102,470,520			
Total investments	$ 191,556,971			

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, 2016:

	Fair value at December 31, 2016	Redemption Frequency	Redemption Notice Period	Redemption Terms
Equity common and commingled trust funds (a)	$ 57,279,163	monthly	5 – 30 days	none
Fixed income common and commingled trust funds (b)	24,214,681	monthly	5 – 30 days	none
Real asset common and commingled trust funds (c):	1,921,210	daily/monthly	5 – 30 days	none
Futures hedge funds (d)	270,097	quarterly	95 days	none
Directional hedge funds (e)	2,647,605	annually	65 - 95 days	none
Partnerships measured at NAV:				
Sector based (f)	1,951,917	monthly	Last business day	$1 million increments no partial redemptions
Partial inflation hedge fund (g)	1,906,518	daily	3 days	none
Debt focused (h)	2,569,366	quarterly	90 days	none
Absolute return fund (j)	2,447,551	annually	N/A	Redeem 50% of shares after 24 months annually
Global financial markets fund (i)	1,823,948	annually	N/A	Redeem 25% of shares after 1 year on annual basis
Global multi-disciplinary fund (j)	1,704,051	quarterly	N/A	Redeem shares after 1 year on a quarterly basis
Long/short investments fund (k)	2,039,524	quarterly	N/A	Redeem 25% of shares each quarter
U.S. equity markets fund (l)	1,694,889	quarterly	N/A	Redeem shares after 1 year on a quarterly basis
Total partnerships	16,137,764			
Total investments at net asset value	$ 102,470,520			

	Fair value at December 31, 2015	Fair value measurements at December 31, 2015 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	$ 3,675,065	$ 3,675,065	$ -	$ -
Publically traded securities:				
Energy	463,967	463,967	-	-
Publically traded equity funds:				
Mid-cap	12,910,358	12,910,358	-	-
Large cap	11,091,864	11,091,864	-	-
International	18,840,239	18,840,239	-	-
	42,842,461	42,842,461	-	-
Publically traded fixed income funds:				
Taxable bonds	19,417,287	19,417,287	-	-
Index and other	3,689,400	3,689,400	-	-
	23,106,687	23,106,687	-	-
Publically traded limited partnerships	4,971,052	4,971,052	-	-
Private limited partnerships	9,978,898	-	-	9,978,898
Total investments included in the fair value hierarchy	85,038,130	$ 75,059,232	$ -	$ 9,978,898
Investments at net asset value	108,403,080			
Total investments	$ 193,441,210			

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, 2015:

	Fair value at December 31, 2015	Redemption Frequency	Redemption Notice Period	Redemption Terms
Equity common and commingled trust funds (a)	$ 54,911,300	monthly	5 – 30 days	none
Fixed income common and commingled trust funds (b)	24,540,173	monthly	5 – 30 days	none
Real asset common and commingled trust funds (c):	1,736,832	daily/monthly	5 – 30 days	none
Futures hedge funds (d)	4,007,046	quarterly	95 days	none
Directional hedge funds (e)	4,964,973	annually	65 - 95 days	none
Partnerships measured at NAV:				
Sector based (f)	1,946,950	monthly	Last business day	$1 million increments no partial redemptions
Partial inflation hedge fund (g)	3,500,000	daily	3 days	none
Debt focused (h)	2,528,219	quarterly	90 days	none
Absolute return fund (j)	2,225,281	annually	N/A	Redeem 50% of shares after 24 months annually
Global financial markets fund (i)	2,219,272	annually	N/A	Redeem 25% of shares after 1 year on annual basis
Global multi-disciplinary fund (j)	1,821,940	quarterly	N/A	Redeem shares after 1 year on a quarterly basis
Long/short investments fund (k)	2,415,438	quarterly	N/A	Redeem 25% of shares each quarter
U.S. equity markets fund (l)	1,585,656	quarterly	N/A	Redeem shares after 1 year on a quarterly basis
Total partnerships	18,244,756			
Total investments at net asset value	$ 108,403,080			

(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 no-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 pursue multiple strategies to provide investors with net returns over a full market cycle that are favorable to capital markets on a risk-adjusted basis.
(e) The funds pursue multiple strategies to diversify risks and reduce volatility while seeking to deliver positive returns regardless of the direction of the broader market.
(f) 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.
(g) The fund’s investment objective is to provide diversification and inflation protection and to generate higher risk-adjusted total returns than leading commodity market benchmarks. The fund seeks to achieve its objective by investing in a long-only, unleveraged portfolio of exchange-traded futures and forward contracts on tangible commodities to obtain broadly diversified exposure to all principal groups in the global commodity markets, including energies, metals, and agriculture.
(h) 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.
(i) The fund’s principal strategy is to identify and exploit inefficiencies in global financial markets while minimizing exposure to market risk through hedging and other investment strategies that are general intended not to be market-sensitive.
(j) The fund seeks to profit from a global multi-disciplinary approach that uses a variety of trading strategies, including, but not limited to, model-based trading and discretionary and relative value trading. The fund invests in a broad array of securities and derivatives under a range of different market scenarios.
(k) 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.
(l) The fund invests primarily in equities and equity-related securities and derivative instruments but has flexibility with respect to the types of securities or other instruments used in pursuing its trading strategies.

The fair values of investments in publically traded money market funds, equity securities, and equity, fixed income and limited publically 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, 2015 to December 31, 2016:

	Fair Value Measurements Using Unobservable Inputs (Level 3)				
	Natural Resources Partnership	Private Equity Partnerships	Venture Capital Partnership	Distressed Debt Partnership	Total
Beginning balance, December 31, 2015	$ 3,946	$ 5,327,085	$ 3,999,539	$ 648,328	$ 9,978,898
Total gains or losses included in changes in net assets:					
Unrealized gains (losses)	101,576	688,226	(118,450)	49,384	720,736
Purchases, issuances/subscriptions, and sales:					
Purchases	160,000	1,013,750	223,500	-	1,397,250
Sales/distributions	(40,991)	(1,123,644)	(433,984)	(159,600)	(1,758,219)
Ending balance, December 31, 2016	$ 224,531	$ 5,905,417	$ 3,670,605	$ 538,112	$10,338,665

The following table illustrates the activity of Level 3 assets measured at fair value on a recurring basis from December 31, 2014 to December 31, 2015:

	Fair Value Measurements Using Unobservable Inputs (Level 3)				
	Natural Resources Partnership	Private Equity Partnerships	Venture Capital Partnership	Distressed Debt Partnership	Total
Beginning balance, December 31, 2014	$ -	$ 4,932,938	$ 4,030,696	$ 908,547	$ 9,872,181
Total gains or losses included in changes in net assets:					
Unrealized gains (losses)	(16,054)	758,082	241,064	31,581	1,014,673
Purchases, issuances/subscriptions, and sales:					
Purchases	20,000	575,000	245,250	-	840,250
Sales/distributions	-	(938,935)	(517,471)	(291,800)	(1,748,206)
Ending balance, December 31, 2015	$ 3,946	$ 5,327,085	$ 3,999,539	$ 648,328	$ 9,978,898

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 natural resources partnership of $224,531 and $3,946 at December 31, 2016 and 2015, respectively. The Endowment has committed a total of $2,000,000 and has unfunded commitments of $1,820,000. 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 $5,905,417 and $5,327,085 at December 31, 2016 and 2015, respectively. The Endowment has committed a total of $12,500,000 and has unfunded commitments of $5,958,750 as of December 31, 2016. 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 $3,670,585 and $3,999,539 at December 31, 2016 and 2015, respectively. The Endowment has committed a total of $4,500,000 and has unfunded commitments of $1,338,750 as of December 31, 2016. 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 publically 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 $538,112 and $648,328 at December 31, 2016 and 2015, respectively. The Endowment has committed a total of $2,000,000 and has unfunded commitments of $305,200 as of December 31, 2016. 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.

Total net gains or losses for level 3 assets for the periods above are included in net realized and unrealized gains (losses) on investments in the statement of activities. There were no transfers in or out of Level 3 for the years ended December 31, 2016 and 2015.

4. Property and Equipment

Property and equipment at December 31, 2016 and 2015 consists of the following:

	2016	2015
Land	**$ 137,794**	$ 137,794
Building and equipment	**902,668**	324,101
Total property and equipment	**1,040,462**	461,895
Less: accumulated depreciation	**(195,123)**	(74,273)
	$ 845,339	$ 387,622

5. Note Payable

	2016	2015
Note payable to a bank with six interest only payments through October 2011; then thirty monthly payments of $2,361 including principal and interest at prime minus .26%. The note was refinanced in 2014 with monthly payments of $2,756 including principal and interest at 3.75% from June 2014 through May 2021. The note is collateralized by the building.	**$ 134,311**	$ 161,665

Future maturities of debt is as follows:

2017	$ 28,537
2018	29,625
2019	30,755
2020	31,929
2021	13,465
	$ 134,311

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, 2016. The line of credit matures on February 24, 2019. The line of credit is secured by investments.

6. Employee Benefit Plan

The Endowment sponsors a Simplified Pension Plan whereby deposits in an amount equal to 11% of each full-time 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 $126,000 and $117,000 for the years ended December 31, 2016 and 2015, 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 $52,000 and $34,000 at December 31, 2016 and 2015, respectively.

7. Net Assets

Temporarily restricted net assets are restricted for the following purposes at December 31, 2016 and 2015:

	2016	2015
Consortium for Advanced Wood-to-Energy Solutions	**$ -**	$ 50,000
Deepwater Horizon Project Tracker	**20,000**	42,000
NRCS – DoD Forest Conservation	**60,000**	60,000
Endowment earnings to support ongoing programs (See Note 8)	**1,154,144**	-
Forest Conservation Fund	**467,446**	-
North American Forest Partnership	**150,619**	227,500
National Conservation Easement Database Phase II	**37,059**	60,000
Savannah River Project	**14,283**	100,000
Wood-to-Energy Check-off	**25,036**	6,515
Other	**61,922**	500
	$ 1,990,509	$ 546,515

Permanently restricted net assets 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.

8. 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 permanently restricted.

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 permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent 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 permanently restricted net assets is classified as temporarily restricted net assets, 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, 2016 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 1,154,144	$ 200,000,000	$ 201,154,144

Changes in donor-restricted endowment net asset for the year ended December 31, 2016 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, December 31, 2015	$ (5,027,424)	$ -	$ 200,000,000	$ 194,972,576
Investment return:				
Investment income, net	-	3,161,593	-	3,161,593
Net unrealized and realized investment gains	5,027,424	5,550,470	-	10,577,894
Total investment return	5,027,424	8,712,063	-	13,739,487
Appropriation of assets for expenditures	-	(7,557,919)	-	(7,557,919)
Endowment net assets, December 31, 2016	$ -	$ 1,154,144	$ 200,000,000	$ 201,154,144

Donor-restricted endowment net asset composition by type of fund as of December 31, 2015 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (5,027,424)	$ -	$ 200,000,000	$ 194,972,576

Changes in donor-restricted endowment net asset for the year ended December 31, 2015 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, December 31, 2014	$ -	$ 11,596,560	$ 200,000,000	$ 211,596,560
Investment return:				
Investment income, net	-	2,518,883	-	2,518,883
Net unrealized and realized investment gains	(5,027,424)	(4,385,438)	-	(9,412,862)
Total investment return	(5,027,424)	(1,866,555)	-	(6,893,979)
Appropriation of assets for expenditures	-	(9,730,005)	-	(9,730,005)
Endowment net assets, December 31, 2015	$ (5,027,424)	$ -	$ 200,000,000	$ 194,972,576

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Endowment to retain as a fund of perpetual duration. There were no deficiencies of this nature reported in unrestricted net assets as of December 31, 2016. Deficiencies of this nature were reported in unrestricted net assets as of December 31, 2015 of $5,027,424. These deficiencies resulted from unfavorable market fluctuations.

Return Objectives and Risk Parameters

The Endowment has adopted investment and spending policies for endowment assets that are intended to provide an ongoing stream of funding of the Endowment's set mission. Endowment assets include those assets of donor-restricted funds that the Endowment must hold in perpetuity. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce a high level of total investment return consistent with a prudent level of portfolio risk.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Endowment relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Endowment targets a diversified asset allocation that places a greater emphasis on equity and fixed income-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Endowment's Board of Directors seeks to address twin objectives of deploying resources to achieve its mission and operating as prudent fiduciaries. The Endowment's Board of Directors adopted changes to its investment and spending policies in December 2012 effective for 2013 and onward. 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.

9. 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 $12,744,000 at December 31, 2016. These contracts are committed for varying dates through 2020.

10. 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.

11. Subsequent Events

After December 31, 2016, the Endowment made multi-year commitments to fund specific research and public interest projects with other nonprofit organizations and universities. Committed funds totaled approximately $10,441,000. These contracts are committed for varying dates through 2021.

The Endowment evaluated the effect subsequent events would have on the consolidated financial statements through August 29, 2017, which is the date the consolidated financial statements were available to be issued.

Supplemental Information

U. S. Endowment for Forestry and Communities, Inc. and Subsidiaries
Consolidated Schedules of Functional Expenses
For the Years Ended December 31, 2016 and 2015

	2016			2015		
	Programmatic	Management and General	Total	Programmatic	Management and General	Total
Oregon Torrefaction	$ 4,150,900	$ -	$ 4,150,900	$ -	$ -	$ -
All other programs	8,172,595	-	8,172,595	7,188,723	-	7,188,723
Compensation - officers	265,320	66,330	331,650	251,547	62,887	314,434
Compensation - non-officers	623,689	299,824	923,513	571,138	282,115	853,253
Training/Recruitment	-	17,868	17,868			
Employee benefits	220,045	78,251	298,296	206,620	83,245	289,865
Travel	80,355	51,336	131,691	86,152	54,987	141,139
Communications	23,973	19,525	43,498	25,188	10,148	35,336
Utilities/Supplies/Other	-	22,454	22,454	-	21,622	21,622
Professional services	17,801	79,104	96,905	11,257	74,523	85,780
Insurance	11,263	23,165	34,428	-	31,338	31,338
Interest expense	-	5,720	5,720	-	6,692	6,692
Taxes/other	-	17,577	17,577	-	27,048	27,048
Reserve for uncollectible notes receivable	548,438	-	548,438	-	-	-
	$ 14,114,379	$ 681,154	$ 14,795,533	$ 8,340,625	$ 654,605	$ 8,995,230

See accompanying notes.

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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, 2016, and the related consolidated statements of activities, and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated August 29, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Endowment's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Endowment's internal control. Accordingly, we do not express an opinion on the effectiveness of the Endowment's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Endowment's consolidated financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

DHG
DIXON HUGHES GOODMAN LLP

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Endowment's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Endowment's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Endowment's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dixon Hughes Goodman LLP

Greenville, South Carolina
August 29, 2017

DHG
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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, 2016. The Endowment's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal 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 each major federal program. However, our audit does not provide a legal determination of the Endowment's compliance.

Opinion on Each Major Federal Program

In our opinion, the Endowment complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

DIXON HUGHES GOODMAN LLP

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 major federal program 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
August 29, 2017

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	$ 128,115	$ 74,818
U. S. Department of Defense			
Direct Program:			
Basic, Applied, and Advanced Research in Science and Engineering	12.630	382,682	-
Total Research and Development - cluster		510,797	74,818
U. S. Department of Agriculture			
Direct Program:			
Cooperative Forestry Assistance	10.664	1,081,394	267,062
Wood Utilization Assistance	10.674	2,215,976	256,056
Environmental Quality Incentives Program	10.912	361,673	287,396
Healthy Forest Reserve Program	10.922	65,000	65,000
Regional Conservation Partnership Program	10.932	12,500	12,500
Total U. S. Department of Agriculture		3,736,543	888,014
Environmental Protection Agency			
Direct Program:			
Healthy Watersheds Consortium Grant Program	66.441	94,276	83,134
Total expenditures of Federal awards		$ 4,341,616	$ 1,045,966

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, 2016. 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.

Section I—Summary of Auditors' Results

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 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*
	Research and Development Cluster:
10.652	Forestry Research
12.630	Basic, Applied, and Advanced Research in Science and Engineering
	U. S. Department of Agriculture:
10.674	Wood Utilization Assistance

Dollar threshold used to distinguish between type A and type B programs: $ 750,000

Auditee qualified as low-risk auditee? X Yes ___No

Section II— Consolidated Financial Statement Findings

There were none.

Section III— Federal Award Findings and Questioned Costs

There were none.

There were no reported findings in 2015 or 2014.