



DOVETAIL PARTNERS, INC.

Sustaining Forests & Rural Communities

ANNUAL REPORT 2006

***“To raise new questions, new possibilities,
to regard old questions from a new angle,
requires creative imagination and marks
real advances in science.”***

- Albert Einstein (1879-1955)

Letter from the Chair....

The calendar year 2006 was the most active, and successful yet in Dovetail Partner's existence. We were able to add highly qualified Directors and Advisors to our boards, and Katie Fernholz was elevated to the position of Executive Director. Under Katie's day to day leadership our programs, our partnerships, and our sponsorships have grown significantly. It is also clear that our reputation and our influence have grown proportionately. All very good things.

One key programmatic gain was the addition of Alison Lindburg as Director of our Eco-affordable Housing Program. Alison led the completion and sale of our first eco-affordable housing project in Aitkin, Minnesota; overall the project was a great success and is beginning to get us national attention for our unique approach to rural economic development.

Our e-newsletter has continued to blossom as well, with a number of our reports gaining national and media attention, most notably, our article on bamboo as a green material continues to be popular as well as our series on the emerging bio-economy. Although our subscriber growth rate slowed (now approaching 12,000), the quality of our subscribers remains extremely high and it is apparent that we are gaining the attention of key individuals at companies, universities, NGOs and in government. Clearly we are achieving our goal of "influencing the influencers."

Our core business model remains successful. In 2006 we added several key partners to the organization whose participation has elevated our skillsets and capacity significantly while keeping our overhead and indirect costs at or near targeted maximums. Our commitment to focusing our financial resources on our programs remains strong and is proving to be realistic.

Overall, as we noted last year "the key is we know what we are doing is making a difference." We have always believed our audience is looking for quality information in a usable format. That usable format is both in written form and through demonstrations. The key is that we start by respecting our audience's intelligence and provide them the level of detail they need to make decisions. Our success in 2006 is based on the clarity of this purpose and the team's commitment to "over-delivering" on our promises.



Jeffrey L. Howe

President and Chairman of the Board



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ECO-AFFORDABLE HOUSING

Dovetail is pursuing a unique approach to rural economic development, by partnering with local communities to identify existing unmet demand for competitively priced housing, and to provide the training and development programs that enable local businesses to utilize local resources to meet that need profitably. The goal is to use this process to develop the skill sets of participating businesses to the point where they ultimately are able to serve larger markets outside their region, while minimizing the economic risks and failures often associated with that growth. The outcomes are thriving communities, profitable businesses, and sustainable forests.

CERTIFICATION

There are a number of different certification systems in the world today covering a range of products and production methods. These systems provide information and assurances about a wide variety of product and service attributes. There is growing interest in the certification of other materials as well as forests, and recognition that the source of a material is at least as important to environmental considerations as the nature of the material itself. For over 10 years, forest certification systems have provided oversight to assure that issues like biodiversity, habitat protection, and indigenous peoples' rights are included in the land management plans and activities of forest owners. Dovetail is committed to promoting the wise use of all materials and providing information that allows individuals and organizations to make informed choices.

RESPONSIBLE TRADE & CONSUMPTION

Dovetail creates and supports incentives that recognize the full spectrum of ecological attributes found in the forest and the social benefits provided by these forests. Dovetail has developed a "Responsible Materials Initiative" to provide and summarize information about available materials in a manner that best aids organizations and individuals in making sound and sustainable choices that they fully understand. There is a need to transform forest-based industries that are currently limited by a reliance on the traditional industrial model, which focuses on commoditization and lowest unit cost, to a new paradigm that concentrates on markets and products.

LAND USE

Dovetail recognizes the links between sustainable forestry, responsible trade and consumption, and land use. Dovetail is interested in promoting land use research and planning and innovative programs that encourage and reward responsible land use activities. Dovetail is specifically interested in addressing and minimizing land use impacts on soil and water resources.

In 2006, Dovetail Partners completed the construction of the “Aitkin FSC Home” as the pilot project of the Eco-Affordable Housing Program.

Project Description:

This demonstration home was a new construction project located in Aitkin, Minnesota. Aitkin is a community that is economically supported by the lumber and paper industry, and the Aitkin County Land Department was among the first public land managers in the nation to have its forests certified by the Forest Stewardship Council (FSC). The home demonstrates FSC-certified lumber, focusing on local forest products and participating local vendors. The shell was constructed from locally-manufactured prefabricated panels. The home also features in-floor radiant heating, natural lighting, and other energy-efficient building practices to ensure it will be inexpensive to operate. The FSC-demonstration home is 1,300 square feet, and one and a half stories. It has 3 bedrooms and 2 bathrooms and was aimed at being affordable for someone in the local community to purchase.

Project Goals:

- Demonstrate green, “affordable” housing as an economic development tool.
- Demonstrate the use of a variety of local FSC-certified wood products.
- Provide education on green building to the community.
- Utilize as many local vendors as possible in order to provide education on green building practices and to provide an edge in the rural building market.
- Use as many local products and materials as possible, especially FSC-certified lumber, to support the community economically and to pave new avenues for suppliers.
- Manage project so that it may be easily replicated locally.

Green Design Elements:

- FSC-certified lumber and materials
- Local vendors and locally sourced materials
- In-floor radiant heating
- Low-VOC paints and adhesives
- Prefabricated panels instead of stick frame
- Passive solar heating/cooling
- Existing trees left on site
- Energy-efficient appliances
- Low-flow water fixtures



Dovetail offers several different publications and a monthly e-newsletter.

Commentaries

Our Commentaries are briefs presenting the opinions and ideas of Dovetail Staff and Associates.

Reports

Dovetail Reports address a wide range of topics and issues related to sustainable forestry, responsible materials, and responsible trade and consumption.

Newsletters

Dovetail publishes a monthly e-newsletter, *The Outlook*, with information about our latest publications, news and events.

[The Survey Results Are In](#)

It's time for 10,000 voices to be heard!

[Grieve, Get Over It, and Get Going](#)

Facing Organizational Change

[Implementing Diversity; Avoiding 1+ 1 =1](#)

Benefiting from Gender, Age and Personality Differences

[Market-based Certification Systems](#)

Addressing the real interests of the market

[Looking Controversy in the Eye](#)

The Debate Over the Certification of National Forests

[Seeing double, a tale of two visions](#)

Getting past fears and enabling sustainable behaviors

[Simply impatient, or just an average customer?](#)

Surviving the drive-thru mentality of consumption

[Providing the New Congress with the Greatest Power in the Universe](#)

- U.S. Forest Statistics Paint a Picture of Dynamic Growth and Renewal as Well as Problems Ahead
- Finding New Markets
- Conservation Easements to Protect Working Forests
- Biomass Energy: From Farms to Forests an Emerging Opportunity for Rural America
- Forest Certification Auditor Qualifications
- An Environmental Quiz That Can Open the Door to Inquiry and Learning About Forests & Forestry
- Innovations in Family Forest Certification: What's Happening and What's Needed
- Wood Science Research: Not Trendy, But Absolutely Necessary
- Designation of Environmentally Preferable Building Materials: Fundamental Change Needed Within LEED
- International Standards and Trade Barriers
- Innovations in Design & Construction: Opportunities for the Wood Industry
- Have Tropical Woods in Your Product Line?: How to Know if They Were Harvested Legally, Responsibly
- Forest Stewardship Council (FSC) Pesticides Policy: Understanding the Intentions & Proposed Changes
- An Introduction to Social Marketing: Potential Applications for Forestry
- Nanotechnology and the Forest Products Industry: Exciting New Possibilities
- Combining Organic and FSC Certification of Non-Timber Forest Products: Reducing Costs, Increasing Options
- What is a "Responsible Material" Anyway?
- Three Hundred Million and Counting: Questions That Need Discussion
- Positioning: Who Does Your Customer Think You Are?

Dovetail Board of Directors 2006

Jeffrey Howe, Ph.D., Chairman of Dovetail Partners, CEO of Fullerton Companies

Brian Adams, Senior Vice President, Bremer Bank

Eric Bloomquist, Former CEO of Colonial Craft, Retired

Jim Bowyer, Ph.D., Bio-products and Environmental Consultant

Kim Carlson, Founder, EarthSmart LLC

Edwin Chanin, Attorney, Maslon Edelman Borman & Brand

Jill Koosmann, CEO, HRK Group, Inc.

Dovetail Staff 2006

Kathryn Fernholz, Executive Director

Jim Bowyer, Director of Responsible Materials Program

Alison Lindburg, Director of Eco-Affordable Housing Program

Matthew Wenban-Smith, Director of Certification Program

Dovetail Board of Advisors 2006

William Banzhaf, President, Sustainable Forestry Board

Paul DeLong, Wisconsin State Forester, Wisconsin Department of Natural Resources, Division of Forestry

R. Philip Guillery, Forestry Consultant

Don Heise, Architectural Wood Specialties

Robert Hrubes, Ph.D., Senior Vice President, Scientific Certification Systems, Forest Conservation Program

Douglas MacCleery, Senior Policy Analyst, Forest Management Division, National Forest System, Washington, D.C.

Patrick O'Brien, Organizational Development Consultant

Dovetail Mission Statement

Dovetail Partners collaborates to develop unique concepts, systems, programs, and models to foster sustainable forestry and catalyze responsible trade and consumption.



Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Dovetail Partners, Inc.
Minneapolis, Minnesota

We have audited the accompanying statements of financial position of Dovetail Partners, Inc. (a not-for-profit corporation) as of December 31, 2006, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of Dovetail Partners, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the above paragraph, present fairly, in all material respects, the financial position of Dovetail Partners, Inc. as of December 31, 2006, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The 2005 financial statements were reviewed by us, and our report thereon, dated May 6, 2006, stated we were not aware of any material modifications that should be made to those statements for them to be in conformity with generally accepted accounting principles. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements taken as whole.

HLB Tautges Redpath, Ltd.

HLB TAUTGES REDPATH, LTD.
White Bear Lake, Minnesota

May 8, 2007

Dovetail Partners, Inc.
Statement of Financial Position
December 21, 2006

Assets:		<u>Audited 2006</u>
	Cash and cash equivalent	\$68,877
	Accounts receivable	5,299
	Grants and contracts receivable	117,648
	Prepaid expenses	583
	Land	35,530
	Work-in-process	111,063
	Total assets	\$339,000
Liabilities and net assets:		
Liabilities:		
	Credit card payable	\$2,484
	Accounts payable	10,486
	Accrued wages and payroll taxes	4,754
	Construction loan payable	94,661
	Total liabilities	\$112,385
Net assets:		
	Unrestricted	124,615
	Temporarily restricted	102,000
	Total net assets	226,615
	Total liabilities and net assets	<u>\$339,000</u>

Dovetail Partners, Inc.
Statement of Activities
December 31, 2006

	Audited 2006		
	Unrestricted	Temporarily Restricted	Total
Revenues			
Contributions	\$300	\$2,000	\$2,300
Grants and contracts	276,371	100,000	376,371
Fees for services	6,345	-	6,345
Interest Income	1,005	-	1,005
Miscellaneous	11,265	-	11,265
Satisfaction of program restrictions	28,000	(28,000)	-
Total revenues	<u>323,286</u>	<u>74,000</u>	<u>397,286</u>
Expenses:			
Program Services	160,476	-	160,476
Management and general	37,802	-	37,802
Fundraising	10,271	-	10,271
Total expenses	<u>208,549</u>	<u>0</u>	<u>208,549</u>
Increase (decrease) in net assets	114,737	74,000	188,737
Net assets - beginning of period	9,878	28,000	37,878
Net assets – end of period	<u>\$124,615</u>	<u>\$102,000</u>	<u>\$226,615</u>

Dovetail Partners, Inc.
Statement of Functional Expenses
December 31, 2006

	Audited 2006			
	Program Services	Management and General	Fundraising	Total
Expenses:				
Wages	\$65,711	\$18,775	\$9,387	\$93,873
Payroll taxes	6,186	1,767	884	8,837
Rent and utilities	8,151	906	-	9,057
Telephone	1,462	162	-	1,624
Website	868	-	-	868
Office supplies	3,319	369	-	3,688
Postage and shipping	149	16	-	165
Consulting	49,926	-	-	49,926
Professional Services	-	5,094	-	5,094
Travel and lodging	17,418	-	-	17,418
Member fees	-	679	-	679
Cable	713	-	-	713
Accounting	-	8,698	-	8,698
Insurance	1,407	156	-	1,563
Services charges	-	389	-	389
Miscellaneous expenses	5,166	791	-	5,957
Total Expenses	\$160,476	\$37,802	\$10,271	\$208,549

Dovetail Partners, Inc.
Statement of Cash Flows
December 31, 2006

	<u>Audited 2006</u>
Cash flows from operating activities:	
Increase (decrease) in net assets	\$188,737
Noncash contribution	-
Adjustments to reconcile change in net assets:	
(Increase) decrease in receivables	(100,197)
(Increase) decrease in prepaid expenses	8
Increase (decrease) in payables and accrued expenses	9,185
Net cash flows from operating activities	97,733
 Cash flows from investing activities:	
Acquisition of fixed assets	(104,769)
 Cash flows from financing activities:	
Loan proceeds	94,661
Loan repayments	(39,543)
Net cash flows from financing activities	55,118
 Increase in cash	48,082
 Cash and cash equivalents – beginning of year	20,795
 Cash and cash equivalents – end of year	\$68,877

Special Thanks to Our 2006 Supporters!

Aveda Corporation

Blandin Foundation

Boise Cascade, LLC

Forest Products Management Development Institute, University of Minnesota

McKnight Foundation

Natural Resources Conservation Service – USDA

Onanegozie RC&D

Rockefeller Brothers Fund

Shaw/Stewart Lumber Co.

Surdna Foundation

The Remodeler's Choice, Inc., a Division of Fullerton Companies

University of Minnesota

USDA Forest Service

Weyerhaeuser Family Foundation

William E. Hayward, Hayward Lumber

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