RESOURCES LEGACY FUND

CONSOLIDATED FINANCIAL STATEMENTS WITH INDEPENDENT AUDITOR'S REPORT

YEARS ENDED DECEMBER 31, 2014 AND 2013

Gilbert Associates, Inc.
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Resources Legacy Fund
Sacramento, California

We have audited the accompanying consolidated financial statements of Resources Legacy Fund and Resources Legacy Fund Foundation (collectively, the Fund), which comprise the consolidated statements of financial position as of December 31, 2014 and 2013, 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of 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.

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Fund as of December 31, 2014 and 2013, 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.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

April 9, 2015

RESOURCES LEGACY FUND

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2014 AND 2013

	2014	2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 12,549,683	$ 11,269,454
Short-term investments	28,014,513	37,018,820
Current portion of contributions receivable	2,286,013	2,937,751
Current portion of notes receivable		216,961
Prepaid expenses and other assets	129,216	61,591
Total current assets	42,979,425	51,504,577
LONG-TERM INVESTMENTS	8,038,197	6,608,281
LONG-TERM NOTES RECEIVABLE, Net		300,000
LONG-TERM CONTRIBUTIONS RECEIVABLE, Net	575,000	1,500,000
EQUIPMENT AND FURNITURE, Net	164,861	58,191
TOTAL ASSETS	$ 51,757,483	$ 59,971,049
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 600,298	$ 1,546,051
Grants payable	9,271,438	10,715,219
Accrued expenses	714,670	116,465
Deferred rent	140,230	100,055
Capital lease obligation	73,700	
Total current liabilities	10,800,336	12,477,790
LONG-TERM NOTE PAYABLE		516,961
TOTAL LIABILITIES	10,800,336	12,994,751
NET ASSETS:		
Unrestricted	3,201,862	1,733,617
Temporarily restricted	37,755,285	45,242,681
Total net assets	40,957,147	46,976,298
TOTAL LIABILITIES AND NET ASSETS	$ 51,757,483	$ 59,971,049

The accompanying notes are an integral part of these consolidated financial statements.

RESOURCES LEGACY FUND

CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	$ 23,721,108	$ 35,266,963
Interest and investment income	43,216	90,658
Net assets released from restrictions	(31,251,720)	(36,128,782)
DECREASE IN TEMPORARILY RESTRICTED NET ASSETS	(7,487,396)	(771,161)
UNRESTRICTED NET ASSETS:		
REVENUES:		
Contributions	1,425,150	1,487,671
Contracts	61,208	
Interest and investment income	16,682	36,881
Net assets released from restrictions	31,251,720	36,128,782
Total revenues	32,754,760	37,653,334
EXPENSES:		
Conservation program services	29,514,578	37,705,854
General and administrative	1,771,937	901,766
Total expenses	31,286,515	38,607,620
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	1,468,245	(954,286)
DECREASE IN NET ASSETS	(6,019,151)	(1,725,447)
NET ASSETS, Beginning of year	46,976,298	48,701,745
NET ASSETS, End of year	$ 40,957,147	$ 46,976,298

RESOURCES LEGACY FUND

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Decrease in net assets	$ (6,019,151)	$ (1,725,447)
Reconciliation to net cash provided (used) by operating activities:		
Depreciation	54,130	22,235
Net realized and unrealized loss (gain) on investments	41,624	(15,213)
Changes in:		
Contributions receivable	1,576,738	3,597,822
Prepaid expenses and other assets	(67,625)	412
Accounts payable	(945,753)	(298,317)
Grants payable	(1,443,781)	3,411,503
Accrued expenses	598,205	67,320
Deferred rent	40,175	46,350
Net cash provided (used) by operating activities	(6,165,438)	5,106,665
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of equipment and furniture		(2,276)
Notes receivable principal receipts	516,961	660,896
Purchases of investments	(36,521,251)	(56,713,236)
Proceeds from sales and maturity of investments	44,054,018	58,674,686
Net cash provided by investing activities	8,049,728	2,620,070
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on note payable	(516,961)	(4,483,039)
Principal payments on capital lease obligation	(87,100)	
Net cash used by financing activities	(604,061)	(4,483,039)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,280,229	3,243,696
CASH AND CASH EQUIVALENTS, Beginning of year	11,269,454	8,025,758
CASH AND CASH EQUIVALENTS, End of year	$ 12,549,683	$ 11,269,454
OTHER CASH FLOW INFORMATION:		
Cash paid for interest	$ 2,331	$ 48,154
Equipment acquired through capital lease	$ 160,800	

The accompanying notes are an integral part of these consolidated financial statements.

1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Resources Legacy Fund is an independent, nonprofit organization that provides services to philanthropic institutions and individuals to achieve significant conservation goals. Pooling private contributions and leveraging public funding, Resources Legacy Fund designs and administers strategic programs related to land and marine conservation, climate change and energy, and water management and use. The Fund makes grants, provides low-interest bridge financing, and enters into contracts for land acquisition, research, policy, outreach and education, capacity building, planning, and stewardship and restoration activities.

The accompanying financial statements reflect the consolidation of Resources Legacy Fund and Resources Legacy Fund Foundation (the Foundation). The Foundation is a nonprofit corporation established to support, perform essential services for, and to operate for the benefit of Resources Legacy Fund.

Resources Legacy Fund and the Foundation (collectively, the Fund) share common management and Board of Directors. Material transactions between entities have been eliminated in consolidation.

Basis of presentation – The consolidated financial statements are presented in conformity with professional standards applicable to not-for-profit entities. The Fund reports information regarding its consolidated position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. The Fund has no permanently restricted net assets.

Revenue recognition – Contributions, including grants and contracts obtained from private foundations and other nonprofit organizations, are recognized in full when received or unconditionally promised, in conformity with professional standards applicable to not-for-profit entities. If there are donor or grantor-imposed restrictions, the amount is initially reported as an increase in temporarily restricted net assets. When a restriction expires (generally, as payments are made to fulfill the purposes of the contribution), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Cash and cash equivalents – For financial statement purposes, the Fund considers all investments with a maturity at purchase of three months or less to be cash equivalents. The Fund served as fiscal sponsor for one program where program management required the Fund to maintain separate cash accounts related to their program. The fiscal sponsor agreement came to an end during 2014 and related cash accounts were closed.

Long-term contributions receivable are expected to be received within five years.

Investments are stated at fair value. Changes in fair value and realized gains and losses are included in investment income.

Equipment and furniture are stated at cost and depreciated using the straight-line method over estimated useful lives of three to ten years. The Fund's policy is to capitalize such items with a cost of $2,000 or more. Accumulated depreciation totaled $95,402 and $43,548 at December 31, 2014 and 2013, respectively. As of December 31, 2014, equipment acquired under capital lease totaling $160,800 is included in equipment and furniture.

Functional allocation of expenses – The Fund accounts for its expenditures in the following categories:

> **Conservation program services** – Expenditures are related to a broad range of activities necessary to accomplish the Fund's land, marine and water conservation programs. These include retaining a range of specialists to develop strategies, carry out policy and education activities, perform scientific research, and restore and monitor land, wetland and marine areas, as well as re-granting to nonprofit entities to carry out strategic planning, land acquisition, restoration and stewardship, capacity building, outreach, education, policy and other program activities.
>
> **General and administrative** – Expenditures are related to building and maintaining an efficient business infrastructure, including oversight, business and financial management, governance, general recordkeeping, budgeting and all management and administration, except for that which is directly attributable to the conduct of conservation program services.

Grants awarded – The Fund recognizes grant expense at the time grant negotiations are substantially complete with the grantee and the grant award has been approved by the Board of Directors.

Income taxes – Resources Legacy Fund, a publicly supported organization, and the Foundation are exempt from income taxes under Internal Revenue Code Section 501(c)(3). The Foundation is classified as a supporting organization of Resources Legacy Fund. The Fund has applied the accounting principles related to accounting for uncertainty in income taxes and has determined that there is no material impact on the consolidated financial statements. With some exceptions, the Fund is no longer subject to U.S. federal or state income tax examinations by tax authorities for years prior to 2010.

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent events have been evaluated through April 9, 2015, the date the consolidated financial statements were issued. Management concluded that no material subsequent events have occurred since December 31, 2014 that require recognition or disclosure in the financial statements.

Fair value measurements – Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available. For other assets and liabilities, observable market transactions and market information might not be available. However, the objective of a fair value measurement in both cases is the same—to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (that is, an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability).

In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, as follows:

Level 1 Inputs	Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.
Level 2 Inputs	Inputs other than quoted prices in active markets that are observable either directly or indirectly.
Level 3 Inputs	Unobservable inputs for the assets or liabilities.

2. INVESTMENTS

Investments are classified within Level 2 of the fair value hierarchy because they are valued using alternative pricing methods using observable inputs, such as current interest rates.

Investments consist of the following at December 31:

	2014	2013
Corporate bonds	$ 22,591,148	$ 26,597,127
Government asset backed debt securities	12,490,734	12,627,320
Government debt securities	970,828	4,402,654
Total	$ 36,052,710	$ 43,627,101

Interest and investment income are as follows:

	2014	2013
Interest and dividends	$ 171,155	$ 185,370
Unrealized and realized gains (losses)	(41,624)	15,213
Investment fees	(69,633)	(73,044)
Total	$ 59,898	$ 127,539

3. NOTES RECEIVABLE

Notes receivable consists of the following at December 31:

	2014	2013
Note receivable secured by real property, due from Five Valley Land Trust with a stated interest rate at 3% per annum, principal and payments were due on December 15, 2013, December 15, 2014 and July 1, 2015 totaling $400,000, $175,000 and $300,000, respectively, plus accrued interest. Note, plus accrued interest, was repaid in full as of December 31, 2014.		$ 475,000
Note receivable secured by real property, due from Bitter Root Land Trust Taber, with a stated interest rate of 3% per annum, principal payments were due on July 2, 2013 and July 2, 2014 totaling $20,000 and $45,000, respectively, plus accrued interest.		41,961
Total notes receivable		516,961
Less: current portion		(216,961)
Notes receivable, net	$	$ 300,000

4. NOTE PAYABLE

In 2004, the Fund obtained a loan for $7,000,000 from The David and Lucile Packard Foundation by executing a note payable. During 2010, the Fund made a $2,000,000 principal payment on the note payable and amended the terms of the agreement. Interest accrued at a fixed rate of 1.0% per annum and was due annually. The note payable was to allow the Fund to make and administer bridge loans for conservation fee and conservation easement acquisitions involving priority conservation areas located within the High Divide, as well as within the Greater Yellowstone Ecosystem (GYE). The balance outstanding on the note at December 31, 2013 was $516,961. The Fund satisfied all note clauses and terms and outstanding principal and accrued interest was repaid in full as of December 31, 2014.

5. CONDITIONAL PROMISES TO GIVE

The Fund has grant agreements with several donors and foundations that are to provide funding over multi-year periods. During 2013, program initiative and milestone conditions related to agreements held as of December 31, 2012 were met, and the conditional funding was recognized in revenue in 2013 totaling $4,050,000.

During 2014, the Fund received a $10,000,000 conditional grant and met program initiatives and milestones required to recognize $2,500,000 in revenue in 2014. The remaining $7,500,000 has not been recognized as revenue in the financial statements as of December 31, 2014.

6. LEASE COMMITMENTS

The Fund leases certain office space and furniture under non-cancelable capital and operating lease agreements which expire through 2023. In 2014, the Fund entered into a capital lease agreement for furniture and amended its operating lease for office space to increase square footage. The new lease and the amended lease were effective January 6, 2014 and are held with Resources Law Group (RLG) whose Partner is the President of the Fund. Rental expense was $511,267 and $155,222 for the years ended December 31, 2014 and 2013, respectively. Future minimum lease payments are as follows:

Year ending December 31:	Capital Lease for Furniture	Operating Leases for Office Space	Total
2015	$ 73,700	$ 485,472	$ 559,172
2016		492,702	492,702
2017		505,255	505,255
2018		517,807	517,807
2019		531,406	531,406
Thereafter		1,817,556	1,817,556
Total	$ 73,700	$ 4,350,198	$ 4,423,898

7. CONCENTRATIONS

The Fund minimizes credit risk associated with cash by periodically evaluating the credit quality of its primary financial institution. The balance at times may exceed federally insured limits. The Fund has not experienced any losses in such accounts and management believes the Fund is not exposed to any significant credit risk related to cash.

The Fund had four major donors that accounted for 66% and 65% of total contribution revenues in 2014 and 2013, respectively.

8. NET ASSETS

Unrestricted net assets are designated for the following at December 31:

	2014	2013
Operating reserve	$ 2,185,319	$ 1,030,000
Hewlett funding designated for various programs	988,975	
Conservation Opportunity Fund	27,568	42,000
Total	$ 3,201,862	$ 1,072,000

Temporarily restricted net assets consist of unexpended contributions restricted for the following purposes at December 31:

	2014	2013
Northwest Mexico Land Conservation	$ 22,605,207	$ 21,064,575
Sustaining California's Ocean	3,187,224	5,479,952
California Water Foundation	2,630,623	4,339,274
Conservation Innovations	1,949,777	
San Francisco Baylands Restoration	1,616,992	1,276,235
Fisheries Improvement Strategy	992,120	712,964
Bay Area Conservation Initiative	912,723	605,239
Parks Forward	811,821	3,582,730
California Parks Program	504,331	491,680
Western Conservation	412,828	2,925,718
Northern Sierra Partnership	400,000	960,725
Living Landscape Initiative	391,407	1,587,377
Sustainable Fisheries Fund	270,816	374,648
California Coastal Program	213,609	98,737
Wildlands Acquisition Program	202,440	139,996
Children and Urban River Parkways	159,154	297,352
Oregon Conservation Program	146,548	
Bay Wetlands Applied Studies	143,826	194,408
Washington Conservation Program	98,898	
Climate Change Public Education	43,436	874,603
Sustainable Aquaculture Fund		72,366
Renewable Energy and Land Conservation		22,336
Other land and resource conservation programs	61,505	141,766
Total	$ 37,755,285	$ 45,242,681

9. RETIREMENT PLAN

Effective January 1, 2014, the Fund sponsors a 403(b) retirement plan under which the Fund makes a safe harbor matching contribution and may also make discretionary contributions. Under this plan, employees may participate beginning on the first day of the month following employment. For 2014, the Fund made safe harbor matching contributions of 100% of the first 5% of eligible compensation. The Fund also elected to make a 3% discretionary contribution of eligible compensation. Executive management of the Fund received the maximum employer contribution allowed by the IRS. Under this plan, employees are 100% vested in safe harbor contributions and vest in 25% increments per year starting with two years of service, in all other employer contributions.

Prior to January 1, 2014, the Fund sponsored a 401(k) profit sharing plan and made safe harbor matching contributions of 100% of the first 4% of eligible compensation plus 50% of the next 2% of compensation. The Fund also made a 3% discretionary contribution. Under this plan, employees are 100% vested in safe harbor contributions and vest in 33% increments per year starting with one year of service, in all other employer contributions.

Contributions made to both plans totaled $366,788 for 2014 and $131,779 for 2013.

10. RELATED PARTY

On January 6, 2014, the Fund restructured its operations and hired 26 employees from RLG. These employees continue to provide the same services previously contracted for from RLG including conservation program strategy and design services, donor services and assistance with designing and implementing large-scale conservation programs.

Executive management members of the Fund are owners of or employed by RLG. As part of the restructuring, the Fund entered into agreements with RLG for the capital lease of furniture and for shared resources of staff, office services, and technology resources. The Fund also subleases office space from RLG and pays monthly rent and parking to the landlord based on a proportionate share of space.

During 2014, RLG reimbursed the Fund $118,378 for shared services and the Fund paid RLG $87,100 under the capital lease agreement. As of December 31, 2014, RLG owed the Fund $29,197.