RESOURCES LEGACY FUND

CONSOLIDATED FINANCIAL STATEMENTS WITH INDEPENDENT AUDITOR'S REPORT

YEARS ENDED DECEMBER 31, 2013 AND 2012

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, 2013 and 2012, 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, 2013 and 2012, 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 3, 2014

RESOURCES LEGACY FUND

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2013 AND 2012

	2013	2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 11,269,454	$ 8,025,758
Short-term investments	37,018,820	45,573,338
Current portion of contributions receivable	2,937,751	4,843,573
Current portion of notes receivable	216,961	657,857
Prepaid expenses and other assets	61,591	62,003
Total current assets	51,504,577	59,162,529
LONG-TERM INVESTMENTS	6,608,281	
LONG-TERM NOTES RECEIVABLE, Net	300,000	520,000
LONG-TERM CONTRIBUTIONS RECEIVABLE, Net	1,500,000	3,192,000
EQUIPMENT AND FURNITURE, Net	58,191	78,150
TOTAL ASSETS	$ 59,971,049	$ 62,952,679
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 1,545,879	$ 1,824,924
Grants payable	10,715,219	7,303,716
Accrued expenses	116,465	49,145
Deferred rent	100,055	53,705
Interest payable	172	19,444
Total current liabilities	12,477,790	9,250,934
LONG-TERM NOTE PAYABLE	516,961	5,000,000
TOTAL LIABILITIES	12,994,751	14,250,934
NET ASSETS:		
Unrestricted	1,733,617	2,687,903
Temporarily restricted	45,242,681	46,013,842
Total net assets	46,976,298	48,701,745
TOTAL LIABILITIES AND NET ASSETS	$ 59,971,049	$ 62,952,679

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

RESOURCES LEGACY FUND

CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	$ 35,266,963	$ 43,301,126
Interest and investment income	90,658	93,443
Net assets released from restrictions	(36,128,782)	(40,518,235)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	(771,161)	2,876,334
UNRESTRICTED NET ASSETS:		
REVENUES:		
Contributions	1,487,671	2,178,097
Interest and investment income	36,881	67,329
Net assets released from restrictions	36,128,782	40,518,235
Total revenues	37,653,334	42,763,661
EXPENSES:		
Conservation program services	37,705,854	42,110,001
General and administrative	901,766	836,535
Total expenses	38,607,620	42,946,536
DECREASE IN UNRESTRICTED NET ASSETS	(954,286)	(182,875)
INCREASE (DECREASE) IN NET ASSETS	(1,725,447)	2,693,459
NET ASSETS, Beginning of year	48,701,745	46,008,286
NET ASSETS, End of year	$ 46,976,298	$ 48,701,745

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

RESOURCES LEGACY FUND

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	$ (1,725,447)	$ 2,693,459
Reconciliation to net cash provided (used) by operating activities:		
Depreciation	22,235	35,487
Net realized and unrealized gain on investments	(15,213)	(19,445)
Changes in:		
Contributions receivable	3,597,822	928,067
Prepaid expenses and other assets	412	(5,839)
Accounts payable	(279,045)	212,296
Grants payable	3,411,503	(4,818,477)
Accrued expenses	67,320	18,824
Deferred rent	46,350	53,705
Interest payable	(19,272)	
Net cash provided (used) by operating activities	5,106,665	(901,923)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of equipment and furniture	(2,276)	(58,431)
Notes receivable principal receipts	660,896	417,271
Notes receivable funding		(940,000)
Principal payments on note payable	(4,483,039)	
Purchases of investments	(56,713,236)	(77,653,025)
Proceeds from sales and maturity of investments	58,674,686	78,447,173
Net cash provided (used) by investing activities	(1,862,969)	212,988
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,243,696	(688,935)
CASH AND CASH EQUIVALENTS, Beginning of year	8,025,758	8,714,693
CASH AND CASH EQUIVALENTS, End of year	$ 11,269,454	$ 8,025,758
OTHER CASH FLOW INFORMATION:		
Cash paid for interest	$ 48,154	$ 50,000

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 serves as fiscal sponsor for one program where program management requires the Fund to maintain separate cash accounts related to their program.

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 $43,548 and $94,328 at December 31, 2013 and 2012, respectively.

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 2009.

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 3, 2014, the date the consolidated financial statements were issued.

Reclassification – Certain 2012 amounts have been reclassified to conform to the 2013 financial statement presentation.

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 in which there is little or no market data, which requires management to develop their own assumptions.

2. SUBSEQUENT EVENT

On January 6, 2014, the Fund restructured its operations and hired 26 employees from Resources Law Group (RLG). These employees will 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.

3. INVESTMENTS

Investments are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency.

Investments consist of the following at December 31:

	2013	2012
Corporate bonds	$ 26,597,127	$ 30,967,728
Government asset backed debt securities	12,627,320	10,391,074
Government debt securities	4,402,654	4,214,536
Total	$ 43,627,101	$ 45,573,338

Interest and investment income are as follows:

	2013	2012
Interest and dividends	$ 185,370	$ 225,433
Unrealized and realized gains	15,213	19,445
Investment fees	(73,044)	(84,106)
Total	$ 127,539	$ 160,772

4. NOTES RECEIVABLE

Notes receivable consists of the following at December 31:

	2013	2012
Note receivable secured by real property, due from Five Valley Land Trust with a stated interest rate at 3% per annum, principal and payments are due on December 15, 2013, December 15, 2014 and July 1, 2015 totaling $400,000, $175,000 and $300,000, respectively, plus accrued interest.	$ 475,000	$ 875,000
Note receivable secured by real property, due from Bitter Root Land Trust Taber, with a stated interest rate of 3% per annum, principal payments are due on July 2, 2013 and July 2, 2014 totaling $20,000 and $45,000, respectively, plus accrued interest.	41,961	65,000
Note receivable due from Prickly Pear Land Trust with a stated interest rate at 3% per annum, outstanding principal and interest due the earlier of December 2013 or upon the sale of real property that secures the note.		237,857
Total notes receivable	516,961	1,177,857
Less: current portion	(216,961)	(657,857)
Notes receivable, net	$ 300,000	$ 520,000

5. 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 accrues at a fixed rate of 1.0% per annum and is due annually. The note payable is 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 and 2012 was $516,961 and $5,000,000, respectively.

The outstanding principal and any unpaid accrued interest are due on August 15, 2015. The note includes a mandatory principal pay down clause on February 14, 2014 that requires the Fund to make a principal payment for the difference, if any, between the $5,000,000 and the sum of (a) the outstanding principal amount of all GYE loans funded by the Fund and (b) the aggregate principal amount as of February 14, 2014 of all additional approved but unfunded GYE loans that are expected to be disbursed on or before August 15, 2014. The Fund satisfied this clause during 2013 by making principal payments totaling $4,483,039.

6. CONDITIONAL PROMISES TO GIVE

The Fund has grant agreements with several donors and foundations that are to provide funding over multi-year periods. The agreements expired during 2013 and the entire balance of conditional future funding as of December 31, 2012 was recognized in revenue in 2013 totaling $4,050,000.

7. 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 are effective January 6, 2014 and are held with RLG whose Partner is the President of the Fund. Rental expense was $155,222 and $128,918 for the years ended December 31, 2013 and 2012, respectively. Future minimum lease payments are as follows:

Year ending December 31:	Capital Lease for Furniture	Operating Leases for Office Space	Total
2014	$ 80,400	$ 476,259	$ 556,659
2015	80,400	482,792	563,192
2016		494,874	494,874
2017		507,483	507,483
2018		520,091	520,091
Thereafter		2,359,321	2,359,321
Total	$ 160,800	$ 4,840,820	$ 5,001,620

8. 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 three major donors that accounted for 56% and 62% of total contribution revenues in 2013 and 2012, respectively.

9. RETIREMENT PLAN

The Fund sponsors a 401(k) profit sharing plan. Under this plan, employees may participate beginning on the first day of the month following employment. For 2013 and 2012, the Fund made contributions of 100% of the first 4% of eligible compensation plus 50% of the next 2% of compensation. Such contributions are 100% vested, and totaled $131,779 for 2013 and $89,579 for 2012.

10. NET ASSETS

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

	2013	2012
Operating reserve	$ 1,030,000	$ 980,000
Conservation Opportunity Fund	42,000	380,000
Total	$ 1,072,000	$ 1,360,000

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

	2013	2012
Northwest Mexico Land Conservation	$ 21,064,575	$ 18,664,677
Sustaining California's Ocean	5,479,952	4,518,663
California Water Foundation	4,339,274	5,419,567
Parks Forward	3,582,730	435,031
Western Conservation	2,925,718	3,144,999
Living Landscape Initiative	1,587,377	2,111,153
San Francisco Baylands Restoration	1,276,235	
Northern Sierra Partnership	960,725	2,675,390
Climate Change Public Education	874,603	839,226
California Coastal and Marine Initiative	712,964	1,355,307
Bay Area Conservation Initiative	605,239	1,558,153
California Parks Program	491,680	1,189,416
Sustainable Fisheries Fund	374,648	440,074
Children and Urban River Parkways	297,352	74,493
Bay Wetlands Applied Studies	194,407	494,558
Wildlands Acquisition Program	139,996	1,998,470
California Coastal Program	98,737	194,000
Sustainable Aquaculture Fund	72,366	234,366
Oregon Land Conservation	40,474	88,924
Renewable Energy and Land Conservation	22,336	47,739
San Joaquin River Restoration	95	192,207
Oregon Ocean Conservation		57,889
Other land and resource conservation programs	101,198	279,540
Total	$ 45,242,681	$ 46,013,842