RESOURCES LEGACY FUND

CONSOLIDATED FINANCIAL STATEMENTS WITH INDEPENDENT AUDITOR'S REPORT

YEARS ENDED DECEMBER 31, 2015 AND 2014

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, 2015 and 2014, 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, 2015 and 2014, 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

March 21, 2016

RESOURCES LEGACY FUND

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2015 AND 2014

	2015	2014
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 11,103,493	$ 12,549,683
Short-term investments	35,597,117	28,014,513
Current portion of contributions receivable	5,663,850	2,286,013
Prepaid expenses and other assets	162,415	129,216
Total current assets	52,526,875	42,979,425
LONG-TERM INVESTMENTS	2,762,696	8,038,197
LONG-TERM CONTRIBUTIONS RECEIVABLE, Net	780,000	575,000
EQUIPMENT AND FURNITURE, Net	116,988	164,861
TOTAL ASSETS	$ 56,186,559	$ 51,757,483
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 40,692	$ 24,121
Grants and contracts payable	9,659,880	9,847,615
Accrued expenses	816,772	714,670
Deferred rent	169,834	140,230
Capital lease obligation		73,700
Total current liabilities	10,687,178	10,800,336
NET ASSETS:		
Unrestricted	2,808,341	3,201,862
Temporarily restricted	42,691,040	37,755,285
Total net assets	45,499,381	40,957,147
TOTAL LIABILITIES AND NET ASSETS	$ 56,186,559	$ 51,757,483

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

RESOURCES LEGACY FUND

CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	$ 33,242,576	$ 23,721,108
Interest and investment income	70,685	43,216
Net assets released from restrictions	(28,377,506)	(31,251,720)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	4,935,755	(7,487,396)
UNRESTRICTED NET ASSETS:		
REVENUES:		
Contributions	476,014	1,425,150
Contracts	252,985	61,208
Interest and investment income	36,485	16,682
Net assets released from restrictions	28,377,506	31,251,720
Total revenues	29,142,990	32,754,760
EXPENSES:		
Conservation program services	27,894,089	29,514,578
General and administrative	1,642,422	1,771,937
Total expenses	29,536,511	31,286,515
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	(393,521)	1,468,245
INCREASE (DECREASE) IN NET ASSETS	4,542,234	(6,019,151)
NET ASSETS, Beginning of year	40,957,147	46,976,298
NET ASSETS, End of year	$ 45,499,381	$ 40,957,147

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

RESOURCES LEGACY FUND

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	$ 4,542,234	$ (6,019,151)
Reconciliation to net cash provided (used) by operating activities:		
Depreciation	47,873	54,130
Net realized and unrealized loss on investments	15,410	41,624
Changes in:		
Contributions receivable	(3,582,837)	1,576,738
Prepaid expenses and other assets	(33,199)	(67,625)
Accounts payable	16,571	201,506
Grants and contracts payable	(187,735)	(2,591,040)
Accrued expenses	102,102	598,205
Deferred rent	29,604	40,175
Net cash provided (used) by operating activities	950,023	(6,165,438)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Notes receivable principal receipts		516,961
Purchases of investments	(39,850,891)	(36,521,251)
Proceeds from sales and maturity of investments	37,528,378	44,054,018
Net cash provided (used) by investing activities	(2,322,513)	8,049,728
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on note payable		(516,961)
Principal payments on capital lease obligation	(73,700)	(87,100)
Net cash used by financing activities	(73,700)	(604,061)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,446,190)	1,280,229
CASH AND CASH EQUIVALENTS, Beginning of year	12,549,683	11,269,454
CASH AND CASH EQUIVALENTS, End of year	$ 11,103,493	$ 12,549,683
OTHER CASH FLOW INFORMATION:		
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 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 $137,650 and $95,402 at December 31, 2015 and 2014, 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 2011.

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 March 21, 2016, the date the consolidated financial statements were issued. Management concluded that no material subsequent events have occurred since December 31, 2015 that require recognition or disclosure in the financial statements.

Reclassifications – Certain 2014 amounts have been reclassified to conform to the 2015 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 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:

	2015	2014
Corporate bonds	$ 11,494,627	$ 22,591,148
Government asset backed debt securities	21,157,651	12,490,734
Government debt securities	5,707,535	970,828
Total	$ 38,359,813	$ 36,052,710

Interest and investment income are as follows:

	2015	2014
Interest and dividends	$ 188,607	$ 171,155
Net unrealized and realized losses	(15,410)	(41,624)
Investment fees	(66,027)	(69,633)
Total	$ 107,170	$ 59,898

3. 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 Fund satisfied all note clauses and terms, and outstanding principal and accrued interest was repaid in full as of December 31, 2014.

4. CONDITIONAL PROMISES TO GIVE

The Fund has grant agreements with several donors and foundations that are to provide funding over multi-year periods.

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 both 2015 and 2014. The remaining $5,000,000 has not been recognized as revenue in the financial statements as of December 31, 2015.

During 2015, the Fund received a $75,000 conditional grant and met program initiatives and milestones required to recognize $40,000 in revenue in 2015. The remaining $35,000 has not been recognized as revenue in the financial statements as of December 31, 2015.

5. LEASE COMMITMENTS

The Fund leases certain office space and equipment under non-cancelable operating lease agreements which expire through 2023. The Fund has a capital lease agreement for furniture and an operating lease for office space which are held with Resources Law Group (RLG) whose Partner is the President of the Fund. The capital lease was paid in full during 2015. Rental expense was $546,409 and $511,267 for the years ended December 31, 2015 and 2014, respectively. Future minimum lease payments are as follows:

Year ending December 31:	
2016	$ 557,938
2017	575,434
2018	590,157
2019	606,482
2020	602,040
Thereafter	1,309,262
Total	$ 4,241,313

6. NET ASSETS

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

	2015	2014
Operating reserve	$ 2,547,936	$ 2,185,319
Hewlett funding designated for various programs	260,405	988,975
Conservation Opportunity Fund		27,568
Total	$ 2,808,341	$ 3,201,862

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

	2015	2014
Northwest Mexico Land Conservation	$ 24,475,461	$ 22,605,207
Conservation Innovations	3,253,539	1,949,777
California Drought Action Initiative	2,971,906	
Sustaining California's Ocean	2,935,878	3,187,224
Fisheries Improvement Strategy	1,663,100	992,120
San Francisco Baylands Restoration	1,337,164	1,616,992
Sustainable Fisheries Fund	992,309	270,816
Water Foundation	864,931	2,630,623
Parks Forward	857,799	811,821
California Coastal Program	629,977	213,609
Bay Area Conservation Initiative	371,813	912,723
Wildlands Acquisition Program	348,739	202,440
Oregon Conservation Program	347,158	146,548
California Parks Program	343,273	504,331
Water Foundation Transition	303,850	
Climate, Land Use, and Transportation	243,755	
Parks and Public Lands	252,273	
Western Conservation	168,735	412,828
Bay Wetlands Applied Studies	141,371	143,826
Washington Conservation Program	125,659	98,898
Northern Sierra Partnership		400,000
Living Landscape Initiative		391,407
Children and Urban River Parkways		159,154
Climate Change Public Education		43,436
Other land and resource conservation programs	62,350	61,505
Total	$ 42,691,040	$ 37,755,285

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% of total contribution revenues in both 2015 and 2014.

8. RETIREMENT PLAN

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 2015 and 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. Contributions made to the plan totaled $388,097 and $366,788 for 2015 and 2014, respectively.

9. 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 capital lease for furniture was paid in full during 2015. The Fund also subleases office space from RLG and pays monthly rent to the landlord based on a proportionate share of space.

During 2015 and 2014, RLG reimbursed the Fund $143,900 and $118,378, respectively, for shared services, and the Fund paid RLG $73,300 and $87,100, respectively, under the capital lease agreement. As of December 31, 2015 and 2014, RLG owed the Fund $30,186 and $29,197, respectively.