RESOURCES LEGACY FUND

CONSOLIDATED FINANCIAL STATEMENTS WITH INDEPENDENT AUDITOR'S REPORT

YEARS ENDED DECEMBER 31, 2016 AND 2015

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, 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 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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Board of Directors
Resources Legacy Fund
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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, 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.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

April 4, 2017

RESOURCES LEGACY FUND

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015

	2016	2015
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 20,575,424	$ 11,103,493
Short-term investments	36,429,785	35,597,117
Current portion of contributions receivable	21,982,009	5,663,850
Prepaid expenses and other assets	162,261	162,415
Total current assets	79,149,479	52,526,875
INVESTMENTS	26,149,831	2,762,696
CONTRIBUTIONS RECEIVABLE, Net	150,000	780,000
EQUIPMENT AND FURNITURE, Net	79,348	116,988
TOTAL ASSETS	$ 105,528,658	$ 56,186,559
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 106,636	$ 40,692
Current portion of grants and contracts payable	6,379,830	9,659,880
Accrued expenses	742,799	816,772
Deferred rent	187,935	169,834
Total current liabilities	7,417,200	10,687,178
GRANTS AND CONTRACTS PAYABLE, Net	225,000	
Total liabilities	7,642,200	10,687,178
NET ASSETS:		
Unrestricted	3,948,864	2,808,341
Temporarily restricted	93,937,594	42,691,040
Total net assets	97,886,458	45,499,381
TOTAL LIABILITIES AND NET ASSETS	$ 105,528,658	$ 56,186,559

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

RESOURCES LEGACY FUND

CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	$ 94,007,644	$ 33,242,576
Interest and investment income	365,040	70,685
Net assets released from restrictions	(43,126,130)	(28,377,506)
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	51,246,554	4,935,755
UNRESTRICTED NET ASSETS:		
REVENUES:		
Contributions	1,677,485	476,014
Contracts	75,320	252,985
Interest and investment income	47,964	36,485
Net assets released from restrictions	43,126,130	28,377,506
Total revenues	44,926,899	29,142,990
EXPENSES:		
Program services:		
Conservation	41,884,536	27,894,089
Supporting services:		
General and administrative	1,735,400	1,510,740
Fundraising	166,440	131,682
Total supporting services	1,901,840	1,642,422
Total expenses	43,786,376	29,536,511
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	1,140,523	(393,521)
INCREASE IN NET ASSETS	52,387,077	4,542,234
NET ASSETS, Beginning of year	45,499,381	40,957,147
NET ASSETS, End of year	$ 97,886,458	$ 45,499,381

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

RESOURCES LEGACY FUND

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	$ 52,387,077	$ 4,542,234
Reconciliation to net cash provided by operating activities:		
Depreciation	37,640	47,873
Net realized and unrealized (gain) loss on investments	(26,187)	15,410
Changes in:		
Contributions receivable	(15,688,159)	(3,582,837)
Prepaid expenses and other assets	154	(33,199)
Accounts payable	65,944	16,571
Grants and contracts payable	(3,055,050)	(187,735)
Accrued expenses	(73,973)	102,102
Deferred rent	18,101	29,604
Net cash provided by operating activities	33,665,547	950,023
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(73,391,835)	(39,850,891)
Proceeds from sales and maturity of investments	49,198,219	37,528,378
Net cash used by investing activities	(24,193,616)	(2,322,513)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on capital lease obligation		(73,700)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	9,471,931	(1,446,190)
CASH AND CASH EQUIVALENTS, Beginning of year	11,103,493	12,549,683
CASH AND CASH EQUIVALENTS, End of year	$ 20,575,424	$ 11,103,493

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 adaptation, water management and use, and other categories. It makes grants 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 obtained from private foundations, individuals 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.

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 $175,290 and $137,650 at December 31, 2016 and 2015, respectively.

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

> **Conservation** – Expenditures are related to a broad range of activities necessary to accomplish the Fund's land, marine, climate change 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 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 related to fundraising or is directly attributable to the conduct of conservation program services.
>
> **Fundraising** – Expenditures are related to time spent on developing new programs, preparing proposals and soliciting contributions.

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 executive management or 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.

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 4, 2017, the date the consolidated financial statements were issued. Refer to footnote 9.

Reclassifications – Certain 2015 amounts have been reclassified to conform to the 2016 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

The Fund's mutual funds and exchange traded funds are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices in active markets for identical assets. Corporate bonds and government securities 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:

	2016	2015
Corporate bonds	$ 21,252,314	$ 11,494,627
Government asset backed debt securities	21,226,423	21,157,651
Government debt securities	1,503,481	5,707,535
Mutual funds – fixed income	14,540,551	
Mutual funds – equity	3,852,710	
Exchange Traded Funds	204,137	
Total	$ 62,579,616	$ 38,359,813

Interest and investment income are as follows:

	2016	2015
Interest and dividends	$ 457,868	$ 188,607
Net unrealized and realized gains (losses)	26,187	(15,410)
Investment fees	(71,051)	(66,027)
Total	$ 413,004	$ 107,170

3. CONDITIONAL PROMISES TO GIVE

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 each year in 2016, 2015, and 2014. The remaining $2,500,000 has not been recognized as revenue in the financial statements as of December 31, 2016.

4. LEASE COMMITMENTS

The Fund leases certain office space and equipment under non-cancelable operating lease agreements which expire through 2023. The Fund has an operating lease for office space, which is held with Resources Law Group (RLG) whose Partner is the President of the Fund. The Fund also held a capital lease agreement for furniture with RLG, which was paid in full during 2015. Rental expense was $647,828 and $546,409 for the years ended December 31, 2016 and 2015, respectively. Future minimum lease payments are as follows:

Year ending December 31:

2017	$ 455,067
2018	450,449
2019	456,331
2020	448,195
2021	415,867
Thereafter	533,683
Total	$ 2,759,592

5. NET ASSETS

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

	2016	2015
Operating reserve	$ 3,132,490	$ 2,547,936
Hewlett funding designated for various programs	816,374	260,405
Total	$ 3,948,864	$ 2,808,341

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

	2016	2015
Open Rivers Fund	$ 49,529,738	
Northwest Mexico Land Conservation	18,857,900	$ 24,475,461
Water Foundation	5,133,843	1,168,781
Conservation Innovations	3,054,287	3,253,539
California Drought Action Initiative	2,812,337	2,971,906
Heritage Outdoors Project	1,837,911	
Sustaining California's Ocean	1,749,576	2,935,878
Parks Forward	1,523,425	857,799
Western Energy Project	1,310,061	
Center for Western Priorities	1,187,154	
Sustainable Fisheries Fund	1,101,282	992,309
Wildlands Acquisition Program	1,052,733	348,739
Bay Area Conservation Initiative	860,454	371,813
Fisheries Improvement Strategy	840,400	1,663,100
California Parks Program	580,434	343,273
California Coastal Program	454,962	629,977
Bears Ears Tribal Management Fund	249,167	
Washington Conservation Program	240,093	125,659
Decreasing Impacts from Roads and Travel	237,917	
Climate, Land Use, and Transportation	212,732	243,755
Monument Fund	197,833	
Environment, Health, and Community Fund	182,188	
Oregon Conservation Program	144,651	347,158
Argentine Protected Areas	129,525	
San Francisco Baylands Restoration	29,840	1,337,164
Parks and Public Lands	8,234	252,273
Other land and resource conservation programs	418,917	372,456
Total	$ 93,937,594	$ 42,691,040

6. 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 78% and 66% of total contribution revenues in 2016 and 2015, respectively.

7. 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 2016 and 2015, 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 $434,490 and $388,097 for 2016 and 2015, respectively.

8. RELATED PARTY

Executive management members of the Fund are owners of or employed by RLG. The Fund has an agreement with RLG to share resources of staff, office services, and technology resources. The Fund also held an agreement with RLG for the capital lease of furniture, which was paid in full during 2015. Additionally, the Fund subleases office space from RLG and pays monthly rent to the landlord based on a proportionate share of space. During 2016 and 2015, RLG reimbursed the Fund $224,953 and $143,900, respectively, for shared services. During 2015, Fund paid RLG $73,300 under the capital lease agreement. As of December 31, 2016 and 2015, RLG owed the Fund $8,785 and $30,186, respectively.

An executive management member of the Fund is also a governing board member of Fund for a Better Future, Inc. (FBF). Additionally, FBF, which has no employees, has entered into an agreement with the Fund for shared resources of staff, office services, and technology resources. During 2016, FBF paid the Fund $77,966 for shared services and the Fund contributed $19,382 to FBF.

9. SUBSEQUENT EVENT

In January 2017, the Water Foundation, a program of the Fund, became an independent organization and the Fund entered into an Assignment and Assumption Agreement (Agreement) with the Water Foundation. Under the Agreement, the Fund transferred to Water Foundation all of the assets, contracts, and obligations associated with the program, including cash of $7,500,000. All programs, public information work, and other activities planned by the program became the responsibility of Water Foundation, and all employees of the Fund working in support of the program were terminated by the Fund and became employees of Water Foundation.