

**RESOURCES LEGACY FUND**

**CONSOLIDATED FINANCIAL  
STATEMENTS WITH INDEPENDENT  
AUDITOR'S REPORT**

**YEARS ENDED  
DECEMBER 31, 2017 AND 2016**

## **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, 2017 and 2016, 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.

**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, 2017 and 2016, 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.

A handwritten signature in cursive script that reads "Gilbert Associates, Inc.".

**GILBERT ASSOCIATES, INC.**  
**Sacramento, California**

**March 8, 2018**

# RESOURCES LEGACY FUND

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2017 AND 2016

|   | <u>2017</u>           | <u>2016</u>           |
|---|-----------------------|-----------------------|
| <b>ASSETS</b>                                   |                       |                       |
| <b>CURRENT ASSETS:</b>                          |                       |                       |
| Cash and cash equivalents                       | \$ 7,348,680          | \$ 20,575,424         |
| Short-term investments                          | 24,686,853            | 36,429,785            |
| Current portion of contributions receivable     | 3,362,519             | 21,925,300            |
| Prepaid expenses and other assets               | <u>371,898</u>        | <u>218,970</u>        |
| Total current assets                            | 35,769,950            | 79,149,479            |
| <b>INVESTMENTS</b>                              | 69,632,567            | 26,149,831            |
| <b>CONTRIBUTIONS RECEIVABLE, Net</b>            | 255,000               | 150,000               |
| <b>EQUIPMENT AND FURNITURE, Net</b>             | <u>30,979</u>         | <u>79,348</u>         |
| <b>TOTAL ASSETS</b>                             | <u>\$ 105,688,496</u> | <u>\$ 105,528,658</u> |
| <b>LIABILITIES AND NET ASSETS</b>               |                       |                       |
| <b>CURRENT LIABILITIES:</b>                     |                       |                       |
| Accounts payable                                | \$ 103,373            | \$ 106,636            |
| Current portion of grants and contracts payable | 7,495,506             | 6,379,830             |
| Accrued expenses                                | 1,050,080             | 742,799               |
| Deferred rent                                   | <u>183,426</u>        | <u>187,935</u>        |
| Total current liabilities                       | 8,832,385             | 7,417,200             |
| <b>GRANTS AND CONTRACTS PAYABLE, Net</b>        | <u>625,000</u>        | <u>225,000</u>        |
| Total liabilities                               | <u>9,457,385</u>      | <u>7,642,200</u>      |
| <b>NET ASSETS:</b>                              |                       |                       |
| Unrestricted                                    | 5,810,861             | 3,948,864             |
| Temporarily restricted                          | <u>90,420,250</u>     | <u>93,937,594</u>     |
| Total net assets                                | <u>96,231,111</u>     | <u>97,886,458</u>     |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>         | <u>\$ 105,688,496</u> | <u>\$ 105,528,658</u> |

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

# RESOURCES LEGACY FUND

## CONSOLIDATED STATEMENTS OF ACTIVITIES YEARS ENDED DECEMBER 31, 2017 AND 2016

|   | <u>2017</u>          | <u>2016</u>          |
|---|----------------------|----------------------|
| <b>TEMPORARILY RESTRICTED NET ASSETS:</b>                       |                      |                      |
| Contributions   | \$ 38,964,664        | \$ 94,007,644        |
| Interest and investment income                                  | 4,666,905            | 365,040              |
| Distribution of program funds to Water Foundation               | (7,946,181)          |                      |
| Net assets released from restrictions                           | <u>(39,202,732)</u>  | <u>(43,126,130)</u>  |
| <b>INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS</b> | <u>(3,517,344)</u>   | <u>51,246,554</u>    |
| <b>UNRESTRICTED NET ASSETS:</b>                                 |                      |                      |
| <b>REVENUES:</b>  |                      |                      |
| Contributions   | 7,226,055            | 1,677,485            |
| Contracts   | 112,229              | 75,320               |
| Interest and investment income                                  | 182,383              | 47,964               |
| Net assets released from restrictions                           | <u>39,202,732</u>    | <u>43,126,130</u>    |
| Total revenues  | <u>46,723,399</u>    | <u>44,926,899</u>    |
| <b>EXPENSES:</b>  |                      |                      |
| Program services:   |                      |                      |
| Conservation  | <u>42,223,082</u>    | <u>41,884,536</u>    |
| Supporting services:  |                      |                      |
| General and administrative                                      | 2,329,170            | 1,735,400            |
| Fundraising   | <u>309,150</u>       | <u>166,440</u>       |
| Total supporting services                                       | <u>2,638,320</u>     | <u>1,901,840</u>     |
| Total expenses  | <u>44,861,402</u>    | <u>43,786,376</u>    |
| <b>INCREASE IN UNRESTRICTED NET ASSETS</b>                      | <u>1,861,997</u>     | <u>1,140,523</u>     |
| <b>INCREASE (DECREASE) IN NET ASSETS</b>                        | (1,655,347)          | 52,387,077           |
| <b>NET ASSETS, Beginning of year</b>                            | <u>97,886,458</u>    | <u>45,499,381</u>    |
| <b>NET ASSETS, End of year</b>                                  | <u>\$ 96,231,111</u> | <u>\$ 97,886,458</u> |

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

## RESOURCES LEGACY FUND

### CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2017 AND 2016

|   | <u>2017</u>         | <u>2016</u>          |
|---|---------------------|----------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                    |                     |                      |
| Increase (decrease) in net assets                               | \$ (1,655,347)      | \$ 52,387,077        |
| Reconciliation to net cash provided by operating activities:    |                     |                      |
| Depreciation  | 27,160              | 37,640               |
| Net realized and unrealized gain on investments                 | (3,369,851)         | (26,187)             |
| Loss on disposal of fixed assets                                | 38,421              |                      |
| Receipt of donated investments                                  | (5,259,237)         |                      |
| Changes in:   |                     |                      |
| Contributions receivable  | 18,457,781          | (15,631,450)         |
| Prepaid expenses and other assets                               | (152,928)           | (56,555)             |
| Accounts payable  | (3,263)             | 65,944               |
| Grants and contracts payable                                    | 1,515,676           | (3,055,050)          |
| Accrued expenses  | 307,281             | (73,973)             |
| Deferred rent   | (4,509)             | 18,101               |
| Net cash provided by operating activities                       | <u>9,901,184</u>    | <u>33,665,547</u>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                    |                     |                      |
| Purchases of property and equipment                             | (17,212)            |                      |
| Purchases of investments  | (89,276,454)        | (73,391,835)         |
| Proceeds from sales and maturity of investments                 | 66,165,738          | 49,198,219           |
| Net cash used by investing activities                           | <u>(23,127,928)</u> | <u>(24,193,616)</u>  |
| <b>NET INCREASE (DECREASE) IN CASH<br/>AND CASH EQUIVALENTS</b> | (13,226,744)        | 9,471,931            |
| <b>CASH AND CASH EQUIVALENTS, Beginning of year</b>             | <u>20,575,424</u>   | <u>11,103,493</u>    |
| <b>CASH AND CASH EQUIVALENTS, End of year</b>                   | <u>\$ 7,348,680</u> | <u>\$ 20,575,424</u> |

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

# RESOURCES LEGACY FUND

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

---

### 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 \$176,401 and \$175,290 at December 31, 2017 and 2016, respectively.

# RESOURCES LEGACY FUND

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

---

**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 March 8, 2018, the date the consolidated financial statements were issued. Management concluded that no material subsequent events have occurred since December 31, 2017, that require recognition or disclosure in the financial statements.

**Reclassifications** – Certain 2016 amounts have been reclassified to conform to the 2017 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).



# RESOURCES LEGACY FUND

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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:

|   | <u>2017</u>          | <u>2016</u>          |
|---|----------------------|----------------------|
| Government asset backed debt securities | \$ 16,119,536        | \$ 21,226,423        |
| Corporate bonds                         | 12,744,885           | 21,252,314           |
| Government debt securities              |                      | 1,503,481            |
| Mutual funds – fixed income             | 38,812,979           | 14,540,551           |
| Mutual funds – equity                   | 25,329,477           | 3,852,710            |
| Exchange Traded Funds                   | <u>1,312,543</u>     | <u>204,137</u>       |
| Total                                   | <u>\$ 94,319,420</u> | <u>\$ 62,579,616</u> |

Interest and investment income are as follows:

|                                   | <u>2017</u>         | <u>2016</u>       |
|-----------------------------------|---------------------|-------------------|
| Net unrealized and realized gains | \$ 3,369,851        | \$ 26,187         |
| Interest and dividends            | 1,703,374           | 457,868           |
| Investment fees                   | <u>(223,937)</u>    | <u>(71,051)</u>   |
| Total                             | <u>\$ 4,849,288</u> | <u>\$ 413,004</u> |

### 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 2017, 2016, 2015, and 2014. The grant had been recognized in full as of December 31, 2017.

# RESOURCES LEGACY FUND

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 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. Rental expense was \$628,325 and \$647,828 for the years ended December 31, 2017 and 2016, respectively. Future minimum lease payments are as follows:

**Year ending December 31:**

|            |    |                  |
|------------|----|------------------|
| 2018       | \$ | 480,223          |
| 2019       |    | 456,331          |
| 2020       |    | 448,195          |
| 2021       |    | 415,867          |
| 2022       |    | 426,400          |
| Thereafter |    | <u>107,283</u>   |
| Total      | \$ | <u>2,334,299</u> |

### 5. NET ASSETS

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

|   | <u>2017</u>         | <u>2016</u>         |
|---|---------------------|---------------------|
| Operating reserve                               | \$ 3,196,449        | \$ 3,132,490        |
| Hewlett funding designated for various programs | <u>2,614,410</u>    | <u>816,374</u>      |
| Total   | <u>\$ 5,810,859</u> | <u>\$ 3,948,864</u> |

# RESOURCES LEGACY FUND

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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

|   | <u>2017</u>          | <u>2016</u>          |
|---|----------------------|----------------------|
| Open Rivers Fund                              | \$ 51,930,380        | \$ 49,529,738        |
| Northwest Mexico Land Conservation            | 17,014,053           | 18,857,900           |
| California Conservation Innovations           | 2,430,482            | 3,054,287            |
| Western Energy Project                        | 2,412,684            | 1,310,061            |
| Center for Western Priorities                 | 1,883,581            | 1,187,154            |
| Sustaining California's Ocean                 | 1,730,672            | 1,749,576            |
| Parks Forward Initiative Implementation       | 1,264,649            | 1,523,425            |
| Fisheries Improvement Strategy                | 1,043,584            | 840,400              |
| Heritage Outdoors Project                     | 1,022,125            | 1,837,911            |
| Open Markets Institute                        | 918,144              |                      |
| Litigation Clearinghouse                      | 897,670              |                      |
| Sustainable Fisheries Fund                    | 852,778              | 1,101,282            |
| Environment, Health, and Community Fund       | 731,027              | 182,188              |
| Land-Sea Connection                           | 718,010              |                      |
| Decreasing Impacts from Roads and Travel      | 629,925              | 237,917              |
| San Francisco Baylands Restoration            | 605,673              | 29,840               |
| Bay Area Conservation Initiative              | 589,251              | 860,454              |
| Boreal Strategic Advisors                     | 563,111              |                      |
| California Coastal Program                    | 555,796              | 454,962              |
| Wildlands Acquisition Program                 | 475,426              | 1,052,733            |
| Canada and Mexico Protected Area Fund         | 463,042              |                      |
| Western Conservation Values                   | 365,927              |                      |
| California Parks Program                      | 314,053              | 580,434              |
| Montana Parks Program                         | 250,165              |                      |
| Climate, Land Use, and Transportation         | 222,338              | 212,732              |
| Washington Conservation Program               | 144,611              | 240,093              |
| Western Conservation Project                  | 113,768              | 108,761              |
| Bears Ears National Monument Fund             | 52,000               | 249,167              |
| Argentine Protected Areas                     | 21,895               | 129,525              |
| Oregon Conservation Program                   | 10,137               | 144,651              |
| Water Foundation                              |                      | 5,133,843            |
| California Drought Action Initiative          |                      | 2,812,337            |
| Monument Fund                                 |                      | 197,833              |
| Other land and resource conservation programs | <u>193,293</u>       | <u>318,390</u>       |
| Total   | <u>\$ 90,420,250</u> | <u>\$ 93,937,594</u> |

# RESOURCES LEGACY FUND

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

---

### 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 61% and 78% of total contribution revenues in 2017 and 2016, 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 2017 and 2016, 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 \$493,024 and \$434,490 for 2017 and 2016, respectively.

### 8. TRANSFER TO WATER FOUNDATION

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 during 2017 all of the assets, contracts, and obligations associated with the program, including cash of \$8,012,619, which resulted in a net distribution of unspent restricted program funds of \$7,946,181. 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.

# RESOURCES LEGACY FUND

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

---

### 9. 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. Additionally, the Fund subleases office space from RLG and pays monthly rent to the landlord based on a proportionate share of space. During 2017 and 2016, RLG reimbursed the Fund \$194,641 and \$224,953, respectively, for shared services. As of December 31, 2017 and 2016, RLG owed the Fund \$12,233 and \$8,785, 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. FBF reimbursed the Fund \$179,530 and \$77,966 for shared services in fiscal years 2017 and 2016, respectively. The Fund contributed \$50,000 in temporarily restricted funds to FBF in 2017 and \$19,382 in unrestricted funds to FBF in 2016. The Fund had a receivable from FBF of \$74,787 and \$56,709 for shared services in fiscal years 2017 and 2016, respectively.