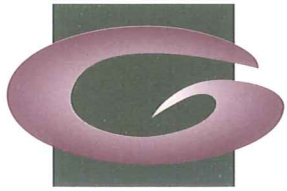


RESOURCES LEGACY FUND

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

**YEARS ENDED
DECEMBER 31, 2006 AND 2005**



Gilbert Associates, Inc.
CPAs and Advisors

INDEPENDENT AUDITOR'S REPORT

**Board of Directors
Resources Legacy Fund
Sacramento, California**

We have audited the accompanying consolidated statements of financial position of Resources Legacy Fund (the Fund) as of December 31, 2006 and 2005, and the related consolidated statements of activities and of cash flows for the years then ended. These consolidated financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Resources Legacy Fund as of December 31, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.

March 5, 2007

RESOURCES LEGACY FUND

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
CURRENT ASSETS:		
Cash and equivalents	\$ 37,790,718	\$ 29,968,073
Investments	19,985,070	15,884,830
Accounts receivable		14,986
Current portion of contributions receivable	850,000	
Current portion of notes receivable	536,000	1,212,000
Interest receivable	155,489	101,057
Prepaid expenses	<u>58,084</u>	<u>28,071</u>
Total current assets	59,375,361	47,209,017
INVESTMENTS	1,979,379	18,727,884
NOTES RECEIVABLE, Net	7,086,076	536,000
CONTRIBUTIONS RECEIVABLE, Net	457,300	
EQUIPMENT AND FURNITURE (net of accumulated depreciation of \$44,615 in 2006 and \$27,354 in 2005)	<u>63,100</u>	<u>80,361</u>
TOTAL ASSETS	<u>\$ 68,961,216</u>	<u>\$ 66,553,262</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 901,316	\$ 1,183,677
Grants committed	34,306,026	37,767,659
Accrued expenses	10,765	162,243
Interest payable	<u>26,833</u>	<u>26,833</u>
Total current liabilities	35,244,940	39,140,412
NOTE PAYABLE	<u>7,000,000</u>	<u>7,000,000</u>
TOTAL LIABILITIES	<u>42,244,940</u>	<u>46,140,412</u>
NET ASSETS:		
Unrestricted	969,071	538,177
Temporarily restricted	<u>25,747,205</u>	<u>19,874,673</u>
Total net assets	<u>26,716,276</u>	<u>20,412,850</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 68,961,216</u>	<u>\$ 66,553,262</u>

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

RESOURCES LEGACY FUND

CONSOLIDATED STATEMENTS OF ACTIVITIES YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	\$40,692,038	\$44,093,699
Interest and investment income	3,049,118	1,686,714
Net assets released from restriction	<u>(37,868,624)</u>	<u>(43,970,272)</u>
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	<u>5,872,532</u>	<u>1,810,141</u>
UNRESTRICTED NET ASSETS:		
REVENUES:		
Interest and investment income	646,468	364,068
Net assets released from restriction	<u>37,868,624</u>	<u>43,970,272</u>
Total revenues	<u>38,515,092</u>	<u>44,334,340</u>
EXPENSES:		
Conservation program services	37,221,004	43,358,807
General and administrative	<u>863,194</u>	<u>1,025,760</u>
Total expenses	<u>38,084,198</u>	<u>44,384,567</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	<u>430,894</u>	<u>(50,227)</u>
INCREASE IN NET ASSETS	6,303,426	1,759,914
NET ASSETS, Beginning of year	<u>20,412,850</u>	<u>18,652,936</u>
NET ASSETS, End of year	<u>\$26,716,276</u>	<u>\$20,412,850</u>

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

RESOURCES LEGACY FUND

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 6,303,426	\$ 1,759,914
Reconciliation to net cash and equivalents provided (used) by operating activities:		
Depreciation	17,261	13,751
Net gain on investments	(687,252)	(635,762)
Changes in:		
Accounts receivable	14,986	22,070
Notes receivable	(5,874,076)	(536,000)
Interest receivable	(54,432)	(93,662)
Contributions receivable	(1,307,300)	
Prepaid expenses	(30,013)	9,026
Accounts payable	(282,361)	1,006,350
Grants committed	(3,461,633)	5,785,296
Accrued expenses	(151,478)	145,123
Net cash and equivalents provided (used) by operating activities	<u>(5,512,872)</u>	<u>7,476,106</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment		(47,082)
Purchases of investments	(30,514,483)	(69,357,952)
Proceeds from sales and maturity of investments	<u>43,850,000</u>	<u>35,381,000</u>
Net cash provided (used) by investing activities	<u>13,335,517</u>	<u>(34,024,034)</u>
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	7,822,645	(26,547,928)
CASH AND EQUIVALENTS, Beginning of year	<u>29,968,073</u>	<u>56,516,001</u>
CASH AND EQUIVALENTS, End of year	<u>\$ 37,790,718</u>	<u>\$29,968,073</u>
OTHER CASH FLOW INFORMATION:		
Cash paid for interest	<u>\$ 70,000</u>	<u>\$ 70,000</u>

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

RESOURCES LEGACY FUND

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2006 AND 2005

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 land and marine conservation programs. 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 exclusively for the benefit of Resources Legacy Fund.

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

Basis of presentation – The financial statements are presented in conformity with Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-For-Profit Organizations*. Under SFAS No. 117, the Fund reports information regarding its financial 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 accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. 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 equivalents – For financial statement purposes, the Fund considers all investments with a maturity at purchase of three months or less to be cash equivalents.

Investments consist of government and agency securities and are stated at fair market value.

Equipment and furniture are stated at cost and depreciated using the straight-line method over estimated useful lives of five to seven years.

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.

RESOURCES LEGACY FUND

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2006 AND 2005

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

Conservation program services – Expenditures related to a broad range of activities necessary to accomplish the Fund’s land and marine 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 and policy activities.

General and administrative – Expenditures 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.

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.

2. INTEREST AND INVESTMENT INCOME

Interest and investment income are as follows:

	<u>2006</u>	<u>2005</u>
Interest and dividends	\$3,077,215	\$1,502,893
Unrealized and realized gains	687,252	635,762
Investment fees	<u>(68,881)</u>	<u>(87,873)</u>
Total	<u>\$3,695,586</u>	<u>\$2,050,782</u>

3. CONTRIBUTIONS RECEIVABLE

The Fund recognizes contributions at their estimated fair value. Fair value is determined by calculating the present value of the estimated future cash flows. The discount rate used in determining the net present value of contributions receivable was 5.8% at December 31, 2006.

RESOURCES LEGACY FUND

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2006 AND 2005

Contributions receivable at December 31, 2006, consist of the following:

Gross contributions receivable	\$ 1,350,000
Less: Unamortized discount	<u>(42,700)</u>
Total	<u>\$ 1,307,300</u>

Contributions receivable at December 31, 2006, are due to be collected as follows:

Within one year	\$ 850,000
In one to five years	<u>457,300</u>
Total	<u>\$ 1,307,300</u>

Conditional promises to give – RLF has grant agreements with several donors and foundations that are to provide RLF with funding over multi-year periods. These grants were primarily established to work in support of wetlands restoration, land conservation, the beginning phase of initial stewardship, and restoration planning and implementation on the San Francisco Bay, as well as for marine life protection along the California coast. In 2006 and 2005, respectively, approximately \$31.7 and \$35.0 million related to these agreements was received and recorded as contribution income. Receipt of the remaining \$30 million in grant funding is conditional upon RLF meeting certain program initiatives and milestones. In accordance with SFAS No. 116, conditional future funding has not been recognized as revenue in the financial statements.

RESOURCES LEGACY FUND

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2006 AND 2005

4. NOTES RECEIVABLE

Notes receivable consist of the following:

	<u>2006</u>	<u>2005</u>
The Nature Conservancy – interest at 3% annum, due on November 2, 2007 and July 15, 2008 with the outstanding principal due the earlier of July 15, 2008 or upon the sale of real property that secures the note.	\$ 3,000,000	
Friends of the Desert Mountains – interest at 1% annum, outstanding principal and interest due the earlier of November 17, 2008 or upon the sale of the real property that secures the note.	2,236,076	
Western Rivers Conservancy – interest at 2% annum, outstanding principal and interest due the earlier of December 22, 2009, or upon the sale of the real property that secures the note.	1,850,000	
The Trust for Public Land – interest at 1% annum, outstanding principal and interest due the earlier of December 31, 2007 or upon the sale of the real property that secures the note.	536,000	\$ 536,000
The Land Trust of Napa County – interest at 1.5% annum, outstanding principal and interest paid on October 26, 2006.		697,000
American Land Conservancy – interest at 1.5% annum, outstanding principal and interest paid on June 5, 2006.		365,000
Western Rivers Conservancy – interest at 3% annum, outstanding principal and interest paid on June 16, 2006.	<u> </u>	<u>150,000</u>
Total	7,622,076	1,748,000
Less current portion	<u>(536,000)</u>	<u>(1,212,000)</u>
Long-term notes receivable, net	<u>\$ 7,086,076</u>	<u>\$ 536,000</u>

RESOURCES LEGACY FUND

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2006 AND 2005

5. NOTE PAYABLE

In 2004, the Fund obtained a \$7,000,000 note payable from The David and Lucile Packard Foundation. Interest accrues at a fixed rate of 1.0% per annum. Accrued interest is due annually on each anniversary of the note. The outstanding principal and any unpaid accrued interest are due on August 11, 2008. Interest of \$70,000 was paid on this note during the years ended December 31, 2006 and 2005. The balance outstanding on the note at December 31, 2006 and 2005 was \$7,000,000.

6. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of unexpended grant funds restricted for the following purposes:

	<u>2006</u>	<u>2005</u>
Preserving Wild California	\$ 11,550,740	\$ 6,189,484
SF Bay Wetlands IS Implementation and LT Planning	3,712,426	5,430,698
Marine Life Protection Act	2,584,979	3,159,309
California Coastal and Marine Initiative	2,407,799	633,340
Revolving Loan Fund	2,391,558	2,278,768
Los Angeles River Revitalization Project	1,196,600	
Massachusetts Ocean Policy Partnership	357,645	654,751
Other land and resource conservation programs	<u>1,545,458</u>	<u>1,528,323</u>
Total	<u>\$ 25,747,205</u>	<u>\$ 19,874,673</u>

7. OFFICE LEASE

The Fund subleases office space under non-cancelable lease agreements. Office rent expense was \$134,163 and \$56,231 for the years ended December 31, 2006 and 2005, respectively. Future minimum lease payments are as follows:

Year ending December 31:

2007	\$ 139,912
2008	143,266
2009	146,141
2010	151,412
2011	154,766
Thereafter	<u>103,497</u>
Total	<u>\$ 838,994</u>

RESOURCES LEGACY FUND

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2006 AND 2005

8. CONCENTRATIONS

For the years ended December 31, 2006 and 2005, the Fund obtained approximately 74% and 68%, respectively, of its contribution revenue from a donor, which was restricted for land conservation purposes.

The Fund maintains its cash in bank deposit accounts that, at times, may exceed federally insured limits. The Fund has not experienced any losses in such accounts. Management believes the Fund is not exposed to any significant credit risk related to cash.