RESOURCES LEGACY FUND

CONSOLIDATED FINANCIAL STATEMENTS WITH INDEPENDENT AUDITOR'S REPORT

YEARS ENDED DECEMBER 31, 2009 AND 2008

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 and Resources Legacy Fund Foundation, collectively the Fund, as of December 31, 2009 and 2008, 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 the Fund as of December 31, 2009 and 2008, 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.
Sacramento, California

March 23, 2010

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RESOURCES LEGACY FUND

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2009 AND 2008

	2009	2008
ASSETS		
CURRENT ASSETS:		
Cash and equivalents	$ 12,826,278	$ 58,447,347
Short-term investments	33,974,957	12,086,280
Current portion of contributions receivable	7,012,994	2,600,262
Current portion of notes receivable	1,472,202	
Interest receivable	38,032	89,718
Prepaid expenses	93,916	32,213
Total current assets	55,418,379	73,255,820
LONG-TERM INVESTMENTS	4,916,349	
NOTES RECEIVABLE, Net		2,076,333
CONTRIBUTIONS RECEIVABLE, Net	3,883,122	5,767,767
EQUIPMENT AND FURNITURE (net of accumulated depreciation of $62,860 in 2009 and $48,709 in 2008)	27,040	31,172
TOTAL ASSETS	$ 64,244,890	$ 81,131,092
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 1,316,342	$ 2,552,537
Grants committed	15,081,722	33,124,512
Accrued expenses	8,379	18,775
Interest payable	26,833	26,833
Note payable	7,000,000	
Total current liabilities	23,433,276	35,722,657
NOTE PAYABLE		7,000,000
TOTAL LIABILITIES	23,433,276	42,722,657
NET ASSETS:		
Unrestricted	3,598,082	3,370,379
Temporarily restricted	37,213,532	35,038,056
Total net assets	40,811,614	38,408,435
TOTAL LIABILITIES AND NET ASSETS	$ 64,244,890	$ 81,131,092

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

RESOURCES LEGACY FUND

CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	$ 30,483,418	$ 42,011,598
Interest and investment income	359,966	1,711,092
Net assets released from restrictions	(28,667,908)	(47,876,518)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	2,175,476	(4,153,828)
UNRESTRICTED NET ASSETS:		
REVENUES:		
Contributions	1,604,718	1,457,606
Interest and investment income (loss)	(17,327)	749,466
Net assets released from restrictions	28,667,908	47,876,518
Total revenues	30,255,299	50,083,590
EXPENSES:		
Conservation program services	29,067,618	47,972,819
General and administrative	959,978	873,653
Total expenses	30,027,596	48,846,472
INCREASE IN UNRESTRICTED NET ASSETS	227,703	1,237,118
INCREASE (DECREASE) IN NET ASSETS	2,403,179	(2,916,710)
NET ASSETS, Beginning of year	38,408,435	41,325,145
NET ASSETS, End of year	$ 40,811,614	$ 38,408,435

RESOURCES LEGACY FUND

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	$ 2,403,179	$ (2,916,710)
Reconciliation to net cash and equivalents used by operating activities:		
Depreciation	14,151	13,381
Net realized and unrealized (gain) loss on investments	83,806	(167,010)
Changes in:		
Interest receivable	51,686	219,000
Contributions receivable	(2,528,087)	(5,154,791)
Prepaid expenses	(61,703)	(17,667)
Accounts payable	(1,236,195)	1,412,298
Grants committed	(18,042,790)	(4,745,635)
Accrued expenses	(10,396)	4,334
Net cash and equivalents used by operating activities	(19,326,349)	(11,352,800)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of equipment and furniture	(10,019)	(2,346)
Notes receivable principal receipts	604,131	2,925,711
Purchases of investments	(66,263,762)	(16,915,320)
Proceeds from sales and maturity of investments	39,374,930	31,500,000
Net cash and equivalents provided (used) by investing activities	(26,294,720)	17,508,045
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	(45,621,069)	6,155,245
CASH AND EQUIVALENTS, Beginning of year	58,447,347	52,292,102
CASH AND EQUIVALENTS, End of year	$ 12,826,278	$ 58,447,347
OTHER CASH FLOW INFORMATION:		
Cash paid for interest	$ 70,000	$ 70,000

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 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 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 Accounting Standards Codification (ASC) 958-205, *Not-For-Profit Entities – Presentation of Financial Statements*. Under ASC 958-205, 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 ASC 958-605, *Not-For-Profit Entities – Revenue Recognition*. 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. Certain donors require the Fund to maintain separate cash accounts related to their grant funding.

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 seven years. The Fund's policy is to capitalize such items with a cost of $2,000 or more.

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 implemented ASC 740, *Accounting for Uncertainty in Income Taxes*, and has determined there is no material impact on the financial statements.

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.

Subsequent events have been reviewed through the issuance date of the audit report.

Recent accounting pronouncements – The Financial Accounting Standards Board (FASB) issued FASB Accounting Standards Codification effective for financial statements issued for interim and annual periods ending after September 15, 2009. The ASC is an aggregation of previously issued authoritative U.S. generally accepted accounting principles (GAAP) in one comprehensive set of guidance organized by subject area. In accordance with the ASC, references to previously issued accounting standards have been replaced by ASC references. Subsequent revisions to GAAP will be incorporated into the ASC through Accounting Standards Updates.

Fair value measurements – Assets and liabilities measured at fair value are recorded in accordance with ASC 820, *Fair Value Measurements and Disclosures*, which clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, ASC 820 establishes a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value 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. INVESTMENTS

Investments consist of government and agency securities and 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.

Interest and investment income are as follows:

	2009	2008
Interest and dividends	$ 495,939	$ 2,340,547
Unrealized and realized gains (losses)	(83,806)	167,010
Investment fees	(69,494)	(46,999)
Total	$ 342,639	$ 2,460,558

3. CONTRIBUTIONS RECEIVABLE

The Fund initially records multi-year contributions receivable at fair value and subsequently amortizes them using the discount rate established in the initial fair value calculation. Multi-year contributions receivable are classified within Level 3 of the fair value hierarchy because determination of the present value of future cash flows is based on little or no market data and requires management to develop their own assumptions. Management determined fair value using a discount rate of 2.0% at December 31, 2009. The discount rate was obtained by taking their average interest rate earned on the Fund’s investments during 2008.

Contributions receivable consist of the following:

	2009	2008
Gross contributions receivable	$ 11,012,994	$ 8,600,262
Less: Unamortized discount	(116,878)	(232,233)
Contributions receivable, net	$ 10,896,116	$ 8,368,029

Contributions receivable are due to be collected as follows:

	2009	2008
Within one year	$ 7,012,994	$ 2,600,262
In one to five years	3,883,122	5,767,767
Contributions receivable, net	$ 10,896,116	$ 8,368,029

Conditional promises to give – The Fund has grant agreements with several donors and foundations that are to provide funding over multi-year periods. Conditional future funding has not been recognized as revenue in the financial statements. Conditional promises to give are as follows:

	2009	2008
Conditional upon meeting program initiatives and milestones	$ 11,015,388	$ 4,181,805
Conditional upon appropriation of the state funds	195,000	390,000
Total	$ 11,210,388	$ 4,571,805

4. NOTES RECEIVABLE

Notes receivable consist of two notes due from the Nature Conservancy. Both notes have a stated interest rate at 3% annum, outstanding principal and interest due the earlier of July 15, 2010 or upon the sale of real property that secure the notes. Notes receivable were $1,472,202 and $2,076,333 for the years ended December 31, 2009 and 2008, respectively.

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 15, 2010. Interest of $70,000 was paid on this note during the years ended December 31, 2009 and 2008. The balance outstanding on the note at December 31, 2009 and 2008 was $7,000,000.

6. NET ASSETS

The Fund has designated $682,751 of unrestricted net assets for the Conservation Opportunity Fund and $129,250 for Renewable Energy and Land Conservation.

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

	2009	2008
Northwest Mexico	$ 13,575,370	$ 5,207,578
Northern Sierra Partnership	6,272,402	9,465,446
Western Conservation Initiative	2,855,474	1,138,791
Wildlands Acquisition Program	2,291,264	2,593,033
California Coastal and Marine Initiative	2,072,596	3,048,644
Bay Area Conservation Initiative	1,947,216	
Preserving Wild California	1,872,950	2,619,207
Children and Urban Rivers Parkways	1,397,790	1,519,723
Sustainable Fisheries and Aquaculture	1,375,932	1,929,945
Marine Life Protection Act Initiative	677,469	540,782
San Joaquin River Restoration	618,557	837,599
SF Bay Wetlands Restoration	423,896	1,618,998
Tejon Ranch Conservancy	235,000	235,000
Conservation Bond Implementation	226,038	919,876
California Water Policy	216,888	
Renewable Energy and Land Conservation	142,000	
Point Reyes Acquisition		1,450,000
Los Angeles River Revitalization Project		267,381
Other land and resource conservation programs	1,012,690	1,646,053
Total	$ 37,213,532	$ 35,038,056

7. OFFICE LEASE

The Fund subleases office space under non-cancelable lease agreements. Office rent expense was $112,469 and $114,326 for the years ended December 31, 2009 and 2008, respectively. Future minimum lease payments are as follows:

Year ending December 31:	
2010	$ 122,460
2011	123,235
2012	83,707
Total	$ 329,402

8. CONCENTRATIONS

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.

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 2009 and 2008, 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 $19,569 for 2009 and $18,550 for 2008.