

Pacific Forest
and Watershed
Lands
**Stewardship
Council**

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

**PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP
COUNCIL**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Pacific Forest and Watershed Lands Stewardship Council

Report on the Financial Statements

We have audited the accompanying financial statements of Pacific Forest and Watershed Lands Stewardship Council (a non-profit organization) which comprise the statement of financial position as of December 31, 2016, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 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 2016 financial statements referred to above present fairly, in all material respects, the financial position of the Pacific Forest and Watershed Lands Stewardship Council as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The 2015 financial statements of Pacific Forest and Watershed Lands Stewardship Council were audited by Lautze & Lautze, CPA's & Financial Advisors whose practice was combined with Marcum LLP as of June 1, 2016, and whose report dated June 8, 2016, expressed an unmodified opinion on those statements.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The expense budget to actual analysis schedule on page 21 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Marcum LLP

San Jose, California
May 23, 2017

**PACIFIC FOREST AND WATERSHED LANDS
STEWARDSHIP COUNCIL**

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Assets		
Cash and cash equivalents	\$ 258,455	\$ 4,152,486
Prepaid expenses	60,393	50,851
Accrued interest	11,332	27,788
Investments	45,048,522	45,432,338
Property and equipment, net	<u>17,854</u>	<u>17,443</u>
Total Assets	<u>\$ 45,396,556</u>	<u>\$ 49,680,906</u>
 Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 195,601	\$ 198,467
Grants payable	<u>917,955</u>	<u>1,454,483</u>
Total Liabilities	<u>1,113,556</u>	<u>1,652,950</u>
 Temporarily Restricted Net Assets	 <u>44,283,000</u>	 <u>48,027,956</u>
Total Liabilities and Net Assets	<u>\$ 45,396,556</u>	<u>\$ 49,680,906</u>

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

**PACIFIC FOREST AND WATERSHED LANDS
STEWARDSHIP COUNCIL**

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2016

	Unrestricted	Temporarily Restricted	Total
Support and Revenue			
Net investment income	\$ --	\$ 562,828	\$ 562,828
Loss on disposal of property and equipment	--	(1,214)	(1,214)
	--	561,614	561,614
Net assets released from restrictions	4,306,570	(4,306,570)	--
Total Support and Revenue	<u>4,306,570</u>	<u>(3,744,956)</u>	<u>561,614</u>
Expenses			
Program:			
Land Conservation	4,210,387	--	4,210,387
Youth Investment	96,183	--	96,183
Total Expenses	<u>4,306,570</u>	<u>--</u>	<u>4,306,570</u>
Change in Net Assets	--	(3,744,956)	(3,744,956)
Net Assets - Beginning	<u>--</u>	<u>48,027,956</u>	<u>48,027,956</u>
Net Assets - Ending	<u>\$ --</u>	<u>\$ 44,283,000</u>	<u>\$ 44,283,000</u>

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

**PACIFIC FOREST AND WATERSHED LANDS
STEWARDSHIP COUNCIL**

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2015

	Unrestricted	Temporarily Restricted	Total
Support and Revenue			
Net investment income	\$ --	\$ 262,319	\$ 262,319
Gain on disposal of property and equipment	<u>--</u>	<u>1,295</u>	<u>1,295</u>
	--	263,614	263,614
Net assets released from restrictions	<u>6,041,342</u>	<u>(6,041,342)</u>	<u>--</u>
Total Support and Revenue	<u>6,041,342</u>	<u>(5,777,728)</u>	<u>263,614</u>
Expenses			
Program:			
Land Conservation	6,029,961	--	6,029,961
Youth Investment	<u>11,381</u>	<u>--</u>	<u>11,381</u>
Total Expenses	<u>6,041,342</u>	<u>--</u>	<u>6,041,342</u>
Change in Net Assets	--	(5,777,728)	(5,777,728)
Net Assets - Beginning	<u>--</u>	<u>53,805,684</u>	<u>53,805,684</u>
Net Assets - Ending	<u>\$ --</u>	<u>\$ 48,027,956</u>	<u>\$ 48,027,956</u>

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

**PACIFIC FOREST AND WATERSHED LANDS
STEWARDSHIP COUNCIL**

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2016

	Land Conservation	Youth Investment	Management and General	Total
Expenses				
Grant awards	\$ 1,824,854	\$ 75,000	\$ --	\$ 1,899,854
Salaries, wages, and benefits	942,776	3,803	503,891	1,450,470
Consultants and professional services	510,284	137	16,634	527,055
Rent and facilities	63,056	1,704	39,540	104,300
Office supplies and expense	46,678	141	14,855	61,674
Insurance	32,555	144	15,892	48,591
Land transaction costs	41,866	--	--	41,866
Accounting	1,180	8	36,976	38,164
Travel and entertainment	30,134	29	4,809	34,972
Conferences, meetings, and training	18,896	525	5,745	25,166
Investment fees	24,301	--	--	24,301
Legal	12,012	--	9,555	21,567
Newsletters and public notices	14,114	8	1,171	15,293
Depreciation	4,324	133	2,459	6,916
Excise taxes	6,381	--	--	6,381
	<u>3,573,411</u>	<u>81,632</u>	<u>651,527</u>	<u>4,306,570</u>
Allocation of Management and General Expenses	<u>636,976</u>	<u>14,551</u>	<u>(651,527)</u>	<u>--</u>
Total Expenses	<u>\$ 4,210,387</u>	<u>\$ 96,183</u>	<u>\$ --</u>	<u>\$ 4,306,570</u>

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

**PACIFIC FOREST AND WATERSHED LANDS
STEWARDSHIP COUNCIL**

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2015

	Land Conservation	Youth Investment	Management and General	Total
Expenses				
Grant awards	\$ 3,784,839	\$ --	\$ --	\$ 3,784,839
Salaries, wages, and benefits	927,571	8,726	435,721	1,372,018
Consultants and professional services	479,145	280	14,412	493,837
Rent and facilities	48,379	1,586	29,344	79,309
Office supplies and expense	33,763	165	9,956	43,884
Insurance	32,282	314	15,347	47,943
Land transaction costs	26,426	--	--	26,426
Accounting	--	--	37,761	37,761
Travel and entertainment	21,411	40	2,660	24,111
Conferences, meetings, and training	26,049	70	8,638	34,757
Investment fees	53,522	--	--	53,522
Legal	15,114	--	--	15,114
Newsletters and public notices	5,756	10	1,017	6,783
Depreciation	6,318	190	3,506	10,014
Excise taxes	11,024	--	--	11,024
	<u>5,471,599</u>	<u>11,381</u>	<u>558,362</u>	<u>6,041,342</u>
Allocation of Management and General Expenses	<u>558,362</u>	<u>--</u>	<u>(558,362)</u>	<u>--</u>
Total Expenses	<u>\$ 6,029,961</u>	<u>\$ 11,381</u>	<u>\$ --</u>	<u>\$ 6,041,342</u>

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

**PACIFIC FOREST AND WATERSHED LANDS
STEWARDSHIP COUNCIL**

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Cash Flows From Operating Activities		
Change in net assets	\$ (3,744,956)	\$ (5,777,728)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized (gains) losses on investments	(68,053)	138,615
Depreciation	6,916	10,014
Donated property and equipment	--	1,295
Loss (gain) on disposal of property and equipment	1,214	(1,295)
Changes in operating assets and liabilities:		
Prepaid expenses	(9,542)	(1,058)
Accrued interest	16,456	67,096
Accounts payable and accrued expenses	(2,866)	(6,686)
Grants payable	<u>(536,528)</u>	<u>1,430,713</u>
Net Cash Used In Operating Activities	<u>(4,337,359)</u>	<u>(4,139,034)</u>
Cash Flows From Investing Activities		
Proceeds from sale of investments	8,906,115	32,947,972
Purchase of investments	(8,454,246)	(26,365,214)
Proceeds from sale of property and equipment	674	--
Purchase of property and equipment	<u>(9,215)</u>	<u>(4,063)</u>
Net Cash Provided By Investing Activities	<u>443,328</u>	<u>6,578,695</u>
Net (Decrease) Increase in Cash and Cash Equivalents	<u>(3,894,031)</u>	<u>2,439,661</u>
Cash and Cash Equivalents - Beginning	<u>4,152,486</u>	<u>1,712,825</u>
Cash and Cash Equivalents - Ending	<u>\$ 258,455</u>	<u>\$ 4,152,486</u>

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

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PURPOSE AND ORGANIZATION

The Pacific Forest and Watershed Lands Stewardship Council (the Stewardship Council) is a private foundation that was established in 2004 as the result of a Settlement Agreement between Pacific Gas and Electric Company (PG&E) and the California Public Utilities Commission (CPUC). It has two goals: to ensure California's watershed lands are conserved for the public good, and to invest in outdoor programs that serve California's young people. The Stewardship Council brings together the expertise of leading conservation, natural resource management, business, and public officials to undertake a historic conservation effort for California. A unique and collaborative endeavor, the Stewardship Council's Board of Directors unites a broad range of interests to guide the development and execution of a Land Conservation Program and a Youth Investment Program to benefit current and future generations of Californians.

The Stewardship Council's mission statement is as follows:

The Stewardship Council protects and enhances watershed lands and uses, and invests in efforts to improve the lives of young Californians through connections with the outdoors.

To support the Land Conservation Program, the Settlement Agreement required PG&E to provide the Stewardship Council with \$70 million to be paid in equal installments over ten years starting in 2004. To support the Youth Investment Program, the CPUC required PG&E to provide the Stewardship Council with \$30 million to be paid in equal installments over ten years starting in 2004. In January 2013, PG&E made its tenth and final installment payment of \$10 million to the Stewardship Council.

As part of its commitment to support efforts to invest in parks and youth programs in both urban and rural areas of Northern and Central California, the Stewardship Council, through its Youth Investment Program, initially expended approximately \$2 million in youth grants annually. Through Stewardship Council grants to Youth Outside, the Stewardship Council has sought to enable the creation of a permanent program to connect underserved youth to the outdoors (Note 8).

The Stewardship Council is also tasked with ensuring the permanent protection of over 140,000 acres of land for the benefit of the citizens of California. In its work to fulfill this objective, the Stewardship Council has developed a Land Conservation Plan that recommends how the beneficial public uses of this land can best be conserved. This Land Conservation Plan will serve as framework to guide the Stewardship Council as it identifies future land stewards to accept fee title of the lands and conservation easements to ensure their protection into perpetuity.

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF ACCOUNTING

The Stewardship Council prepares its financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), which involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred regardless of the timing of cash flows.

BASIS OF PRESENTATION

U.S. GAAP requires that the Stewardship Council report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Accordingly, the net assets of the Stewardship Council are classified and reported as described below:

Unrestricted: Those net assets and activities which represent the portion of expendable funds that are available to support the Stewardship Council's operations. A portion of these net assets may be designated by the Board of Directors for specific purposes.

Temporarily Restricted: Those net assets and activities which are donor-restricted for (a) support of specific operating activities; (b) investment for a specified term; (c) use in a specified future period; or (d) acquisition of long-lived assets.

Permanently Restricted: Those net assets and activities which are permanently donor-restricted for holdings of (a) assets donated with stipulations that they be used for a specified purpose, be preserved, and not be sold; or (b) assets donated with stipulations that they be invested to provide a permanent source of income.

The Stewardship Council does not presently have any assets meeting the definition of permanently restricted.

ESTIMATES

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CASH AND CASH EQUIVALENTS

Cash consists of funds held in a commercial account for operating expenses. The Stewardship Council considers all highly liquid investments with an original maturity of three months or less, when purchased, to be cash equivalents.

INVESTMENTS

The Stewardship Council reports investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair values of marketable securities are determined based on market quotations. Debt securities are carried at estimated fair value as provided by the investment managers. Realized gains and losses on the sale of securities are determined on the specific-identification method. Income earned, and realized and unrealized gains and losses on investment transactions are included as revenue in the year earned.

The Stewardship Council's Fiduciary Committee is responsible for establishing investment criteria and overseeing the Stewardship Council's investments, with board approval of significant changes in the investment policy.

PROPERTY AND EQUIPMENT

The Stewardship Council capitalizes acquisitions of property and equipment with a cost or value in excess of \$1,000 and an estimated useful life beyond one year. Purchased assets are recorded at cost; donated assets are recorded at estimated fair value at the date of acquisition. Depreciation is calculated using the straight-line method based upon estimated useful lives ranging from 3 to 7 years. Leasehold improvements are amortized over the shorter of the asset life or the lease term, including extensions. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. The cost and accumulated depreciation of assets sold or retired are removed from the respective accounts and any gain or loss is reflected in the statement of activities and changes in net assets.

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INCOME TAXES

The Stewardship Council has been determined by the Internal Revenue Service to be a tax-exempt private foundation within the meaning of §501(c)(3) of the Internal Revenue Code (IRC). Generally, private foundations are liable for an excise tax of 2% (1% if minimum payout requirements prescribed by the IRC are met) on net investment income, excluding unrealized gains, as defined. An organization qualifying as a private foundation must distribute, in the year received or in the year following receipt, its minimum investment return of 5% of the average market value of its aggregate non-charitable assets or become subject to additional taxes up to the amount of any undistributed balance.

The Stewardship Council satisfies the 5% distribution requirement through grants to other non-profit organizations and operations of the Youth Investment and Land Conservation programs. For the years ended December 31, 2016 and 2015, the Stewardship Council paid excise tax of \$6,276 and \$8,491, respectively.

U.S. GAAP requires management to evaluate the tax positions taken and recognize a tax liability (or asset) if the Stewardship Council has taken an uncertain tax position that more likely than not would not be sustained upon examination by taxing authorities. Management has analyzed the tax positions taken and has concluded that as of December 31, 2016, there are no uncertain tax positions taken or expected to be taken that would require recognition of a tax liability (or asset) or disclosure in the financial statements. The Stewardship Council is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods pending or in progress.

CONCENTRATIONS OF RISK

Financial instruments which potentially subject the Stewardship Council to concentrations of credit risk consist principally of cash and cash equivalents, and investments. The Stewardship Council maintains its cash in various bank deposit and investment accounts which, at times, may exceed federally insured limits. The Stewardship Council has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

The Stewardship Council attempts to limit its credit risk associated with cash equivalents and investments by utilizing outside investment managers to place the Stewardship Council's investments with highly rated corporate and financial institutions. Furthermore, the Stewardship Council invests primarily in fixed income securities which are exposed to various risks, such as interest rate, market, and credit risk.

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CONCENTRATIONS OF RISK (CONTINUED)

Due to the level of risk associated with certain investments, it is likely and probable that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported. The Stewardship Council's investments are limited in the amount of credit exposure to any one issuer and management believes that the Stewardship Council is not exposed to any significant credit risk related to cash equivalents and investments.

FUNCTIONAL ALLOCATION OF EXPENSES

The Stewardship Council allocates all identifiable expenses directly to the Youth Investment and Land Conservation Programs whenever possible. Certain expenses that cannot be easily identified as benefiting either program are initially classified as management and general expenses. At the end of each fiscal year, these expenses are allocated to the Youth Investment and Land Conservation Programs. Until 2013, the allocation to each of the programs was based on the allocation of the grant income pursuant to the original grant agreement. Due to the transfer of substantially all of the net assets of the Youth Investment Program to Youth Outside in August 2013 and the termination of the intercompany agreement September 30, 2013 (Note 8), effective October 1, 2013 expenses are allocated primarily to the Land Conservation Program.

NOTE 2 - FAIR VALUE MEASUREMENTS

The Stewardship Council's financial assets carried at fair value have been classified, for disclosure purposes, based on a hierarchy that gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). The levels of the fair value hierarchy are as follows:

Level 1

Inputs are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

Level 2

Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities and spreads and yield curves.

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 2 - FAIR VALUE MEASUREMENTS (CONTINUED)

Level 3

Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Stewardship Council's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

The following is a description of the valuation methodologies used for assets measured at fair value.

Bond Mutual Funds: Bond mutual funds are valued at the closing price reported in active markets and are categorized in Level 1 of the fair value hierarchy.

Corporate Obligations: The fair value of corporate bonds is estimated using recently executed transactions, market price quotations (where observable), bond spreads or credit default swap spreads. The spread data used are for the same maturity as the bond. If the spread data does not reference the issuer, then data that references a comparable issuer is used. When observable price quotations are not available, fair value is determined based on cash flow models with yield curves, bond, or single-name credit default swap spreads and recovery rates based on collateral values as key inputs. Corporate bonds are categorized in Level 2 of the fair value hierarchy.

Government Obligations: The fair value of sovereign government bonds is generally based on quoted prices in active markets. When quoted prices are not available, fair value is determined based on a valuation model that uses inputs that include interest-rate yield curves, cross-currency-basis index spreads, and country credit spreads similar to the bond in terms of issuer, maturity, and seniority. Sovereign government bonds are categorized in Level 2 of the fair value hierarchy.

Municipal Bonds: The fair value of municipal bonds is estimated using recently executed transactions, market price quotations and pricing models that factor in, where applicable, interest rates, bond or credit default swap spreads and volatility. These bonds are categorized in Level 2 of the fair value hierarchy.

Asset-Backed Securities (ABS): ABS may be valued based on external price/spread data. When position-specific external price data are not observable, the valuation is based on prices of comparable securities. Included in this category are certain interest-only securities, which, in the absence of market prices, are valued as a function of observable whole-bond prices and cash flow values of principal-only bonds using current market assumptions at the measurement date. ABS are categorized in Level 2 of the fair value hierarchy when external pricing data is observable.

**PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP
COUNCIL**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 2 - FAIR VALUE MEASUREMENTS (CONTINUED)

The following tables provide information as of December 31, about the Stewardship Council's financial assets measured at fair value on a recurring basis:

	Total	Level 1	Level 2	Level 3
2016:				
Domestic:				
Bond mutual funds	\$ 42,052,512	\$ 42,052,512	\$ --	\$ --
Government obligations	<u>2,996,010</u>	<u>--</u>	<u>2,996,010</u>	<u>--</u>
Total	<u><u>\$ 45,048,522</u></u>	<u><u>\$ 42,052,512</u></u>	<u><u>\$ 2,996,010</u></u>	<u><u>\$ --</u></u>
2015:				
Domestic:				
Bond mutual funds	\$ 37,740,226	\$ 37,740,226	\$ --	\$ --
Corporate obligations	3,301,767	--	3,301,767	--
Government obligations	2,980,560	--	2,980,560	--
Municipal bonds	475,000	--	475,000	--
Asset-backed securities	9,679	--	9,679	--
International:				
Corporate obligations	<u>925,106</u>	<u>--</u>	<u>925,106</u>	<u>--</u>
Total	<u><u>\$ 45,432,338</u></u>	<u><u>\$ 37,740,226</u></u>	<u><u>\$ 7,692,112</u></u>	<u><u>\$ --</u></u>

The Stewardship Council's policy is to recognize transfers in and transfers out of levels of the fair value hierarchy as of the actual date of the event or change in circumstance that caused the transfer. The Stewardship Council had no transfers into or out of the levels during the years ended December 31, 2016 and 2015.

**PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP
COUNCIL**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 3 - INVESTMENTS

Investments consisted of the following at December 31:

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
Domestic:				
Bond mutual funds	\$ 42,127,438	\$ 42,052,512	\$ 37,865,998	\$ 37,740,226
Corporate obligations	--	--	3,300,465	3,301,767
Government obligations	2,998,852	2,996,010	2,998,852	2,980,560
Municipal bonds	--	--	475,000	475,000
Asset-backed securities	--	--	9,681	9,679
International:				
Corporate obligations	--	--	924,954	925,106
Total	\$ 45,126,290	\$ 45,048,522	\$ 45,574,950	\$ 45,432,338

Net investment income consisted of the following for the years ended December 31:

	2016	2015
Interest income	\$ 494,775	\$ 400,934
Net realized and unrealized gains (losses) on investments	68,053	(138,615)
Total	\$ 562,828	\$ 262,319

**PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP
COUNCIL**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2016</u>	<u>2015</u>
Office equipment	\$ 60,566	\$ 117,337
Furniture and fixtures	44,521	49,968
Leasehold improvements	<u>11,162</u>	<u>7,178</u>
	116,249	174,483
Less: accumulated depreciation	<u>(98,395)</u>	<u>(157,040)</u>
Total	<u>\$ 17,854</u>	<u>\$ 17,443</u>

NOTE 5 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, may be expended for:

	<u>2016</u>	<u>2015</u>
Assets, primarily cash and cash equivalents and investments, restricted for project support:		
Land Conservation Program	\$ 44,148,464	\$ 47,797,237
Youth Investment Program	<u>134,536</u>	<u>230,719</u>
Total	<u>\$ 44,283,000</u>	<u>\$ 48,027,956</u>

**PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP
COUNCIL**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 6 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by the grantor during the years ended December 31, as follows:

	<u>2016</u>	<u>2015</u>
Land Conservation Program	\$ 4,210,387	\$ 6,029,961
Youth Investment Program	<u>96,183</u>	<u>11,381</u>
	<u>\$ 4,306,570</u>	<u>\$ 6,041,342</u>

NOTE 7 - RETIREMENT PLAN

The Stewardship Council has contracted with a Professional Employer Organization (PEO) to outsource its human resource administration and compliance, which includes an IRC §401(k) Plan (the Plan). The Plan covers all employees with 1,000 hours of service and who have reached the age of twenty-one. Under the safe harbor provision, the Stewardship Council will match 100% of the employee's contributions up to 3% of compensation per pay period and an additional 50% of the amounts of contributions that exceed 3% for such payroll period but that do not exceed 5% of the employee's payroll for the period. For the years ended December 31, 2016 and 2015, total employer contributions made to the Plan were \$36,689 and \$40,946, respectively.

NOTE 8 - RELATED PARTY TRANSACTIONS

Certain members of the Board of Directors and members of its advisory committees are also employees of other IRC §501(c)(3) organizations or public agencies to which the Stewardship Council has awarded grants and may award grants to in the future. In these circumstances, the Stewardship Council awards grants pursuant to its conflict of interest policy.

**PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP
COUNCIL**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 8 - RELATED PARTY TRANSACTIONS (CONTINUED)

YOUTH OUTSIDE

In 2010, the Stewardship Council entered into an intercompany agreement with Youth Outside, a separate IRC §501(c)(3) organization, whose charitable purpose is to provide greater resources to connect children, youth, and young adults to nature, parks, open spaces, and the outdoors. As of December 31, 2016 and 2015, one Youth Outside director was also serving as a director on the Stewardship Council's Board of Directors.

On August 1, 2013, Youth Outside and the Stewardship Council executed a \$10.76 million grant agreement (the 2013 *Major Grant Agreement*) to enable Youth Outside to build a permanent program to connect underserved youth to the outdoors. With the transfer of grant funds to Youth Outside in August 2013, Youth Outside then became responsible for paying its own costs of operation.

Under the terms of the 2013 *Major Grant Agreement*, the Stewardship Council has the right to fill one seat on the Youth Outside board of directors until Youth Outside has expended all the grant funds provided by the Stewardship Council.

NOTE 9 - COMMITMENTS

On April 24, 2015, an operating lease for the San Mateo, California, office, originally executed in 2013, was extended through December 2017 with future monthly base rent payments commencing at \$6,837.

On May 9, 2016, the Stewardship Council entered into an operating lease for office space in Roseville, California, for the period July 1, 2016 through August 31, 2019. Monthly base payments commence at \$3,239; in addition the Stewardship Council is liable for a proportion of operating costs and property taxes.

**PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP
COUNCIL**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 9 - COMMITMENTS (CONTINUED)

The Stewardship Council's future minimum lease commitments for office space is as follows:

For the Years Ending December 31,	Amount
2017	\$ 124,609
2018	40,661
2019	<u>27,705</u>
Total	<u>\$ 192,975</u>

For the years ended December 31, 2016 and 2015, rent expense amounted to \$104,300 and \$79,309, respectively.

NOTE 10 - SUBSEQUENT EVENTS

The Stewardship Council has evaluated all subsequent events through May 23, 2017, the date the financial statements were available to be issued. No events requiring recognition or disclosure in the financial statements have been identified.

**PACIFIC FOREST AND WATERSHED LANDS
STEWARDSHIP COUNCIL**

EXPENSE BUDGET TO ACTUAL ANALYSIS SCHEDULE

FOR THE YEAR ENDED DECEMBER 31, 2016

	Actual	Budget	Under / (Over) Budget
Expenses			
Grant awards	\$ 1,899,854	\$ 6,875,000	\$ 4,975,146
Salaries, wages, and benefits	1,450,470	1,524,627	74,157
Consultants and professional services	527,055	1,194,554	667,499
Rent and facilities	104,300	109,435	5,135
Office supplies and expense	61,674	67,195	5,521
Insurance	48,591	50,793	2,202
Land transaction costs	41,866	73,400	31,534
Accounting	38,164	42,000	3,836
Travel and entertainment	34,972	33,000	(1,972)
Conferences, meetings, and training	25,166	63,800	38,634
Investment fees	24,301	52,683	28,382
Legal	21,567	50,000	28,433
Newsletters and public notices	15,293	31,800	16,507
Depreciation	6,916	--	(6,916)
Excise taxes	6,381	--	(6,381)
Total Expenses	<u>\$ 4,306,570</u>	<u>\$ 10,168,287</u>	<u>\$ 5,861,717</u>

May 23, 2017

To the Members of the Audit Committee of
Pacific Forest and Watershed Lands Stewardship Council

We have audited the financial statements of Pacific Forest and Watershed Lands Stewardship Council (the Stewardship Council) for the year ended December 31, 2016, and have issued our report thereon dated May 23, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated January 17, 2017, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions to be examined and the areas to be tested.

Our audit included obtaining an understanding of the Stewardship Council and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures.

Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Pacific Forest and Watershed Lands Stewardship Council are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 2016. We noted no transactions entered into by the Stewardship Council during the year for

which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements was:

Management's estimate of the fair value of government bonds is based on estimated fair values as provided by the investment managers. We evaluated the key factors and assumptions used to develop the fair value of these investments in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. There are no such misstatements.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 23, 2017.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Audit Committee, Board of Directors, and management of Pacific Forest and Watershed Lands Stewardship Council and is not intended to be, and should not be, used by anyone other than these specified parties.

We wish to thank Allene Zanger, Scott Broberg, Carol Schwab, and Aaron Robertson for their cooperation during the audit. It was a pleasure to work with them.

Very truly yours,

A handwritten signature in black ink that reads "Marcum LLP". The signature is written in a cursive, flowing style.

Marcum LLP

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL
155 BOVET ROAD, SUITE 405
SAN MATEO, CA 94402

Marcum LLP
Accountants & Advisors
111 West Saint John St., Suite 1010
San Jose, CA 95113 - 1123

This representation letter is provided in connection with your audit of the financial statements of Pacific Forest and Watershed Lands Stewardship Council (the Stewardship Council), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated January 17, 2017, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP.
2. The financial statements referred to above are fairly presented in conformity with U.S. GAAP.
3. We acknowledge our responsibility for 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.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

6. We have reviewed FASB ASC 820, Fair Value Measurements, and all assets and liabilities have been properly categorized into Level 1, 2, or 3 of the Fair Value Hierarchy, and all disclosure requirements have been complied with in all material respects.
7. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
8. Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statement.
9. The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
10. Material concentrations have been appropriately disclosed in accordance with U.S. GAAP.
11. Guarantees, whether written or oral, under which the Stewardship Council is contingently liable, have been properly recorded or disclosed in accordance with U.S. GAAP.
12. As part of your audit, you assisted with the preparation of the financial statements and related notes. We acknowledge our responsibility as it relates to those nonattest/nonaudit services, including that we assume all management responsibilities; oversee the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of the services performed; and accept responsibility for the results of the services. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.

Information Provided

13. We have provided you with:
 - a. access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters, and all audit or relevant monitoring reports, if any, received from funding sources.
 - b. additional information that you have requested from us for the purpose of the audit.
 - c. unrestricted access to persons within the Stewardship Council from whom you determined it necessary to obtain audit evidence.
 - d. minutes of the meetings of the governing board or summaries of actions of recent meetings for which minutes have not yet been prepared.
14. All material transactions have been recorded in the accounting records and are reflected in the financial statements.

15. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
16. We have no knowledge of any fraud or suspected fraud that affects the Stewardship Council and involves:
 - a. management,
 - b. employees who have significant roles in internal control, or
 - c. others where the fraud could have a material effect on the financial statements.
17. We have no knowledge of any allegations of fraud or suspected fraud affecting the Stewardship Council's financial statements communicated by employees, former employees, grantors, regulators, or others.
18. We have no knowledge of any instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse whose effects should be considered when preparing financial statements.
19. We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with U.S. GAAP, and we have not consulted a lawyer concerning litigation, claims, or assessments.
20. We have disclosed to you the identity of the Stewardship Council's related parties and all the related party relationships and transactions of which we are aware.
21. The Stewardship Council has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
22. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us.
23. We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
24. We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.

25. We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
26. Pacific Forest and Watershed Lands Stewardship Council is an exempt organization under Section 501(c)(3) of the Internal Revenue Code. Any activities of which we are aware that would jeopardize the Stewardship Council's tax-exempt status, and all activities subject to tax on unrelated business income or excise or other tax, have been disclosed to you. All required filings with tax authorities are up-to-date.
27. We acknowledge our responsibility for presenting the expense budget to actual analysis schedule in accordance with U.S. GAAP, and we believe the expense budget to actual analysis schedule, including its form and content, is fairly presented in accordance with U.S. GAAP. The methods of measurement and presentation of the expense budget to actual analysis schedule have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
28. In regards to the tax return services to be performed by you, we will:
 - a. Assume all management responsibilities.
 - b. Designate an individual (within senior management) with suitable skill, knowledge, or experience to oversee the services.
 - c. Evaluate the adequacy and results of the services performed.
 - d. Accept responsibility for the results of the services.

Pacific Forest and Watershed Lands Stewardship Council

Signed: _____

Allene Zanger

Signed: _____

Aaron Robertson

Title: Ms. Allene Zanger, Executive Director

Title: Mr. Aaron Robertson, Manager of
Finance and Operations

Date: _____

May 23, 2017

Date: _____

May 23, 2017