

Pacific Forest  
and Watershed  
Lands  
**Stewardship  
Council**

**FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**

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

**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 statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years 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 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 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 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, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## *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 20 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 11, 2018

**PACIFIC FOREST AND WATERSHED LANDS  
STEWARDSHIP COUNCIL**

**STATEMENTS OF FINANCIAL POSITION**

**DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 722,497	\$ 258,455
Prepaid expenses	56,621	60,393
Accrued interest	11,332	11,332
Investments	37,844,744	45,048,522
Property and equipment, net	<u>14,056</u>	<u>17,854</u>
<b>Total Assets</b>	<u>\$ 38,649,250</u>	<u>\$ 45,396,556</u>
 <b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 194,904	\$ 195,601
Grants payable	<u>316,218</u>	<u>917,955</u>
<b>Total Liabilities</b>	<u>511,122</u>	<u>1,113,556</u>
 <b>Temporarily Restricted Net Assets</b>	 <u>38,138,128</u>	 <u>44,283,000</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 38,649,250</u>	<u>\$ 45,396,556</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, 2017**

	Unrestricted	Temporarily Restricted	Total
<b>Support and Revenue</b>			
Net investment income	\$ --	\$ 499,405	\$ 499,405
Gain on disposal of property and equipment	<u>--</u>	<u>2,580</u>	<u>2,580</u>
	--	501,985	501,985
Net assets released from restrictions	<u>6,646,857</u>	<u>(6,646,857)</u>	<u>--</u>
<b>Total Support and Revenue</b>	<u>6,646,857</u>	<u>(6,144,872)</u>	<u>501,985</u>
<b>Expenses</b>			
Program:			
Land Conservation	6,623,145	--	6,623,145
Youth Investment	<u>23,712</u>	<u>--</u>	<u>23,712</u>
<b>Total Expenses</b>	<u>6,646,857</u>	<u>--</u>	<u>6,646,857</u>
<b>Change in Net Assets</b>	--	(6,144,872)	(6,144,872)
<b>Net Assets - Beginning</b>	<u>--</u>	<u>44,283,000</u>	<u>44,283,000</u>
<b>Net Assets - Ending</b>	<u>\$ --</u>	<u>\$ 38,138,128</u>	<u>\$ 38,138,128</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
<b>Support and Revenue</b>			
Net investment income	\$ --	\$ 562,828	\$ 562,828
Loss on disposal of property and equipment	<u>--</u>	<u>(1,214)</u>	<u>(1,214)</u>
	--	561,614	561,614
Net assets released from restrictions	<u>4,306,570</u>	<u>(4,306,570)</u>	<u>--</u>
<b>Total Support and Revenue</b>	<u>4,306,570</u>	<u>(3,744,956)</u>	<u>561,614</u>
<b>Expenses</b>			
Program:			
Land Conservation	4,210,387	--	4,210,387
Youth Investment	<u>96,183</u>	<u>--</u>	<u>96,183</u>
<b>Total Expenses</b>	<u>4,306,570</u>	<u>--</u>	<u>4,306,570</u>
<b>Change in Net Assets</b>	--	(3,744,956)	(3,744,956)
<b>Net Assets - Beginning</b>	<u>--</u>	<u>48,027,956</u>	<u>48,027,956</u>
<b>Net Assets - Ending</b>	<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 FUNCTIONAL EXPENSES**

**FOR THE YEAR ENDED DECEMBER 31, 2017**

	Land Conservation	Youth Investment	Management and General	Total
<b>Expenses</b>				
Grant awards	\$ 4,350,382	\$ 5,000	\$ --	\$ 4,355,382
Salaries, wages, and benefits	874,011	13,734	499,869	1,387,614
Consultants and professional services	398,159	508	15,871	414,538
Rent and facilities	85,444	812	41,534	127,790
Legal	41,766	6	16,095	57,867
Land transaction costs	56,989	--	--	56,989
Insurance	32,413	496	15,987	48,896
Accounting	1,134	31	40,178	41,343
Office supplies and expense	25,529	336	9,351	35,216
Travel and entertainment	26,806	236	6,885	33,927
Conferences, meetings, and training	17,041	141	6,345	23,527
Investment fees	21,669	--	90	21,759
Newsletters and public notices	20,110	34	1,362	21,506
Excise taxes	14,085	--	--	14,085
Depreciation	4,277	39	2,102	6,418
	<u>5,969,815</u>	<u>21,373</u>	<u>655,669</u>	<u>6,646,857</u>
<b>Allocation of Management and General Expenses</b>	<u>653,330</u>	<u>2,339</u>	<u>(655,669)</u>	<u>--</u>
<b>Total Expenses</b>	<u>\$ 6,623,145</u>	<u>\$ 23,712</u>	<u>\$ --</u>	<u>\$ 6,646,857</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
<b>Expenses</b>				
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
Legal	12,012	--	9,555	21,567
Land transaction costs	41,866	--	--	41,866
Insurance	32,555	144	15,892	48,591
Accounting	1,180	8	36,976	38,164
Office supplies and expense	46,678	141	14,855	61,674
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
Newsletters and public notices	14,114	8	1,171	15,293
Excise taxes	6,381	--	--	6,381
Depreciation	4,324	133	2,459	6,916
	<u>3,573,411</u>	<u>81,632</u>	<u>651,527</u>	<u>4,306,570</u>
<b>Allocation of Management and General Expenses</b>	<u>636,976</u>	<u>14,551</u>	<u>(651,527)</u>	<u>--</u>
<b>Total Expenses</b>	<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**

**STATEMENTS OF CASH FLOWS**

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

	2017	2016
<b>Cash Flows From Operating Activities</b>		
Change in net assets	\$ (6,144,872)	\$ (3,744,956)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized losses (gains) on investments	84,101	(68,053)
Depreciation	6,418	6,916
Donated property and equipment	2,580	--
(Gain) loss on disposal of property and equipment	(2,580)	1,214
Changes in operating assets and liabilities:		
Prepaid expenses	3,772	(9,542)
Accrued interest	--	16,456
Accounts payable and accrued expenses	(697)	(2,866)
Grants payable	(601,737)	(536,528)
	<u>(6,653,015)</u>	<u>(4,337,359)</u>
<b>Net Cash Used In Operating Activities</b>		
<b>Cash Flows From Investing Activities</b>		
Proceeds from sale of investments	7,550,000	8,906,115
Purchase of investments	(430,323)	(8,454,246)
Proceeds from sale of property and equipment	--	674
Purchase of property and equipment	(2,620)	(9,215)
	<u>7,117,057</u>	<u>443,328</u>
<b>Net Cash Provided By Investing Activities</b>		
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<u>464,042</u>	<u>(3,894,031)</u>
<b>Cash and Cash Equivalents - Beginning</b>	<u>258,455</u>	<u>4,152,486</u>
<b>Cash and Cash Equivalents - Ending</b>	<u>\$ 722,497</u>	<u>\$ 258,455</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, 2017 AND 2016**

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**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, 2017 AND 2016**

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**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, 2017 AND 2016**

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**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, 2017 AND 2016**

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**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 under Internal Revenue Code (IRC) Section 509(a) within the meaning of §501(c)(3) of the 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 Program and Land Conservation Programs. For the years ended December 31, 2017 and 2016, the Stewardship Council paid excise tax of \$14,000 and \$6,276, 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, 2017, 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 and any penalties or interest assessed as a result of an audit would be reported in the financial statements as additional income tax expense and interest expense, respectively. 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, 2017 AND 2016**

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**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, 2017 AND 2016**

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**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.

*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.

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
<b>2017:</b>				
Domestic:				
Bond mutual funds	\$ 34,856,684	\$ 34,856,684	\$ --	\$ --
Government obligations	<u>2,988,060</u>	<u>--</u>	<u>2,988,060</u>	<u>--</u>
<b>Total</b>	<u>\$ 37,844,744</u>	<u>\$ 34,856,684</u>	<u>\$ 2,988,060</u>	<u>\$ --</u>
<b>2016:</b>				
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>
<b>Total</b>	<u>\$ 45,048,522</u>	<u>\$ 42,052,512</u>	<u>\$ 2,996,010</u>	<u>\$ --</u>

**PACIFIC FOREST AND WATERSHED LANDS  
STEWARDSHIP COUNCIL**

**NOTES TO FINANCIAL STATEMENTS**

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

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**NOTE 2 - FAIR VALUE MEASUREMENTS (CONTINUED)**

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, 2017 and 2016.

**NOTE 3 - INVESTMENTS**

Investments consisted of the following at December 31:

	2017		2016	
	Cost	Fair Value	Cost	Fair Value
Domestic:				
Bond mutual funds	\$ 35,015,879	\$ 34,856,684	\$ 42,127,438	\$ 42,052,512
Government obligations	<u>2,998,852</u>	<u>2,988,060</u>	<u>2,998,852</u>	<u>2,996,010</u>
<b>Total</b>	<u>\$ 38,014,731</u>	<u>\$ 37,844,744</u>	<u>\$ 45,126,290</u>	<u>\$ 45,048,522</u>

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

	2017	2016
Interest income	\$ 583,506	\$ 494,775
Net realized and unrealized (losses) gains on investments	<u>(84,101)</u>	<u>68,053</u>
<b>Total</b>	<u>\$ 499,405</u>	<u>\$ 562,828</u>

**PACIFIC FOREST AND WATERSHED LANDS  
STEWARDSHIP COUNCIL**

**NOTES TO FINANCIAL STATEMENTS**

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

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**NOTE 4 - PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at December 31:

	2017	2016
Office equipment	\$ 33,966	\$ 60,566
Furniture and fixtures	26,633	44,521
Leasehold improvements	3,984	11,162
	64,583	116,249
Less: accumulated depreciation	(50,527)	(98,395)
<b>Total</b>	<b>\$ 14,056</b>	<b>\$ 17,854</b>

**NOTE 5 - TEMPORARILY RESTRICTED NET ASSETS**

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

	2017	2016
Assets, primarily cash and cash equivalents and investments, restricted for project support:		
Land Conservation Program	\$ 38,027,304	\$ 44,148,464
Youth Investment Program	110,824	134,536
<b>Total</b>	<b>\$ 38,138,128</b>	<b>\$ 44,283,000</b>

**PACIFIC FOREST AND WATERSHED LANDS  
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**NOTES TO FINANCIAL STATEMENTS**

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

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**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>2017</u>	<u>2016</u>
Land Conservation Program	\$ 6,623,145	\$ 4,210,387
Youth Investment Program	<u>23,712</u>	<u>96,183</u>
	<u>\$ 6,646,857</u>	<u>\$ 4,306,570</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, 2017 and 2016, total employer contributions made to the Plan were \$29,761 and \$36,689, 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.

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**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, 2017 and 2016, 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. As of December 31, 2017, Youth Outside has not expended all of the grant funds.

**NOTE 9 - COMMITMENTS**

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.

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

For the Years Ending December 31,	Amount
2018	\$ 40,661
2019	27,705
<b>Total</b>	<b>\$ 68,366</b>

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**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 9 - COMMITMENTS (CONTINUED)**

For the years ended December 31, 2017 and 2016, rent expense amounted to \$125,590 and \$104,300, respectively.

**NOTE 10 - SUBSEQUENT EVENTS**

The Stewardship Council has evaluated all subsequent events through May 11, 2018, 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  
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**EXPENSE BUDGET TO ACTUAL ANALYSIS SCHEDULE**

**FOR THE YEAR ENDED DECEMBER 31, 2017**

	Actual	Budget	Under / (Over) Budget
<b>Expenses</b>			
Grant awards	\$ 4,355,382	\$ 4,530,000	\$ 174,618
Salaries, wages, and benefits	1,387,614	1,450,521	62,907
Consultants and professional services	414,538	772,480	357,942
Rent and facilities	127,790	129,056	1,266
Legal	57,867	80,000	22,133
Land transaction costs	56,989	75,000	18,011
Insurance	48,896	50,800	1,904
Accounting	41,343	45,000	3,657
Office supplies and expense	35,216	66,000	30,784
Travel and entertainment	33,927	40,800	6,873
Conferences, meetings, and training	23,527	55,600	32,073
Investment fees	21,759	25,800	4,041
Newsletters and public notices	21,506	28,420	6,914
Excise taxes	14,085	--	(14,085)
Depreciation	6,418	--	(6,418)
<b>Total Expenses</b>	<u>\$ 6,646,857</u>	<u>\$ 7,349,477</u>	<u>\$ 702,620</u>