

Pacific Forest
and Watershed
Lands
**Stewardship
Council**

**PACIFIC FOREST AND
WATERSHED LANDS
STEWARDSHIP COUNCIL**

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT**

**For the Years Ended
December 31, 2009 and 2008**

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report.....	1
Financial Statements:	
Statements of Financial Position.....	2
Statements of Activities	3 - 4
Statements of Functional Expenses	5 - 6
Statements of Cash Flows	7
Notes to Financial Statements.....	8 - 18
Supplementary Financial Information:	
Expense Budget to Actual Analysis Schedule	20



LAUTZE & LAUTZE
CPAs & FINANCIAL ADVISORS

INDEPENDENT AUDITORS' REPORT

The Board of Directors
PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL
San Mateo, California

We have audited the accompanying statements of financial position of PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL (the STEWARDSHIP COUNCIL) as of December 31, 2009 and 2008, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the STEWARDSHIP COUNCIL'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 financial statements referred to above present fairly, in all material respects, the financial position of the STEWARDSHIP COUNCIL 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the STEWARDSHIP COUNCIL taken as a whole. The accompanying *Expense Budget to Actual Analysis Schedule* for the year ended December 31, 2009 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Lautze & Lautze

San Francisco, California
May 26, 2010

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL
STATEMENTS OF FINANCIAL POSITION
December 31,

	2009	2008
ASSETS		
Cash and cash equivalents	\$ 1,953,245	\$ 1,890,494
Grant receivable	37,301,116	45,625,414
Prepaid expenses	69,014	62,466
Accrued interest	206,924	335,871
Investments	42,071,559	36,041,180
Property and equipment	126,896	111,290
Total assets	\$ 81,728,754	\$ 84,066,715
 LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 477,932	\$ 375,961
Grants payable	2,044,559	2,304,559
Total liabilities	2,522,491	2,680,520
Commitments		
Temporarily restricted net assets	79,206,263	81,386,195
Total liabilities and net assets	\$ 81,728,754	\$ 84,066,715

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenue:			
Grant	\$ -	\$ 1,675,702	\$ 1,675,702
Investment income	-	1,393,316	1,393,316
	-	3,069,018	3,069,018
Net assets released from restrictions	<u>5,248,950</u>	<u>(5,248,950)</u>	<u>-</u>
Total support and revenue	<u>5,248,950</u>	<u>(2,179,932)</u>	<u>3,069,018</u>
Expenses:			
Program:			
Land Conservation	2,319,112	-	2,319,112
Youth Investment	<u>2,929,838</u>	<u>-</u>	<u>2,929,838</u>
Total expenses	<u>5,248,950</u>	<u>-</u>	<u>5,248,950</u>
Change in net assets	<u>-</u>	<u>(2,179,932)</u>	<u>(2,179,932)</u>
Net assets:			
Beginning of year	<u>-</u>	<u>81,386,195</u>	<u>81,386,195</u>
End of year	<u>\$ -</u>	<u>\$ 79,206,263</u>	<u>\$ 79,206,263</u>

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenue:			
Grant	\$ -	\$ 2,041,321	\$ 2,041,321
Investment income	-	1,841,705	1,841,705
	-	3,883,026	3,883,026
Net assets released from restrictions	<u>5,480,911</u>	<u>(5,480,911)</u>	<u>-</u>
Total support and revenue	<u>5,480,911</u>	<u>(1,597,885)</u>	<u>3,883,026</u>
Expenses:			
Program:			
Land Conservation	2,447,531	-	2,447,531
Youth Investment	<u>3,033,380</u>	<u>-</u>	<u>3,033,380</u>
Total expenses	<u>5,480,911</u>	<u>-</u>	<u>5,480,911</u>
Change in net assets	-	(1,597,885)	(1,597,885)
Net assets:			
Beginning of year	<u>-</u>	<u>82,984,080</u>	<u>82,984,080</u>
End of year	<u>\$ -</u>	<u>\$ 81,386,195</u>	<u>\$ 81,386,195</u>

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2009

	<u>Land Conservation</u>	<u>Youth Investment</u>	<u>Management and General</u>	<u>Total</u>
Expenses:				
Grant awards	\$ -	\$ 1,993,870	\$ -	\$ 1,993,870
Salaries, wages and benefits	970,340	445,664	322,311	1,738,315
Consultants and professional services	622,744	160,118	38,793	821,655
Rent	54,508	39,078	21,542	115,128
Investment fees	71,859	22,484	7,927	102,270
Travel and entertainment	52,895	10,042	12,125	75,062
Conferences, meetings and training	28,614	29,542	9,800	67,956
Insurance	37,036	16,825	12,237	66,098
Office supplies and expense	39,842	14,059	10,928	64,829
Legal	41,385	17,269	6,157	64,811
Depreciation	25,591	21,109	11,768	58,468
Excise taxes	23,570	7,420	-	30,990
Accounting	1,787	745	27,598	30,130
Newsletters and public notices	9,908	6,313	3,147	19,368
	<u>1,980,079</u>	<u>2,784,538</u>	<u>484,333</u>	<u>5,248,950</u>
Allocation of management and general expenses	<u>339,033</u>	<u>145,300</u>	<u>(484,333)</u>	<u>-</u>
Total expenses	<u>\$ 2,319,112</u>	<u>\$ 2,929,838</u>	<u>\$ -</u>	<u>\$ 5,248,950</u>

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2008

	<u>Land Conservation</u>	<u>Youth Investment</u>	<u>Management and General</u>	<u>Total</u>
Expenses:				
Grant awards	\$ -	\$ 1,981,500	\$ -	\$ 1,981,500
Salaries, wages and benefits	710,771	386,253	329,371	1,426,395
Consultants and professional services	871,936	307,696	128,822	1,308,454
Rent	51,394	32,547	24,127	108,068
Investment fees	75,461	26,644	205	102,310
Travel and entertainment	60,284	10,913	2,912	74,109
Conferences, meetings and training	29,991	17,416	9,777	57,184
Insurance	33,499	19,275	16,351	69,125
Office supplies and expense	37,435	22,602	26,885	86,922
Legal	74,474	-	44,951	119,425
Depreciation	21,631	15,383	11,056	48,070
Excise taxes	34,863	12,783	10	47,656
Accounting	-	9,010	27,835	36,845
Newsletters and public notices	7,926	3,701	3,221	14,848
	<u>2,009,665</u>	<u>2,845,723</u>	<u>625,523</u>	<u>5,480,911</u>
Allocation of management and general expenses	<u>437,866</u>	<u>187,657</u>	<u>(625,523)</u>	<u>-</u>
Total expenses	<u>\$ 2,447,531</u>	<u>\$ 3,033,380</u>	<u>\$ -</u>	<u>\$ 5,480,911</u>

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL
STATEMENTS OF CASH FLOWS
For the Year Ended December 31,

	2009	2008
Cash flows from operating activities:		
Change in net assets	\$ (2,179,932)	\$ (1,597,885)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Present value discount on grant receivable	(1,675,702)	(2,041,321)
Net realized and unrealized gains on investments	(296,652)	(396,909)
Depreciation	58,468	48,070
(Increase) decrease in assets:		
Grant receivable	10,000,000	10,000,000
Prepaid expenses	(6,548)	6,954
Accrued interest	128,947	(233,534)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	101,971	154,774
Grants payable	(260,000)	559,559
Total adjustments	8,050,484	8,097,593
Net cash provided by operating activities	5,870,552	6,499,708
Cash flows from investing activities:		
Proceeds from sale of investments	67,502,592	98,351,173
Purchases of investments	(73,236,319)	(103,825,698)
Purchases of property and equipment	(74,074)	(34,511)
Net cash used by investing activities	(5,807,801)	(5,509,036)
Net increase in cash and cash equivalents	62,751	990,672
Cash and cash equivalents:		
Beginning of year	1,890,494	899,822
End of year	\$ 1,953,245	\$ 1,890,494

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL
NOTES TO FINANCIAL STATEMENTS
December 31, 2009 and 2008

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. Its mission is to protect and enhance watershed lands and uses, and invest in efforts to improve the lives of young Californians through connections with the outdoors. 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.

Through its Youth Investment Program, the STEWARDSHIP COUNCIL expects to distribute approximately \$2 million in youth grants and will work with park and youth program providers to bring new opportunities to underserved youth. This funding is part of a ten-year \$30 million commitment that will support efforts to invest in parks and youth programs in both urban and rural areas of Northern and Central California.

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 act as a framework which will 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.

Basis of Accounting

The STEWARDSHIP COUNCIL prepares its financial statements in accordance with accounting principles generally accepted in the United States of America, which involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL
NOTES TO FINANCIAL STATEMENTS
December 31, 2009 and 2008

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation

Classification of Net Assets

Accounting principles generally accepted in the United States of America require that the STEWARDSHIP COUNCIL report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. 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 unrestricted or permanently restricted.

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 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.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, receivables, and accounts payable approximate fair value because of the short maturity of these instruments. The carrying amounts of long-term receivables approximate fair value as these receivables are discounted using a comparable risk-free rate based on the prevailing rates.

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL
NOTES TO FINANCIAL STATEMENTS
December 31, 2009 and 2008

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. Cash equivalents consist of a money market fund held for investment purposes. The STEWARDSHIP COUNCIL considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Grant Receivable

Grant receivable consists of a grant from Pacific Gas and Electric Company. Grants which are due beyond one accounting cycle are discounted to their present value using a risk-free interest rate applicable for the year in which the grant is made. The discount amortization is recognized as grant income in the periods the grant is collected.

The STEWARDSHIP COUNCIL uses a comparable risk-free interest rate of 4.5% to amortize the discount of the present value of the grant receivable. The STEWARDSHIP COUNCIL has not recorded any allowance for uncollectible grant receivable.

Investments

The STEWARDSHIP COUNCIL reports investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statement of financial position. 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 income in the year earned. The STEWARDSHIP COUNCIL satisfies the distribution requirements set for private foundations through grants to other non-profit organizations and operations of the Land Conservation and Youth Investment Programs.

The STEWARDSHIP COUNCIL's Fiduciary Committee is responsible for establishing investment criteria and overseeing the STEWARDSHIP COUNCIL's investments.

Property and Equipment

The STEWARDSHIP COUNCIL capitalizes acquisitions of property and equipment with a cost or value in excess of \$1,000 and with an estimated useful life beyond one year. Purchased assets are recorded at cost; donated assets are recorded at estimated fair value or appraised 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's useful 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.

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL
NOTES TO FINANCIAL STATEMENTS
December 31, 2009 and 2008

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

Grant Income

The STEWARDSHIP COUNCIL's support and revenue consist mainly of a grant from Pacific Gas and Electric Company. The STEWARDSHIP COUNCIL recognizes all grant income in the year of receipt, regardless of compliance with restrictions. Grants without grantee-imposed restrictions are reported as unrestricted support. Grants with grantee-imposed restrictions are reported as either temporarily restricted or permanently restricted support, depending upon the type of restriction.

For the year ended December 31, 2009, the STEWARDSHIP COUNCIL recorded all grant income as temporarily restricted support.

The satisfaction of a grantee-imposed restriction on a grant is recognized when the corresponding expenditures are incurred or when the time restriction expires. This occurs by increasing one class of net assets and decreasing another in the statement of activities. Such transactions are recorded as net assets released from restrictions and are reported separately from other transactions.

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). 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 noncharitable assets or become subject to additional taxes up to the amount of any undistributed balance. Accordingly, 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.

The STEWARDSHIP COUNCIL satisfies the 5% distribution requirement through grants to other non-profit organizations and operations of the Land Conservation and Youth Investment Programs. For the years ended December 31, 2009 and 2008, the STEWARDSHIP COUNCIL paid excise tax of \$23,876 and \$59,846, respectively.

The STEWARDSHIP COUNCIL's current accounting policy is to evaluate uncertain tax positions. Accordingly, a loss contingency is recognized when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. Management believes that there are no uncertain tax positions.

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL
NOTES TO FINANCIAL STATEMENTS
December 31, 2009 and 2008

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses

The STEWARDSHIP COUNCIL allocates all identifiable expenses directly to the Land Conservation and Youth Investment 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 Land Conservation and Youth Investment Programs based on the allocation of the grant income pursuant to the original grant agreement.

Concentrations of Risk

Financial Instruments

Financial instruments which potentially subject the STEWARDSHIP COUNCIL to concentrations of credit risk consist principally of cash and cash equivalents, grants receivable, and investments. The STEWARDSHIP COUNCIL maintains its cash in various bank deposit 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 and cash equivalents.

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. 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 in the statement of financial position. 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.

Concentrations

The grant receivable is due from one grantor, Pacific Gas and Electric Company.

2. FAIR VALUE MEASUREMENTS

The STEWARDSHIP COUNCIL's financial assets and liabilities carried at fair value have been classified, for disclosure purposes, based on a hierarchy defined by FASB ASC 820, *Fair Value Measurements and Disclosures*. The hierarchy 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). An asset's or a liability's classification is based on the lowest level input that is significant to its measurement. For example, a Level 3 fair value measurement may include inputs that are both observable (Levels 1 and 2) and unobservable (Level 3). The levels of the fair value hierarchy are as follows:

Level 1 – Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL
NOTES TO FINANCIAL STATEMENTS
December 31, 2009 and 2008

2. FAIR VALUE MEASUREMENTS (CONTINUED)

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, spreads and yield curves.

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 and liabilities measured at fair value.

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 generally categorized in Level 2 of the fair value hierarchy. In instances where significant inputs are unobservable, they are categorized in Level 3 of the hierarchy.

Mutual Funds: Mutual funds are valued at the net asset value of shares held by the STEWARDSHIP COUNCIL at year end and are generally 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 generally categorized in Levels 1 or 2 of the fair value hierarchy.

Commercial Mortgage-Backed Securities (CMBS) and Asset-Backed Securities (ABS): CMBS and 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. CMBS and ABS are categorized in Level 2 of the fair value hierarchy when external pricing data is observable and in Level 3 when external pricing data is unobservable.

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 generally categorized in Level 2 of the fair value hierarchy.

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL
NOTES TO FINANCIAL STATEMENTS
December 31, 2009 and 2008

2. FAIR VALUE MEASUREMENTS (CONTINUED)

Financial assets measured at fair value on a recurring basis

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

	<u>2009</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Corporate obligations	\$ 15,090,372	\$ -	\$ 15,090,372	\$ -
Mutual funds	7,754,875	7,754,875	-	-
Government obligations	6,989,663	-	6,989,663	-
Commercial paper	6,620,729	-	6,620,729	-
Asset backed securities	5,117,830	-	5,117,830	-
Municipal bonds	498,090	-	498,090	-
	<u>\$ 42,071,559</u>	<u>\$ 7,754,875</u>	<u>\$ 34,316,684</u>	<u>\$ -</u>

	<u>2008</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Corporate obligations	\$ 10,560,719	\$ -	\$ 10,560,719	\$ -
Government obligations	8,178,937	-	8,178,937	-
Commercial paper	5,544,977	-	5,544,977	-
Asset backed securities	11,756,547	-	11,756,547	-
	<u>\$ 36,041,180</u>	<u>\$ -</u>	<u>\$ 36,041,180</u>	<u>\$ -</u>

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL
NOTES TO FINANCIAL STATEMENTS
December 31, 2009 and 2008

3. GRANT RECEIVABLE

Grant receivable consisted of the following at December 31:

	2009	2008
Grant receivable from Pacific Gas and Electric Company	\$ 40,000,000	\$ 50,000,000
Less unamortized discount	(2,698,884)	(4,374,586)
	\$ 37,301,116	\$ 45,625,414

As of December 31, 2009, the grant receivable, before the unamortized discount, is expected to be received as follows:

Less than one year	\$ 10,000,000
One to three years	30,000,000
	\$ 40,000,000

4. INVESTMENTS

Investments consisted of the following at December 31:

	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Corporate obligations	\$ 14,999,455	\$ 15,090,372	\$ 10,536,410	\$ 10,560,719
Mutual funds	7,645,251	7,754,875	-	-
Government obligations	6,996,447	6,989,663	7,953,078	8,178,937
Commercial paper	6,600,459	6,620,729	5,498,005	5,544,977
Asset backed securities	5,127,641	5,117,830	11,783,759	11,756,547
Municipal bonds	498,555	498,090	-	-
	\$ 41,867,808	\$ 42,071,559	\$ 35,771,252	\$ 36,041,180

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL
NOTES TO FINANCIAL STATEMENTS
December 31, 2009 and 2008

4. INVESTMENTS (CONTINUED)

For the years ended December 31, investment income consisted of the following:

	2009	2008
Interest income	\$ 1,096,664	\$ 1,444,796
Net realized and unrealized gains on investments	296,652	396,909
	\$ 1,393,316	\$ 1,841,705

5. PROPERTY AND EQUIPMENT

Property and equipment at December 31, consisted of the following:

	2009	2008
Office equipment	\$ 161,496	\$ 99,884
Furniture and fixtures	61,841	51,709
Leasehold improvements	68,762	66,432
	292,099	218,025
Less accumulated depreciation	(165,203)	(106,735)
	\$ 126,896	\$ 111,290

For the years ended December 31, 2009 and 2008, depreciation expense was \$58,468 and \$48,070, respectively.

6. TEMPORARILY RESTRICTED NET ASSETS

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

	2009	2008
Grants restricted for project support:		
Land Conservation Program	\$ 60,688,831	\$ 60,777,756
Youth Investment Program	18,517,432	20,608,439
	\$ 79,206,263	\$ 81,386,195

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL
NOTES TO FINANCIAL STATEMENTS
 December 31, 2009 and 2008

7. 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 donors during the years ended December 31, as follows:

	2009	2008
Land Conservation Program	\$ 2,319,112	\$ 2,447,531
Youth Investment Program	2,929,838	3,033,380
	\$ 5,248,950	\$ 5,480,911

8. RETIREMENT PLANS

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. The STEWARDSHIP COUNCIL's contributions were \$38,601 in 2009 and \$28,382 in 2008.

9. RELATED PARTY TRANSACTIONS

Certain Directors of the STEWARDSHIP COUNCIL 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 in the future. In these circumstances, the STEWARDSHIP COUNCIL awards grants pursuant to its conflict of interest policy.

10. COMMITMENTS

The STEWARDSHIP COUNCIL leases its San Mateo office facilities under an operating lease agreement which expires in September 2010 with an option to extend the lease term for additional 36 months. Under the terms of the lease agreement, the STEWARDSHIP COUNCIL is to pay a monthly base rental of \$9,815. The STEWARDSHIP COUNCIL leases its Sacramento office facilities under an operating lease agreement which expires in April 2011. Under the terms of the lease agreement, the STEWARDSHIP COUNCIL is to pay a monthly base rental of \$2,875. Lease payments are charged to expense over the lease term as they become payable.

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL
NOTES TO FINANCIAL STATEMENTS
December 31, 2009 and 2008

10. COMMITMENTS (CONTINUED)

The STEWARDSHIP COUNCIL's future minimum lease commitments on office space for the years ending December 31, are as follows:

2010	\$ 116,812
2011	<u>11,500</u>
	<u>\$ 128,312</u>

For the years ended December 31, 2009 and 2008, rent expense amounted to \$115,128 and \$108,068, respectively.

The STEWARDSHIP COUNCIL has committed to distribute between \$2,000,000 and \$2,500,000 in Youth Grants via a competitive application process. During 2009, the STEWARDSHIP COUNCIL announced the recipients of its third year of grants, totaling \$2,000,000. According to the terms of the grant contracts, grant payments are made when certain milestones are achieved by grantees, and when interim reports are submitted and approved. Of the \$2,000,000 awarded in 2009, the STEWARDSHIP COUNCIL paid \$588,000 during 2009, and will pay the remaining \$1,411,000 during 2010 and 2011. The STEWARDSHIP COUNCIL made additional payments of \$1,173,500 during 2009 for grants awarded in 2008, and \$492,500 for grants awarded in 2007.

11. SUBSEQUENT EVENTS

The STEWARDSHIP COUNCIL has evaluated all subsequent events through May 26, 2010, the date the financial statements were available to be issued.

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL

SUPPLEMENTARY FINANCIAL INFORMATION

For the Year Ended December 31, 2009

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL
EXPENSE BUDGET TO ACTUAL ANALYSIS SCHEDULE

For the Year Ended December 31, 2009

	<u>Actual</u>	<u>Budget</u>	<u>Under / (Over) Budget</u>
Expenses:			
Grant awards	\$ 1,993,870	\$ 2,000,000	\$ 6,130
Salaries, wages and benefits	1,738,315	1,636,886	(101,429)
Consultants and professional services	821,655	1,588,080	766,425
Rent	115,128	118,710	3,582
Investment fees	102,270	95,288	(6,982)
Travel and entertainment	75,062	68,400	(6,662)
Conferences, meetings and training	67,956	119,353	51,397
Insurance	66,098	67,998	1,900
Office supplies and expense	64,829	110,079	45,250
Legal	64,811	150,000	85,189
Depreciation	58,468	55,000	(3,468)
Excise taxes	30,990	39,000	8,010
Accounting	30,130	62,630	32,500
Newsletters and public notices	19,368	34,030	14,662
	<u>5,248,950</u>	<u>6,145,454</u>	<u>896,504</u>
Total expenses	<u>\$ 5,248,950</u>	<u>\$ 6,145,454</u>	<u>\$ 896,504</u>