

Pacific Forest
and Watershed
Lands
**Stewardship
Council**

FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT

Years Ended
December 31, 2010 and 2009

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 - 19
Supplementary Financial Information:	
Expense Budget to Actual Analysis Schedule	21



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, 2010 and 2009, 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, 2010 and 2009, 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 audits were 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, 2010 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
April 28, 2011

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL
STATEMENTS OF FINANCIAL POSITION

December 31,

	2010	2009
ASSETS		
Cash and cash equivalents	\$ 3,522,435	\$ 1,953,245
Grant receivable	28,594,401	37,301,116
Prepaid expenses	69,441	69,014
Accrued interest	169,086	206,924
Investments	46,716,724	42,071,559
Property and equipment, net	84,154	126,896
Total assets	\$ 79,156,241	\$ 81,728,754
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 281,215	\$ 477,932
Grants payable	2,511,059	2,044,559
Total liabilities	2,792,274	2,522,491
Commitments		
Temporarily restricted net assets	76,363,967	79,206,263
Total liabilities and net assets	\$ 79,156,241	\$ 81,728,754

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL
STATEMENTS OF ACTIVITIES
Year Ended December 31, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenue:			
Grant income	\$ -	\$ 1,293,285	\$ 1,293,285
Investment income	-	943,051	943,051
	-	2,236,336	2,236,336
Net assets released from restrictions	<u>5,078,632</u>	<u>(5,078,632)</u>	<u>-</u>
Total support and revenue	<u>5,078,632</u>	<u>(2,842,296)</u>	<u>2,236,336</u>
Expenses:			
Program:			
Land Conservation	2,274,509	-	2,274,509
Youth Investment	<u>2,804,123</u>	<u>-</u>	<u>2,804,123</u>
Total expenses	<u>5,078,632</u>	<u>-</u>	<u>5,078,632</u>
Change in net assets	-	(2,842,296)	(2,842,296)
Net assets:			
Beginning of year	<u>-</u>	<u>79,206,263</u>	<u>79,206,263</u>
End of year	<u>\$ -</u>	<u>\$ 76,363,967</u>	<u>\$ 76,363,967</u>

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL
STATEMENTS OF ACTIVITIES (CONTINUED)
Year Ended December 31, 2009

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

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL
STATEMENTS OF FUNCTIONAL EXPENSES
Year Ended December 31, 2010

	<u>Land Conservation</u>	<u>Youth Investment</u>	<u>Management and General</u>	<u>Total</u>
Expenses:				
Salaries, wages and benefits	\$ 1,126,192	\$ 479,139	\$ 434,467	\$ 2,039,798
Grant awards	30,000	1,893,286	-	1,923,286
Consultants and professional services	286,035	89,624	13,288	388,947
Rent	75,648	50,438	29,408	155,494
Investment fees	72,978	20,632	6,213	99,823
Office supplies and expense	35,323	17,857	16,161	69,341
Insurance	36,277	17,606	13,154	67,037
Travel and entertainment	47,822	16,824	1,412	66,058
Land transaction costs	61,600	-	-	61,600
Conferences, meetings and training	28,934	23,464	4,338	56,736
Depreciation	21,500	17,896	10,318	49,714
Legal	35,228	417	6,794	42,439
Accounting	1,633	1,112	22,786	25,531
Excise taxes	16,344	4,656	326	21,326
Newsletters and public notices	6,382	2,909	2,211	11,502
	<u>1,881,896</u>	<u>2,635,860</u>	<u>560,876</u>	<u>5,078,632</u>
Allocation of management and general expenses	<u>392,613</u>	<u>168,263</u>	<u>(560,876)</u>	<u>-</u>
Total expenses	<u>\$ 2,274,509</u>	<u>\$ 2,804,123</u>	<u>\$ -</u>	<u>\$ 5,078,632</u>

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL
STATEMENTS OF FUNCTIONAL EXPENSES (CONTINUED)
Year Ended December 31, 2009

	<u>Land Conservation</u>	<u>Youth Investment</u>	<u>Management and General</u>	<u>Total</u>
Expenses:				
Salaries, wages and benefits	\$ 970,340	\$ 445,664	\$ 322,311	\$ 1,738,315
Grant awards	-	1,993,870	-	1,993,870
Consultants and professional services	608,044	160,118	38,793	806,955
Rent	54,508	39,078	21,542	115,128
Investment fees	71,859	22,484	7,927	102,270
Office supplies and expense	39,842	14,059	10,928	64,829
Insurance	37,036	16,825	12,237	66,098
Travel and entertainment	52,895	10,042	12,125	75,062
Land transaction costs	14,700	-	-	14,700
Conferences, meetings and training	28,614	29,542	9,800	67,956
Depreciation	25,591	21,109	11,768	58,468
Legal	41,385	17,269	6,157	64,811
Accounting	1,787	745	27,598	30,130
Excise taxes	23,570	7,420	-	30,990
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
STATEMENTS OF CASH FLOWS
Years Ended December 31,

	2010	2009
Cash flows from operating activities:		
Change in net assets	\$ (2,842,296)	\$ (2,179,932)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Present value discount on grant receivable	(1,293,285)	(1,675,702)
Net realized and unrealized gains on investments	(144,993)	(425,496)
Depreciation	49,714	58,468
(Increase) decrease in assets:		
Grant receivable	10,000,000	10,000,000
Prepaid expenses	(427)	(6,548)
Accrued interest	37,838	128,947
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(196,717)	101,971
Grants payable	466,500	(260,000)
Total adjustments	8,918,630	7,921,640
Net cash provided by operating activities	6,076,334	5,741,708
Cash flows from investing activities:		
Proceeds from sale of investments	80,370,650	67,351,586
Purchases of investments	(84,870,822)	(72,956,469)
Purchases of property and equipment	(6,972)	(74,074)
Net cash used by investing activities	(4,507,144)	(5,678,957)
Net increase in cash and cash equivalents	1,569,190	62,751
Cash and cash equivalents:		
Beginning of year	1,953,245	1,890,494
End of year	\$ 3,522,435	\$ 1,953,245

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

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 annually 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.

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, temporarily restricted, and permanently restricted net assets.

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

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

Basis of Presentation (Continued)

Classification of Net Assets (Continued)

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 earn interest based on the prevailing rates.

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.

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

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

Grant Receivable

Grant receivable consists of a grant from Pacific Gas and Electric Company. Grants which are due beyond one accounting cycle are recorded at the present value of the grant using discount rates established in the year in which the promises are received. The rate at December 31, 2010 and December 31, 2009 was 4.5%. The discount amortization is recognized as grant income in the periods earned.

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'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.

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.

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

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

Revenue Recognition (Continued)

Grant Income (Continued)

For the years ended December 31, 2010 and 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). 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 noncharitable 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 Land Conservation and Youth Investment Programs. For the years ended December 31, 2010 and 2009, the Stewardship Council paid excise tax of \$12,241 and \$23,876, respectively.

The Stewardship Council has adopted the accounting standard on accounting for uncertainty in income taxes, which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return and requires the affirmative evaluation that is more-likely-than-not, based on the technical merits of a tax position, that an enterprise is entitled to economic benefits resulting from tax positions taken in income tax returns. If a tax position does not meet the more-likely-than-not recognition threshold, the benefit of that position is not recognized in the financial statements. This standard also requires organizations to disclose additional quantitative and qualitative information in their financial statements about uncertain tax positions. The Stewardship Council's adoption of this standard did not have a material impact on the financial statements.

The Stewardship Council's evaluation on December 31, 2010 revealed no tax positions that would have a material impact on the financial statements. The 2008 through 2010 tax years remain subject to examination by the Internal Revenue Service. In addition, the 2007 through 2010 tax years remain subject to examination by the California Franchise Tax Board. The Stewardship Council does not believe that any reasonably possible changes will occur within the next twelve months that will have a material impact on the financial statements.

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

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.

Reclassifications

Certain reclassifications have been made to the prior year financial statements in order for them to be in conformity with the current year presentation. These reclassifications have no effect on previously reported net assets or change in net assets.

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

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). 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.

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 measured at fair value.

Corporate Obligations and Commercial Paper: The fair value of corporate bonds and commercial paper 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. The fair value of commercial paper approximates its book value because of its short-term nature. Corporate bonds and commercial paper 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.

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.

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

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

2. FAIR VALUE MEASUREMENTS (CONTINUED)

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 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.

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:

	2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Assets at fair value:			
Corporate obligations	\$ 13,252,254	\$ -	\$ 13,252,254
Government obligations	8,555,930	-	8,555,930
Mutual funds	8,067,433	8,067,433	-
Commercial paper	7,591,008	-	7,591,008
Asset-backed securities	6,680,619	-	6,680,619
Municipal bonds	2,569,480	-	2,569,480
Total assets at fair value	\$ 46,716,724	\$ 8,067,433	\$ 38,649,291

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

2. FAIR VALUE MEASUREMENTS (CONTINUED)

	<u>2009</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>
Assets at fair value:			
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>
Total assets at fair value	<u>\$ 42,071,559</u>	<u>\$ 7,754,875</u>	<u>\$ 34,316,684</u>

The Stewardship Council's policy is to recognize transfers in and transfers out 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 Level 1 or Level 2 fair value measurements during the years ended December 31, 2010 and 2009.

3. GRANT RECEIVABLE

Grant receivable consisted of the following at December 31:

	<u>2010</u>	<u>2009</u>
Grant receivable from Pacific Gas and Electric Company	\$ 30,000,000	\$ 40,000,000
Less unamortized discount	<u>(1,405,599)</u>	<u>(2,698,884)</u>
	<u>\$ 28,594,401</u>	<u>\$ 37,301,116</u>

As of December 31, 2010, the grant receivable, before the unamortized discount, is expected to be received as follows:

Less than one year	\$ 10,000,000
One to five years	<u>20,000,000</u>
	<u>\$ 30,000,000</u>

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

4. INVESTMENTS

Investments consisted of the following at December 31:

	<u>2010</u>		<u>2009</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Corporate obligations	\$ 13,154,549	\$ 13,252,254	\$ 14,903,231	\$ 15,090,372
Government obligations	8,565,683	8,555,930	6,996,018	6,989,663
Mutual funds	7,861,739	8,067,433	7,645,251	7,754,875
Commercial paper	7,584,030	7,591,008	6,615,226	6,620,729
Asset-backed securities	6,670,455	6,680,619	5,069,429	5,117,830
Municipal bonds	2,571,690	2,569,480	498,606	498,090
	<u>\$ 46,408,146</u>	<u>\$ 46,716,724</u>	<u>\$ 41,727,761</u>	<u>\$ 42,071,559</u>

Investment income consisted of the following for the years ended December 31:

	<u>2010</u>	<u>2009</u>
Interest income	\$ 798,058	\$ 967,820
Net realized and unrealized gains on investments	144,993	425,496
	<u>\$ 943,051</u>	<u>\$ 1,393,316</u>

5. PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following at December 31:

	<u>2010</u>	<u>2009</u>
Office equipment	\$ 168,293	\$ 161,496
Furniture and fixtures	62,016	61,841
Leasehold improvements	68,762	68,762
	299,071	292,099
Less accumulated depreciation	<u>(214,917)</u>	<u>(165,203)</u>
	<u>\$ 84,154</u>	<u>\$ 126,896</u>

For the years ended December 31, 2010 and 2009, depreciation expense was \$49,714 and \$58,468, respectively.

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

6. TEMPORARILY RESTRICTED NET ASSETS

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

	2010	2009
Grants restricted for project support:		
Land Conservation Program	\$ 60,053,933	\$ 60,688,831
Youth Investment Program	16,310,034	18,517,432
	\$ 76,363,967	\$ 79,206,263

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:

	2010	2009
Land Conservation Program	\$ 2,274,509	\$ 2,319,112
Youth Investment Program	2,804,123	2,929,838
	\$ 5,078,632	\$ 5,248,950

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 \$48,499 in 2010 and \$38,601 in 2009.

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.

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

9. RELATED PARTY TRANSACTIONS (CONTINUED)

On April 1, 2010, the Stewardship Council entered into an agreement with Foundation for Youth Investment (FYI), an 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. FYI's Board of Directors consists of three individuals who were appointed by the Stewardship Council, two of whom also served on the Stewardship Council's Board of Directors as of December 31, 2010.

Under the terms of the agreement, the Stewardship Council has agreed to make available to FYI the services of certain Stewardship Council employees to (a) provide services to support the Youth Investment Program and (b) engage in fund-raising and the development of a grant program to provide greater resources to support FYI's charitable purpose.

During the term of the agreement, the Stewardship Council will donate to FYI: (a) all time spent by Stewardship Council employees working for FYI; (b) the costs of travel incurred by such employees in connection with such activities, (c) services of contractors and consultants retained by the Stewardship Council on behalf of FYI activities, and (d) actual expenses related to such activities.

The allocation of expenses to FYI is based on the assignment of payroll, employment taxes and benefits using staff estimates of the time spent on the relevant programs, and direct assignment of non-payroll expenses to the relevant activities. For the year-ended December 31, 2010, the Stewardship Council provided in-kind donations of staff time, facilities, and services to FYI amounting to \$307,822.

10. COMMITMENTS

The Stewardship Council leases its San Mateo office facilities under an operating lease agreement which expires in September 2012 with an option to extend the lease term for an additional 12 months. Under the terms of the lease agreement, the Stewardship Council is to pay a monthly base rental of \$10,077. The Stewardship Council leases its Sacramento office facilities under an operating lease agreement which expires in October 2012. 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.

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

2011	\$ 153,363
2012	<u>122,254</u>
	<u>\$ 275,617</u>

For the years ended December 31, 2010 and 2009, rent expense amounted to \$155,494 and \$115,128, respectively.

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

10. COMMITMENTS (CONTINUED)

The Stewardship Council has committed to distribute between \$1,900,000 and \$2,650,000 in Youth Grants via a competitive application process. During 2010, the Stewardship Council announced the recipients of its fifth year of grants, totaling \$1,808,500. 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 \$1,808,500 awarded in 2010, the Stewardship Council paid \$492,000 during 2010, and will pay the remaining \$1,316,500 during 2011 and beyond. The Stewardship Council made additional payments of \$762,500 during 2010 for grants awarded in 2009, and \$80,000 for grants awarded in 2008.

11. SUBSEQUENT EVENTS

The Stewardship Council has evaluated all subsequent events through April 28, 2011, the date the financial statements were available to be issued.

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL

SUPPLEMENTARY FINANCIAL INFORMATION

Year Ended December 31, 2010

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL
EXPENSE BUDGET TO ACTUAL ANALYSIS SCHEDULE
Year Ended December 31, 2010

	<u>Actual</u>	<u>Budget</u>	<u>Under / (Over) Budget</u>
Expenses:			
Salaries, wages and benefits	\$ 2,039,798	\$ 2,081,661	\$ 41,863
Grant awards	1,923,286	2,400,000	476,714
Consultants and professional services	388,947	1,145,880	756,933
Rent	155,494	160,350	4,856
Investment fees	99,823	120,565	20,742
Office supplies and expense	69,341	107,790	38,449
Insurance	67,037	77,650	10,613
Travel and entertainment	66,058	111,656	45,598
Land transaction costs	61,600	-	(61,600)
Conferences, meetings and training	56,736	123,800	67,064
Depreciation	49,714	50,000	286
Legal	42,439	150,000	107,561
Accounting	25,531	43,500	17,969
Excise taxes	21,326	39,000	17,674
Newsletters and public notices	11,502	17,700	6,198
	<u>5,078,632</u>	<u>6,629,552</u>	<u>1,550,920</u>
Total expenses	<u>\$ 5,078,632</u>	<u>\$ 6,629,552</u>	<u>\$ 1,550,920</u>