



**AUDITED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

Years Ended December 31, 2021 and 2020

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL
AUDITED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
Years Ended December 31, 2021 and 2020

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INDEPENDENT AUDITOR'S REPORT

To the Audit Committee of
Pacific Forest and Watershed Lands Stewardship Council
Roseville, California

Opinion

We have audited the accompanying financial statements of Pacific Forest and Watershed Lands Stewardship Council (the Stewardship Council), which comprise the statement of financial position as of December 31, 2021 and 2020, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

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, 2021 and 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Stewardship Council and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Stewardship Council's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material

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

misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Stewardship Council's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Stewardship Council's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expense budget to actual analysis on page 19 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.

Richardson & Company, LLP

June 16, 2022

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL
STATEMENTS OF FINANCIAL POSITION
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and cash equivalents	\$ 4,683,453	\$ 3,569,718
Accounts receivable	-	11,766
Prepaid expenses	55,696	55,366
Investments	14,063,274	20,172,125
Property and equipment, net	<u>6,806</u>	<u>8,777</u>
 Total assets	 <u>\$ 18,809,229</u>	 <u>\$ 23,817,752</u>
 LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 153,520	\$ 73,516
Accrued expenses and other liabilities	1,221,873	113,748
Accrued payroll and compensated absences	74,895	60,779
Grants payable	<u>45,311</u>	<u>55,328</u>
 Total liabilities	 1,495,599	 303,371
Temporarily restricted net assets	<u>17,313,630</u>	<u>23,514,381</u>
 Total liabilities and net assets	 <u>\$ 18,809,229</u>	 <u>\$ 23,817,752</u>

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

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL
STATEMENT OF ACTIVITIES
Year Ended December 31, 2021

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenue:			
Net investment income	\$ -	\$ (29,566)	\$ (29,566)
Total net investment income	- -	(29,566)	(29,566)
Net assets released from restrictions	<u>6,171,185</u>	<u>(6,171,185)</u>	<u>-</u>
Total support and revenue	<u>6,171,185</u>	<u>(6,200,751)</u>	<u>(29,566)</u>
Expenses:			
Program:			
Land Conservation	6,161,599	- -	6,161,599
Youth Investment	<u>9,586</u>	<u>-</u>	<u>9,586</u>
Total expenses	<u>6,171,185</u>	<u>-</u>	<u>6,171,185</u>
Change in net assets	- -	(6,200,751)	(6,200,751)
Net assets:			
Beginning of year	<u>-</u>	<u>23,514,381</u>	<u>23,514,381</u>
End of year	<u>\$ -</u>	<u>\$ 17,313,630</u>	<u>\$ 17,313,630</u>

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

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL
STATEMENT OF ACTIVITIES
Year Ended December 31, 2020

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenue:			
Net investment income	\$ -	\$ 559,792	\$ 559,792
Total net investment income	- -	559,792	559,792
Net assets released from restrictions	<u>(7,630,753)</u>	<u>(7,630,753)</u>	<u>- -</u>
Total support and revenue	<u>7,630,753</u>	<u>(7,070,961)</u>	<u>559,792</u>
Expenses:			
Program:			
Land Conservation	7,619,609	- -	7,619,609
Youth Investment	<u>11,144</u>	<u>- -</u>	<u>11,144</u>
Total expenses	<u>7,630,753</u>	<u>- -</u>	<u>7,630,753</u>
Change in net assets	- -	(7,070,961)	(7,070,961)
Net assets:			
Beginning of year	- -	30,585,342	30,585,342
End of year	<u>\$ -</u>	<u>\$ 23,514,381</u>	<u>\$ 23,514,381</u>

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

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2021

	<u>Land Conservation</u>	<u>Youth Investment</u>	<u>Management and General</u>	<u>Total</u>
Expenses:				
Grant awards	\$ 4,929,898	\$ -	\$ -	\$ 4,929,898
Salaries, wages, and benefits	395,387	2,199	327,341	724,927
Consultants and professional services	231,695	-	62,776	294,471
Land transaction costs	50,914	-	-	50,914
Insurance	25,513	-	19,004	44,517
Rent and facilities	22,702	-	17,480	40,182
Legal	2,152	-	29,951	32,103
Accounting	-	-	23,780	23,780
Office supplies and expense	11,107	-	7,686	18,793
Conferences, meetings, and training	2,309	-	1,041	3,350
Depreciation	1,620	-	1,178	2,798
Bank charges	1,476	-	1,094	2,570
Excise taxes	824	-	761	1,585
Travel and field reviews	1,031	-	119	1,150
Newsletters and public notices	64	-	83	147
	<hr/> <u>5,676,692</u>	<hr/> <u>2,199</u>	<hr/> <u>492,294</u>	<hr/> <u>6,171,185</u>
Allocation of management and general expenses	<hr/> <u>484,907</u>	<hr/> <u>7,387</u>	<hr/> <u>(492,294)</u>	<hr/> <u>-</u>
Total expenses	<u>\$ 6,161,599</u>	<u>\$ 9,586</u>	<u>\$ -</u>	<u>\$ 6,171,185</u>

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

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2020

	<u>Land Conservation</u>	<u>Youth Investment</u>	<u>Management and General</u>	<u>Total</u>
Expenses:				
Grant awards	\$ 6,048,021	\$ -	\$ -	\$ 6,048,021
Salaries, wages, and benefits	508,307	1,997	288,865	799,169
Consultants and professional services	441,845	1,733	54,274	497,852
Land transaction costs	93,401	-	-	93,401
Insurance	27,051	-	20,151	47,202
Rent and facilities	25,588	-	19,060	44,648
Legal	15,176	-	12,974	28,150
Accounting	-	-	23,985	23,985
Office supplies and expense	13,438	-	7,347	20,785
Newsletters and public notices	13,330	-	968	14,298
Conferences, meetings, and training	3,430	-	1,607	5,037
Depreciation	2,125	-	1,583	3,708
Travel and field reviews	2,673	-	725	3,398
Excise taxes	<u>630</u>	<u>-</u>	<u>469</u>	<u>1,099</u>
	<u>7,195,015</u>	<u>3,730</u>	<u>432,008</u>	<u>7,630,753</u>
Allocation of management and general expenses	<u>424,594</u>	<u>7,414</u>	<u>(432,008)</u>	<u>-</u>
Total expenses	<u>\$ 7,619,609</u>	<u>\$ 11,144</u>	<u>\$ -</u>	<u>\$ 7,630,753</u>

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

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Change in net assets	\$ (6,200,751)	\$ (7,070,961)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Net realized and unrealized (gains) losses on investments	82,514	(223,551)
Depreciation	2,798	3,708
(Increase) decrease in assets:		
Accounts receivable	11,766	5,845
Prepaid expenses	(330)	568
Increase (decrease) in liabilities:		
Accounts payable	80,004	(94,159)
Accrued expenses	1,108,125	(16,617)
Accrued payroll and compensated absences	14,116	(1,573)
Grants payable	(10,017)	(11,699)
Net cash used by operating activities	<u>(4,911,775)</u>	<u>(7,408,439)</u>
Cash flows from investing activities:		
Proceeds from sale of investments	7,682,670	7,776,335
Purchases of investments	(1,656,333)	(500,000)
Proceeds from sale of property and equipment	(827)	(827)
Purchases of property and equipment		
Net cash provided by investing activities	<u>6,025,510</u>	<u>6,950,094</u>
Net increase (decrease) in cash and cash equivalents	1,113,735	(458,345)
Cash and cash equivalents:		
Beginning of year	<u>3,569,718</u>	<u>4,028,063</u>
End of year	<u>\$ 4,683,453</u>	<u>\$ 3,569,718</u>

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

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2021 and 2020

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Purpose and Organization: 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. 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 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 9).

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.

In 2021 and 2020, fewer land transactions closed escrow than anticipated. This resulted in fewer endowment and tax neutrality payments, causing actual expenditures to be lower than originally budgeted. Due to delays, the Stewardship Council has pushed the dissolution to 2023.

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 two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Accordingly, the net assets of the Stewardship Council are classified and reported as described below:

Net assets without donor restrictions: 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

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Years Ended December 31, 2021 and 2020

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

these net assets may be designated by the Board of Directors for specific purposes. Such designations do not constitute restriction; only donors can place restrictions.

Net assets with donor restrictions: 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; (d) acquisition of long-lived assets; (e) assets donated with stipulations that they be used for a specified purpose, be preserved, and not be sold; or (f) assets donated with stipulations that they be invested to provide a permanent source of income.

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.

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. Investment income is reported net of investment fees.

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 approximately 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.

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 is required to distribute, in the year received or in the year following receipt, its minimum investment return of 5% of the average market

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Years Ended December 31, 2021 and 2020

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

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, 2021 and 2020, the Stewardship Council paid excise taxes of \$1,010 and \$1,099, 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, 2021 and 2020, 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's federal returns for the years ended December 31, 2020, 2019, and 2018 could be subject to examination by federal taxing authorities, generally for three years after they are filed. The Stewardship Council's state returns for the years ended December 31, 2020, 2019, 2018, and 2017 could be subject to examination by state taxing authorities, generally for four years after they are filed. 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. As of December 31, 2021 and 2020, the Stewardship Council's uninsured bank balance totaled \$1,671,170 and \$555,635, respectively. 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 and mutual funds 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. 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 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 programs. Expenses that are common to both programs and not able to be allocated directly, including management and general expenses, are allocated to the programs based on either time and effort or office space, depending on the nature of the expense.

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Years Ended December 31, 2021 and 2020

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Accrued Compensated Absences: It is the Stewardship Council's policy to accumulate a limited amount of earned but unused vacation, which will be paid to employees upon taking vacations or upon separation.

Grants Payable: Grant expense is recognized in the period the grant is approved, provided the grant is not subject to significant future conditions. Conditional grants are recognized as grant expense and as a grant payable in the period in which the grantee meets the terms of the conditions. Grants payable that are expected to be paid in future years are recorded at the present value of expected future payments. The Stewardship Council expects to pay its grants within the next year.

New Pronouncements: In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* intended to improve financial reporting regarding leasing transactions. The new standard affects all companies and organizations that lease assets. The standard will require organizations to recognize on the statement of financial position the assets and liabilities for the rights and obligations created by those leases if the lease terms are more than 12 months. The guidance also will require qualitative and quantitative disclosures providing additional information about the amounts recorded in the financial statements. The amendments in this update are effective for the year ended December 31, 2023.

The Stewardship Council is in the process of determining the impact of the implementation of this ASU.

NOTE 2 – AVAILABILITY AND LIQUIDITY

The following represents the Stewardship Council's financial assets at December 31:

	<u>2021</u>	<u>2020</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 4,683,453	\$ 3,569,718
Accounts receivable	-	11,766
Investments	<u>14,063,274</u>	<u>20,172,125</u>
Financial assets available to meet program expenditures over the next year	<u>\$ 18,746,727</u>	<u>\$ 23,753,609</u>

Stewardship Council funds in excess of those needed immediately for operations are invested in low cost, broadly diversified funds. The Stewardship Council's cash and cash equivalents consisted of cash in a checking account totaling \$1,919,087 and \$805,635 and money market funds in investment accounts totaling \$2,764,366 and \$2,764,082 at December 31, 2021 and 2020, respectively. The investment portfolio primarily utilizes conservative fixed income mutual funds to optimize diversification, preserve principal and maintain liquidity. The Stewardship Council investment policy sets a two-year maximum duration for investment maturity and investments are readily transferrable into cash.

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Years Ended December 31, 2021 and 2020

NOTE 3 – 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, 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:

Mutual Funds: Mutual funds are valued at the closing price reported in active markets and are categorized in Level 1 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:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
2021:				
Bond mutual funds	<u>\$ 14,063,274</u>	<u>\$ 14,063,274</u>	\$ -	\$ -
Total	<u>\$ 14,063,274</u>	<u>\$ 14,063,274</u>	\$ -	\$ -
2020:				
Bond mutual funds	<u>\$ 20,172,125</u>	<u>\$ 20,172,125</u>	\$ -	\$ -
Total	<u>\$ 20,172,125</u>	<u>\$ 20,172,125</u>	\$ -	\$ -

The Stewardship Council's policy is to recognize transfers in and transfers out of levels of the fair value hierarchy as of the actual date of the event or change in circumstance that caused the transfer. The Stewardship Council had no transfers into or out of the levels during the years ended December 31, 2021 and 2020.

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Years Ended December 31, 2021 and 2020

NOTE 4 - INVESTMENTS

Investments consisted of the following at December 31:

	<u>2021</u>	<u>2020</u>
Domestic:		
Bond mutual funds	<u>\$ 14,063,274</u>	<u>\$ 20,172,125</u>
Total	<u>\$ 14,063,274</u>	<u>\$ 20,172,125</u>

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

	<u>2021</u>	<u>2020</u>
Investment income, net of investment fees	<u>\$ 52,948</u>	<u>\$ 326,241</u>
Net realized and unrealized gains (losses) on investments	<u>(82,514)</u>	<u>233,551</u>
Total	<u>\$ (29,566)</u>	<u>\$ 559,792</u>

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2021</u>	<u>2020</u>
Office equipment	<u>\$ 42,287</u>	<u>\$ 41,462</u>
Furniture and fixtures	<u>26,632</u>	<u>26,632</u>
Leasehold improvements	<u>3,983</u>	<u>3,983</u>
	<u>72,902</u>	<u>72,077</u>
Less: Accumulated depreciation	<u>(66,096)</u>	<u>(63,300)</u>
Total	<u>\$ 6,806</u>	<u>\$ 8,777</u>

NOTE 6 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at December 31, are restricted for the following purposes and may be expended for:

	<u>2021</u>	<u>2020</u>
Net assets restricted for project support:		
Land Conservation Program	<u>\$ 17,310,589</u>	<u>\$ 23,501,754</u>
Youth Investment Program	<u>3,041</u>	<u>12,627</u>
Total	<u>\$ 17,313,630</u>	<u>\$ 23,514,381</u>

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Years Ended December 31, 2021 and 2020

NOTE 7 – NET ASSETS RELEASED FROM DONOR RESTRICTIONS

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

	<u>2021</u>	<u>2020</u>
Satisfaction of purpose restrictions:		
Land Conservation Program	\$ 6,161,599	\$ 7,619,609
Youth Investment Program	<u>9,586</u>	<u>11,144</u>
Total	<u>\$ 6,171,185</u>	<u>\$ 7,630,753</u>

NOTE 8 – RETIREMENT PLAN

The Stewardship Council's employee benefits include 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% but that do not exceed 5% of the employee's payroll for the period. For the years ended December 31, 2021 and 2020, total employer contributions made to the Plan were \$42,903 and \$19,524, respectively.

NOTE 9 – 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.

In 2010, the Stewardship Council entered into an intercompany agreement with Youth Outside (Youth Outside changed its name to Justice Outside subsequent to year-end), 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, 2021 and 2020, 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, 2021 and 2020, Youth Outside has not expended all of the grant funds.

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Years Ended December 31, 2021 and 2020

NOTE 10 - COMMITMENTS

On May 9, 2016, the Stewardship Council entered into an operating lease for office space in Roseville, California for the period of July 1, 2016 through August 31, 2019, which was extended through June 30, 2022. Monthly base payments commenced at \$3,239 and increased annually based on price per rentable square foot; in addition, the Stewardship Council is liable for a portion of operating costs and property taxes. For the years ended December 31, 2021 and 2020, rent expense amounted to \$40,182 and \$44,648, respectively.

As a result of the annual rent increases and two months of free rent, rent expense is being recognized on a straight-line basis over the term of the lease and the difference between the expense recognized and the rental payments made is recorded as deferred rent. Deferred rent totaled \$2,937 and \$4,012 as of December 31, 2021 and 2020, respectively.

The Stewardship Council's future minimum lease commitments for office space was \$22,732 through May 2022. The lease was terminated in June 2022.

The Stewardship Council had the following grant commitments at December 31, 2021:

Grant Type	Approved	Remaining
Baseline Documentation:		
Shasta Land Trust	\$ 69,000	\$ 23,588
Distinct Landowner:		
Bear Yuba Land Trust:		
Bear River	105,000	16,076
Lake Spaulding	70,300	6,314
Endowment:		
Bear Yuba Land Trust:		
Lake Spaulding - Rucker	224,800	224,800
Mendocino Land Trust:		
Eel River Retained	527,616	527,616
Mother Lode Land Trust:		
North Fork Mokelumne River - Retained	280,214	280,214
Northern California Regional Land Trust:		
Oroville	437,374	437,374
Placer Land Trust:		
Lower Drum - Wise Forebay	94,851	94,851
Enhancement:		
Bear Yuba Land Trust	25,000	4,792
Fall River Resource Conservation District:		
McArthur Swamp - Phase 3	461,116	311,116
McArthur Swamp - Phase 4	592,750	192,750
Fall River Mills	299,230	19,046
Madera County	502,882	392,066
Maidu Summit Consortium	178,700	153,700

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Years Ended December 31, 2021 and 2020

NOTE 10 – COMMITMENTS (Continued)

<u>Grant Type</u>	<u>Approved</u>	<u>Remaining</u>
Mountain Meadows Conservancy	\$ 130,000	\$ 90,000
Sierra Buttes Trail Stewardship	253,000	251,615
Sierra Foothill Conservancy	130,000	31,515
Conservation Easement:		
Feather River Land Trust	385,000	158,662
Negotiation Costs:		
Bear Yuba Land Trust	21,800	4,663
Maidu Summit Consortium	75,000	13,692
Mendocino Land Trust:		
Eel River - Additional Acres	22,645	1,079
Eel River - PG&E	43,353	2,630
Mother Lode Land Trust:		
Bass lake	26,500	21,500
Multiple	50,000	7,634
Northern California Regional Land Trust:		
Oroville	38,742	676
Philbrook	22,240	392
Placer Land Trust	229,753	51,772
Shasta Land Trust	237,500	25,439
Sierra Foothill	90,000	21,906
Western Shasta Resource Conservation District	59,000	17,183
Wildlife Heritage Foundation:		
Lower Drum	29,000	5,717
Lake Spaulding	31,000	10,520
Fall River Resource Conservation District	11,000	2,394
Pit River Tribe	37,500	26,965
CE Funding		
Western Shasta Resource Conservation District	38,535	12,137
Conservancy:		
Sierra Nevada Conservancy:		
Dissolution	1,835,157	1,737,866
Covenant	502,000	459,178
Watershed lands	60,500	60,500
	<u><u>\$ 8,228,058</u></u>	<u><u>\$ 5,699,938</u></u>

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Years Ended December 31, 2021 and 2020

NOTE 11 – CONTINGENCIES

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) a pandemic. The COVID-19 outbreak is disrupting supply chains and affecting production and sales across a range of industries. The extent of the impact of COVID-19 on the Stewardship Council's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, and impact on the donors, members, employees and vendor, all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the financial condition or results of operations is uncertain.

NOTE 12 – SUBSEQUENT EVENTS

The Stewardship Council has evaluated all subsequent events through June 16, 2022, the date the financial statements were available to be issued. No events requiring recognition in the financial statements or disclosure have been identified.

PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL

SCHEDULE OF EXPENSE BUDGET TO ACTUAL ANALYSIS

Year Ended December 31, 2021

	Budget	Actual	Under/(Over) Budget
Expenses			
Grant awards	\$ 8,469,777	\$ 4,929,898	\$ 3,539,879
Salaries, wages, and benefits	738,691	724,927	13,764
Consultants and professional services	398,934	294,471	104,463
Land transaction costs	41,964	50,914	(8,950)
Insurance	48,000	44,517	3,483
Rent and facilities	46,140	40,182	5,958
Legal	60,000	32,103	27,897
Accounting	44,002	23,780	20,222
Office supplies and expense	23,908	18,793	5,115
Conferences, meetings, and training	27,960	3,350	24,610
Depreciation	-	2,798	(2,798)
Bank charges	3,000	2,570	430
Excise taxes	-	1,585	(1,585)
Travel and field reviews	19,600	1,150	18,450
Newsletters and public notices	3,221	147	3,074
 Total Expenses	 \$ 9,925,197	 \$ 6,171,185	 \$ 3,754,012

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