

RESOURCES FOR THE FUTURE, INC.

**AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

YEARS ENDED SEPTEMBER 30, 2014 AND 2013

Resources for the Future, Inc.

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Independent Auditor's Report

Board of Directors
Resources for the Future, Inc.
Washington, D.C.

We have audited the accompanying financial statements of **Resources for the Future, Inc.** (the "Organization") (a nonprofit organization), which comprise the Statements of Financial Position as of September 30, 2014 and 2013, and the related Statements of Activities and Changes in Net Assets, Functional Expenses, and Cash Flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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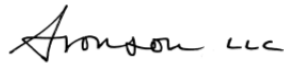
Independent Auditor's Report (Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Resources for the Future, Inc.** as of September 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 2 and 3, the financial statements include investments valued at approximately \$10,141,415 (16% of net assets) at September 30, 2014, and \$7,782,962 (13% of net assets) at September 30, 2013, whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners. Our opinion is not modified with respect to this matter.



Rockville, Maryland
January 21, 2015

| <i>September 30,</i> | 2014 | 2013 |
|---|----------------------|----------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 205,653 | \$ 50,000 |
| Grants and contract revenue receivable | 1,133,062 | 1,348,984 |
| Contributions receivable, current portion | 1,526,222 | 1,664,517 |
| Other receivables | 600 | 788 |
| Other assets | 224,747 | 217,473 |
| Total current assets | 3,090,284 | 3,281,762 |
| Contributions receivable, net of current portion | 485,854 | 587,490 |
| Investments | | |
| Investments, at fair value | 62,358,875 | 48,040,529 |
| Investment in Land, LLC | - | 8,900,000 |
| Total investments | 62,358,875 | 56,940,529 |
| Fixed assets - net of accumulated depreciation | 6,532,143 | 6,844,141 |
| Assets held under charitable trust agreements | 377,197 | 373,046 |
| Total assets | \$ 72,844,353 | \$ 68,026,968 |

Resources for the Future, Inc.

Statements of Financial Position

| <i>September 30,</i> | 2014 | 2013 |
|---|----------------------|----------------------|
| Liabilities and Net Assets | | |
| Current liabilities | | |
| Tax-exempt bond financing, current portion | \$ 270,000 | \$ 260,000 |
| Grants and awards payable | 77,483 | 67,750 |
| Accounts payable and accrued liabilities | 1,722,902 | 1,612,343 |
| Postretirement benefits, current portion | 51,005 | 53,045 |
| Deferred revenue | 677,079 | 598,563 |
| Total current liabilities | 2,798,469 | 2,591,701 |
| Long term liabilities | | |
| Tax-exempt bond financing, net of current portion | 4,890,000 | 5,160,000 |
| Postretirement benefits, net of current portion | 548,609 | 463,763 |
| Liabilities under split-interest agreements | 239,544 | 237,323 |
| Funds held for others | 238,925 | 146,231 |
| Total long term liabilities | 5,917,078 | 6,007,317 |
| Total liabilities | 8,715,547 | 8,599,018 |
| Net assets | | |
| Unrestricted | 54,765,593 | 49,532,008 |
| Temporarily restricted | 2,879,306 | 3,583,035 |
| Permanently restricted | 6,483,907 | 6,312,907 |
| Total net assets | 64,128,806 | 59,427,950 |
| Total liabilities and net assets | \$ 72,844,353 | \$ 68,026,968 |

The accompanying Notes to Financial Statements are an integral part of these financial statements.

Resources for the Future, Inc.

Statement of Activities and Changes in Net Assets

| <i>Year Ended September 30, 2014</i> | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|----------------------|---------------------------|---------------------------|----------------------|
| Changes in net assets | | | | |
| Revenue | | | | |
| Program grants and contracts | \$ 3,351,523 | \$ 1,990,796 | \$ - | \$ 5,342,319 |
| General support and contributions | 1,546,847 | - | 171,000 | 1,717,847 |
| Rental and equity income | 1,808,727 | - | - | 1,808,727 |
| Investment income - net of investment and custodial fees of \$373,428 | 1,267,477 | - | - | 1,267,477 |
| Other revenue | 8,563 | - | - | 8,563 |
| Net assets released from restriction | 3,247,271 | (3,247,271) | - | - |
| Total operating revenue | 11,230,408 | (1,256,475) | 171,000 | 10,144,933 |
| Expenses | | | | |
| Research programs | | | | |
| Research | 7,923,039 | - | - | 7,923,039 |
| Academic Relations | 135,543 | - | - | 135,543 |
| Communications | 1,340,984 | - | - | 1,340,984 |
| Other direct | 69,729 | - | - | 69,729 |
| Total research program expenses | 9,469,295 | - | - | 9,469,295 |
| Fundraising | 1,088,990 | - | - | 1,088,990 |
| Management and administration | 1,833,008 | - | - | 1,833,008 |
| 1616 P Street operations and maintenance | 1,283,367 | - | - | 1,283,367 |
| Total functional expenses | 13,674,660 | - | - | 13,674,660 |
| Changes in net assets from operations | (2,444,252) | (1,256,475) | 171,000 | (3,529,727) |
| Non-operating revenues | | | | |
| Realized gain on sale of investment in Land, LLC | 4,179,289 | - | - | 4,179,289 |
| Realized and unrealized gain on investment transactions | 3,498,548 | 552,746 | - | 4,051,294 |
| Increase in net assets | 5,233,585 | (703,729) | 171,000 | 4,700,856 |
| Net assets at beginning of year | 49,532,008 | 3,583,035 | 6,312,907 | 59,427,950 |
| Net assets at end of year | \$ 54,765,593 | \$ 2,879,306 | \$ 6,483,907 | \$ 64,128,806 |

The accompanying Notes to Financial Statements are an integral part of these financial statements.

Resources for the Future, Inc.

Statement of Activities and Changes in Net Assets

| <i>Year Ended September 30, 2013</i> | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|----------------------|---------------------------|---------------------------|----------------------|
| Changes in net assets | | | | |
| Revenue | | | | |
| Program grants and contracts | \$ 3,008,515 | \$ 4,246,775 | \$ - | \$ 7,255,290 |
| General support and contributions | 1,646,524 | - | 390,000 | 2,036,524 |
| Rental and equity income | 2,023,711 | - | - | 2,023,711 |
| Investment income - net of investment and custodial fees of \$302,555 | 1,567,343 | - | - | 1,567,343 |
| Other revenue | 13,017 | - | - | 13,017 |
| Net assets released from restriction | 3,895,669 | (3,895,669) | - | - |
| Total operating revenue | 12,154,779 | 351,106 | 390,000 | 12,895,885 |
| Expenses | | | | |
| Research programs | | | | |
| Research | 8,600,249 | - | - | 8,600,249 |
| Academic Relations | 185,195 | - | - | 185,195 |
| Communications | 1,255,065 | - | - | 1,255,065 |
| Other direct | 221,535 | - | - | 221,535 |
| Total research program expenses | 10,262,044 | - | - | 10,262,044 |
| Fundraising | 1,114,947 | - | - | 1,114,947 |
| Management and administration | 1,795,025 | - | - | 1,795,025 |
| 1616 P Street operations and maintenance | 1,261,596 | - | - | 1,261,596 |
| Total functional expenses | 14,433,612 | - | - | 14,433,612 |
| Changes in net assets from operations | (2,278,833) | 351,106 | 390,000 | (1,537,727) |
| Non-operating revenues | | | | |
| Realized gain on sale of investment in RCC | 24,581,087 | - | - | 24,581,087 |
| Realized and unrealized gain on investment transactions | 2,431,704 | 376,177 | - | 2,807,881 |
| Increase in net assets | 24,733,958 | 727,283 | 390,000 | 25,851,241 |
| Net assets at beginning of year | 24,798,050 | 2,855,752 | 5,922,907 | 33,576,709 |
| Net assets at end of year | \$ 49,532,008 | \$ 3,583,035 | \$ 6,312,907 | \$ 59,427,950 |

The accompanying Notes to Financial Statements are an integral part of these financial statements.

Resources for the Future, Inc.

Statement of Functional Expenses

| Year Ended September 30, 2014 | | | | | | | | | | |
|---------------------------------------|---------------------|--------------------|---------------------|------------------|----------------------|--------------------|---------------------|-------------------------------|--|----------------------|
| Program expenses | | | | | | | | | | |
| | Research | Academic Relations | Communi- cations | Other Direct | Programs Total | Research Support | Fundraising | Management and Administration | 1616 P Street Operations and Maintenance | Total |
| RFF functional expenses | | | | | | | | | | |
| Salaries | \$ 3,659,436 | \$ 3,989 | \$ 624,086 | \$ 3,018 | \$ 4,290,529 | \$ 999,800 | \$ 670,231 | \$ 987,346 | \$ - | \$ 6,947,906 |
| Benefits | 996,203 | 1,160 | 180,877 | 878 | 1,179,118 | 273,061 | 190,579 | 273,124 | - | 1,915,882 |
| Resident consultants | 294,106 | 8,358 | - | - | 302,464 | 211 | - | - | - | 302,675 |
| Total salaries and benefits | 4,949,745 | 13,507 | 804,963 | 3,896 | 5,772,111 | 1,273,072 | 860,810 | 1,260,470 | - | 9,166,463 |
| Other costs | | | | | | | | | | |
| Building operations | - | - | - | - | - | - | - | - | 1,890,272 | 1,890,272 |
| Occupancy | 333,823 | 824 | 54,306 | 263 | 389,216 | 83,695 | 58,095 | 75,899 | (606,905) | - |
| Research support | 1,631,417 | - | - | - | 1,631,417 | (1,631,417) | - | - | - | - |
| Communications | 1,011 | 3 | 27,774 | 9,303 | 38,091 | 9,290 | 2,663 | 10,550 | - | 60,594 |
| Computer services | 4,352 | - | 49,352 | - | 53,704 | 122,546 | 17,867 | 39,920 | - | 234,037 |
| Outside consultants | 189,153 | - | 172,480 | 52,205 | 413,838 | 3,633 | 13,925 | 11,300 | - | 442,696 |
| Conferences | 102,253 | 16,752 | 76,148 | 4,038 | 199,191 | 25,423 | 73,293 | 46,075 | - | 343,982 |
| Travel | 104,301 | 3,257 | 8,139 | 24 | 115,721 | 3,245 | 40,179 | 2,284 | - | 161,429 |
| Publication costs | 10,691 | - | 123,741 | - | 134,432 | 9,702 | 4,677 | 13,625 | - | 162,436 |
| Subawards | 311,682 | - | - | - | 311,682 | - | - | - | - | 311,682 |
| Professional service | 227,939 | - | 8,105 | - | 236,044 | 5,650 | - | 54,872 | - | 296,566 |
| Fellowship stipend | 46,286 | 9,500 | 9,250 | - | 65,036 | 6,358 | - | 16,175 | - | 87,569 |
| Dissertations | - | 91,700 | - | - | 91,700 | - | - | - | - | 91,700 |
| Depreciation | - | - | - | - | - | - | - | 141,236 | - | 141,236 |
| Other | 10,386 | - | 6,726 | - | 17,112 | 88,803 | 17,481 | 160,602 | - | 283,998 |
| Total other costs | 2,973,294 | 122,036 | 536,021 | 65,833 | 3,697,184 | (1,273,072) | 228,180 | 572,538 | 1,283,367 | 4,508,197 |
| Total RFF functional expenses | 7,923,039 | 135,543 | 1,340,984 | 69,729 | 9,469,295 | - | 1,088,990 | 1,833,008 | 1,283,367 | 13,674,660 |
| Indirect costs | | | | | | | | | | |
| General support | 523,577 | 20,981 | 183,566 | 3,167 | 731,291 | - | 168,569 | (1,098,517) | 198,657 | - |
| Reimbursed | 693,547 | - | 24,010 | 7,625 | 725,182 | - | - | (725,182) | - | - |
| Pass-through | 9,309 | - | - | - | 9,309 | - | - | (9,309) | - | - |
| Total indirect costs | 1,226,433 | 20,981 | 207,576 | 10,792 | 1,465,782 | - | 168,569 | (1,833,008) | 198,657 | - |
| Total on full absorption basis | \$ 9,149,472 | \$ 156,524 | \$ 1,548,560 | \$ 80,521 | \$ 10,935,077 | \$ - | \$ 1,257,559 | \$ - | \$ 1,482,024 | \$ 13,674,660 |

The accompanying Notes to Financial Statements are an integral part of these financial statements.

Resources for the Future, Inc.

Statement of Functional Expenses

| <i>Year Ended September 30, 2013</i> | | | | | | | | | | |
|---------------------------------------|---------------------|--------------------|---------------------|-------------------|----------------------|--------------------|---------------------|-------------------------------|--|----------------------|
| Program expenses | | | | | | | | | | |
| | Research | Academic Relations | Communi-cations | Other Direct | Programs Total | Research Support | Fundraising | Management and Administration | 1616 P Street Operations and Maintenance | Total |
| RFF functional expenses | | | | | | | | | | |
| Salaries | \$ 3,516,592 | \$ 4,188 | \$ 546,519 | \$ 101,872 | \$ 4,169,171 | \$ 1,027,254 | \$ 615,348 | \$ 941,977 | \$ - | \$ 6,753,750 |
| Benefits | 997,581 | 1,257 | 163,575 | 562 | 1,162,975 | 289,539 | 180,116 | 273,061 | - | 1,905,691 |
| Resident consultants | 591,501 | 8,470 | 1,456 | - | 601,427 | 1,125 | - | - | - | 602,552 |
| Total salaries and benefits | 5,105,674 | 13,915 | 711,550 | 102,434 | 5,933,573 | 1,317,918 | 795,464 | 1,215,038 | - | 9,261,993 |
| Other costs | | | | | | | | | | |
| Building operations | - | - | - | - | - | 2,980 | - | - | 1,880,549 | 1,883,529 |
| Occupancy | 348,222 | 957 | 48,574 | 166 | 397,919 | 87,728 | 53,347 | 79,959 | (618,953) | - |
| Research support | 1,666,008 | - | - | - | 1,666,008 | (1,666,008) | - | - | - | - |
| Communications | 1,219 | - | 5,086 | 10,540 | 16,845 | 10,025 | 3,320 | 3,466 | - | 33,656 |
| Computer services | 6,412 | - | 46,512 | 105 | 53,029 | 106,839 | 24,541 | 39,650 | - | 224,059 |
| Outside consultants | 199,479 | 10,000 | 152,825 | 78,855 | 441,159 | 6,255 | 60,809 | 11,271 | - | 519,494 |
| Conferences | 161,440 | 12,822 | 95,248 | 15,334 | 284,844 | 23,719 | 109,488 | 25,782 | - | 443,833 |
| Travel | 129,146 | 16,447 | 6,648 | 2,117 | 154,358 | 8,829 | 55,990 | 2,878 | - | 222,055 |
| Publication costs | 42,301 | - | 127,513 | 6,023 | 175,837 | 7,332 | 6,420 | 10,830 | - | 200,419 |
| Subawards | 400,129 | - | - | - | 400,129 | - | - | - | - | 400,129 |
| Professional service | 427,002 | - | 32,129 | - | 459,131 | - | - | 59,084 | - | 518,215 |
| Fellowship stipend | 36,983 | 41,625 | 13,974 | - | 92,582 | 10,865 | - | 5,530 | - | 108,977 |
| Grants | 25,090 | - | - | - | 25,090 | - | - | - | - | 25,090 |
| Dissertations | - | 88,500 | - | - | 88,500 | - | - | - | - | 88,500 |
| Depreciation | - | - | - | - | - | 61 | - | 138,383 | - | 138,444 |
| Other | 51,144 | 929 | 15,006 | 5,961 | 73,040 | 83,457 | 5,568 | 203,154 | - | 365,219 |
| Total other costs | 3,494,575 | 171,280 | 543,515 | 119,101 | 4,328,471 | (1,317,918) | 319,483 | 579,987 | 1,261,596 | 5,171,619 |
| Total RFF functional | 8,600,249 | 185,195 | 1,255,065 | 221,535 | 10,262,044 | - | 1,114,947 | 1,795,025 | 1,261,596 | 14,433,612 |
| Indirect costs | | | | | | | | | | |
| General support | 538,520 | 26,303 | 172,659 | 31,464 | 768,946 | - | 158,353 | (1,106,480) | 179,181 | - |
| Reimbursed | 672,755 | - | 5,595 | - | 678,350 | - | - | (678,350) | - | - |
| Pass-through | 10,195 | - | - | - | 10,195 | - | - | (10,195) | - | - |
| Total indirect costs | 1,221,470 | 26,303 | 178,254 | 31,464 | 1,457,491 | - | 158,353 | (1,795,025) | 179,181 | - |
| Total on full absorption basis | \$ 9,821,719 | \$ 211,498 | \$ 1,433,319 | \$ 252,999 | \$ 11,719,535 | \$ - | \$ 1,273,300 | \$ - | \$ 1,440,777 | \$ 14,433,612 |

The accompanying Notes to Financial Statements are an integral part of these financial statements.

Resources for the Future, Inc.

Statements of Cash Flows

| <i>Years Ended September 30,</i> | 2014 | 2013 |
|---|--------------------|--------------------|
| Cash flows from operating activities | | |
| Increase in net assets | \$ 4,700,856 | \$ 25,851,241 |
| Adjustments to reconcile increase in net assets to net cash used by operating activities | | |
| Depreciation | 443,645 | 437,141 |
| Net realized and unrealized gain on investments | (4,051,294) | (2,807,881) |
| Net realized and unrealized gain on assets held under charitable trust agreements | (27,261) | (58,821) |
| Realized gain from the sale of investment in RCC | - | (24,581,087) |
| Realized gain from the sale of investment in Land, LLC | (4,179,289) | - |
| Donated stock | - | (116,330) |
| (Increase) decrease in | | |
| Grants and contract revenue receivable | 215,922 | (804,987) |
| Contributions receivable | 239,931 | (535,216) |
| Other receivables | 188 | 76,361 |
| Other assets | (15,463) | (194,188) |
| Increase (decrease) in | | |
| Grants and awards payable | 9,733 | 35,250 |
| Accounts payable and accrued liabilities | 110,559 | (100,633) |
| Postretirement benefits | 82,806 | (5,882) |
| Deferred revenue | 78,516 | 218,747 |
| Liabilities under split-interest agreements | 48,438 | 55,828 |
| Funds held for others | 92,694 | 62,628 |
| Net cash used by operating activities | (2,250,019) | (2,467,829) |
| Cash flows from investing activities | | |
| Purchases of investments | (33,771,500) | (66,489,856) |
| Proceeds from sales of investments | 23,504,448 | 41,847,304 |
| Proceeds from the sale of investment in RCC | - | 29,291,000 |
| Proceeds from the sale of investment in Land, LLC | 13,087,478 | - |
| Disbursements from charitable trust agreements | (23,107) | (19,779) |
| Purchases of fixed assets | (131,647) | (1,262,093) |
| Net cash provided by investing activities | 2,665,672 | 3,366,576 |

The accompanying Notes to Financial Statements are an integral part of these financial statements.

Resources for the Future, Inc.

Statements of Cash Flows (Continued)

| <i>Years Ended September 30,</i> | 2014 | 2013 |
|---|-------------------|--------------------|
| Cash flows from financing activities | | |
| Payments on line of credit | - | (908,776) |
| Principal payments on tax-exempt bond financing | (260,000) | (250,000) |
| Net cash used by financing activities | (260,000) | (1,158,776) |
| Change in cash and cash equivalents | 155,653 | (260,029) |
| Cash and cash equivalents at beginning of year | 50,000 | 310,029 |
| Cash and cash equivalents at end of year | \$ 205,653 | \$ 50,000 |
| Supplemental information | | |
| Interest paid | \$ 116,764 | \$ 44,263 |

The accompanying Notes to Financial Statements are an integral part of these financial statements.

Resources for the Future, Inc.

Notes to Financial Statements

1. Organization and significant accounting policies

Resources for the Future, Inc. (RFF) is a nonprofit tax-exempt corporation headquartered in Washington, D.C. RFF was established in October 1952, with the cooperation of the Ford Foundation. RFF's mission is to improve environmental and natural resource policy making worldwide through social science research of the highest caliber.

Basis of presentation: Net assets and revenue, gains and losses are classified based upon the existence or absence of donor imposed restrictions. Accordingly, the net assets of RFF and changes therein are classified and reported as follows:

Unrestricted net assets - net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - net assets subject to donor-imposed stipulations that will be met either by RFF undertaking project activities and/or the passage of time.

Permanently restricted net assets - net assets subject to donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of RFF.

Basis of accounting: The financial statements are prepared on the accrual basis of accounting.

Cash and cash equivalents: RFF classifies all highly liquid investments, with original maturities of less than ninety days, as cash equivalents. RFF maintains cash balances which may exceed federally insured limits. RFF does not believe that this results in any significant credit risk.

Grants and contract revenue receivable: Grants and contracts receivable are recorded when the service is rendered or when expenses are incurred for federal programs. All accounts or portions thereof that are deemed to be uncollectible or that require an excessive collection cost are written off to the allowance for doubtful accounts. This balance is deemed fully collectible and therefore no allowance for doubtful accounts is deemed necessary as of September 30, 2014 and 2013.

Contributions receivable: Contributions receivable are recorded when pledged and amounts due after one year are discounted to present value at the risk adjusted rate determined at the time of the pledge. All accounts or portions thereof that are deemed to be uncollectible or that require an excessive cost are written off to the allowance for doubtful accounts. All balances are considered fully collectible and therefore no allowance for doubtful accounts is deemed necessary as of September 30, 2014 and 2013.

Resources for the Future, Inc.

Notes to Financial Statements

Investments: Investments in marketable securities are presented at fair value. Hedge funds are valued at the fair value of the underlying investments when actively traded on open markets. Fair values of alternative investments have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners. Because of the inherent uncertainty of valuation, the estimated values may differ significantly from the values that would have been used had a ready market for the securities existed, and the differences could be material.

All marketable securities are considered investments rather than cash equivalents, even though the maturities at the time of acquisition for certain of these securities were less than ninety days. Money market accounts are valued at cost, which approximates fair value.

Purchases and sales of investments are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Management classifies interest and dividend income as components of operating income, while realized and unrealized gains on investments are considered non-operating income.

RFF values investments in accordance with a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1. Observable inputs such as quoted prices in active markets for identical assets or liabilities;
- Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

A financial instrument's level within the fair value hierarchy is based on the lowest of any input that is significant to the fair value measurement.

The investment in Land, LLC was recorded under the equity method as of September 30, 2013. As described in Note 16, RFF sold its interest in Land, LLC during the year ended September 30, 2014.

Resources for the Future, Inc.

Notes to Financial Statements

Fixed assets: Fixed assets of \$500 or more are carried at cost and depreciated using the straight-line method over their estimated useful lives which are as follows:

| | |
|------------------------|------------|
| Furniture | 10 years |
| Equipment and software | 3-5 years |
| 1616 P Street building | 39.5 years |
| Tenant improvements | 10 years |

Tax-exempt bond financing: RFF obtained permanent financing on the 1616 P Street building through the issuance of tax-exempt bond financing in August 1998. The bond payable has a variable interest rate which averaged 2.21% and 0.65% for the years ended September 30, 2014 and 2013, respectively. See Note 12.

Split-interest agreements: RFF values the annuity obligations using actuarial estimates that approximate the present value of the obligations.

Revenue and expense recognition:

Revenue from program grants and contracts is recognized in amounts equal to total reimbursable direct and indirect costs. Unconditional contributions are recognized when the pledge is received.

Rental income is recognized straight-line over the period of the lease.

Expenses are recorded when incurred. Grants awarded by RFF are expensed at the time of approval by the Directors or the President.

Allocation of indirect costs: The costs of providing the various programs and other activities are presented on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

| <i>Allocated Expenses</i> | <i>Basis for Allocation</i> |
|-------------------------------|--------------------------------|
| Employee benefits | Total salaries |
| Occupancy | Total salaries and benefits |
| Research support | Research salaries and benefits |
| Management and administration | Total direct costs |

Resources for the Future, Inc.

Notes to Financial Statements

Income taxes: RFF is exempt from Federal income taxation as described in Internal Revenue Code Section 501(c)(3) and is classified as a publicly supported organization.

Uncertainties in income taxes: RFF evaluates uncertainty in income tax positions based on a more-likely-than-not recognition standard. If that threshold is met, the tax position is then measured at the largest amount that is greater than 50% likely of being realized upon ultimate settlement. As of September 30, 2014 and 2013, there are no accruals for uncertain tax positions. If applicable, RFF records interest and penalties as a component of income tax expense. Tax years from 2011 through the current year remain open for examination by tax authorities.

Accounting 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, liabilities and contingencies at the date of the statement of financial position, and revenue and expenses during the reporting period. Actual results could differ from these estimates.

Subsequent events: Management has evaluated subsequent events for disclosure in the financial statements through January 21, 2015, which is the date the financial statements were available to be issued.

New accounting standard adopted during 2014: In October 2012 the Financial Accounting Standards Board issued Accounting Standards Update 2012-05 (“ASU 2012-05”) Statement of Cash Flows (Topic 230): *Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*. ASU 2012-05 requires a not-for-profit entity to classify cash receipts from the sale of donated financial assets that upon receipt were converted nearly immediately into cash consistently with cash donations in the Statement of Cash Flows. Accordingly, cash receipts from the sale of donated securities with no donor-imposed restrictions should be included in the operating section of the Statement of Cash Flows, while cash receipts from the sale of donated securities with donor-imposed long-term restrictions should be classified as financing activities. Otherwise, receipts from the sale of donated financial assets should be classified as cash flows from investing activities. This ASU is effective prospectively for fiscal years beginning after June 15, 2013. Retrospective application and early application are permitted, but not required.

Resources for the Future, Inc.

Notes to Financial Statements

The Organization has elected to adopt ASU 2012-05 prospectively for the year ended September 30, 2014. The adoption resulted in an increase in net cash flows from operating activities of \$118,053 with a corresponding reduction to net cash flows from investing activities for the year ended December 31, 2014.

2. Investments

The following is a summary of the investment portfolio by security type as of September 30,

| | 2014 | 2013 |
|---|----------------------|----------------------|
| Operating fund | | |
| Money market accounts | \$ 6,020 | \$ 30,918 |
| Reserve fund | | |
| Money market accounts | 2,789,387 | 554,898 |
| Domestic equity emerging markets | 13,142,725 | 7,514,421 |
| International equity emerging markets | 8,434,158 | 7,337,645 |
| Global allocation funds | 6,523,714 | 5,328,529 |
| Fixed income – convertible securities funds | 7,703,783 | 9,179,374 |
| Commodities funds | 7,677,549 | 3,109,664 |
| Hedge funds | 10,105,803 | 7,732,635 |
| Long-short equity | - | 1,706,857 |
| Private placement | 35,611 | 50,327 |
| Equity exchange traded funds | 5,701,200 | 5,349,028 |
| Total reserve fund | 62,113,930 | 47,863,378 |
| Gift fund | | |
| Money market accounts | 3,478 | 987 |
| Mutual fund – domestic | 6,884 | 6,264 |
| Mutual fund – international | 228,563 | 138,982 |
| Total gift fund | 238,925 | 146,233 |
| Total investment portfolio | \$ 62,358,875 | \$ 48,040,529 |

Investment income for the years ended September 30 is as follows:

| | 2014 | 2013 |
|---|---------------------|---------------------|
| Operating | | |
| Interest and dividends | \$ 1,640,905 | \$ 1,869,898 |
| Investment and custodial fees | (373,428) | (302,555) |
| | 1,267,477 | 1,567,343 |
| Non-operating | | |
| Realized and unrealized gain on investment transactions | 4,051,294 | 2,807,881 |
| Total investment income | \$ 5,318,771 | \$ 4,375,224 |

Resources for the Future, Inc.

Notes to Financial Statements

3. Fair value The fair value of assets and liabilities as of September 30, 2014 is as follows:

| September 30, 2014 | Total | Fair Value Measurements Using | | |
|--|----------------------|--|---|--|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Investment portfolio: | | | | |
| Money market | \$ 2,798,885 | \$ 2,798,885 | \$ - | \$ - |
| Mutual fund – domestic | 6,884 | 6,884 | - | - |
| Mutual fund – international | 228,563 | 228,563 | - | - |
| Domestic equity emerging markets | 13,142,725 | 13,142,725 | - | - |
| International equity emerging markets | 8,434,158 | 8,434,158 | - | - |
| Global allocation funds | 6,523,714 | 6,523,714 | - | - |
| Fixed income funds | 7,703,783 | 7,703,783 | - | - |
| Commodities funds | 7,677,549 | 7,677,549 | - | - |
| Hedge funds | 10,105,803 | - | - | 10,105,803 |
| Private placement | 35,611 | - | - | 35,611 |
| Equity exchange traded funds | 5,701,200 | 5,701,200 | - | - |
| Total investment portfolio | 62,358,875 | 52,217,461 | - | 10,141,414 |
| Assets held under trust: | | | | |
| Money market | 5,813 | 5,813 | - | - |
| Mutual fund – domestic | 155,348 | 155,348 | - | - |
| Mutual fund – international | 51,929 | 51,929 | - | - |
| Mutual fund – fixed income | 96,876 | 96,876 | - | - |
| Mutual fund – global allocation | 67,231 | 67,231 | - | - |
| Total assets held under trust | 377,197 | 377,197 | - | - |
| Split interest obligation | (239,544) | - | - | (239,544) |
| Total fair value | \$ 62,496,528 | \$ 52,594,657 | \$ - | \$ 9,901,871 |

Resources for the Future, Inc.

Notes to Financial Statements

The fair value of assets and liabilities as of September 30, 2013 is as follows:

| | | Fair Value Measurements | | |
|--|---------------------|---|---|--|
| | | Using | | |
| September 30, 2013 | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Investment portfolio: | | | | |
| Money market | \$ 586,803 | \$ 586,803 | \$ - | \$ - |
| Mutual fund – domestic | 6,264 | 6,264 | - | - |
| Mutual fund – international | 138,982 | 138,982 | - | - |
| Domestic equity emerging markets | 7,514,421 | 7,514,421 | - | - |
| International equity emerging markets | 7,337,645 | 7,337,645 | - | - |
| Global allocation funds | 5,328,529 | 5,328,529 | - | - |
| Fixed income | 9,179,374 | 9,179,374 | - | - |
| Commodities | 3,109,664 | 3,109,664 | - | - |
| Hedge funds | 7,732,635 | - | - | 7,732,635 |
| Long-short equity | 1,706,857 | 1,706,857 | - | - |
| Private placement | 50,327 | - | - | 50,327 |
| Equity exchange traded funds | 5,349,028 | 5,349,028 | - | - |
| Total investment portfolio | 48,040,529 | 40,257,567 | - | 7,782,962 |
| Assets held under trust: | | | | |
| Money market | 200 | 200 | - | - |
| Mutual fund – domestic | 232,035 | 232,035 | - | - |
| Mutual fund – international | 108,268 | 108,268 | - | - |
| Mutual fund – fixed income | 32,543 | 32,543 | - | - |
| Total assets held under trust | 373,046 | 373,046 | - | - |
| Split interest obligation | (237,323) | - | - | (237,323) |
| Total fair value | \$48,176,252 | \$ 40,630,613 | \$ - | \$ 7,545,639 |

Resources for the Future, Inc.

Notes to Financial Statements

Level 3 values for split-interest obligations are developed utilizing actuarial calculations that approximate their present fair value.

Level 3 values for alternative investments were developed utilizing the net asset value (NAV) as reported by the finance committee. The committee receives a NAV from the underlying fund managers. The NAV is determined by the fund managers based on the fair value of the underlying investments on the most recent practicable date. Each share within a series has the same NAV. RFF's determination of fair value is based upon the best available information and may incorporate management assumptions and best estimates after considering a variety of internal and external factors. The values generally represent RFF's proportionate share of the funds' capital as reported by their general partners. Market value of underlying securities is determined by external managers based on a combination of discounted cash flow analysis, industry comparables, and outside appraisals. There have been no changes to the valuation technique for the years ended September 30, 2014 and 2013. The risk of any derivative exposure is limited to the amount invested with each manager.

RFF has decided through monitoring the valuation methodologies and practices of managers to rely on the fair values reported by the fund managers, unless information becomes available indicating the reported NAV may require adjustment. RFF assesses factors including, but not limited to, the external advisor's adherence to fair value principles in calculating the capital account balance, RFF's ability to redeem these investments at NAV at the measurement date, and the existence or absence of certain restrictions at the measurement date. RFF believes the reported amounts of its Level 3 investments are a reasonable estimate of fair value as of September 30, 2014 and 2013. Because of the inherent uncertainties of valuation, these estimated fair values may differ significantly from values that would have been used had a ready market existed.

The alternative investments held through hedge funds include long/short equities, convertible, merger/risk and fixed-income arbitrage, and distressed securities. There are no unfunded commitments related to RFF's alternative investments. RFF has no plans to sell its Level 3 investments for values other than the NAV as of September 30, 2014 and 2013.

RFF has invested in alternative investments for the purpose of diversifying investment risk. The significant Level 3 investments are comprised of the following:

Ironwood Partners – The fund manager's strategy is to build low volatility, multi-manager portfolios with underlying managers that employ market neutral or market uncorrelated investment strategies that offer risk adjusted returns. The portfolios include: convertible bond arbitrage, credit opportunities, purchase or short sale of distressed securities, event-driven investing, and other arbitrage-based strategies.

Resources for the Future, Inc.

Notes to Financial Statements

The NAV of the underlying investments is calculated based on monthly sub-fund reported values and is estimated to reflect the amount the fund might reasonably expect to receive for their interests were they to be redeemed at the time of valuation.

Redemptions of shares at NAV are allowed based upon 95 days written notice as of the twelfth month-end following the date of purchase and as of the last day of each six-month period thereafter and occur on a first-in first-out basis. Shareholders that redeem all of their shares will have 5% of the NAV withheld until completion of the fund's annual audit. Payment of redemption proceeds may be delayed if the fund directors determine the liquidation would be detrimental to the remaining shareholders. In such instances, the redemption shall accrue interest at a rate equal to the average 13-week U.S. Treasury bill rate on the date of redemption. In addition, directors may waive redemption lockup periods.

Pointer, LP– The fund is classified as a master/feeder fund with a strategy of investing in private companies as well as debt securities, physical commodities, other investment partnerships, and credit default swaps.

The NAV of the underlying investments is calculated semi-monthly based on capital reports from the underlying investment managers. Redemptions of shares at NAV are allowed annually with written notice before September 15th of the fiscal year after an initial twelve month holding period. Investment managers may waive lock-up periods at their discretion.

Golden Tree Asset Management, LP–The fund includes public and private non-investment grade and nonrated debt, convertible bonds, preferred stock, bank debt, trade claims, assignments, options, debentures, and commercial paper. Withdrawal terms allow all or a portion of the investor's capital account to be withdrawn semi-annually with 90 days written notice.

Skybridge Multi-Advisor Hedge Fund Portfolios LLC– The fund is a fund of hedge funds with a strategy of investing in third-party investment managers with leverage or short-side positions. The funds' portfolios include directional equity and macro fund investments, and event driven investments. The NAV is computed using the total of monthly income and expense divided by beginning of the month shares.

Resources for the Future, Inc.

Notes to Financial Statements

Redemptions of underlying investments are permitted in periods ranging from monthly to annual, however, 1% of the underlying funds are in gated, illiquid or currently on locked-up status. Shareholder redemptions must be repurchased by the fund and are subject to the current conditions of the fund. Shares must be tendered for repurchase using written notice quarterly with 45 days notice. A hold-back of 5% of the NAV may be applied with full payment expected within 90 days of the valuation date.

A reconciliation of beginning and ending balances of certain investments valued using significant unobservable inputs for the year ended September 30, 2014 is as follows:

| | Balance at September 30, 2013 | Total realized gains or losses | Total unrealized gains or losses | Purchases and issuances | Sales and settlements | Balance at September 30, 2014 |
|-----------------------|-------------------------------------|---|---|-------------------------------|--------------------------|-------------------------------------|
| Hedge funds | | | | | | |
| Ironwood | | | | | | |
| Partners | \$ 2,086,123 | \$ - | \$ 257,175 | \$1,000,000 | \$ - | \$ 3,343,298 |
| Pointer, LP | 2,547,758 | - | 340,873 | - | - | 2,888,631 |
| Shepherd | | | | | | |
| Investments | | | | | | |
| International | 110,428 | 16,914 | (15,626) | - | (16,914) | 94,802 |
| Silver Creek | | | | | | |
| Long/Short | | | | | | |
| International | 126,140 | - | 2,503 | - | (33,860) | 94,783 |
| Golden Tree | 1,325,982 | - | 101,710 | - | - | 1,427,692 |
| Skybridge | 1,536,204 | - | 153,047 | 567,347 | - | 2,256,598 |
| Private | | | | | | |
| placement | | | | | | |
| Hicks Muse | 50,327 | - | (14,716) | - | - | 35,611 |
| Total | | | | | | |
| alternative | \$ 7,782,962 | \$ 16,914 | \$ 824,966 | \$1,567,347 | \$ (50,774) | \$10,141,415 |
| Split interest | | | | | | |
| obligation | \$ (237,323) | \$ - | \$ (21,936) | \$ 19,715 | \$ - | \$ (239,544) |

Resources for the Future, Inc.

Notes to Financial Statements

A reconciliation of beginning and ending balances of certain investments using significant unobservable inputs for the year ended September 30, 2013 is as follows:

| | Balance at September 30, 2012 | Total realized gains or losses | Total unrealized gains or losses | Purchases and issuances | Sales and settlements | Balance at September 30, 2013 |
|----------------------------------|-------------------------------------|---|---|-------------------------------|--------------------------|-------------------------------------|
| Hedge funds | | | | | | |
| Ironwood | | | | | | |
| Partners | \$ 1,874,732 | \$ - | \$ - | \$ 211,391 | \$ - | \$ 2,086,123 |
| Pointer, LP | 2,294,294 | - | - | 253,464 | - | 2,547,758 |
| Shepherd | | | | | | |
| Investments | | | | | | |
| International | 122,940 | - | - | 5,142 | (17,654) | 110,428 |
| Silver Creek | | | | | | |
| Long/Short | | | | | | |
| International | 221,529 | (2,480) | - | - | (92,909) | 126,140 |
| Golden Tree | 1,218,119 | - | 107,863 | - | - | 1,325,982 |
| Skybridge | 852,933 | - | 113,271 | 570,050 | (50) | 1,536,204 |
| Private placement | | | | | | |
| Hicks Muse | 50,327 | - | - | - | - | 50,327 |
| Total | | | | | | |
| alternative | \$ 6,634,874 | \$ (2,480) | \$ 221,134 | \$ 1,040,047 | \$ (110,613) | \$ 7,782,962 |
| Split interest obligation | | | | | | |
| | \$ (221,052) | \$ - | \$ (58,255) | \$ 41,984 | \$ - | \$ (237,323) |

The amount of total unrealized gains for the period included in the change in net assets attributable to Level 3 assets still held at September 30, 2014 and 2013 was \$824,966 and \$221,134, respectively. The net increase in the split interest obligation was \$2,221 and \$16,271 for the years ending September 30, 2014 and 2013, respectively.

Resources for the Future, Inc.

Notes to Financial Statements

Gains and losses (realized and unrealized) on all investments included in changes in net assets for the years ended September 30, 2014 and 2013 are reported in investment income as follows:

| | Total investment income | |
|--|----------------------------|---------------------|
| | 2014 | 2013 |
| Total realized gain | \$ 499,905 | \$ 269,502 |
| Change in unrealized gain relating to assets still held at September 30, | 3,551,389 | 2,538,379 |
| Subtotal | 4,051,294 | 2,807,881 |
| Change in unrealized gain relating to assets held under trust at September 30 | 27,261 | 58,821 |
| Total realized and unrealized gain | \$ 4,078,555 | \$ 2,866,702 |

4. Risks and uncertainties

RFF holds investments in various securities and alternative investments that are exposed to risks, such as interest rate, credit, and overall volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in future statements of net assets available for benefits.

5. Partnership interest held as investment

At September 30, 2013, RFF held a 50% interest in Land, LLC, which owned the land located at 1400 16th Street, NW, Washington D.C. The land was leased to Resources and Conservation Center, LLP (RCC) under a 100-year ground lease that took effect in 1984. RCC's payment under the ground lease was \$93,171 per month. RFF's portion of Land, LLC's income totaled \$186,342 and \$553,512 for the years ended September 30, 2014 and 2013, respectively, which was included in rental income on the Statement of Activities and Changes in Net Assets. Rental income was recognized ratably over the term of the lease. As described in Note 16, the interest was sold in January 2014 for \$13.1 million, resulting in a realized gain of \$4,179,289.

Resources for the Future, Inc.

Notes to Financial Statements

- 6. Contributions receivable** At September 30, 2014 and 2013, RFF had unconditional contributions receivable that included amounts due in:

| | 2014 | 2013 |
|---|---------------------|---------------------|
| Less than one year | \$ 1,526,222 | \$ 1,664,517 |
| One to five years | - | 130,000 |
| Fifteen to twenty years | 1,000,000 | 1,000,000 |
| Contributions receivable before discount | 2,526,222 | 2,794,517 |
| Present value discount | (514,146) | (542,510) |
| Contributions receivable | \$ 2,012,076 | \$ 2,252,007 |

The receivables due in one year or more have been discounted to their present value using a risk adjusted rate of 6.20% determined at the time of pledge. Changes in the present value discount are recorded as contribution revenue and are included in general support and contributions on the accompanying Statements of Activities and Changes in Net Assets.

- 7. Fixed assets** Fixed assets consisted of the following as of September 30,

| | 2014 | 2013 |
|--------------------------|---------------------|---------------------|
| Building - 1616 P Street | \$ 8,765,771 | \$ 8,708,728 |
| Building improvements | 1,475,461 | 1,475,461 |
| Furniture and equipment | 1,635,119 | 1,560,515 |
| Fixed assets | 11,876,351 | 11,744,704 |
| Accumulated depreciation | (5,344,208) | (4,900,563) |
| Fixed assets, net | \$ 6,532,143 | \$ 6,844,141 |

Depreciation expense is included on the accompanying Statements of Functional Expense as follows for the years ending September 30,

| | 2014 | 2013 |
|---|-------------------|-------------------|
| Building and related improvement depreciation included in occupancy expense | \$ 238,988 | \$ 241,154 |
| Computer and telephone system depreciation included in research expense | 63,421 | 57,543 |
| Furniture and equipment depreciation | 141,236 | 138,444 |
| Total depreciation expense | \$ 443,645 | \$ 437,141 |

Resources for the Future, Inc.

Notes to Financial Statements

8. Retirement plan RFF employees are eligible for participation in RFF's retirement program, which is invested in individual retirement contracts at TIAA-CREF, insurance companies, Merrill Lynch or Morgan Stanley Smith Barney. Individual contracts issued under the plan provide for full and immediate vesting of both RFF's and the participants' contributions. RFF's contributions amounted to \$833,874 and \$823,918 for the years ended September 30, 2014 and 2013, respectively.

9. Postretirement benefits other than pensions Employees who retire under RFF's retirement plan with a minimum of five years of service are covered by RFF's medical plan at one year for every two completed years of service. RFF's post-retirement benefit obligations under this plan as of September 30, 2014 and 2013 were estimated to be \$599,614 and \$516,808, respectively, and these amounts are included in the accompanying Statements of Financial Position. There are no separate plan assets associated with these liabilities. The plan expenses for the years ended September 30, 2014 and 2013 were as follows:

| | 2014 | 2013 |
|--------------------------|-------------------|------------------|
| Service costs | \$ 84,440 | \$ 7,105 |
| Projected interest cost | 20,569 | 23,051 |
| Net periodic cost | \$ 105,009 | \$ 30,156 |

Actual payments made under the plan were \$22,204 and \$21,827 for the years ended September 30, 2014 and 2013, respectively.

Benefits expected to be paid in each of the next five years are approximately as follows:

| Year Ending September 30, | Amount |
|------------------------------|-----------|
| 2015 | \$ 51,005 |
| 2016 | 48,424 |
| 2017 | 46,827 |
| 2018 | 52,551 |
| 2019 | 49,891 |

Resources for the Future, Inc.

Notes to Financial Statements

10. Split interest agreements

RFF enters into split interest arrangements whereby donations are held in trust by RFF and invested. A percentage of the original funds, at a rate determined at the inception of the trust, is payable to the donor for a specified period of time or until the donor's death, after which time RFF may use the investments for operations or a restricted use specified by the donor. RFF is the trustee of two charitable remainder unitrusts (CRT's) where they have the charitable remainder interest. RFF utilizes an IRS-approved annuity table to actuarially calculate the liability associated with the estimated donor payments under these arrangements. RFF determined the discount rate to be used in the month the split interest arrangements were entered into with the donor and these rates have ranged from 5.4% to 6.5%. The present value of the actuarially determined liability resulting from these gifts was recorded at the date of the gift and adjusted annually thereafter. The combined trust assets as of September 30, 2014 and 2013 are as follows:

| | 2014 | 2013 |
|--|-------------------|-------------------|
| Money market accounts | \$ 5,813 | \$ 200 |
| Mutual fund – domestic | 155,348 | 232,035 |
| Mutual fund – international | 51,929 | 108,268 |
| Mutual fund – fixed income | 96,876 | 32,543 |
| Mutual fund – global allocation | 67,231 | - |
| Assets held under charitable trust agreements | \$ 377,197 | \$ 373,046 |

The trust assets are Level 1 investments (see Note 3). The estimated present value of liabilities under the CRT are reflected as liabilities under split-interest agreements in the accompanying Statements of Financial Position.

11. Line of credit

During 2010, RFF entered into a revolving line of credit agreement. This line has no maturity date and no formal repayment terms. Amounts available are based on the margin release of investments held (between 30-50%) and bear interest at the London Interbank Offering Rate plus a client spread (totaling 3.15% and 3.18% at September 30, 2014 and 2013, respectively). At September 30, 2014 and 2013, \$1,000,000 was available. The line is collateralized by a portion of RFF's investment portfolio which totaled \$5,531,055 and \$2,132,109 as of September 30, 2014 and 2013 respectively. No amounts were outstanding on the line of credit at September 30, 2014 or 2013.

Resources for the Future, Inc.

Notes to Financial Statements

12. Tax exempt bond financing

RFF obtained permanent financing on the 1616 P Street building through the issuance of District of Columbia Variable Rate Revenue Bonds, Series 1998. These bonds mature, subject to prior redemption, on August 1, 2029. The interest rate on these bonds is determined weekly by a remarketing agent. The average interest rate for the years ended September 30, 2014 and 2013 was 2.21% and 0.65%, respectively. For the years ended September 30, 2014 and 2013, interest expense relating to the tax-exempt financing was \$116,764 and \$36,139, respectively, which is included as part of Building Operations and Maintenance expenses in the accompanying Statements of Functional Expenses. The principal redemptions required on these bonds for the next five years, and thereafter are as follows:

| Year Ending September 30, | Amount |
|------------------------------|---------------------|
| 2015 | \$ 270,000 |
| 2016 | 285,000 |
| 2017 | 295,000 |
| 2018 | 310,000 |
| 2019 | 325,000 |
| Thereafter | 3,675,000 |
| Total | \$ 5,160,000 |

To support the bonds, RFF has an Irrevocable Letter of Credit from Citibank in the amount of \$7,405,600. This letter of credit is evergreen as it automatically renews every year. It is secured by a first priority security interest in the building and fixtures, located at 1616 P Street, N.W., Washington, D.C. and the assignment of all leases.

Resources for the Future, Inc.

Notes to Financial Statements

13. Temporarily restricted net assets

Temporarily restricted net assets are restricted for the following program areas as of September 30, 2014 and 2013:

| | 2014 | | | |
|--|---|---------------------------------------|--|---|
| | Temporarily Restricted Funds as of September 30, 2013 | Contributions and Gain on Investments | Satisfaction of Temporary Restrictions | Temporarily Restricted Funds as of September 30, 2014 |
| Center for Forest Economics & Policy | \$ 11,578 | \$ 55,000 | \$ 60,644 | \$ 5,934 |
| Center for Climate & Electricity Policy | 1,087,961 | 1,129,450 | 1,281,221 | 936,190 |
| Center for Energy Economics & Policy | 800,287 | 161,137 | 517,990 | 443,434 |
| Center for the Management of Ecological Wealth | 76,178 | 496,808 | 481,909 | 91,077 |
| Other Research Programs | 1,607,031 | 701,147 | 905,507 | 1,402,671 |
| Total | \$ 3,583,035 | \$ 2,543,542 | \$ 3,247,271 | \$ 2,879,306 |

| | 2013 | | | |
|--|---|---------------------------------------|--|---|
| | Temporarily Restricted Funds as of September 30, 2012 | Contributions and Gain on Investments | Satisfaction of Temporary Restrictions | Temporarily Restricted Funds as of September 30, 2013 |
| Center for Forest Economics & Policy | \$ 1,243 | \$ 53,000 | \$ 42,665 | \$ 11,578 |
| Center for Climate & Electricity Policy | 1,053,772 | 1,289,780 | 1,255,591 | 1,087,961 |
| Health Program | 196,247 | 95,774 | 292,021 | - |
| Center for Energy Economics & Policy | 800,616 | 1,177,865 | 1,178,194 | 800,287 |
| Center for the Management of Ecological Wealth | 570,033 | 31,753 | 525,608 | 76,178 |
| Other Research Programs | 233,841 | 1,974,780 | 601,590 | 1,607,031 |
| Total | \$ 2,855,752 | \$ 4,622,952 | \$ 3,895,669 | \$ 3,583,035 |

Resources for the Future, Inc.

Notes to Financial Statements

14. Permanently restricted net assets

Permanently restricted net assets are held in perpetuity. The income is used to fund certain chairs, which as of September 30, 2014 and 2013 are as follows:

| | 2014 | 2013 |
|-----------------|---------------------|---------------------|
| Gaskins chair | \$ 2,000,000 | \$ 2,000,000 |
| Starr chair | 2,004,047 | 2,004,047 |
| Klutznick chair | 1,422,710 | 1,422,710 |
| Krutilla chair | 139,650 | 139,650 |
| Landsberg chair | 31,135 | 31,135 |
| Kneese chair | 325,365 | 325,365 |
| Forestry chair | 561,000 | 390,000 |
| Total | \$ 6,483,907 | \$ 6,312,907 |

RFF's endowment consists of permanently restricted contributions established for a variety of purposes. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of the Relevant Law

RFF's management has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary and as allowing RFF to appropriate funds for expenditure as RFF determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established, subject to the intent of the donor. As a result of this interpretation, RFF classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

In accordance with UPMIFA, RFF considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the organization and donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and appreciation of investments
6. Other resources of the organization
7. The investment policies of the organization

Resources for the Future, Inc.

Notes to Financial Statements

The change in endowment net assets for the year ended September 30, 2014 follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|--------------|---------------------------|---------------------------|---------------------|
| Endowment net assets at September 30, 2013 | \$ - | \$ 222,720 | \$ 6,312,907 | \$ 6,535,627 |
| Contributions | - | - | 171,000 | 171,000 |
| Expenditures | - | (266,471) | - | (266,471) |
| Investment gain | - | 552,746 | - | 552,746 |
| Endowment net assets at September 30, 2014 | \$ - | \$ 508,995 | \$ 6,483,907 | \$ 6,992,902 |

The change in endowment net assets for the year ended September 30, 2013 follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|--------------|---------------------------|---------------------------|--------------|
| Endowment net assets at September 30, 2012 | \$ - | \$ 71,553 | \$ 5,922,907 | \$ 5,994,460 |
| Contributions | - | - | 390,000 | 390,000 |
| Expenditures | - | (225,010) | - | (225,010) |
| Investment gain | - | 376,177 | - | 376,177 |
| Endowment net assets at September 30, 2013 | \$ - | \$ 222,720 | \$ 6,312,907 | \$ 6,535,627 |

The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA as of September 30, 2014 and 2013 is \$6,483,907 and \$6,312,907, respectively.

Underwater Endowment Funds - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial gift amounts (underwater). When underwater endowment funds exist, they are classified as a reduction of unrestricted net assets.

Resources for the Future, Inc.

Notes to Financial Statements

Return Objectives and Risk Parameters - RFF has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to preserve the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period and board designated funds. RFF's investment policy aims to return an amount equal to 5% plus inflation to maintain the real value of the fund.

Strategies Employed for Achieving Objectives - The Investment Committee evaluates, selects and monitors one or more investment managers to directly manage RFF's investment portfolio of assets within general guidelines provided.

Spending Policy and How the Investment Objectives Relate to Spending Policy - RFF's spending policy is 5% of the average market value of the funds over the past two and one half years.

15. Operating leases

RFF owns the office building at 1616 P Street, NW, in Washington, D.C. RFF occupies almost 40% of the building and leases the balance of the office space to other like-purpose 501(c)(3) organizations. These operating leases expire in various years through 2019.

Future minimum payments receivable as of September 30, 2014 are listed below:

| Year ending September 30, | Amount |
|---------------------------|---------------------|
| 2015 | \$ 1,576,805 |
| 2016 | 1,036,146 |
| 2017 | 860,776 |
| 2018 | 423,298 |
| 2019 | 201,058 |
| Total | \$ 4,098,083 |

Total lease revenue for the year for the 1616 P Street office building was \$1,607,928 and \$1,474,965 for the years ended September 30, 2014 and 2013, respectively.

The land at 1616 P Street is owned by an unrelated party. RFF is currently leasing the land under a 99-year lease at a rate of \$242,000 per year. The lease commenced January 1, 1986 and has a remaining term of 71 years. The future minimum lease payments are as follows as of September 30, 2014:

Resources for the Future, Inc.

Notes to Financial Statements

| Year ending September 30, | Amount |
|---------------------------|------------|
| 2015 | \$ 242,000 |
| 2016 | 242,000 |
| 2017 | 242,000 |
| 2018 | 242,000 |
| 2019 | 242,000 |
| Thereafter | 15,972,000 |

| | |
|-------|---------------|
| Total | \$ 17,182,000 |
|-------|---------------|

Total rent expense was \$242,004 for each of the years ending September 30, 2014 and 2013. During the year ended September 30, 2013, RFF sold its interest in Resources and Conservation Center, LLP (RCC) (see Note 16) and transferred the leases related to RCC for the building at 1400 16th Street to the purchaser.

16. Related party transactions

RFF owned a non-controlling 50% interest in RCC which owns and operates the building at 1400 16th Street. On October 17, 2012, the owner of the other 50% interest in RCC, CTIA – The Wireless Association (CTIA), purchased RFF's interest in RCC for \$29,291,000. The sale of RFF's 50% interest in RCC resulted in a realized gain of \$24,581,087 which was included as realized gain on sale of investment on the accompanying 2013 Statement of Activities and Changes in Net Assets. RFF has no continuing obligations related to RCC.

At the time of the sale of RCC, CTIA also paid \$100,000 for a nonrefundable option to purchase RFF's 50% ownership of Land, LLC which owns the land at 1400 16th Street for \$13.1 million, a mutually agreed upon value based on market analysis. CTIA exercised the option, purchasing RFF's interest in Land, LLC on January 23, 2014. The sale of RFF's 50% interest in Land, LLC resulted in a gain of \$4,179,289 which was included as realized gain on sale of investment on the accompanying 2014 Statement of Activities and Changes in Net Assets. RFF has no continuing obligations related to Land, LLC.

Ground rental income earned before the sale of RFF's interest in Land, LLC was \$186,342 and \$553,512 for the years ended September 30, 2014 and 2013, respectively.



Independent Auditor's Report on Supplementary Information

Board of Directors
Resources for the Future, Inc.
Washington, D.C.

We have audited the financial statements of **Resources for the Future, Inc.** as of and for the years ended September 30, 2014 and 2013, and our report thereon dated January 21, 2015, which expressed an unmodified opinion on those financial statements, appears on pages 1 - 2. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Dissertation Awards and Schedule of Determination of Cost Recovery Rates are presented for purposes of additional analysis and are 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.

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Rockville, Maryland
January 21, 2015

Resources for the Future, Inc.

Schedule of Dissertation Awards

| <i>Year Ended September 30, 2014</i> | Balance at October 1, 2013 | Grants Awarded | Payments Made | Balance at September 30, 2014 |
|---|----------------------------------|-------------------|--------------------|-------------------------------------|
| Dissertation awards program | | | | |
| Derek Lemoine "Estimating the Agglomeration Externalities of Wind Power Development in China: A Structural Approach" | \$ 5,500 | \$ - | \$ (5,500) | \$ - |
| Daniel Shawhan "The Impact of Futures Trading on the Price of Oil" | 35,250 | - | (23,500) | 11,750 |
| James Salzman "A Study Examining the Development of Payments for Ecosystem Services" | - | 13,000 | (1,625) | 11,375 |
| Francisco Aguilar "Market Perspectives for the Introduction of Transgenic Crops to Costa Rica" | - | 50,000 | (16,667) | 33,333 |
| Cornell University / Adrian Lopes "Quantifying the General Equilibrium Welfare Gains of Improvements in Health and Longevity" | 1,500 | - | (1,500) | - |
| Lala Ma "China's Collective Forest Tenure Reform: Drivers, Outcomes and Follow-up Policies" | 13,500 | - | (13,500) | - |
| Erica Myers "Market and Non-market Valuation Pertaining To the Costs and Benefits of Environmental Policy" | 1,500 | - | (1,500) | - |
| Ashwin Rode "Fiscal Effects of Environmental Taxation at the US State Level" | 9,000 | - | (9,000) | - |
| Sweeney, Richard "The Incidence of U.S. Climate Policy" | 1,500 | - | (1,500) | - |
| Stephanie Fried / UNI of California "Climate Change and the Macroeconomy" | - | 18,000 | (4,500) | 13,500 |
| Evan Herrnstadt "Weather, Climate Change Salience, and Congressional Voting" | - | 8,700 | (2,175) | 6,525 |
| Eric Lewis / Bates College "Patchwork Mineral Ownership and the Search for Oil and Gas" | - | 2,000 | (1,000) | 1,000 |
| | \$ 67,750 | \$ 91,700 | \$ (81,967) | \$ 77,483 |

Refer to accompanying Independent Auditor's Report on Supplementary Information.

Resources for the Future, Inc.

Schedule of Determination of Cost Recovery Rates

Year Ended September 30, 2014

| | |
|--|----------------------|
| Management and administration rate | |
| Management and administration costs | \$ 1,833,008 |
| Determination of direct cost base | |
| Total program costs plus building operations before allocation | \$ 10,752,661 |
| Plus fundraising costs before allocation | 1,088,990 |
| Total direct cost base | \$ 11,841,651 |
| Management and administration rate | 15.48% |
| Regular fringe benefits rate | |
| Regular benefits | \$ 1,808,683 |
| Regular salaries | \$ 6,218,451 |
| Regular fringe benefits rate | 29.09% |
| Research assistant fringe benefits rate | |
| Research assistant benefits | \$ 107,199 |
| Research assistant salaries | \$ 595,954 |
| Research assistant fringe benefits rate | 17.99% |
| Research support rate | |
| Research support expenses | \$ 1,546,904 |
| Research salaries and benefits | \$ 3,244,596 |
| Research support rate | 47.68% |
| Program research support rate | |
| Program research support expenses | \$ 84,513 |
| Program research salaries and benefits | \$ 422,566 |
| Program research support rate | 20.00% |
| Occupancy rate | |
| Occupancy expense | \$ 606,905 |
| Salaries and benefits | \$ 9,032,961 |
| Occupancy rate | 6.72% |

Refer to accompanying Independent Auditor's Report on Supplementary Information.