PENINSULA OPEN SPACE TRUST

Financial Statements
June 30, 2011 and 2010

Together with
Independent Auditors' Report

PENINSULA OPEN SPACE TRUST

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June 30, 2011

Robert Lee & Associates, LLP

<u>INDEPENDENT AUDITORS' REPORT</u>

To the Board of Directors of
Peninsula Open Space Trust

We have audited the accompanying statements of financial position of Peninsula Open Space Trust (the "Organization"), a California public benefit corporation, as of June 30, 2011 and 2010, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2011 and 2010, and the results of its activities and changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Robert Lee + Associates, LLP

San Jose, California
October 21, 2011

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PENINSULA OPEN SPACE TRUST

Statement of Financial Position

ASSETS

	June 30, 2011	June 30, 2010
Current assets:		
Cash and cash equivalents	$ 304,716	$ 140,500
Cash held on behalf of public agencies	582,024	570,734
Accounts receivable	164,598	800,330
Pledges, grants and bequests receivable, net	1,040,448	1,686,902
Notes receivable	13,622,500	13,622,500
Interest receivable	8,079,499	6,799,572
Residual interest in charitable remainder trusts	68,888	103,696
Prepaids and other assets	83,750	132,095
Investments	114,105,981	96,015,428
Investments held in charitable remainder trusts	5,669,870	4,257,635
Property held-for-sale	235,000	412,000
Land held-for-conservation	96,591,866	101,609,979
Property and equipment, net	5,619,216	5,672,098
Total assets	$ 246,168,356	$ 231,823,469

LIABILITIES AND NET ASSETS

	June 30, 2011	June 30, 2010
Liabilities:		
Accounts payable and other liabilities	$ 544,738	$ 510,744
Stewardship fund liabilities	1,174,781	-
Asset retirement obligations	1,482,696	905,892
Funds held in agency trust funds	582,024	570,734
Liabilities under remainder trusts	3,169,908	2,505,149
Total liabilities	6,954,147	4,492,519
Commitments		
Net assets:		
Unrestricted	12,697,431	216,753,991
Board designated	220,039,420	4,498,939
Total unrestricted net assets	232,736,851	221,252,930
Temporarily restricted	5,841,828	5,502,520
Permanently restricted	635,530	575,500
Total net assets	239,214,209	227,330,950
Total liabilities and net assets	$ 246,168,356	$ 231,823,469

The accompanying notes are an integral part of these financial statements

PENINSULA OPEN SPACE TRUST

Statement of Activities and Changes in Net Assets

For the Year Ended June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, support and gains:				
Contributions and grants	$ 3,832,867	$ 3,021,933	$ 60,030	$ 6,914,830
Contributions of land and easements	200,000	-	-	200,000
Interest and dividends	4,036,412	305,789	-	4,342,201
Realized and unrealized gains on investments, net	10,535,131	260,099	-	10,795,230
Rental and other income	402,696	-	-	402,696
Net assets released from restrictions	3,248,513	(3,248,513)	-	-
Total revenue, support and gains	22,255,619	339,308	60,030	22,654,957
Operating expenses:				
Program services	8,506,833	-	-	8,506,833
Fundraising	1,660,704	-	-	1,660,704
Management and support services	604,161	-	-	604,161
Total operating expenses	10,771,698	-	-	10,771,698
Change in net assets	11,483,921	339,308	60,030	11,883,259
Net assets, beginning of year	221,252,930	5,502,520	575,500	227,330,950
Net assets, end of year	$ 232,736,851	$ 5,841,828	$ 635,530	$ 239,214,209

The accompanying notes are an integral part of these financial statements

PENINSULA OPEN SPACE TRUST

Statement of Activities and Changes in Net Assets (continued)

For the Year Ended June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, support and gains (losses):				
Contributions and grants	$ 2,974,692	$ 1,115,365	$ 25,000	$ 4,115,057
Interest and dividends	3,345,623	147,731	-	3,493,354
Realized and unrealized losses on investments, net	5,500,161	528,100	-	6,028,261
Rental and other income	506,073	-	-	506,073
Net assets released from restrictions	1,880,321	(1,880,321)	-	-
Total revenue, support and gains (losses)	14,206,870	(89,125)	25,000	14,142,745
Operating expenses:				
Program services	5,141,581	-	-	5,141,581
Fundraising	1,721,862	-	-	1,721,862
Management and support services	577,863	-	-	577,863
Total operating expenses	7,441,306	-	-	7,441,306
Change in net assets	6,765,564	(89,125)	25,000	6,701,439
Net assets, beginning of year	214,487,366	5,591,645	550,500	220,629,511
Net assets, end of year	$ 221,252,930	$ 5,502,520	$ 575,500	$ 227,330,950

The accompanying notes are an integral part of these financial statements

PENINSULA OPEN SPACE TRUST

Statement of Functional Expenses

	For the Year Ended June 30, 2011			
	Program Services	Fundraising	Management and Support Services	Total
Land and easement transactions	$ 4,422,981	$ -	$ -	$ 4,422,981
Salaries and benefits	1,471,218	1,015,881	493,811	2,980,910
Professional services	1,835,012	361,910	56,773	2,253,695
Other operating	295,261	171,908	48,579	515,748
Grants and contributions	300,000	-	-	300,000
Printing and postage	47,182	111,005	4,381	162,568
Property taxes	124,041	-	617	124,658
Rent	11,138	-	-	11,138
Total expenses	$ 8,506,833	$ 1,660,704	$ 604,161	$ 10,771,698

	For the Year Ended June 30, 2010			
	Program Services	Fundraising	Management and Support Services	Total
Land and easement transactions	$ 1,705,365	$ -	$ -	$ 1,705,365
Salaries and benefits	1,052,232	1,112,385	334,901	2,499,518
Professional services	665,369	332,004	74,895	1,072,268
Loss on loan for conservation	674,200	-	-	674,200
Other operating	385,822	202,766	53,683	642,271
Grants and contributions	475,000	-	-	475,000
Printing and postage	48,034	74,707	31,837	154,578
Property taxes	127,082	-	1,182	128,264
Interest expense	-	-	81,365	81,365
Rent	8,477	-	-	8,477
Total expenses	$ 5,141,581	$ 1,721,862	$ 577,863	$ 7,441,306

The accompanying notes are an integral part of these financial statements

PENINSULA OPEN SPACE TRUST

Statement of Cash Flows

	For the Year Ended June 30, 2011	2010
Cash flows from operating activities:		
Change in net assets	$ 11,883,259	$ 6,701,439
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation expense	120,350	115,528
Accretion related to asset retirement obligation	51,086	51,104
In-kind land grants	3,300,794	1,520,000
Property received related to note receivable default	-	(2,375,000)
Default of note receivable	-	3,049,225
Unrealized investment gains	(10,743,920)	(11,533,366)
Interest income related to note receivable	(1,279,927)	(1,480,716)
Donation of land held for sale	-	(412,000)
Decrease in value of land held for sale	177,000	-
Increase in cash held on behalf of public agencies	(11,290)	(30)
In-kind contributions received - securities	(588,521)	(742,666)
Amortization of note receivable discount	-	(37,289)
Amortization of note payable discount	-	81,365
Changes in operating assets and liabilities:		
Accounts receivable	635,732	135,083
Pledges, grants and bequests receivable, net	646,454	1,478,306
Residual interest in charitable remainder trusts	34,808	8,455
Prepaids and other assets	48,345	111,820
Proceeds from sale of land	6,887,147	28,917,353
Acquisition of land	(4,644,110)	(270,000)
Accounts payable and other liabilities	33,994	(107,228)
Stewardship fund liabilities	1,174,781	-
Funds held in agency trust funds	11,290	30
Liabilities under remainder trusts	664,759	151,416
Net cash provided by operating activities	$ 8,402,031	$ 25,362,829

The accompanying notes are an integral part of these financial statements

PENINSULA OPEN SPACE TRUST

Statement of Cash Flows (Continued)

	For the Year Ended June 30, 2011	2010
Investing activities:		
Issuance of notes receivable, net	$ -	$ (1,000,000)
Repayment of note receivable	-	50,775
Proceeds from sale of investments	79,037,614	71,277,439
Acquisition of investments	(86,566,465)	(94,126,959)
Proceeds from sale of investments held in charitable remainder trusts	1,669,223	1,289,553
Acquisition of investments held in charitable remainder trusts	(2,310,719)	(1,193,029)
Acquisition of property and equipment	(67,468)	(7,296)
Net cash used by investing activities	(8,237,815)	(23,709,517)
Financing activities:		
Repayment of notes payable	-	(4,500,225)
Net cash used by investing activities	-	(4,500,225)
Increase in cash and cash equivalents	164,216	(2,846,913)
Cash and cash equivalents, beginning of year	140,500	2,987,413
Cash and cash equivalents, end of year	$ 304,716	$ 140,500

Supplemental disclosure of cash flow information:

Cash paid during the year for interest	$ -	$ 81,365

Supplemental disclosure of non-cash investing and financing information:

Capitalization of asset retirement obligation related to acquisition of property held-for-conservation	$ 554,305	$ 31,129
In-kind contributions	$ 349,361	$ 46,253

The accompanying notes are an integral part of these financial statements

<u>PENINSULA OPEN SPACE TRUST</u>

Notes to Financial Statements

June 30, 2011

<u>Note 1 - Organization</u>:

Peninsula Open Space Trust (the "Organization") was incorporated in California as a not-for-profit corporation in 1977. The purpose of the Organization is to preserve lands in San Mateo, Santa Clara and Santa Cruz Counties for open space use of all types, including agriculture, forestry, recreation, wildlife, natural resources and scenic preservation. This purpose is accomplished through gifts and purchases of land, placement of deed restrictions on land, acquisition of land for resale or gift to public agencies, and cooperation of private land owners.

The Organization has been classified as a publicly supported, tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, and is exempt from California franchise taxes under Revenue and Taxation Code Section 23701(d). The Organization's support and revenues are primarily from contributions and investment returns.

<u>Note 2 - Summary of significant accounting policies</u>:

<u>Basis of accounting</u> - The financial statements have been prepared on the accrual basis of accounting which recognizes revenue and support when earned and expenses when incurred and accordingly reflect all significant receivables, payables, and other liabilities.

<u>Basis of presentation</u> - The Organization presents its financial statements in accordance with Generally Accepted Accounting Principles in the United States of America ("GAAP"), which requires the Organization to report information regarding its financial position and activities according to three classes of net assets:

- *Unrestricted net assets* consist of net assets for which there are no donor-imposed restrictions or such donor-imposed restrictions were temporary and expired during the current or previous years. Unrestricted net assets include those expendable resources that have been designated for special use by the Board of Directors.
- *Temporarily restricted net assets* represent contributions whose use is restricted by the donor, often based on time or purpose. Generally, these assets will be expended over a period of time and are not available for immediate use.
- *Permanently restricted assets* are those whose use is restricted to a specific use in perpetuity. By donor stipulation, earnings from permanently restricted net assets may be used each year for land stewardship purposes. The principal is to be maintained intact in perpetuity.

<u>Use of estimates</u> - 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates included in these financial statements relate primarily to the valuation of land and conservation easements acquired by or donated to the Organization and the future asset retirement obligations.

Note 2 - Summary of significant accounting policies (continued):

Revenue recognition - The Organization recognizes contributions received including unconditional pledges receivable and promises to give as revenue at their fair value in the period the contribution or pledge is received. Contributed support that is restricted by the donor is reported as an increase in restricted net assets and released from restrictions if the restriction expires in the reporting period in which the support is recognized. When such restrictions expire, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restriction. All other contributed support is recognized as unrestricted revenue when received or un-conditionally promised.

Contributions that are expected to be collected in future years are recorded at the net present value using an appropriate discount rate commensurate with the risks involved. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met. The Organization did not have any conditional promises to give during the years ended June 30, 2011 and 2010.

In-kind contributions - Significant donated property and equipment are recorded at estimated fair value at the time of receipt. Donated stock is recorded at fair value on the date the stock is received. In-kind contributions of securities totaled $588,521 and $742,666 for the years ended June 30, 2011 and 2010. Contributed services, which require a specialized skill and which the Organization would have paid for if not contributed, have been recorded at their estimated fair market value as appropriate. Contributions-in-kind of approximately $349,000 and $46,000 for in-kind legal and professional services and donated goods for program services were recognized for the years ended June 30, 2011 and 2010, respectively. These amounts have been recorded as both revenue and expenses in the Statement of Activities. Numerous other volunteers donate significant amounts of their time to the Organization’s fundraising and other activities. No amounts have been recorded for these donated services since they do not meet the criteria noted above.

Functional expense allocations - The costs of providing the various program and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Cash and cash equivalents - For purposes of reporting cash flows, the Organization considers all highly liquid investments with a maturity of 90 days or less at the date of purchase to be cash equivalents. Cash balances held in managed investment accounts are excluded from cash and cash equivalents.

Note 2 - Summary of significant accounting policies (continued):

Funds held on behalf of public agencies - From time to time, the Organization enters into agreements with government agencies whereby the Organization holds funds in a fiduciary capacity that can be disbursed only upon authorization from the respective agencies.

Pledges, grants and bequests receivable

Pledges receivable - Pledges receivable are either unconditional or conditional. Unconditional pledges receivable are pledges that depend only on the passage of time or the demand by the donor for performance. A conditional pledge receivable is a pledge that depends on the occurrence of a specified future and uncertain event to bind the donor.

Contributions that are promised in one year but are expected to be received after the end of that year (or over a number of years) are considered pledges. Pledges are discounted at a reasonable rate of interest based on the US Treasury Strip Coupon Rate ranging from 0.14% to 1.22% and are stated at their net present value. An allowance reserve for uncollectible pledges, if any, is determined based on management’s evaluation of each outstanding pledge for collectability. The financial statements reflect these pledges net of the discount and allowance reserve.

Grants receivable - The Organization receives grants receivable that are satisfied within the year granted and grants which are payable to the Organization over multiple years. The Organization discounts the multi-year grants receivable at a reasonable rate of interest based on the US Treasury Strip Coupon Rate, when material to the financial statements.

Bequests receivable - When the Organization receives notification that the Organization has been named as a beneficiary of an irrevocable trust or estate, the Organization records a bequest receivable in the amount disclosed to the Organization and adjusted for fair value measurements, if measureable.

Notes receivable - The Organization discounts its interest free notes receivable using the risk free rate of return at the date of issuance. The discount is calculated and, if material, recorded at the date of issuance and annually amortized as interest income.

Interest receivable - Interest receivable includes accrued interest from notes receivable and investments related receivables including stock sales settlements, interest receivable from bonds, and other dividend and interest earnings outstanding at year-end.

Note 2 - Summary of significant accounting policies (continued):

Investments

Publicly traded - The Organization invests in marketable securities and U.S. Treasury bills. All debt securities and equity securities are carried at quoted market prices as of the last trading date of the Organization's fiscal year. The Organization's Board of Directors has established an investment policy and has engaged the services of an outside investment advisor to assist in such matters. Contributions of investments are recorded at estimated fair value at the date of donation and are sold as soon as reasonably possible. Unrealized gains and losses that result from market fluctuations are recognized in the period such fluctuations occur. Realized gains and losses resulting from the sales or maturities is the difference between the investment's cost basis and the sale or maturity settlement of the investment. Dividend and interest income are accrued when earned.

Private equity funds - To the extent that these funds invest in publicly traded investments, they are carried at quoted market prices as described above. The remaining investments are carried at estimated fair values as determined by the investment manager of these securities after giving consideration to operating results, financial condition, recent sales prices of issuers' securities and other pertinent information. These investments are valued at the Organization's percentage interest owned in these investment companies. Because of the inherent uncertainty of valuations, these estimated fair 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.

Fair value of financial instruments - Financial instruments included in the Organization's statement of financial position as of June 30, 2011 and 2010 include cash and cash equivalents, investments, receivables, accounts payable and other liabilities. For cash and cash equivalents, receivables, accounts payable, and other liabilities, the carrying amounts represent a reasonable estimate of the corresponding fair values. Investments are reflected in the accompanying statement of financial position at their estimated fair values using methodologies described above.

Investments held in charitable remainder trusts - The Organization is the remainder beneficiary of certain charitable remainder trusts. When the Organization acts as the trustee of the charitable trust, the Organization records the investment assets held in the trust and records a corresponding liability for the present-value of the estimated payments to be made to the lifetime beneficiaries. When the Organization is not the trustee, it records a contribution receivable for the present-value of expected future benefit to be received by the Organization. Certain charitable remainder trust notifications that are not measureable or the fair value is not determinable are not recorded until such time that they become measurable.

Note 2 - Summary of significant accounting policies (continued):

Property held-for-sale - The Organization occasionally receives donations of real property with no significant ecological value but which can be sold to provide funds for the Organization to carry out its conservation work. These properties are carried at the lower of the Organization's original book value or fair market value.

Land held-for-conservation – The term land is used throughout these financials statements to represent real property which includes amongst other things, land, structures, improvements, easements and various other rights. Land held for conservation is reported at the original book value. The Organization records land at cost, if purchased, or at fair value at the date of acquisition if all or part of the land was received as a donation. Contributed revenue is recognized for the difference between the purchase price and the estimated fair value, if any. Fair value is predominantly determined by an independent appraisal. During the time that the Organization is holding the land, all improvements and maintenance costs are recorded as part of program expenses.

As part of its program, the Organization sells or donates these lands to various government entities for permanent protection. In instances where the Organization sells or donates the land for an amount below the original book value, donation expense is recognized for the difference between the selling price and the original book value.

Non-controlling interest - The Organization holds a 32.04% non-controlling interest in Lake Lucerne Mutual Water Company ("LLMWC"). LLMWC is a California nonprofit corporation formed to administer the water rights of several properties bordering the Little Butano Creek and the Bean Hollow Watershed in accordance with a court judgment. The investment is recorded under the equity method of accounting, which approximates fair value, and is recorded as part of property held-for-conservation on the accompanying Statement of Financial Position. The investment in LLMWC as of June 30, 2011 and 2010 was $85,368 and $87,220, respectively.

Conservation easements - The Organization periodically receives or purchases conservation easements which limit the allowable uses of the related property to open space uses consistent with the Organization's mission. Contributed conservation easements received are recorded as land contributions based on the estimated value given up by the land owner by restricting the use of the property with an easement. Because of donor restrictions, contributed conservation easements and conservation easements purchased with restricted donations bear no future benefit to the Organization and are therefore included as part of land and easement transactions expense in the year they are acquired. In connection with the transfer or sale of land to governmental agencies, the Organization may retain a conservation easement on the land. Because these easements bear no possible future financial benefit to the Organization, they are not recorded on the Organization's statement of financial position. During the year ending June 30, 2011, the Organization acquired an easement valued at $200,000 which was charged to land and easement transactions expense. The Organization acquired no easements in during the year ending June 30, 2010.

Note 2 - Summary of significant accounting policies (continued):

Property, equipment and depreciation - Purchased property and equipment used in the Organization's operations are stated at cost. Significant donated property and equipment are recorded at their estimated fair value on the date of receipt. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from three to ten years. The Organization capitalizes property and equipment with a value over $1,000. Expenditures for maintenance and repairs that do not improve or extend the lives of the respective assets are expensed as incurred.

Long-lived assets - The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of any assets may not be recoverable. No such impairments have been identified to date.

Stewardship fund liabilities - During the year ended June 30, 2011, the Organization and Sempervirens Fund jointly established a $1,300,000 stewardship fund as part of the transfer of the Little Basin property to California State Parks. The fund is being used to improve the property to enhance public use and recreation and has $1,174,781 remaining at June 30, 2011.

Asset retirement obligations – Asset retirement obligations are mitigation obligations related to the Organization's land holdings. The Organization recognizes a liability for obligations as of the date the obligation is identified, which is generally upon acquisition of the asset. The Organization has conditional asset retirement obligations related to removal of in-stream structures, asbestos cleanup related to structures on property held for conservation, and removal of a landfill. The retirement obligation is based on the present value of management's estimates of the costs of in-stream structure, asbestos and landfill removal. This liability will be adjusted in future periods based on period-to-period changes in the liability resulting from (a) the passage of time and (b) revisions to either the timing or the amount of the original estimate of undiscounted cash flows.

Note 2- Summary of significant accounting policies (continued):

Endowment accounting and interpretation of relevant law - The Organization's endowment consists of three donor-restricted endowment funds established to advance the mission. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Organization has interpreted the State Prudent Management of Institutional Funds Act ("SPMIFA") as requiring the preservation of the fair value of the original gifts as of the gift date of the donor-restricted endowments funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies this endowment as permanently restricted net assets at (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. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets. If the fair value of the endowment funds is below its original corpus, the deficit is classified as unrestricted net assets.

Accounting for uncertainty in income taxes - The Organization evaluates its uncertain tax positions and will recognize a loss contingency when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonable estimated. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position for all uncertain tax positions in the aggregate could differ from the amount recognized. As of June 30, 2011 and 2010 management did not identify any uncertain tax positions.

The Organization is subject to potential examination by taxing authorities for income tax returns filed in the U.S. federal jurisdiction and the State of California. The tax years that remain subject to potential examination for the U.S. federal jurisdiction are June 30, 2008 and forward. The State of California tax jurisdiction is subject to potential examination for fiscal tax years June 30, 2007 and forward.

Subsequent events - Subsequent events are evaluated through October 21, 2011, which is the date the financial statements were available to be issued and determined that no material subsequent events require an estimate to be recorded or disclosure as of June 30, 2011.

Note 2- Summary of significant accounting policies (continued):

Recent accounting pronouncements - In May 2011, the Financial Accounting Standards Board ("FASB") issued FASB Accounting Standards Update ("ASU") No. 2011-04 "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs."

The update amends FASB Accounting Standards Codification ("ASC") Topic 820, "Fair Value Measurements." This new standard results in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs. The amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and disclosing information about fair value measurements. The amendments also clarify FASB's intent about the application of existing fair value measurement requirements. The amendments in this update should be applied retrospectively to all prior periods presented, effective for fiscal years ending after December 15, 2011.

The above pronouncement issued by FASB does not require adoption until a future date and is not expected to have a material impact on the Organization's financial statements upon adoption.

Reclassification - Certain 2010 balances have been reclassified to conform to the 2011 financial statement presentation. These reclassifications have no effect on the previously reported change in net assets.

Note 3 - Cash held on behalf of public agencies:

As of June 30, 2011, funds were held in trust for the following public agencies:

	July 01, 2010	Fund Additions	Income Credited	Fund Expenditure	June 30, 2011
California Department of Fish and Game, et al	$ 312,446	$ -	$ 48	$ (95)	$ 312,399
United States Department of Interior	258,288	11,314	118	(95)	269,625
Cash held on behalf of public agencies	$ 570,734	$ 11,314	$ 166	$ (190)	$ 582,024

Note 3 - Cash held on behalf of public agencies (continued):

As of June 30, 2010, funds were held in trust for the following public agencies:

	July 01, 2009	Fund Additions	Income Credited	Fund Expenditure	June 30, 2010
California Department of Fish and Game, et al	$ 312,417	$ -	$ 29	$ -	$ 312,446
United States Department of Interior	258,287	-	1	-	258,288
Cash held on behalf of public agencies	$ 570,704	$ -	$ 30	$ -	$ 570,734

Note 4 - Pledges, grants and bequests receivable:

Pledges, grants and bequests receivable consisted of the following at June 30:

	2011	2010
Pledges receivable, net	$ 265,813	$ 631,730
Bequests receivable	639,655	994,875
Grants receivable	134,980	60,297
Pledges, grants and bequests receivable, net	$ 1,040,448	$ 1,686,902

Pledges receivable at June 30, 2011 are from previous year capital campaigns and are expected to be received as follows:

Year Ending June 30,	
2012	$ 120,000
2013	110,000
2014	8,790
2015	-
2016	-
Thereafter	30,000
Total pledges receivable	268,790
Less discount	(2,977)
Pledges receivable, net	265,813

Note 4 - Pledges, grants and bequests receivable (continued):

Grants receivable
The Organization had total grants receivable of approximately $135,000 and $60,000 at June 30, 2011 and 2010, respectively. Incorporated within total grants receivable, at June 30, 2011 and 2010, the Organization had one multi-year grant receivable which was payable to the Organization in $10,000 annual payments with receivable balances of $20,000 and $30,000, respectively. The final annual payment is scheduled to be made by June 30, 2013. The Organization has not recorded a discount related to this grant receivable as it was not material to the financial statements.

Bequests receivable
The Organization had total bequests receivable of approximately $640,000 and $995,000 at June 30, 2011 and 2010, respectively. The June 30, 2011 amount is expected to be collected during the year ending June 30, 2012.

Note 5 - Notes receivable:

Notes receivable consist of the following at June 30:

	2011	2010
Advance to an individual land owner with the objective of facilitating protection of certain land. The note is due March 27, 2035 and bears interest at 8.5%, up to a maximum accrual of 10% of the principle balance times the number of years accrued. The note is secured by a deed of trust.	$ 12,622,500	$ 12,622,500
Advance to a conservation buyer with the objective of facilitating protection of certain land. The note is due March 2015 and bears interest at 4%. The note is secured by a deed of trust.	1,000,000	1,000,000
Total notes receivable	$ 13,622,500	$ 13,622,500

The Organization has recorded interest receivable, related to the interest bearing notes due primarily from one individual land owner, of $7,804,707 and $6,502,457 at June 30, 2011 and 2010, respectively.

Note 6 - Investments:

The Organization follows the provisions of the Fair Value Measurements and Disclosure topic of the FASB Accounting Standards Codification. These standards establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs have the lowest priority. The Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Organization measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available.

The Organization's investments consisted of the following:

	June 30,	
	2011	2010
Quoted market:		
Investment cash and cash equivalents	$ 10,487,197	$ 3,311,091
U.S. Treasury bills	-	7,992,515
Marketable equity securities	43,523,473	31,857,335
Corporate bond funds	43,655,026	42,831,299
Marketable absolute return funds	3,067,896	1,023,296
Real estate, gold and commodities funds	8,170,643	4,451,542
Total quoted market	108,904,234	91,467,078
Alternative investments:		
Multi-strategy hedge funds	4,545,963	3,639,528
Private equity fund	655,784	381,511
Total alternative investments	5,201,747	4,548,350
Total investments	$ 114,105,981	$ 96,015,428

An investment's classification within a level in the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The Organization's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment. The categorization of the investment within the hierarchy is based upon the pricing transparency of the investment and does not necessarily correspond to the Organization's perceived risk of that investment.

PENINSULA OPEN SPACE TRUST
Notes to Financial Statements
June 30, 2011

Note 6 - Investments (continued):

The following are major categories of investments measured at fair value on a recurring basis:

- Level 1: Quoted prices in active markets for identical assets
- Level 2: Significant other observable inputs (the Organization had no level 2 investments for the years ending June 30, 2011 and 2010)
- Level 3: Significant unobservable inputs

	June 30, 2011		
	Level 1	Level 3	Total
Investments cash and cash equivalents	$ 10,487,197		$ 10,487,197
U.S. Treasury bills	-	-	-
Marketable equity securities	43,523,473	-	43,523,473
Corporate bond funds	43,655,026	-	43,655,026
Marketable absolute return funds	3,067,896	-	3,067,896
Real estate, gold and commodities funds	8,170,653	-	8,170,643
Multi-strategy hedge funds	-	4,545,963	4,545,963
Private equity fund	-	655,784	655,784
Total	$ 108,904,234	5,201,747	$ 114,105,981

	June 30, 2010		
	Level 1	Level 3	Total
Investments cash and cash equivalents	$ 3,311,091	-	$ 3,311,091
U.S. Treasury bills	7,992,515	-	7,992,515
Marketable equity securities	31,857,335	-	31,857,335
Corporate bond funds	42,831,299	-	42,831,299
Marketable absolute return funds	1,023,296	-	1,023,296
Real estate, gold and commodities funds	4,451,542	-	4,451,542
Multi-strategy hedge funds	-	4,166,839	4,166,839
Private equity fund	-	381,511	381,511
Total	$ 91,467,078	4,548,350	$ 96,015,428

Note 6 - Investments (continued):

The following is a reconciliation of the beginning and ending balances for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	June 30, 2011		
	Multi-strategy hedge funds	Private equity fund	Total
Beginning balance	$ 4,166,839	381,511	$ 4,548,350
Total gains or losses (realized or unrealized)	379,124	31,948	411,072
Purchases, issuance, and settlements	-	242,325	242,325
Transfers in and/or out of Level 3	-	-	-
Ending balance	$ 4,545,963	655,784	$ 5,201,747

	June 30, 2010		
	Multi-strategy hedge funds	Private equity fund	Total
Beginning balance	$ 3,639,529	216,108	$ 3,855,637
Total gains or losses (realized or unrealized)	527,310	57,403	584,713
Purchases, issuance, and settlements	-	108,000	108,000
Transfers in and/or out of Level 3	-	-	-
Ending balance	$ 4,166,839	381,511	$ 4,548,350

Note 6 - Investments (continued):

The Organization uses Net Asset Value (NAV) to determine the fair value of all the underlying investments which do not have a readily determinable fair value and prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The following table lists investments in other investment companies by major category at June 30, 2011:

Category		Fair Value		Unfunded Commitments	Redemption Frequency	Redemption Notice
Multi-strategy hedge funds (a)	$	4,545,963	$	-	Various	100 days
Private equity fund (b)		655,784		689,175	N/A	N/A
	$	5,201,747	$	689,175		

The following table lists investments in other investment companies by major category at June 30, 2010:

Category		Fair Value		Unfunded Commitments	Redemption Frequency	Redemption Notice
Multi-strategy hedge funds (a)	$	4,166,839	$	-	Various	100 days
Private equity fund (b)		381,511		931,500	N/A	N/A
	$	4,548,350	$	931,500		

(a) This category includes multi-strategy absolute return investments focused on long and short equity, event-driven, capital structure arbitrage and fixed income arbitrage strategies. The investment advisor initiates long and short position targeting solid absolute risk-adjusted returns. Some of the investments in this category include less liquid assets which may be restricted from immediate redemption until the asset is realized. The fair values of these investments have been estimated using capital statements as of June 30, 2011 and 2010

(b) This category includes a private equity fund that focused on buyout and venture capital. This investment is not redeemable. Instead, the nature of the investments in this category are that distributions are received through the liquidation of the underlying assets in the fund. The term for these investments range from 10 to 15 years. The fair values of these investments have been estimated using capital statements as of June 30, 2011 and 2010.

The Organization has commitments under venture limited liability partnership agreements at June 30, 2011 and 2010 to make additional capital contributions of approximately $689,000 and $932,000 respectively.

Note 6 - Investments (continued):

The following schedule summarizes total net realized and unrealized gains and losses on investments for the years ended June 30:

	2011	2010
Realized gains (losses)	$ 886,009	$ (5,197,184)
Unrealized gains	10,566,901	11,533,366
Unrealized loss on property-held-for-sale	(177,000)	-
Management fees and trust expenses	(480,680)	(307,921)
Total net realized and unrealized gains on investments	$ 10,795,230	$ 6,028,261

Note 7 - Investments held in charitable remainder trusts:

The Organization is a trustee and remainder beneficiary of six irrevocable charitable remainder trusts. Provisions of the trusts require distribution of a percentage of the net fair market value or a fixed amount of the trusts to designated beneficiaries on a quarterly basis during their lifetimes. At the end of the trusts' terms, after payments to other remainder beneficiaries, the remaining assets will be available for the Organization's unrestricted use. The portion of the trusts attributable to the present value of the estimated future benefits to be received by the Organization was recorded as a temporarily restricted contribution in the period the trust was established. On an annual basis, the Organization revalues and records a liability for the present value of required distributions to the designated beneficiaries based on actuarial assumptions.

The present value of the estimated future payments ($3,169,908 and $2,505,149 at June 30, 2011 and 2010, respectively) is calculated assuming a 5% investment return, discount rates of 2.6% to 5.11% and life expectancies based on applicable mortality tables. At June 30, 2011 and 2010, investments held in charitable remainder trusts were recorded at fair value. All investments are at quoted prices in active markets for identical assets (level 1 inputs) as follows:

	2011	2010
Cash and cash equivalents	$ 177,748	$ 90,759
Marketable equity securities	2,842,098	2,249,007
Corporate bond funds	1,581,762	1,317,172
Real estate, gold and commodities funds	760,740	413,256
Marketable absolute return funds	307,522	187,441
Investments held in charitable remainder trusts	$ 5,669,870	$ 4,257,635

Note 7 - Investments held in charitable remainder trusts (continued):

The Organization is also a remainder beneficiary of an irrevocable charitable remainder trust and two charitable gift annuities for which the Organization does not serve as the trustee. Provisions of the charitable remainder trust require distribution of a fixed percentage of the net fair market value of the trust's assets to the named beneficiaries on a monthly basis during their lifetime. Provisions of the two charitable gift annuities require distribution of a fixed dollar amount to the named beneficiaries on a quarterly basis during their lifetime. The assets remaining after the death of the beneficiaries will be available for the Organization's unrestricted use. The Organization was also a remainder beneficiary of a life estate at June 30, 2010 which had no distribution provisions and which was terminated during the year ending June 30, 2011. The portion of the trust, life estate, and gift annuities attributable to the present value of the estimated future benefits to be received by the Organization were recorded as temporarily restricted contributions and are recorded on the statement of financial position as residual interest in charitable remainder trusts. The present value of the estimated future benefit ($68,888 and $103,696 at June 30, 2011 and 2010, respectively) is calculated using a discount rate of 3% to 4.37% as established by the IRS and applicable mortality tables. The Organization is a beneficiary of the charitable remainder trust, life estate, and gift annuities and there is no further liability beyond the asset balance.

Note 8 - Land held-for-conservation and related asset retirement obligations:

The current year activity of land held-for-conservation was comprised of the following:

Balances, July 1, 2009	$	125,461,798
Purchased land		2,645,000
Land related deposits		24,360
Change in asset retirements, net		(47,283)
Dispositions of land		(26,473,896)
Balances, June 30, 2010		101,609,979
Purchased land		4,500,000
Land related deposits		144,110
Change in asset retirements, net		539,629
Dispositions of land		(10,201,852)
Balances, June 30, 2011	$	96,591,866

Included within land held-for-conservation are costs recorded for future asset retirement obligations of approximately $973,000 and $433,000 as of June 30, 2011 and 2010, respectively.

Note 8 - Land held-for-conservation and related asset retirement obligations (continued):

Assets subject to conditional retirement obligations are comprised of the following:

Balances, July 1, 2009	$	914,358
Liabilities removed in the current period through sale of land		(63,820)
Liabilities settled in the current period		(26,879)
Liabilities added in the current period		31,129
Accretion expense		51,104
Balances, June 30, 2010		905,892
Liabilities removed in the current period through sale of land		(28,587)
Liabilities added in the current period		554,305
Accretion expense		51,086
Balances, June 30, 2011	$	1,482,696

Note 9 - Property and equipment:

Property and equipment consisted of the following at June 30:

	2011	2010
Building	3,522,523	3,522,523
Furniture	146,657	143,712
Equipment	108,213	107,508
Vehicles	76,251	45,281
Total property and equipment	3,853,644	3,819,024
Less: accumulated depreciation	(586,327)	(498,825)
Land	2,351,899	2,351,899
Total property and equipment, net	$ 5,619,216	$ 5,672,098

Depreciation expense, included in other operating expenses, for the years ending June 30, 2011 and 2010 was $120,350 and $115,528, respectively.

Note 10 - Accounts payable and other liabilities:

Accounts payable include the Organization's operating expenses which have been billed but not paid. Other liabilities include the Organization's vacation accrual due to employees, lease back obligations, and other accrued expenses incurred in the normal course of business. Vacation accrues based on the number of years of service of each employee, ranging from 10 to 20 working days per year. Vacation can accrue up to a maximum of 1.5 times the employee's annual accrual rate. Lease back obligations result from acquired properties where the previous owner leases the property within the restrictions of the Organization's mission. Lease back obligations are calculated based on the difference between the fair market value of the rent and actual rent to be paid, amortized over the life of the lease back.

Accounts payable and other liabilities consisted of the following at June 30:

	2011	2010
Accounts payable	$ 136,513	$ 96,315
Vacation accrual	96,852	121,997
Lease back obligations	215,250	276,750
Other liabilities	96,123	15,682
Accounts payable and other liabilities	$ 544,738	$ 510,744

Note 11 - Commitments:

Offers to dedicate - The Organization periodically acquires properties subject to contingent restrictions on the title known as offers to dedicate. Offers to dedicate are sometimes required by grantors as a means to ensure the Organization maintains the land in a manner consistent with the grantors' wishes. These provisions are consistent with the Organization's mission and generally include restrictions regarding the preservation of land for conservation purposes, that the land is not used to secure debt, and that the land may not be transferred without prior approval of the grantor. If the Organization were to violate these provisions or to cease business, the offers to dedicate would automatically transfer title to the grantors. The Organization held land with a carrying value of $15 million, subject to offer to dedicate provisions at June 30, 2011 and 2010 which is recorded on the Statement of Financial Position as part of property held for conservation.

PENINSULA OPEN SPACE TRUST

Notes to Financial Statements

June 30, 2011

Note 12 - Board designations of unrestricted net assets:

Board designations of unrestricted net assets were as follows at June 30:

	2011	2010
Land held for conservation	$ 96,591,865	$ -
Property and equipment	5,619,215	-
Land, easements and projects	117,828,340	4,498,939
Total Board designations	$ 220,039,420	$ 4,498,939

During fiscal year 2011, the Organization changed its designation policy to more clearly reflect funds that were available for operations as unrestricted, undesignated net assets. At June 30, 2010 the funds for land, easements and projects included $2,115,147 for restoration of Blair Island and $2,383,939 for stewardship and defense of conservation easements.

Note 13 - Temporarily restricted net assets:

Temporarily restricted net assets were available for the following purposes at June 30:

	2011	2010
Bequests, trusts receivable and estate receivable	$ 708,544	$ 1,098,571
Net assets held in charitable remainder trusts	2,499,962	1,752,485
Land acquisitions	256,808	1,500,000
Conservation easement fund	1,036,711	928,866
Other program activities	1,339,803	222,598
Total temporarily restricted net assets	$ 5,841,828	$ 5,502,520

Net assets were released from restrictions by incurring expenses satisfying the restricted purposes during the year as follows:

	2011	2010
Bequests, trust receivable, and estate receivable	$ 934,868	$ -
Land acquisitions	139,244	556,264
Other program activities	2,174,401	1,324,057
Total temporarily restricted net assets released from restrictions	3,248,513	1,880,321

Note 14 - Permanently restricted net assets:

Permanently restricted net assets consist of endowment fund cash and cash equivalents and investments that represent the principal amounts of gifts and bequests accepted with donor stipulation that the principal be maintained intact in perpetuity, with only the income to be utilized for operations.

Net assets were permanently restricted for the following purposes at June 30:

	2011	2010
Lane Stewardship Endowment	$ 300,000	$ 300,000
Wilbur's Watch Endowment	250,500	250,500
Stewardship Action Ventures Endowment	85,030	25,000
Total permanently restricted net assets	635,530	575,500

Endowment net asset composition by type of funds was as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2009	$ (80,382)	$ -	$ 550,500	$ 470,118
Investment return				
Interest and dividend income	13,897	-	-	13,897
Realized and unrealized gains	47,019	-	-	47,019
Total investment return	60,916	-	-	60,916
Contributions	-	-	25,000	25,000
Endowment net assets, June 30, 2010	(19,466)	-	575,500	556,034
Net asset reclassification				
Interest and dividend income	2,997	14,294	-	17,291
Realized and unrealized gains	16,469	78,550	-	95,019
Total investment return	19,466	92,844	-	112,310
Contributions	-	-	60,030	60,030
Appropriation of Endowment Assets for Expenditure	-	(16,548)	-	(16,548)
Endowment net assets, June 30, 2011	$ -	$ 76,296	$ 635,530	$ 711,826

Note 14 - Permanently restricted net assets (continued):

Funds with deficiencies: From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the Organization to retain as a fund of perpetual duration. There were no deficiencies of this nature as of June 30, 2011. During June 30, 2010, deficiencies of this nature that are reported in unrestricted net assets were approximately $19,000. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board.

Return objectives and risk parameters: The Organization 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 maintain the purchasing power of 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 as well as board-designated funds. Under this policy, as approved by the Organization's Finance Committee, the endowment assets are invested in a manner that is intended to provide a moderate average annual real return in excess of inflation. Actual returns in any given year may vary from this amount.

Strategies employed for achieving objectives: To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places an emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending policies and how the investment objectives relate to spending policy: The Organization has a policy of appropriating for distribution each year a target of 5 percent of its endowment funds' average fair value over the prior 12 quarters through the quarter ending March 31, proceeding the fiscal year in which the distribution is planned. In addition, the Organization can not distribute funds from the Stewardship Action Ventures Endowment until it reaches $1,000,000. In establishing this policy, the Organization considered the long-term expected real return on its endowment. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Note 15 - Related party transactions:

The Organization’s volunteer members of the Board of Directors are active in oversight of fundraising events, activities and in making private contributions. Contributions received from the Board of Directors or from companies with which the Board of Directors are affiliated were approximately $720,000 and $222,000 for the years ended June 30, 2011 and 2010, respectively. There were no outstanding receivables from the Board of Directors or from companies with which the Board of Directors are affiliated with as of June 30, 2011. Outstanding receivables from the Board of Directors or from companies with which the Board of Directors are affiliated were approximately $32,000 at June 30, 2010.

A member of the Board of Directors leases agricultural land from the Organization with lease payments totaling approximately $17,000 and $16,000 for the years ended June 30, 2011 and 2010, respectively.

Note 16 - Concentrations:

Financial instruments which potentially subject the Organization to concentrations of credit risk consist primarily of investments, pledges and grants receivable, notes receivable and cash. Investments are maintained in a diversified portfolio with the assistance of professional investment advisors. The Organization may have risk associated with its concentration of investments in one geographic region and in certain industries. Pledges and grants receivable are from donors who have paid according to agreed-upon payment schedules through June 30, 2014, and the Organization believes these amounts are fully collectible. The notes receivable are fully secured at June 30, 2011. The majority of the Organization's cash was held at one financial institutions at June 30, 2011. The cash equivalents held with the Organization’s brokerage firm are not insured. The checking account held at the Organization’s bank is completely insured and the money market account is insured up to $250,000 by an agency of the federal government.

For the years ended June 30, 2011 and 2010, the following donors accounted for ten percent or more of the Organization’s contributions and grants.

	2011	2010
Donor A	14%	Less than 10%
Donor B	Less than 10%	11%
Donor C	Less than 10%	10%

Note 17 - Retirement plan:

All of the Organization's employees are eligible to participate in the Organization's Tax-Deferred Annuity plan ("TDA plan"), in which employees can make voluntary, tax-deferred contributions within specified limits. The TDA plan was established under the provision of Section 403(b) of the Internal Revenue code.

In addition, the Organization's employees who have worked for at least 12 months and for 1,000 hours or more during those 12 months are eligible to participate in the Organization's Defined Contribution plan ("Defined plan").

Certain employees are also eligible to participate in a non-qualified deferred compensation plan ("Deferred plan") created pursuant to Internal Revenue Codes section 457 (b).

The Organization's contributions to the Defined plan were $134,330 and $126,806 for the years ended June 30, 2011 and 2010, respectively. There were no contributions to the Deferred plan for the years ended June 30, 2011 and 2010.