



**PENINSULA OPEN SPACE TRUST**

**Financial Statements  
June 30, 2010 and 2009**

**Together with  
Independent Auditors' Report**

# **PENINSULA OPEN SPACE TRUST**

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**June 30, 2010**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Peninsula Open Space Trust

We have audited the accompanying statement of financial position of Peninsula Open Space Trust (the "Organization"), a California public benefit corporation, as of June 30, 2010, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year 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. The prior year financial statements were audited by other auditors. Those auditors expressed an unqualified opinion on those financial statements in their report dated September 30, 2009.

We conducted our audit 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 audit provides 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, 2010, and the results of its activities and changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads 'Robert Lee &amp; Associates, LLP'. The signature is written in a cursive, flowing style.

San Jose, California  
November 9, 2010

**PENINSULA OPEN SPACE TRUST**  
**Statement of Financial Position**

**ASSETS**

	June 30,	
	2010	2009
Current assets:		
Cash and cash equivalents	\$ 140,500	\$ 2,987,413
Cash held on behalf of public agencies	570,734	570,704
Cash in escrow from sale of land	-	4,000,104
Accounts receivable	800,330	935,413
Pledges, grants and bequests receivable, net	1,686,902	3,165,208
Notes receivable	13,622,500	15,685,211
Interest receivable	6,799,572	5,318,856
Residual interest in charitable remainder trusts	103,696	112,151
Prepays and other assets	132,095	243,915
Investments	96,015,428	61,360,946
Investments held in charitable remainder trusts	4,257,635	3,883,089
Property held for sale	412,000	-
Property held for conservation	101,609,979	125,461,798
Property and equipment, net	5,672,098	5,780,330
Total assets	\$ <u>231,823,469</u>	\$ <u>229,505,138</u>

**LIABILITIES AND NET ASSETS**

Liabilities:		
Accounts payable and other liabilities	\$ 510,744	\$ 617,972
Notes payable	-	4,418,860
Asset retirement obligations	905,892	914,358
Funds held in agency trust funds	570,734	570,704
Liabilities under remainder trusts	2,505,149	2,353,733
Total liabilities	<u>4,492,519</u>	<u>8,875,627</u>
Commitments		
Net assets:		
Unrestricted	216,753,991	211,007,068
Board designated	4,498,939	3,480,298
Total unrestricted net assets	<u>221,252,930</u>	<u>214,487,366</u>
Temporarily restricted	5,502,520	5,591,645
Permanently restricted	575,500	550,500
Total net assets	<u>227,330,950</u>	<u>220,629,511</u>
Total liabilities and net assets	\$ <u>231,823,469</u>	\$ <u>229,505,138</u>

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, 2010

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

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, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue, support and gains (losses):				
Contributions and grants	\$ 3,428,289	\$ 8,898,164	\$ -	\$ 12,326,453
Contributions of land and easements	1,806,750	-	-	1,806,750
Interest and dividends	4,199,908	133,157	-	4,333,065
Net realized and unrealized losses on investments	(21,094,064)	(1,093,292)	-	(22,187,356)
Rental and other income	615,104	-	-	615,104
Net assets released from restrictions	<u>4,881,077</u>	<u>(4,879,077)</u>	<u>(2,000)</u>	<u>-</u>
Total revenue, support and gains (losses)	<u>(6,162,936)</u>	<u>3,058,952</u>	<u>(2,000)</u>	<u>(3,105,984)</u>
Operating expenses:				
Program services	12,028,895	-	-	12,028,895
Fundraising	1,975,770	-	-	1,975,770
Management and support services	<u>781,381</u>	<u>-</u>	<u>-</u>	<u>781,381</u>
Total operating expenses	<u>14,786,046</u>	<u>-</u>	<u>-</u>	<u>14,786,046</u>
Change in net assets	(20,948,982)	3,058,952	(2,000)	(17,892,030)
Net assets, beginning of year	<u>235,436,348</u>	<u>2,532,693</u>	<u>552,500</u>	<u>238,521,537</u>
Net assets, end of year	<u>\$ 214,487,366</u>	<u>\$ 5,591,645</u>	<u>\$ 550,500</u>	<u>\$ 220,629,511</u>

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, 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
Rent	8,477	-	-	8,477
Interest expense	-	-	81,365	81,365
Total expenses	\$ <u>5,141,581</u>	\$ <u>1,721,862</u>	\$ <u>577,863</u>	\$ <u>7,441,306</u>

For the Year Ended June 30, 2009

	Program Services	Fundraising	Management and Support Services	Total
Land and easement transactions	\$ 6,962,295	\$ -	\$ -	\$ 6,962,295
Salaries and benefits	1,165,287	1,197,116	419,312	2,781,715
Professional services	3,018,488	516,433	95,580	3,630,501
Grants and contributions	540,000	-	-	540,000
Other operating	252,114	154,022	77,185	483,321
Printing and postage	67,837	108,199	43,807	219,843
Interest expense	-	-	139,484	139,484
Property taxes	16,065	-	6,013	22,078
Rent	6,809	-	-	6,809
Total expenses	\$ <u>12,028,895</u>	\$ <u>1,975,770</u>	\$ <u>781,381</u>	\$ <u>14,786,046</u>

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,	
	2010	2009
Cash flows from operating activities:		
Change in net assets	\$ 6,701,439	\$ (17,892,030)
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation expense	115,528	118,054
Change in asset retirement	38,817	47,845
Loss from sale or donation of land	1,520,000	6,272,609
Property received related to note receivable default	(2,375,000)	-
Default of note receivable	3,049,225	-
Net realized and unrealized investment (gains) losses before management fees	(6,336,182)	21,868,698
Donation of land held for sale	(412,000)	-
(Increase) decrease in cash held on behalf of public agencies	(30)	482,470
In-kind grants and donations made	-	(3,000,000)
In-kind contributions received - securities	(742,666)	(690,772)
In-kind contributions received - land	-	(1,156,750)
Amortization of note receivable discount	(37,289)	(127,824)
Amortization of note payable discount	81,365	139,484
Changes in operating assets and liabilities:		
Accounts receivable	135,083	500,234
Pledges, grants and bequests receivable, net	1,478,306	2,879,263
Interest receivable	(1,480,716)	(1,390,168)
Residual interest in charitable remainder trusts	8,455	48,098
Prepays and other assets	111,820	(105,070)
Proceeds from sale of land	28,929,640	22,530,507
Acquisition of land	(270,000)	(24,715,000)
Accounts payable and other liabilities	(107,228)	(270,566)
Funds held in agency trust funds	30	(482,470)
Liabilities under remainder trusts	151,416	(727,153)
Net cash provided by operating activities	\$ 30,560,013	\$ 4,329,459

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,	
	<u>2010</u>	<u>2009</u>
Investing activities:		
Issuance of notes receivable, net	\$ (1,000,000)	\$ -
Repayment of note receivable	50,775	-
Proceeds from sale of investments	63,081,067	72,740,092
Acquisition of investments	(94,126,959)	(70,949,851)
Proceeds from sale of investments held in charitable remainder trusts	1,289,553	1,425,299
Acquisition of investments held in charitable remainder trusts	(1,193,029)	(1,344,224)
Proceeds (acquisition) of managed cash and cash equivalents, net	2,999,188	(1,271,248)
Acquisition of property and equipment	(7,296)	(6,028)
Net cash (used) provided by investing activities	<u>(28,906,701)</u>	<u>594,040</u>
Financing activities:		
Issuance of note payable, net of discount	-	300,000
Repayment of notes payable	<u>(4,500,225)</u>	<u>(4,800,225)</u>
Net cash used by investing activities	<u>(4,500,225)</u>	<u>(4,500,225)</u>
Increase in cash and cash equivalents	(2,846,913)	423,274
Cash and cash equivalents, beginning of year	<u>2,987,413</u>	<u>2,564,139</u>
Cash and cash equivalents, end of year	<u>\$ 140,500</u>	<u>\$ 2,987,413</u>

The accompanying notes are an integral part of these financial statements

**PENINSULA OPEN SPACE TRUST**  
**Notes to Financial Statements**  
June 30, 2010

**Note 1 - Organization:**

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.

**Note 2 - Summary of significant accounting policies:**

Basis of presentation - 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. At June 30, 2010, the Board had designated \$2,115,147 for restoration of Bair Island and \$2,383,792 for the stewardship and defense of conservation easements. At June 30, 2009, the Board had designated \$1,844,467 for restoration of Bair Island and \$1,635,831 for the stewardship and defense of conservation easements.
- *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.

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.

## **PENINSULA OPEN SPACE TRUST**

### **Notes to Financial Statements**

June 30, 2010

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

Basis of accounting - 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.

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect 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.

Revenue recognition - The Organization records contributions and promises to give in accordance with GAAP, which requires that contributions received, including unconditional pledges receivable, be recognized 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 of their estimated future cash flows. Pledges are discounted as described below. 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, 2010 and 2009.

Contributions-in-kind - Significant donated property and equipment is recorded at estimated fair value at the time of receipt. 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 \$46,000 and \$33,000 for in-kind legal and professional services and donated goods for program services were recognized for the years ended June 30, 2010 and 2009, respectively. 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.

## **PENINSULA OPEN SPACE TRUST**

### **Notes to Financial Statements**

June 30, 2010

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

Property - 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 generally determined by an independent appraisal.

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 original book value or fair market value.

Property held for conservation - Property held for conservation is reported at the original book value. 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.

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.

Pledges, grants, and bequests receivable - The Organization records pledges, grants, and bequests receivable in accordance with GAAP.

*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.

**PENINSULA OPEN SPACE TRUST**  
**Notes to Financial Statements**  
June 30, 2010

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

Pledges, grants, and bequests receivable (continued) -

*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.

Notes receivable - In accordance with GAAP, 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.

Non-controlling interest - In January 2002, in connection with the acquisition of a property, the Organization acquired a 57.04% 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. In August 2007 and in June 2009, the Organization transferred portions of its interest in LLMWC and currently holds a 32.04% non-controlling interest. The investment is recorded under the equity method of accounting and is recorded as property held for conservation on the accompanying Statement of Financial Position.

Investments - All investments are valued in accordance with GAAP, including Fair Value Measurements.

*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 serviced of an outside investment advisor to assist in such matters. Contributions of investments are recorded at estimated fair vale 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 are the differences between the investment's cost basis and the sale or maturity settlement of the investment. Dividend and interest income are accrued when earned.

## **PENINSULA OPEN SPACE TRUST**

### **Notes to Financial Statements**

June 30, 2010

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

##### **Investments (continued) -**

*Private equity funds* - To the extent that these funds invest in publicly traded investments, they are included 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, 2010 and 2009 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.

Property, equipment and depreciation - Purchased property and equipment 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.

## **PENINSULA OPEN SPACE TRUST**

### **Notes to Financial Statements**

June 30, 2010

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

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, expensed as land 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. Additionally, during the year ending June 30, 2009, the Organization acquired easements with a value of \$650,000, which were charged to land and easement transactions expense. The Organization acquired no easements in during the year ending June 30, 2010.

Asset retirement obligations - 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.

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, including funds designated by the Board of Directors to function as endowments, if any, 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 unrestricted net assets.

## **PENINSULA OPEN SPACE TRUST**

### **Notes to Financial Statements**

June 30, 2010

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

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 reasonably 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, 2010 and 2009 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 is June 30, 2007 and forward. The State of California tax jurisdiction is subject to potential examination for fiscal tax years June 30, 2006 and forward.

Advertising - Advertising costs are expensed as incurred.

Subsequent events - Subsequent events are evaluated through the date the financial statements were available to be issued.

Recent accounting pronouncements - In September 2009, the Financial Accounting Standards Board ("FASB") issued FASB Accounting Standards Update No. 2009-12, Investment in Certain Entities that Calculate Net Asset Value per Share (ASU 2009-12). ASU 2009-12 (formerly FAS 157) amends FASB Statement No. 157, Fair Value Measurements, adds disclosures and provides guidance for estimating the fair value of investments in investment companies that calculate net asset value per share, allowing the Net Asset Value per Share (NAV) to be used as a practical expedient for fair value where investment companies follow the American Institute of Certified Public Accounts (AICPA) Guide in arriving at their reported NAV. The Organization adopted ASU 2009-12 effective July 1, 2009.

In January 2010, the FASB issued ASU No.2010-06, Improving Disclosure about Fair Value Measurements. This amends ASC 820 (formerly FAS 157) to require additional disclosures. The guidance requires entities to disclose transfer of assets in and out of Levels 1 and 2 of the fair value hierarchy, and the reasons for those transfers. ASU 2010-06 is effective January 2010. In addition, the guidance requires separate presentation of purchase and sales in the Level 3 asset reconciliation which is effective January 2011. The adoption of this guidance is not expected to have a material impact on the Organization's financial statements.



## **PENINSULA OPEN SPACE TRUST**

### **Notes to Financial Statements**

June 30, 2010

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

Reclassification - Certain 2009 balances have been reclassified to conform to the 2010 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:**

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

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

As of June 30, 2009, funds were held in trust for the following:

	<u>July 01, 2008</u>	<u>Income Credited</u>	<u>Fund Expenditure</u>	<u>June 30, 2009</u>
California Department of Fish and Game, et al	\$ 310,766	\$ 1,651	\$ -	\$ 312,417
San Francisco Bay and Development Commission	486,288	3,107	(489,395)	-
United States Department of Interior	<u>256,120</u>	<u>2,167</u>	<u>-</u>	<u>258,287</u>
Cash held on behalf of public agencies	\$ <u>1,053,174</u>	\$ <u>6,925</u>	\$ <u>(489,395)</u>	\$ <u>570,704</u>

# **PENINSULA OPEN SPACE TRUST**

## **Notes to Financial Statements**

June 30, 2010

### **Note 4 - 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,	
	2010	2009
Quoted market:		
Investment cash and cash equivalents	\$ 3,311,091	\$ 7,499,384
U.S. Treasury bills	7,992,515	-
Marketable equity securities	31,857,335	28,427,203
Corporate bond funds	42,831,299	15,385,111
Marketable absolute return funds	1,023,296	2,055,826
Real estate, gold and commodities funds	4,451,542	4,137,785
Total quoted market	91,467,078	57,505,309
Alternative investments:		
Multi-strategy hedge funds	4,166,839	3,639,528
Private equity fund	381,511	216,109
Total alternative investments	4,548,350	3,855,637
Total investments	\$ 96,015,428	\$ 61,360,946

## **PENINSULA OPEN SPACE TRUST**

### **Notes to Financial Statements**

June 30, 2010

#### **Note 4 - Investments (continued):**

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. 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, 2010 and 2009)
- Level 3: Significant unobservable inputs

	Year Ended June 30, 2010		
	Level 1	Level 3	Total
Investment 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	<u>\$ 91,467,078</u>	<u>\$ 4,548,350</u>	<u>\$ 96,015,428</u>

	Year Ended June 30, 2009		
	Level 1	Level 3	Total
Investment cash and cash equivalents	\$ 7,499,384	\$ -	\$ 7,499,384
Marketable equity securities	28,427,203	-	28,427,203
Corporate bond funds	15,385,111	-	15,385,111
Marketable absolute return funds	2,055,826	-	2,055,826
Real estate, gold and commodities funds	4,137,785	-	4,137,785
Multi-strategy hedge funds	-	3,639,528	3,639,528
Private equity fund	-	216,109	216,109
Total	<u>\$ 57,505,309</u>	<u>\$ 3,855,637</u>	<u>\$ 61,360,946</u>

**PENINSULA OPEN SPACE TRUST**

**Notes to Financial Statements**

June 30, 2010

**Note 4 - 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):

Year Ended 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, issuances, and settlements	-	108,000	108,000
Transfers in and/or out of Level 3	-	-	-
Ending balance	<u>\$ 4,166,839</u>	<u>\$ 381,511</u>	<u>\$ 4,548,350</u>

  

Year Ended June 30, 2009			
	Multi-strategy hedge funds	Private equity fund	Total
Beginning balance	\$ 1,754,799	\$ 59,647	\$ 1,814,446
Total gains or losses (realized or unrealized)	(115,270)	61,961	(53,309)
Purchases, issuances, and settlements	2,000,000	94,500	2,094,500
Transfers in and/or out of Level 3	-	-	-
Ending balance	<u>\$ 3,639,529</u>	<u>\$ 216,108</u>	<u>\$ 3,855,637</u>

## **PENINSULA OPEN SPACE TRUST**

### **Notes to Financial Statements**

June 30, 2010

#### **Note 4 - 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:

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

(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. Management 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, 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, 2010.

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

	<u>2010</u>	<u>2009</u>
Realized and unrealized gains (losses)	\$ 6,336,182	\$ (21,868,699)
Management fees	<u>(307,921)</u>	<u>(318,657)</u>
Total net realized and unrealized gains (losses) on investments	<u>\$ 6,028,261</u>	<u>\$ (22,187,356)</u>

The Organization has commitments under venture limited liability partnership agreements at June 30, 2010 and 2009 to make additional capital contributions of approximately \$932,000 and \$1,100,000 respectively.

## **PENINSULA OPEN SPACE TRUST**

### **Notes to Financial Statements**

June 30, 2010

#### **Note 5 - Investments held in charitable remainder trusts:**

The Organization is a trustee and remainder beneficiary of five 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. Assets held in the trusts totaled \$4,257,634 and \$3,883,089 at June 30, 2010 and 2009, respectively, and are reported at fair value. 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 (\$2,505,149 and \$2,353,733 at June 30, 2010 and 2009, respectively) is calculated assuming a 5% investment return, discount rates of 4.37% to 5.11% and life expectancies based on applicable mortality tables. At June 30, 2010 and 2009, 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:

	2010	2009
Cash and cash equivalents	\$ 90,759	\$ 106,302
Marketable equity securities	2,249,007	2,069,809
Corporate bond funds	1,317,172	1,169,647
Real estate, gold and commodities funds	413,256	378,523
Marketable absolute return funds	187,441	158,808
Investments held in charitable remainder trusts	<u>\$ 4,257,635</u>	<u>\$ 3,883,089</u>

The Organization is also a remainder beneficiary of an irrevocable charitable remainder trust and a life estate for which the Organization does not serve as the trustee. The life estate has no distribution provisions. 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. The assets remaining after the death of the beneficiary will be available for the Organization's unrestricted use. The portion of the trust and estate 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 (\$103,696 and \$112,151 at June 30, 2010 and 2009, respectively) is calculated using a discount rate of 4.37% and applicable mortality tables. The Organization is a beneficiary on these charitable remainder trusts and there is no further liability beyond the asset balance.

## **PENINSULA OPEN SPACE TRUST**

### **Notes to Financial Statements**

June 30, 2010

#### **Note 6 - Pledges, grants and bequests receivable:**

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

		<u>2010</u>		<u>2009</u>
Pledges receivable, net	\$	631,730	\$	1,443,672
Bequests receivable		994,875		1,447,776
Grants receivable		<u>60,297</u>		<u>273,760</u>
Pledges, grants, and bequests receivable, net	\$	<u><u>1,686,902</u></u>	\$	<u><u>3,165,208</u></u>

#### *Pledges receivable*

During the year ended June 30, 2002, the Organization launched a capital campaign with the goal of raising \$200 million over approximately four years. The campaign successfully concluded during the fiscal year ended June 30, 2006. Contributions to the capital campaign are restricted for land acquisition near the San Mateo County coast. During the year ended June 30, 2008, the Organization launched and successfully completed a campaign with the goal of raising \$6.9 million related to the acquisition of Mindego Hill.

Pledges receivable as of June 30, 2010 are expected to be received as follows:

Year Ending June 30,		Amount
2011	\$	384,537
2012		130,000
2013		110,000
2014		<u>8,842</u>
Total pledges receivable		633,379
Less allowance and discount		<u>(1,649)</u>
Pledges receivable, net	\$	<u><u>631,730</u></u>

#### *Grants receivable*

The Organization had total grants receivable of approximately \$60,000 and \$274,000 at June 30, 2010 and 2009, respectively. Incorporated within total grants receivable, at June 30, 2010 and 2009, the Organization had one multi-year grant receivable which was payable to the Organization in \$10,000 annual payments with receivable balances of \$30,000 and \$40,000, 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.

## **PENINSULA OPEN SPACE TRUST**

### **Notes to Financial Statements**

June 30, 2010

#### **Note 6 - Pledges, grants and bequests receivable (continued):**

##### *Bequests receivable*

The Organization had total bequests receivable of approximately \$995,000 and \$1,448,000 at June 30, 2010 and 2009, respectively. All amounts are expected to be collected during the year ending June 30, 2011.

#### **Note 7 - Notes receivable:**

Notes receivable consist of the following at June 30:

	<u>2010</u>	<u>2009</u>
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 fully secured by a deed of trust.	\$ 12,622,500	\$ 12,622,500
Advance to a government entity to facilitate the purchase of potential park land. The note is non-interest bearing, fully secured by a deed of trust, originally maturing October 2007. The note was extended for two years in 2008 with an extended maturity date of October 2009, with an original present value discount of \$639,129 based on a 4.1176% interest rate. At the extended maturity date, the note defaulted in exchange for the secured underlying property. The value of the underlying property declined between the note origination and the default which resulted in a loss on loan for \$674,200.	-	3,100,000
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 fully secured by a deed of trust.	<u>1,000,000</u>	<u>-</u>
Total notes receivable	13,622,500	15,722,500
Less: discount	<u>-</u>	<u>(37,289)</u>
Notes receivable, net	<u>\$ 13,622,500</u>	<u>\$ 15,685,211</u>



## **PENINSULA OPEN SPACE TRUST**

### **Notes to Financial Statements**

June 30, 2010

#### **Note 7 - Notes receivable (continued):**

The Organization has recorded interest receivable, related to the interest bearing notes due from an individual land owner, of \$6,502,457 and \$5,226,837 at June 30, 2010 and 2009, respectively. Prior to the default of the advance to a government entity, the present value discount was being amortized monthly to interest income. The Organization recognized approximately \$37,000 and \$128,000 of interest income in 2010 and 2009, respectively.

#### **Note 8 - Property held for conservation and related asset retirement obligations:**

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

Balances, July 1, 2008	\$	128,912,681
Purchased land		27,940,000
Land related deposits		50,640
Donations of land received		1,156,750
Change in asset retirements, net		480,587
Dispositions of land		<u>(33,078,860)</u>
Balances, June 30, 2009		125,461,798
Purchased land		2,645,000
Land related deposits		24,360
Change in asset retirements, net		(47,283)
Dispositions of land		<u>(26,473,896)</u>
Balances, June 30, 2010	\$	<u><u>101,609,979</u></u>

Conservation land holdings at June 30, 2010 and 2009, includes one property purchased jointly with another land conservation organization. The Organization's 50% ownership interest is valued at approximately \$5.7 million. The other owner has agreed to share equally in any holding or management costs during their joint ownership. The Organization holds 100% ownership in all remaining conservation land holdings. Included within property held for conservation are costs recorded for future asset retirement obligations of approximately \$433,000 and \$481,000 as of June 30, 2010 and 2009, respectively.

## **PENINSULA OPEN SPACE TRUST**

### **Notes to Financial Statements**

June 30, 2010

#### **Note 8 - Property held for conservation and related asset retirement obligations (continued):**

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

Balances, July 1, 2008	\$	1,132,514
Liabilities removed in the current period through sale of land		(291,133)
Liabilities settled in the current period		(13,078)
Accretion expense		52,132
Revisions in estimated cash flows		33,923
		<hr/>
Balances, June 30, 2009		914,358
Liabilities removed in the current period through sale of land		(45,807)
Liabilities settled in the current period		(26,879)
Liabilities added in the current period through acquisition		13,116
Accretion expense		51,104
		<hr/>
Balances, June 30, 2010	\$	<u>905,892</u>

#### **Note 9 - Property and equipment:**

Property and equipment consisted of the following at June 30:

	<u>2010</u>	<u>2009</u>
Building	\$ 3,522,523	\$ 3,522,523
Furniture	143,712	143,712
Equipment	107,508	106,555
Vehicles	45,281	45,281
	<hr/>	<hr/>
Total property and equipment	3,819,024	3,818,071
Less: accumulated depreciation	(498,825)	(389,640)
Land	2,351,899	2,351,899
	<hr/>	<hr/>
Total property and equipment, net	\$ <u>5,672,098</u>	\$ <u>5,780,330</u>

Depreciation expense, included in other operating expenses, for the years ending June 30, 2010 and 2009 was \$115,528 and \$118,054, respectively.

## **PENINSULA OPEN SPACE TRUST**

### **Notes to Financial Statements**

June 30, 2010

#### **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 30 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:

	<u>2010</u>	<u>2009</u>
Accounts payable	\$ 96,315	\$ 105,056
Other liabilities	<u>414,429</u>	<u>512,916</u>
Accounts payable and other liabilities	<u>\$ 510,744</u>	<u>\$ 617,972</u>

#### **Note 11 - Notes payable:**

Notes payable consist of the following at June 30:

	<u>2010</u>	<u>2009</u>
Non-interest bearing note for the purchase of property, maturing January 2010, with an original present value discount of \$279,000 based on a 2.125% interest rate. This note was paid in full during January 2010.	\$ -	\$ 4,500,225
Less: discount	<u>-</u>	<u>(81,365)</u>
Total notes payable	<u>\$ -</u>	<u>\$ 4,418,860</u>

The Organization amortizes the present value discounts monthly to interest expense and recorded \$81,365 and \$139,484 of interest expense related to the above discount for the years ending June 30, 2010 and 2009, respectively.

## **PENINSULA OPEN SPACE TRUST**

### **Notes to Financial Statements**

June 30, 2010

#### **Note 12 - 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, 2010 and 2009 which is recorded on the Statement of Financial Position as part of property held for conservation.

Capital Contributions - The Organization has commitments under venture limited liability partnership agreements at June 30, 2010 and 2009 to make additional capital contributions of approximately \$932,000 and \$1,100,000 respectively.

#### **Note 13 - Temporarily restricted net assets:**

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

	<u>2010</u>	<u>2009</u>
Bequests, trust receivable, and estate receivable	\$ 1,098,571	\$ 1,559,927
Net assets held in charitable remainder trusts	1,752,485	1,529,355
Land acquisitions	1,500,000	1,500,000
Conservation easement fund	928,866	775,000
Other program activities	<u>222,598</u>	<u>227,363</u>
Total temporarily restricted net assets	<u>\$ 5,502,520</u>	<u>\$ 5,591,645</u>

**PENINSULA OPEN SPACE TRUST**

**Notes to Financial Statements**

June 30, 2010

**Note 13 - Temporarily restricted net assets (continued):**

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

	<u>2010</u>	<u>2009</u>
Land acquisitions	\$ 556,264	\$ 2,137,475
Other program activities	<u>1,324,057</u>	<u>2,741,602</u>
Total temporarily restricted net assets released from restrictions	<u>\$ 1,880,321</u>	<u>\$ 4,879,077</u>

**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:

	<u>2010</u>	<u>2009</u>
Lane Stewardship Endowment	\$ 300,000	\$ 300,000
Wilbur's Watch	250,500	250,500
Stewardship Action Ventures Endowment	<u>25,000</u>	<u>-</u>
Total permanently restricted net assets	<u>\$ 575,500</u>	<u>\$ 550,500</u>

**PENINSULA OPEN SPACE TRUST**

**Notes to Financial Statements**

June 30, 2010

**Note 14 - Permanently restricted net assets (continued):**

Endowment net asset composition by type of funds:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2008	\$ -	\$ -	\$ 552,500	\$ 552,500
Net asset reclassification based on change in law	<u>-</u>	<u>2,000</u>	<u>(2,000)</u>	<u>-</u>
Endowment net assets, after reclassification	<u>-</u>	<u>2,000</u>	<u>550,500</u>	<u>552,500</u>
Investment return:				
Interest and dividend income	-	11,508	-	11,508
Realized and unrealized losses	<u>(80,382)</u>	<u>(11,508)</u>	<u>-</u>	<u>(91,890)</u>
Total investment return	<u>(80,382)</u>	<u>-</u>	<u>-</u>	<u>(80,382)</u>
Contributions:	-	-	-	-
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(2,000)</u>	<u>-</u>	<u>(2,000)</u>
Endowment net assets, June 30, 2009	(80,382)	-	550,500	470,118
Investment return:				
Interest and dividend income	13,897	-	-	13,897
Realized and unrealized gains	<u>47,019</u>	<u>-</u>	<u>-</u>	<u>47,019</u>
Total investment return	<u>60,916</u>	<u>-</u>	<u>-</u>	<u>60,916</u>
Contributions:	<u>-</u>	<u>-</u>	<u>25,000</u>	<u>25,000</u>
Endowment net assets, June 30, 2010	\$ <u>(19,466)</u>	\$ <u>-</u>	\$ <u>575,500</u>	\$ <u>556,034</u>

**PENINSULA OPEN SPACE TRUST**  
**Notes to Financial Statements**  
June 30, 2010

**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. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were approximately \$19,000 as of June 30, 2010, and \$80,000 as of June 30, 2009. 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 and 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 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.

## **PENINSULA OPEN SPACE TRUST**

### **Notes to Financial Statements**

June 30, 2010

#### **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 \$222,000 and \$1,277,000 for the years ended June 30, 2010 and 2009, respectively. Outstanding receivables from the Board of Directors or from companies with which the Board of Directors are affiliated were approximately \$32,000 and \$80,000 and June 30, 2010 and 2009, 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, 2010. The majority of the Organization's cash was held at two financial institutions at June 30, 2010. 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, 2010 and 2009, the following donors accounted for ten percent or more of the Organization's contributions and grants.

	<u>2010</u>	<u>2009</u>
Donor A	11%	less than 10%
Donor B	10%	less than 10%
Donor C	less than 10%	13%
Donor D	less than 10%	11%
Donor E	less than 10%	11%



## **PENINSULA OPEN SPACE TRUST**

### **Notes to Financial Statements**

June 30, 2010

#### **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 and Deferred plans were \$126,806 and \$133,160 for the years ended June 30, 2010 and 2009, respectively.

#### **Note 18 - Subsequent events:**

The Organization has a 50% ownership interest in a property, valued at \$5.7 million at June 30, 2010, which is being sold to a public agency in 2011. In October 2010, the terms of the sale were finalized and the transaction will be submitted to the public works board for approval in December 2010. The Organization expects to receive \$3.8 million for our share of the property and expects to record grant expense of approximately \$3.4 million, setting aside approximately \$1.5 million for future improvements and stewardship fund liabilities, once the transfer is completed.