



PENINSULA OPEN SPACE TRUST

**Financial Statements
June 30, 2013 and 2012**

**Together with
Independent Auditors' Report**

PENINSULA OPEN SPACE TRUST

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June 30, 2013

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INDEPENDENT AUDITORS' REPORT

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, 2013 and 2012, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

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, 2013 and 2012, and the changes in net assets, functional expenses and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Robert Lee + Associates, LLP

San Jose, California
October 31, 2013

PENINSULA OPEN SPACE TRUST

Statement of Financial Position

ASSETS

	June 30,	
	2013	2012
Assets:		
Cash and cash equivalents	\$ 155,111	\$ 266,392
Cash held on behalf of public agencies	270,424	582,521
Accounts receivable	514,561	515,963
Pledges, grants and bequests receivable, net	1,322,778	2,057,609
Financing receivables	24,016,667	13,289,167
Interest receivable	163,469	9,211,379
Prepaid expenses and other assets	199,324	100,440
Investments	116,284,680	120,113,033
Residual interest in charitable remainder trusts	69,098	63,775
Investments held in charitable remainder trusts	5,586,456	5,353,683
Property held-for-sale	164,500	164,500
Land held-for-conservation	101,842,413	81,191,150
Property and equipment, net	5,466,151	5,561,481
Total assets	<u>\$ 256,055,632</u>	<u>\$ 238,471,093</u>

LIABILITIES AND NET ASSETS

	June 30,	
	2013	2012
Liabilities:		
Accounts payable and other liabilities	\$ 459,397	\$ 569,267
Grants payable	1,125,000	-
Stewardship fund liabilities	826,438	920,839
Notes payable	6,209,563	-
Asset retirement obligations	1,985,702	1,807,247
Funds held in agency trust funds	270,424	582,521
Liabilities under remainder trusts	2,937,831	2,926,217
Total liabilities	<u>13,814,355</u>	<u>6,806,091</u>
Commitments		
Net assets:		
Unrestricted	12,289,892	11,511,403
Board designated	223,553,454	213,230,784
Total unrestricted net assets	<u>235,843,346</u>	<u>224,742,187</u>
Temporarily restricted	5,847,431	6,312,215
Permanently restricted	550,500	610,600
Total net assets	<u>242,241,277</u>	<u>231,665,002</u>
Total liabilities and net assets	<u>\$ 256,055,632</u>	<u>\$ 238,471,093</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, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue, support and gains (losses):				
Contributions and grants	\$ 3,257,190	\$ 7,678,329	\$ -	\$ 10,935,519
Contributions of land and easements	800,000	-	-	800,000
Interest and dividends	3,601,173	232,699	-	3,833,872
Realized and unrealized gains and (losses) on investments, net	7,696,142	173,372	-	7,869,514
Rental and other income	227,567	-	-	227,567
Net assets released from restrictions	<u>8,609,284</u>	<u>(8,549,184)</u>	<u>(60,100)</u>	<u>-</u>
 Total revenue, support and gains (losses)	 <u>24,191,356</u>	 <u>(464,784)</u>	 <u>(60,100)</u>	 <u>23,666,472</u>
 Operating expenses:				
Program services	10,715,552	-	-	10,715,552
Fundraising	1,808,057	-	-	1,808,057
Management and support services	<u>566,588</u>	<u>-</u>	<u>-</u>	<u>566,588</u>
 Total operating expenses	 <u>13,090,197</u>	 <u>-</u>	 <u>-</u>	 <u>13,090,197</u>
 Change in net assets	 11,101,159	 (464,784)	 (60,100)	 10,576,275
 Net assets, beginning of year	 <u>224,742,187</u>	 <u>6,312,215</u>	 <u>610,600</u>	 <u>231,665,002</u>
 Net assets, end of year	 <u><u>\$ 235,843,346</u></u>	 <u><u>\$ 5,847,431</u></u>	 <u><u>\$ 550,500</u></u>	 <u><u>\$ 242,241,277</u></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, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue, support and gains (losses):				
Contributions and grants	\$ 3,654,600	\$ 9,577,393	\$ 70	\$ 13,232,063
Contributions of land and easements	2,106,500	-	-	2,106,500
Interest and dividends	3,169,833	1,411,112	-	4,580,945
Realized and unrealized gains and (losses) on investments, net	(1,923,435)	(1,491,376)	-	(3,414,811)
Rental and other income	353,929	-	-	353,929
Net assets released from restrictions	<u>9,051,742</u>	<u>(9,026,742)</u>	<u>(25,000)</u>	<u>-</u>
 Total revenue, support and gains (losses)	 <u>16,413,169</u>	 <u>470,387</u>	 <u>(24,930)</u>	 <u>16,858,626</u>
 Operating expenses:				
Program services	21,928,176	-	-	21,928,176
Fundraising	1,847,584	-	-	1,847,584
Management and support services	<u>632,073</u>	<u>-</u>	<u>-</u>	<u>632,073</u>
 Total operating expenses	 <u>24,407,833</u>	 <u>-</u>	 <u>-</u>	 <u>24,407,833</u>
 Change in net assets	 (7,994,664)	 470,387	 (24,930)	 (7,549,207)
 Net assets, beginning of year	 <u>232,736,851</u>	 <u>5,841,828</u>	 <u>635,530</u>	 <u>239,214,209</u>
 Net assets, end of year	 <u>\$ 224,742,187</u>	 <u>\$ 6,312,215</u>	 <u>\$ 610,600</u>	 <u>\$ 231,665,002</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, 2013

	Program Services	Fundraising	Management and Support Services	Total
Land and easement transactions	\$ 5,794,028	\$ -	\$ -	\$ 5,794,028
Salaries and benefits	1,521,869	1,162,668	484,506	3,169,043
Professional services	1,658,800	268,091	46,357	1,973,248
Grants and contributions	1,180,000	-	-	1,180,000
Other operating	275,135	269,206	3,880	548,221
Property taxes	166,707	-	-	166,707
Printing and postage	39,239	108,092	513	147,844
Interest expense	65,454	-	31,332	96,786
Rent	14,320	-	-	14,320
Total expenses	\$ <u>10,715,552</u>	\$ <u>1,808,057</u>	\$ <u>566,588</u>	\$ <u>13,090,197</u>

For the Year Ended June 30, 2012

	Program Services			
	Program Services	Fundraising	Management and Support Services	Total
Land and easement transactions	\$ 18,651,897	\$ -	\$ -	\$ 18,651,897
Salaries and benefits	1,362,550	1,012,417	511,829	2,886,796
Professional services	1,375,637	499,545	66,311	1,941,493
Other operating	256,851	229,238	50,269	536,358
Printing and postage	46,420	106,384	3,434	156,238
Property taxes	86,325	-	-	86,325
Grants and contributions	78,000	-	-	78,000
Interest expense	57,029	-	230	57,259
Rent	13,467	-	-	13,467
Total expenses	\$ <u>21,928,176</u>	\$ <u>1,847,584</u>	\$ <u>632,073</u>	\$ <u>24,407,833</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,	
	2013	2012
Cash flows from operating activities:		
Change in net assets	\$ 10,576,275	\$ (7,549,207)
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation expense	142,690	134,615
Bad debt expense	27,000	-
Accretion related to asset retirement obligation	65,454	57,029
Net (gain)/loss on settlement of asset retirement obligations	(19,058)	(191,279)
In-kind land grants	3,662,076	19,035,620
Unrealized (gain)/loss on investments	(7,325,525)	6,254,565
Impairment of land held-for-sale	-	70,500
Loss on note receivable	2,113,053	-
Net (gain)/loss on disposal of fixed assets	16,671	-
Non-cash swap for conservation easement	-	15,000
Decrease in non-controlling interest in LLMWC	3,736	3,187
Residual interest in charitable remainder trusts	(5,323)	5,113
Interest income related to note receivable	(1,073,852)	(1,131,880)
Grant payable	1,125,000	-
Interest payable	31,000	-
In-kind contributions received - land	(800,000)	(2,106,500)
In-kind contributions received - securities	(932,841)	(564,676)
Changes in operating assets and liabilities:		
Increase in cash held on behalf of public agencies	312,097	(497)
Accounts receivable	1,402	(351,365)
Pledges, grants and bequests receivable, net	707,831	(1,017,161)
Prepaid expenses and other assets	(98,885)	(16,690)
Proceeds from sale of land	4,280,624	25,014,884
Acquisition of land	(27,640,200)	(26,036,892)
Accounts payable and other liabilities	(128,689)	10,859
Stewardship fund liabilities	(94,401)	(253,942)
Funds held in agency trust funds	(312,097)	497
Cash paid for settlement of asset retirement obligations	(25,441)	(65,782)
Liabilities under remainder trusts	(287,930)	(289,887)
Net cash provided by operating activities	(15,679,333)	11,026,111

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,	
	2013	2012
Investing activities:		
Issuance of financing receivable	\$ (2,718,791)	\$ -
Repayment of financing receivable	-	333,333
Proceeds from sale of investments	96,269,178	106,624,168
Acquisition of investments	(84,215,359)	(117,825,179)
Proceeds from sale of investments held in charitable remainder trusts	2,691,401	3,636,541
Acquisition of investments held in charitable remainder trusts	(2,591,730)	(3,770,088)
Acquisition of property and equipment	(64,030)	(63,210)
Net cash used by investing activities	9,370,669	(11,064,435)
Financing activities:		
Payments on notes payable	(2,617)	-
Issuance of notes payable	6,200,000	-
Net cash used by financing activities	6,197,383	-
Decrease in cash and cash equivalents	(111,281)	(38,324)
Cash and cash equivalents, beginning of year	266,392	304,716
Cash and cash equivalents, end of year	\$ 155,111	\$ 266,392

Supplemental disclosure of cash flow information:

Cash paid during the year for interest	\$ 332	\$ 230
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Supplemental disclosure of non-cash investing and financing information:

Capitalization of asset retirement obligation related to acquisition of property held-for-conservation	\$ 157,500	\$ 524,583
Acquisition of property and equipment under capital lease	\$ -	\$ 13,670
In-kind contributions of goods and services	\$ 32,796	\$ 337,752
Capitalization of interest receivable	\$ 10,121,762	\$ -

The accompanying notes are an integral part of these financial statements

PENINSULA OPEN SPACE TRUST

Notes to Financial Statements

June 30, 2013

Note 1 - Organization:

Peninsula Open Space Trust (the “Organization”) was incorporated in California as a not-for-profit corporation in 1977. The mission of the Organization is to protect and care for open space, farms and parkland in and around Silicon Valley. This purpose is accomplished through gifts and purchases of land, placement of conservation easements or 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 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.

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 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.

Use of estimates - The preparation of financial statements 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.

PENINSULA OPEN SPACE TRUST

Notes to Financial Statements

June 30, 2013

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

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.

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 unconditionally 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, 2013 and 2012.

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 \$932,841 and \$564,676 for the years ended June 30, 2013 and 2012. 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. In-kind contributions of \$32,796 and \$337,752 for in-kind legal and professional services and donated goods for program services were recognized for the years ended June 30, 2013 and 2012, 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.

Rental income - The Organization leases land and property under multiple lease agreements expiring at various dates through 2016.

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.

PENINSULA OPEN SPACE TRUST

Notes to Financial Statements

June 30, 2013

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 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 (3% for the years ended June 30, 2013 and 2012) 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 which may be granted and paid within the same year granted or payable to the Organization over multiple years. The Organization discounts the multi-year grants receivable at a reasonable rate of interest based on the U.S. Treasury Strip Coupon Rate, when material to the financial statements.

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

Financing receivables and related allowance for credit losses - The Organization has financing receivables which consists of one portfolio segment and includes two notes receivable from third parties. A portfolio segment is defined as the level at which the Organization develops and documents a systematic methodology to determine the allowance for credit losses. The Organization did not disaggregate the portfolio segment into separate classes as there are only two notes receivable.

PENINSULA OPEN SPACE TRUST

Notes to Financial Statements

June 30, 2013

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

Financing receivables and related allowance for credit losses (continued): - The allowance for financing receivables represents management's estimate of probable losses inherent in the Organization's financing activities. Credit exposures deemed to be uncollectible are charged against these accounts. Cash recovered on previously charged-off amounts is recorded as a recovery to these accounts. Management evaluates the adequacy of the allowance for financing receivables by performing periodic and systematic detailed reviews of its portfolio segment. The detailed reviews to identify credit losses and to assess the overall collectability of these portfolios are based on historical loss experience, economic conditions, payment activity, credit quality indicators, performing or nonperforming aspects and bankruptcies, as discussed further in Note 5.

Nonperforming financing receivables include financing receivables that have been placed on nonaccrual status or are impaired. The Organization assesses performance of financing receivables on an individual basis based on payment activity and knowledge of the financial state of third party recipients. Accrued interest receivable is expensed when a financing receivable is placed on nonaccrual status. Interest collections on nonaccrual status financing receivables are credited when collected.

Interest receivable - Interest receivable includes accrued interest from notes receivable and investment related receivables including interest receivable from bonds and other dividend and interest earnings outstanding at year-end.

Publicly traded investments - 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.

Investments in 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.

PENINSULA OPEN SPACE TRUST
Notes to Financial Statements
June 30, 2013

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

Fair value of financial instruments - Financial instruments included in the Organization's statement of financial position as of June 30, 2013 and 2012 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 added expected future benefit to be received by the Organization. Certain charitable remainder trust notifications that are not measureable or for which the added fair value is not determinable are not recorded until such time that they become measurable.

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 value less cost to sell.

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, if any, between the purchase price and the estimated fair value. 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, grant expense is recognized for the difference between the selling price and the original book value.

PENINSULA OPEN SPACE TRUST

Notes to Financial Statements

June 30, 2013

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

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 land held-for-conservation on the accompanying statement of financial position. The investment in LLMWC as of June 30, 2013 and 2012 was \$78,446 and \$82,181, 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. Conservation easements purchased 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. The Organization acquired easements valued at \$27,500 during the year ended June 30, 2012 which were charged to land and easement transactions expense. There were no easements acquired during the year ended June 30, 2013.

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.

PENINSULA OPEN SPACE TRUST

Notes to Financial Statements

June 30, 2013

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

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 had \$826,438 and \$920,839 remaining at June 30, 2013 and 2012, respectively.

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.

Endowment accounting and interpretation of relevant law - The Organization's endowment consists of two 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.

Advertising - Advertising costs are expensed as incurred. Advertising, promotion and marketing expense for the years ended June 30, 2013 and 2012 were immaterial to the financial statements.

PENINSULA OPEN SPACE TRUST

Notes to Financial Statements

June 30, 2013

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, 2013 and 2012 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, 2010 and forward. The State of California tax jurisdiction is subject to potential examination for fiscal tax years June 30, 2009 and forward.

Recent accounting pronouncements - In October 2012, the Financial Accounting Standards Board ("FASB") issued FASB Accounting Standards Update ("ASU") 2012-05, "*Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*." This ASU requires a not-for-profit entity to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows if those cash receipts were from the sale of donated financial assets that upon receipt were directed without any not-for-profit imposed limitations for sale and were converted nearly immediately into cash. Accordingly, the cash receipts from the sale of those financial assets should be classified as cash inflows from operating activities, unless the donor restricted the use of the contributed resources to long-term purposes, in which case those cash receipts should be classified as cash flows from financing activities. Otherwise, cash receipts from the sale of donated financial assets should be classified as cash flows from investing activities by the not-for-profit entity. ASU 2012-05 is effective prospectively for fiscal years, and interim periods within those years, beginning after June 15, 2013. Retrospective application to all periods presented upon the date of adoption is permitted. The Organization does not expect the adoption of this ASU to have a material impact on the financial statements.

Subsequent events - Subsequent events have been evaluated through October 31, 2013, which is the date the financial statements were available to be issued and it has been determined that no material subsequent events require an estimate to be recorded or disclosed as of June 30, 2013.

Reclassification - Certain 2012 balances have been reclassified to conform to the 2013 financial statement presentation. These reclassifications have no effect on the previously reported change in net assets.

PENINSULA OPEN SPACE TRUST

Notes to Financial Statements

June 30, 2013

Note 3 - Cash held on behalf of public agencies:

As of June 30, 2013, funds were held in trust for the following public agencies:

	<u>July 01, 2012</u>	<u>Fund Additions</u>	<u>Income Credited</u>	<u>Fund Expenditures</u>	<u>June 30, 2013</u>
CA Dept. of Fish and Game, et al	\$ 312,453	\$ -	\$ 354	\$ (312,807)	\$ -
U.S Dept. of Interior	<u>270,068</u>	<u>-</u>	<u>356</u>	<u>-</u>	<u>270,424</u>
Total	\$ <u>582,521</u>	\$ <u>-</u>	\$ <u>710</u>	\$ <u>(312,807)</u>	\$ <u>270,424</u>

As of June 30, 2012, funds were held in trust for the following public agencies:

	<u>July 01, 2011</u>	<u>Fund Additions</u>	<u>Income Credited</u>	<u>Fund Expenditures</u>	<u>June 30, 2012</u>
CA Dept. of Fish and Game, et al	\$ 312,399	\$ -	\$ 54	\$ -	\$ 312,453
U.S Dept. of Interior	<u>269,625</u>	<u>-</u>	<u>443</u>	<u>-</u>	<u>270,068</u>
Total	\$ <u>582,024</u>	\$ <u>-</u>	\$ <u>497</u>	\$ <u>-</u>	\$ <u>582,521</u>

Note 4 - Pledges, grants and bequests receivable:

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

	<u>2013</u>	<u>2012</u>
Pledges receivable, net	\$ 1,158,891	\$ 987,598
Bequests receivable	159,750	1,034,833
Grants receivable	<u>4,137</u>	<u>35,178</u>
Pledges, grants and bequests receivable, net	\$ <u>1,322,778</u>	\$ <u>2,057,609</u>

PENINSULA OPEN SPACE TRUST

Notes to Financial Statements

June 30, 2013

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

Pledges receivable at June 30, 2013 are expected to be received as follows:

<u>Year Ending June 30,</u>	
2014	\$ 415,088
2015	348,000
2016	328,000
2017	158,000
2018	<u>100,000</u>
Total pledges receivable	1,349,088
Less discount	(163,197)
Less allowance for doubtful accounts	<u>(27,000)</u>
Pledges receivable, net	<u>\$ 1,158,891</u>

When the Organization is aware of circumstances that may impair a specific donor's ability to meet financial obligations, the Organization records a specific allowance, and thereby reduces the net receivable to the amount reasonably believed to be collectible. Write-offs have historically been within management's expectations. As of June 30, 2013 management recorded an allowance for doubtful accounts of \$27,000. No allowance was recorded as of June 30, 2012.

Grants receivable

The Organization had total grants receivable of \$4,137 and \$35,178 at June 30, 2013 and 2012, respectively. All amounts are expected to be collected during the year ended June 30, 2014.

Bequests receivable

The Organization had total bequests receivable of \$159,750 and \$1,034,833 at June 30, 2013 and 2012, respectively. All amounts are expected to be collected during the year ended June 30, 2014.

PENINSULA OPEN SPACE TRUST

Notes to Financial Statements

June 30, 2013

Note 5 - Financing receivables and allowance for credit losses:

Financing receivables consist of the following at June 30:

	<u>2013</u>	<u>2012</u>
Note A	\$ 25,463,053	\$ 12,622,500
Note B	<u>666,667</u>	<u>666,667</u>
Total financing receivable	26,129,720	13,289,167
Less allowance for credit losses	<u>(2,113,053)</u>	<u>-</u>
Financing receivables, net	\$ <u>24,016,667</u>	\$ <u>13,289,167</u>

Note A is an advance to an individual land owner with the objective of facilitating protection of certain land. The note is due July 1, 2019 with an option to extend to July 1, 2049 and bears interest at 8.5% per annum (compound). The note is fully secured, after the credit allowance described below, by a deed of trust.

Note B is an advance to a conservation buyer with the objective of facilitating protection of certain land. The note is due March 2015. An agreement was reached during the period ended June 30, 2013 to reduce the interest rate from 4% to 0% effective March 2013. A forbearance agreement was signed during the same period while terms of the loan are renegotiated. The note is fully secured by a deed of trust.

The Organization did not have any interest receivable related to the financing receivables as of June 30, 2013. Interest receivable as of June 30, 2012 was \$9,211,379. It is the Organization's intention to receive a property in consideration for Note A. The estimated fair value of the property to be received is approximately \$23,600,000.

Credit quality indicators - The Organization's credit quality indicators consist of credit risk profiles based upon payment activity. Payment activity is either performing or nonperforming. Note A is considered to be performing. Note B is considered to be nonperforming. The Organization has placed Note B on nonaccrual status while the terms of the loan are renegotiated.

Ending allowance for credit losses and analysis of past due financing receivables - The Organization had no beginning balance of the allowance for credit losses, however an allowance of \$2,113,053 was recorded for Note A during the year ended June 30, 2013. The allowance was determined by comparing the loan balance with the estimated fair value of the property securing the note. There are no amounts past due and the Organization considers the ending recorded investment to be fully collectible.

PENINSULA OPEN SPACE TRUST

Notes to Financial Statements

June 30, 2013

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,	
	2013	2012
Quoted market:		
Investment in cash and cash equivalents	\$ 4,782,872	\$ 5,282,532
Marketable equity securities	49,144,264	51,263,642
Corporate bond funds	41,897,064	44,352,565
Marketable absolute return funds	4,428,076	3,027,114
Real estate, gold and commodities funds	11,041,206	10,690,544
Total quoted market	111,293,482	114,616,397
Alternative investments:		
Multi-strategy hedge funds	4,027,233	4,655,937
Private equity fund	963,965	840,699
Total alternative investments	4,991,198	5,496,636
Total investments	\$ 116,284,680	\$ 120,113,033

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, 2013

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 ended June 30, 2013 and 2012)
- Level 3: Significant unobservable inputs

June 30, 2013			
	Level 1	Level 3	Total
Investment in cash and cash equivalents	\$ 4,782,872	\$ -	\$ 4,782,872
Marketable equity securities	49,144,264	-	49,144,262
Corporate bond funds	41,897,064	-	41,897,064
Marketable absolute return funds	4,428,076	-	4,428,076
Real estate, gold and commodities funds	11,041,206	-	11,041,206
Multi-strategy hedge funds	-	4,027,233	4,027,233
Private equity fund	-	963,965	963,965
Total	<u>\$ 111,293,482</u>	<u>\$ 4,991,198</u>	<u>\$ 116,284,680</u>

June 30, 2012			
	Level 1	Level 3	Total
Investments cash and cash equivalents	\$ 5,282,532	\$ -	\$ 5,282,532
Marketable equity securities	51,236,642	-	51,237,592
Corporate bond funds	44,352,565	-	44,352,565
Marketable absolute return funds	3,027,114	-	3,027,114
Real estate, gold and commodities funds	10,690,544	-	10,690,544
Multi-strategy hedge funds	-	4,655,937	4,655,937
Private equity fund	-	840,699	840,699
Total	<u>\$ 114,616,397</u>	<u>\$ 5,496,636</u>	<u>\$ 120,113,033</u>

PENINSULA OPEN SPACE TRUST

Notes to Financial Statements

June 30, 2013

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, 2013		
	Multi-strategy hedge funds	Private equity fund	Total
Beginning balance	\$ 4,655,937	\$ 840,699	\$ 5,496,636
Realized and unrealized gains or losses, net	271,296	117,132	388,428
Purchases, issuance and settlements	(900,000)	6,134	(893,866)
Transfers in and/or out of Level 3	-	-	-
Ending balance	<u>\$ 4,027,233</u>	<u>\$ 963,965</u>	<u>\$ 4,991,198</u>

	June 30, 2012		
	Multi-strategy hedge funds	Private equity fund	Total
Beginning balance	\$ 4,545,963	\$ 655,784	\$ 5,201,747
Realized and unrealized gains or losses, net	109,974	96,162	206,136
Purchases, issuance, and settlements	-	88,753	88,753
Transfers in and/or out of Level 3	-	-	-
Ending balance	<u>\$ 4,655,937</u>	<u>\$ 840,699</u>	<u>\$ 5,496,636</u>

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, 2013:

Category	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice
Multi-strategy hedge funds (a)	\$ 4,027,233	\$ -	Various	100 days
Private equity fund (b)	<u>963,965</u>	<u>378,000</u>	N/A	N/A
	<u>\$ 4,991,198</u>	<u>\$ 378,000</u>		

PENINSULA OPEN SPACE TRUST

Notes to Financial Statements

June 30, 2013

Note 6 - Investments (continued):

The following table lists investments in other investment companies by major category at June 30, 2012:

<u>Category</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice</u>
Multi-strategy hedge funds (a) \$	4,655,937	\$ -	Various	100 days
Private equity fund (b)	840,699	513,000	N/A	N/A
	<u>\$ 5,496,636</u>	<u>\$ 513,000</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. 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, 2013 and 2012.

(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, 2013 and 2012.

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

	<u>2013</u>	<u>2012</u>
Realized gains	\$ 854,788	\$ 3,271,856
Unrealized gains (losses)	7,330,849	(6,259,677)
Unrealized loss on property-held-for-sale	-	(70,500)
Management fees and trust expenses	<u>(316,123)</u>	<u>(356,490)</u>
Total net realized and unrealized gains on investments	<u>\$ 7,869,514</u>	<u>\$ (3,414,811)</u>

PENINSULA OPEN SPACE TRUST

Notes to Financial Statements

June 30, 2013

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 (\$2,937,831 and \$2,926,217 at June 30, 2013 and 2012, 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, 2013 and 2012, 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:

	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	\$ 125,113	\$ 54,839
Marketable equity securities	2,653,622	3,151,069
Corporate bond funds	1,702,233	1,300,947
Real estate, gold and commodities funds	595,613	355,946
Marketable absolute return funds	<u>509,875</u>	<u>490,882</u>
Total	\$ <u>5,586,456</u>	\$ <u>5,353,683</u>

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 quarterly 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 portion of the trust 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 (\$69,098 and \$63,775 at June 30, 2013 and 2012, 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 and gift annuities and there is no further liability beyond the asset balance.

PENINSULA OPEN SPACE TRUST

Notes to Financial Statements

June 30, 2013

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, June 30, 2011	\$ 96,591,866
Purchased land	27,170,291
Land related deposits	(139,010)
Donations of land received	2,106,500
Change in asset retirements, net	(107,205)
Dispositions of land	<u>(44,431,292)</u>
Balances, June 30, 2012	81,191,150
Purchased land	27,409,675
Land related deposits	249,900
Change in asset retirements, net	139,423
Dispositions of land	<u>(7,147,735)</u>
Balances, June 30, 2013	<u>\$ 101,842,413</u>

Included within land held-for-conservation are costs recorded for future asset retirement obligations of \$1,005,152 and \$865,728 as of June 30, 2013 and 2012, respectively.

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

Balances, June 30, 2011	\$ 1,482,696
Liabilities removed in the current period through sale of land	(191,279)
Liabilities settled in the current period	(65,782)
Liabilities added in the current period through acquisition	524,583
Accretion expense	<u>57,029</u>
Balances, June 30, 2012	1,807,247
Liabilities removed in the current period through transfer of land	(5,421)
Liabilities settled in the current period	(25,441)
Liabilities removed in the current period through change in estimate	(13,637)
Liabilities added in the current period through acquisition	157,500
Accretion expense	<u>65,454</u>
Balances, June 30, 2013	<u>\$ 1,985,702</u>

PENINSULA OPEN SPACE TRUST

Notes to Financial Statements

June 30, 2013

Note 9 - Property and equipment:

Property and equipment consisted of the following at June 30:

	<u>2013</u>	<u>2012</u>
Building	\$ 3,522,523	\$ 3,522,523
Furniture	160,919	160,919
Equipment	162,272	150,380
Vehicles	<u>72,593</u>	<u>72,593</u>
Total property and equipment	3,918,307	3,906,415
Less: accumulated depreciation	(804,055)	(696,833)
Land	<u>2,351,899</u>	<u>2,351,899</u>
Total property and equipment, net	<u>\$ 5,466,151</u>	<u>\$ 5,561,481</u>

Depreciation expense, included in other operating expenses, for the years ended June 30, 2013 and 2012 was approximately \$143,000 and \$135,000, 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:

	<u>2013</u>	<u>2012</u>
Accounts payable	\$ 185,867	\$ 110,766
Vacation accrual	108,442	132,083
Interest payable	31,000	-
Lease back obligations	-	153,750
Other liabilities	<u>134,088</u>	<u>172,668</u>
Accounts payable and other liabilities	<u>\$ 459,397</u>	<u>\$ 569,267</u>

PENINSULA OPEN SPACE TRUST

Notes to Financial Statements

June 30, 2013

Note 11 - Notes payable

Notes payable include the Organization's capital lease for a copy machine, as well as a program-related investment loan obtained as part of a land transaction. On December 31, 2012, the Organization borrowed \$6,200,000. The loan accrues 1% interest with payments due annually and the principal due December 31, 2016. The loan is subject to certain covenants related to programmatic use, reporting and overall debt carried by the Organization. As of June 30, 2013, the Organization was in compliance with all loan covenants.

Note 12 - Board designations of unrestricted net assets:

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

	<u>2013</u>	<u>2012</u>
Land held for conservation	\$ 101,842,413	\$ 80,320,322
Property and equipment	5,466,150	5,561,482
Land, easements and stewardship	<u>116,244,891</u>	<u>127,348,981</u>
Total board designations	<u>\$ 223,553,454</u>	<u>\$ 213,230,784</u>

Note 13 - Temporarily restricted net assets:

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

	<u>2013</u>	<u>2012</u>
Bequests, trusts and estate receivable	\$ 228,848	\$ 1,098,608
Net assets held in charitable remainder trusts	2,648,624	2,427,464
Land acquisitions	533,822	270,201
Conservation easement fund	1,060,374	1,021,819
Held for endowment	85,718	49,163
Other program activities	<u>1,290,045</u>	<u>1,453,960</u>
Total temporarily restricted net assets	<u>\$ 5,847,431</u>	<u>\$ 6,312,215</u>

PENINSULA OPEN SPACE TRUST

Notes to Financial Statements

June 30, 2013

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>2013</u>	<u>2012</u>
Bequests, trusts and estate receivable	\$ 1,959,862	\$ 1,909,023
Land acquisitions	2,776,798	6,126,603
Other program activities	<u>3,812,524</u>	<u>991,116</u>
 Total temporarily restricted net assets released from restrictions	 <u>8,549,184</u>	 <u>9,026,742</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>2013</u>	<u>2012</u>
Lane Stewardship Endowment	\$ 300,000	\$ 300,000
Wilbur's Watch Endowment	250,500	250,500
Stewardship Action Ventures Endowment (SAVE)	<u>-</u>	<u>60,100</u>
 Total permanently restricted net assets	 <u>550,500</u>	 <u>610,600</u>

See Note 15 for permanently restricted net asset releases.

PENINSULA OPEN SPACE TRUST

Notes to Financial Statements

June 30, 2013

Note 15 - Endowment:

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2011	\$ -	\$ 76,296	\$ 635,530	\$ 711,826
Net asset reclassification:				
Interest and dividend	-	9,021	-	9,021
Realized and unrealized	-	(9,666)	-	(9,666)
Total investment return	-	(644)	-	(644)
Contributions	-	-	70	70
Reclassification of prior year contributions	-	-	(25,000)	(25,000)
Appropriation of Endowment Assets for Expenditure	-	(26,489)	-	(26,489)
Endowment net assets, June 30, 2012	\$ -	\$ 49,163	\$ 610,600	\$ 659,763
Net asset reclassification:				
Interest and dividend	-	13,189	-	13,189
Realized and unrealized	-	50,115	-	50,115
Appropriation of income	-	(6,769)	-	(6,769)
Total investment return	-	56,535	-	56,535
Contributions	-	-	-	-
Reclassification of prior year contributions	-	-	(60,100)	(60,100)
Appropriation of Endowment Assets for Expenditure	-	(19,979)	-	(19,979)
Endowment net assets, June 30, 2013	\$ -	\$ 85,719	\$ 550,500	\$ 636,219

Permanently restricted fund release - During 2012, per donor request, \$25,000 of permanently restricted funds were transferred from the SAVE fund to the Redwood Campaign, a temporarily restricted fund. In fiscal year 2013, all remaining permanently restricted SAVE funds were reclassified with donor agreement and the SAVE fund was closed.

PENINSULA OPEN SPACE TRUST

Notes to Financial Statements

June 30, 2013

Note 15 - Endowment (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, 2013 or June 30, 2012.

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 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 16 - 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, from companies with which the Board of Directors are affiliated or from employees of the Organization were \$592,404 and \$677,583 for the years ended June 30, 2013 and 2012, respectively. Outstanding receivables from the Board of Directors or from companies with which the Board of Directors are affiliated were \$16,000 and \$0 for the years ended June 30, 2013 and 2012, respectively. During the year ended June 30, 2012, an affiliated individual made a \$100,000 pledge of which \$25,000 and \$75,000 was outstanding as of June 30, 2013 and 2012, respectively.

PENINSULA OPEN SPACE TRUST

Notes to Financial Statements

June 30, 2013

Note 16 - Related-party transactions (continued):

A member of the Board of Directors leases agricultural land from the Organization with lease payments totaling \$18,200 and \$18,200 for the years ended June 30, 2013 and 2012, respectively.

Note 17 - 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 October 1, 2017, and, with the exception noted in Note 4, the Organization believes these amounts are fully collectible. The notes receivable are fully secured at June 30, 2013. The majority of the Organization's cash was held at one financial institution at June 30, 2013. 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, 2013 and 2012, the following donors accounted for ten percent or more of the Organization's contributions and grants.

	<u>2013</u>	<u>2012</u>
Donor A	19%	30%
Donor B	10%	Less than 10%
Donor C	Less than 10%	14%

Note 18 - Benefit plans:

Peninsula Open Space Trust Defined Contribution Retirement Plan - The Organization has a defined contribution plan ("DC Plan") in which employees who have worked for at least 12 months and 1,000 hours or more during those 12 months are eligible to participate. The Organization's contributions to the DC Plan were \$117,688 and \$134,601 for the years ended June 30, 2013 and 2012, respectively.

Peninsula Open Space Trust Tax-Deferred Annuity Plan - The Organization has a 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.

PENINSULA OPEN SPACE TRUST

Notes to Financial Statements

June 30, 2013

Note 18 - Benefit plans (continued):

457(b) Supplemental Executive Retirement Plan - The Organization has a nonqualified supplemental executive retirement plan ("SERP") for the benefit of a former employee in which no contributions have been made for the years ended June 30, 2013 and 2012.

Note 19 - Section 125 cafeteria plan:

The Organization has a cafeteria plan ("Cafeteria plan") under Section 125. To the extent provided in the Cafeteria plan, eligible employees can withhold pre-tax dollars in a spending account which the employee can use for reimbursements of certain medical, dependent care and adoption expenses.