



**PENINSULA OPEN SPACE TRUST**

**Financial Statements  
June 30, 2015 and 2014**

**Together with  
Independent Auditors' Report**

**PENINSULA OPEN SPACE TRUST**

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**June 30, 2015**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Peninsula Open Space Trust

We have audited the accompanying financial statements of Peninsula Open Space Trust (the "Organization"), a California non-profit, which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Board of Directors of  
Peninsula Open Space Trust

**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, 2015 and 2014, 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 20, 2015

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

**ASSETS**

	June 30,	
	2015	2014
Assets:		
Cash and cash equivalents	\$ 148,316	\$ 220,541
Cash held on behalf of public agencies	270,738	270,552
Accounts receivable	502,696	520,811
Pledges, grants and bequests receivable, net	11,617,242	1,635,049
Financing receivables, net	24,016,666	24,016,667
Interest receivable	84,592	156,081
Prepaid expenses and other assets	379,942	305,305
Investments	155,437,201	130,779,756
Residual interest in charitable remainder trusts	294,455	286,980
Investments held in charitable remainder trusts	5,801,340	6,017,519
Life interest in real estate	-	1,100,000
Property held-for-sale	178,600	131,600
Land held-for-conservation	81,239,186	92,750,148
Property and equipment, net	5,543,701	5,335,127
 Total assets	 \$ 285,514,675	 \$ 263,526,136

**LIABILITIES AND NET ASSETS**

	June 30,	
	2015	2014
Liabilities:		
Accounts payable and other liabilities	\$ 517,095	\$ 638,711
Stewardship liabilities	943,786	1,010,686
Notes payable	9,724,085	6,206,865
Asset retirement obligations	1,788,449	1,943,892
Funds held in agency trust funds	270,738	270,552
Liabilities under remainder trusts	2,830,111	3,024,898
 Total liabilities	 16,074,264	 13,095,604
Commitments		
Net assets:		
Unrestricted	16,288,692	16,288,692
Board designated	236,492,291	225,805,642
 Total unrestricted net assets	 252,780,983	 242,094,334
Temporarily restricted	16,108,928	7,785,698
Permanently restricted	550,500	550,500
 Total net assets	 269,440,411	 250,430,532
 Total liabilities and net assets	 \$ 285,514,675	 \$ 263,526,136

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, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, support and gains:				
Contributions and grants	\$ 3,658,560	\$ 23,187,431	\$ -	\$ 26,845,991
Interest and dividends	2,695,654	158,692	-	2,854,346
Realized and unrealized gains and (losses) on investments, net	1,297,291	54,327	-	1,351,618
Rental and other income	230,844	-	-	230,844
Net assets released from restrictions	15,077,220	(15,077,220)	-	-
Total revenue, support and gains	22,959,569	8,323,230	-	31,282,799
Operating expenses:				
Program services	9,371,367	-	-	9,371,367
Fundraising	1,920,394	-	-	1,920,394
Management and support services	981,159	-	-	981,159
Total operating expenses	12,272,920	-	-	12,272,920
Change in net assets	10,686,649	8,323,230	-	19,009,879
Net assets, beginning of year	242,094,334	7,785,698	550,500	250,430,532
Net assets, end of year	\$ 252,780,983	\$ 16,108,928	\$ 550,500	\$ 269,440,411

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, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, support and gains:				
Contributions and grants	\$ 3,372,931	\$ 8,641,105	\$ -	\$ 12,014,036
Contributions of land and easements	157,786	-	-	157,786
Interest and dividends	2,561,655	292,171	-	2,853,826
Realized and unrealized gains on investments, net	12,093,863	328,073	-	12,421,936
Rental and other income	205,780	-	-	205,780
Net assets released from restrictions	7,323,082	(7,323,082)	-	-
	25,715,097	1,938,267	-	27,653,364
Total revenue, support and gains				
Operating expenses:				
Program services	16,738,906	-	-	16,738,906
Fundraising	1,928,285	-	-	1,928,285
Management and support services	796,918	-	-	796,918
	19,464,109	-	-	19,464,109
Total operating expenses				
Change in net assets	6,250,988	1,938,267	-	8,189,255
Net assets, beginning of year	235,843,346	5,847,431	550,500	242,241,277
Net assets, end of year	\$ 242,094,334	\$ 7,785,698	\$ 550,500	\$ 250,430,532

The accompanying notes are an integral part of these financial statements

**PENINSULA OPEN SPACE TRUST**  
**Statement of Functional Expense**

For the Year Ended June 30, 2015

	Program Services	Fundraising	Management and Support Services	Total
Land and easement transactions	\$ 4,662,660	\$ -	\$ -	\$ 4,662,660
Grants and contributions	650,206	175	-	650,381
Salaries and benefits	1,777,985	1,277,508	684,896	3,740,389
Professional services	1,732,118	249,639	112,416	2,094,173
Other operating	331,994	225,658	82,393	640,045
Property taxes	113,736	-	-	113,736
Printing and postage	40,367	167,414	5,453	213,234
Interest expense	48,392	-	96,001	144,393
Rent	13,909	-	-	13,909
<b>Total expenses</b>	<b>\$ 9,371,367</b>	<b>\$ 1,920,394</b>	<b>\$ 981,159</b>	<b>\$ 12,272,920</b>

For the Year Ended June 30, 2014

	Program Services	Fundraising	Management and Support Services	Total
Land and easement transactions	\$ 8,288,906	\$ -	\$ -	\$ 8,288,906
Grants and contributions	4,112,019	-	-	4,112,019
Salaries and benefits	1,621,961	1,272,842	602,144	3,496,947
Professional services	2,100,190	317,177	58,399	2,475,766
Other operating	290,556	219,737	73,229	583,522
Property taxes	187,246	-	-	187,246
Printing and postage	64,543	118,529	722	183,794
Interest expense	60,789	-	62,424	123,213
Rent	12,696	-	-	12,696
<b>Total expenses</b>	<b>\$ 16,738,906</b>	<b>\$ 1,928,285</b>	<b>\$ 796,918</b>	<b>\$ 19,464,109</b>

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,	
	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Change in net assets	\$ 19,009,879	\$ 8,189,255
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	141,954	145,029
Accretion related to asset retirement obligation	57,757	60,789
Net (gain) on settlement of asset retirement obligations	(162,953)	(254,508)
In-kind land grants	4,565,947	8,154,653
Unrealized (gain)/loss on investments	345,970	(12,996,662)
Impairment (gain) on land held-for-sale	(47,000)	32,900
Impairment of financing receivable	250,300	-
Net loss on disposal of fixed assets	-	1,152
Decrease in non-controlling interest in LLMWC	2,601	3,347
Residual interest in charitable remainder trusts	(7,475)	(217,882)
Life interest in real estate	1,100,000	(1,100,000)
Interest income related to note receivable	71,489	7,388
Grant payable	-	(1,125,000)
Interest payable	31,000	31,000
In-kind contributions received - land	-	(157,786)
In-kind contributions received - securities	(1,225,092)	(848,457)
Changes in operating assets and liabilities:		
Increase in cash held on behalf of public agencies	(186)	(128)
Accounts receivable	18,116	(6,250)
Pledges, grants and bequests receivable, net	(9,982,193)	(312,271)
Prepaid expenses and other assets	(74,636)	(105,982)
Proceeds from sale of land	17,889,414	7,471,202
Acquisition of land	(10,915,500)	(5,985,400)
Accounts payable and other liabilities	(152,616)	148,314
Stewardship long term liabilities	(66,901)	184,248
Funds held in agency trust funds	186	128
Cash paid for settlement of asset retirement obligations	(81,747)	(241,842)
Liabilities under remainder trusts	(303,892)	(303,892)
Net cash provided by operating activities	<u>\$ 20,464,422</u>	<u>\$ 773,345</u>

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,	
	2015	2014
Investing activities:		
Issuance of financing receivable	(250,300)	-
Proceeds from sale of investments	60,526,748	43,035,614
Acquisition of investments	(84,069,989)	(43,916,146)
Proceeds from sale of investments held in charitable remainder trusts	1,922,613	1,347,276
Acquisition of investments held in charitable remainder trusts	(1,832,411)	(1,156,805)
Acquisition of property and equipment	(350,528)	(15,156)
Net cash used by investing activities	(24,053,867)	(705,217)
Financing activities:		
Payments on notes payable	(2,780)	(2,698)
Issuance of notes payable	3,520,000	-
Net cash provided by financing activities	3,517,220	(2,698)
Increase (decrease) in cash and cash equivalents	(72,225)	65,430
Cash and cash equivalents, beginning of year	220,541	155,111
Cash and cash equivalents, end of year	\$ 148,316	\$ 220,541
<u>Supplemental disclosure of cash flow information:</u>		
Cash paid during the year for interest	\$ 62,169	\$ 62,402
<u>Supplemental disclosure of non-cash investing and financing information:</u>		
Capitalization of asset retirement obligation related to acquisition of property held-for-conservation	\$ 63,000	\$ 393,750
In-kind contributions	\$ 60,214	\$ 88,856

The accompanying notes are an integral part of these financial statements

# **PENINSULA OPEN SPACE TRUST**

## **Notes to the Financial Statements**

June 30, 2015

### **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, transfers to public agencies and conservation-minded individuals, placement of conservation easements or deed restrictions on land, cooperation with private land owners, active stewardship of owned lands and monitoring of transferred lands to ensure natural and agricultural values are maintained.

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 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 the Financial Statements**

June 30, 2015

#### **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, 2015 and 2014.

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 \$1,225,092 and \$848,457 for the years ended June 30, 2015 and 2014. 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 \$60,214 and \$88,856 for in-kind legal and professional services and donated goods for program services were recognized for the years ended June 30, 2015 and 2014, 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 2019.

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 the Financial Statements**

June 30, 2015

#### **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, 2015 and 2014) and are stated at their fair 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 - The Organization records a bequest receivable when it receives written notification that it has been named as a beneficiary of an irrevocable trust or estate for which the amount to be received can be reasonably estimated. If appropriate, the amount is 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. 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.

## **PENINSULA OPEN SPACE TRUST**

### **Notes to the Financial Statements**

June 30, 2015

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

Financing receivables and related allowance for credit losses (continued): - 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.

Fair value of financial instruments - Financial instruments included in the Organization's statement of financial position as of June 30, 2015 and 2014 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.

**PENINSULA OPEN SPACE TRUST**  
**Notes to the Financial Statements**  
June 30, 2015

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

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 measurable or for which the added fair value is not determinable are not recorded until such time that they become measurable.

Life interest in real estate - The Organization occasionally receives contributions of real estate which the donor retains the right to use for the remainder of the donor's life. During the donor's lifetime, the donor is responsible for executory costs related to the property. The Organization records the fair value of the real estate as an asset and records a corresponding liability for the life interest based upon the actuarial life of the donor using IRS guidance.

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 the Financial Statements**  
June 30, 2015

**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, 2015 and 2014 was \$72,498 and \$75,099, 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, 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. Sometimes, the Organization may sell a conservation easement to a nonprofit or public agency partner while retaining ownership of the property. During the year ended June 30, 2015, the Organization sold easements to partners for a net expense of \$1,816,086 which was recorded to land and easement transactions expense. The Organization retained easements valued at \$1,664,220 on lands transferred into private ownership during the year ended June 30, 2014 which were charged to land and easement transactions expense.

Property, equipment, depreciation and amortization - 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 forty years. Building improvements are amortized using the straight-line method over the assets’ estimated useful lives. 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.

# **PENINSULA OPEN SPACE TRUST**

## **Notes to the Financial Statements**

June 30, 2015

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

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

Stewardship 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 \$534,684 and \$621,926 remaining at June 30, 2015 and 2014, respectively. Additionally, in the year ended June 30, 2014, the Organization recorded a liability of \$388,760 related to active remediation efforts on a separate property. In the year ended June 30, 2015, the Organization recorded a liability related to partner funds received as part of an easement transaction. The balance was \$20,342 at June 30, 2015.

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 soil contamination. The retirement obligation is based on the present value of management's estimates of the costs of in-stream structure, asbestos, and soil contamination 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 endowment 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.

**PENINSULA OPEN SPACE TRUST**  
**Notes to the Financial Statements**  
June 30, 2015

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

Advertising - Advertising costs are expensed as incurred. Advertising and promotion expense for the years ended June 30, 2015 and 2014 were immaterial to the financial statements.

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 or for all uncertain tax positions in the aggregate could differ from the amount recognized. As of June 30, 2015 and 2014 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, 2012 and forward. The State of California tax jurisdiction is subject to potential examination for fiscal tax years June 30, 2011 and forward.

Subsequent events - Subsequent events have been evaluated through the date of the independent auditors' report October 20, 2015, 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 as of June 30, 2015. See subsequent events footnote 22.

Reclassification - Certain 2014 balances have been reclassified to conform to the 2015 financial statement presentation. These reclassifications have no effect on the previously reported change in net assets.

**PENINSULA OPEN SPACE TRUST**  
**Notes to the Financial Statements**  
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**Note 3 - Cash held on behalf of public agencies:**

As of June 30, 2015, funds were held in trust for the following public agencies:

	<u>July 01, 2014</u>	<u>Fund Additions</u>	<u>Income Credited</u>	<u>Fund Expenditures</u>	<u>June 30, 2015</u>
U.S Dept. of Interior	270,552	-	186	-	270,738
Total \$	<u>270,552</u>	<u>-</u>	<u>186</u>	<u>-</u>	<u>270,738</u>

As of June 30, 2014, funds were held in trust for the following public agencies:

	<u>July 01, 2013</u>	<u>Fund Additions</u>	<u>Income Credited</u>	<u>Fund Expenditures</u>	<u>June 30, 2014</u>
U.S Dept. of Interior	270,424	-	128	-	270,552
Total \$	<u>270,424</u>	<u>-</u>	<u>128</u>	<u>-</u>	<u>270,552</u>

**Note 4 - Pledges, grants and bequests receivable:**

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

	<u>2015</u>	<u>2014</u>
Pledges receivable, net	\$ 1,088,628	\$ 1,526,931
Bequests receivable	10,524,634	95,115
Grants receivable	<u>3,980</u>	<u>13,003</u>
Pledges, grants and bequests receivable, net	<u>\$ 11,617,242</u>	<u>\$ 1,635,049</u>

**PENINSULA OPEN SPACE TRUST**  
**Notes to the Financial Statements**  
June 30, 2015

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

Pledges receivable at June 30, 2015 are expected to be received as follows:

<u>Year Ending June 30,</u>	
2016	\$ 390,666
2017	405,441
2018	<u>370,000</u>
Total pledges receivable	1,166,107
Less discount	(50,479)
Less allowance for doubtful accounts	<u>(27,000)</u>
Pledges receivable, net	<u>\$ 1,088,628</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. On June 30, 2013 management recorded an allowance for doubtful accounts of \$27,000. No change to the allowance was considered necessary during the years ended June 30, 2015 and 2014, respectively.

*Bequests receivable*

The Organization had total bequests receivable of \$10,524,634 and \$95,115 at June 30, 2015 and 2014, respectively. All amounts are expected to be collected during the year ended June 30, 2016.

*Grants receivable*

The Organization had total grants receivable of \$3,980 and \$13,003 at June 30, 2015 and 2014, respectively. All amounts are expected to be collected during the year ended June 30, 2015.

**PENINSULA OPEN SPACE TRUST**  
**Notes to the Financial Statements**  
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**Note 5 - Financing receivables and allowance for credit losses:**

Financing receivables consist of the following at June 30:

	<u>2015</u>	<u>2014</u>
Note A	\$ 25,713,353	\$ 25,463,053
Note B	<u>666,667</u>	<u>666,667</u>
Total financing receivable	26,380,020	26,129,720
Less allowance for credit losses	<u>(2,363,353)</u>	<u>(2,113,053)</u>
 Financing receivables, net	 <u>\$ 24,016,666</u>	 <u>\$ 24,016,667</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. Per the terms of the loan agreement, the Organization provided additional funding of \$250,000 (plus closing costs) in July 2014 and will continue to annually increase the loan amount by this amount, assuming all conditions are met, until the loan balance is \$26,744,262.

Note B is an advance to a nonprofit conservation buyer with the objective of facilitating protection of certain land. The note is fully secured by a deed of trust and was 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 renegotiation process continued through June 30, 2015 and on August 14, 2015 the loan was partially repaid and partially forgiven in the form of a grant to the nonprofit.

The Organization did not have any interest receivable related to the financing receivables as of the years ended June 30, 2015 and 2014. 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 A on nonaccrual status based on the most recent property valuation. Note B is also on nonaccrual status while the terms of the loan are renegotiated.

## **PENINSULA OPEN SPACE TRUST**

### **Notes to the Financial Statements**

June 30, 2015

#### **Note 5 - Financing receivables and allowance for credit losses (continued):**

Ending allowance for credit losses and analysis of past due financing receivables - The Organization recorded an allowance for credit losses for Note A of \$2,363,353 and \$2,113,053 for the years ending June 30, 2015 and 2014, respectively. The allowance was determined by comparing the loan balance, and subsequent \$250,000 annual loan increase 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.

#### **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,	
	2015	2014
Quoted market:		
Investment in cash and cash equivalents	\$ 4,004,137	\$ 5,378,532
Marketable equity securities	82,062,051	64,446,189
Corporate bond funds	49,191,284	39,326,354
Marketable absolute return funds	4,890,404	4,164,524
Real estate, gold and commodities funds	7,151,617	11,896,326
Total quoted market	<u>147,299,493</u>	<u>125,211,925</u>
Alternative investments:		
Multi-strategy hedge funds	6,677,360	4,481,464
Private equity fund	1,460,348	1,086,367
Total alternative investments	<u>8,137,708</u>	<u>5,567,831</u>
Total investments	<u>\$ 155,437,201</u>	<u>\$ 130,779,756</u>

## **PENINSULA OPEN SPACE TRUST**

### **Notes to the Financial Statements**

June 30, 2015

#### **Note 6 - 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 ended June 30, 2015 and 2014)
- Level 3: Significant unobservable inputs

	June 30, 2015		
	Level 1	Level 3	Total
Investment in cash and cash equivalents	\$ 4,004,137	\$ -	\$ 4,004,137
Marketable equity securities	82,062,051	-	82,062,051
Corporate bond funds	49,191,284	-	49,191,284
Marketable absolute return funds	4,890,404	-	4,890,404
Real estate, gold and commodities funds	7,151,617	-	7,151,617
Multi-strategy hedge funds	-	6,677,360	6,677,360
Private equity fund	-	1,460,348	1,460,348
Total	<u>\$ 147,299,493</u>	<u>\$ 8,137,708</u>	<u>\$ 155,437,201</u>

	June 30, 2014		
	Level 1	Level 3	Total
Investments cash and cash equivalents	\$ 5,378,532	\$ -	\$ 5,378,532
Marketable equity securities	64,446,189	-	64,446,189
Corporate bond funds	39,326,354	-	39,326,354
Marketable absolute return funds	4,164,524	-	4,164,524
Real estate, gold and commodities funds	11,896,326	-	11,896,326
Multi-strategy hedge funds	-	4,481,464	4,481,464
Private equity fund	-	1,086,367	1,086,367
Total	<u>\$ 125,211,925</u>	<u>\$ 5,567,831</u>	<u>\$ 130,779,756</u>

**PENINSULA OPEN SPACE TRUST**

**Notes to the Financial Statements**

June 30, 2015

**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, 2015		
	Multi-strategy hedge funds	Private equity fund	Total
Beginning balance	\$ 4,481,464	\$ 1,086,367	\$ 5,567,831
Realized and unrealized gains or losses, net	195,896	629,411	825,307
Purchases, issuance and settlements	2,000,000	(255,430)	1,744,570
Transfers in and/or out of Level 3	-	-	-
Ending balance	\$ 6,677,360	\$ 1,460,348	\$ 8,137,708
	June 30, 2014		
	Multi-strategy hedge funds	Private equity fund	Total
Beginning balance	\$ 4,027,233	\$ 936,965	\$ 4,991,198
Realized and unrealized gains or losses, net	454,231	160,305	614,536
Purchases, issuance, and settlements	-	(37,903)	(37,903)
Transfers in and/or out of Level 3	-	-	-
Ending balance	\$ 4,481,464	\$ 1,086,367	\$ 5,567,831

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, 2015:

Category	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice
Multi-strategy hedge funds (a)	\$ 6,677,360	\$ -	Various	100 days or less
Private equity fund (b)	1,460,348	229,500	N/A	N/A
	\$ 8,137,708	\$ 229,500		

## PENINSULA OPEN SPACE TRUST

### Notes to the Financial Statements

June 30, 2015

#### Note 6 - Investments (continued):

The following table lists investments in other investment companies by major category at June 30, 2014:

<u>Category</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice</u>
Multi-strategy hedge funds (a)	\$ 4,481,464	\$ -	Various	100 days or less
Private equity fund (b)	<u>1,086,367</u>	<u>297,000</u>	N/A	N/A
	<u>\$ 5,567,831</u>	<u>\$ 297,000</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, 2015 and 2014.

(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, 2015 and 2014.

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

	<u>2015</u>	<u>2014</u>
Realized gains (losses)	\$ 947,964	\$ (253,624)
Unrealized gains (losses)	384,513	13,036,668
Gain (loss) on property-held-for-sale	467,000	(32,900)
Management fees and trust expenses	<u>(447,859)</u>	<u>(328,208)</u>
Total net realized and unrealized gains (losses) on investments	<u>\$ 1,351,618</u>	<u>\$ 12,421,936</u>

## **PENINSULA OPEN SPACE TRUST**

### **Notes to the Financial Statements**

June 30, 2015

#### **Note 7 - Investments and remainder interests in charitable remainder trusts and gift annuities:**

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 (\$2,830,111 and \$3,024,898 at June 30, 2015 and 2014, 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, 2015 and 2014, 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>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 105,666	\$ 70,584
Marketable equity securities	3,249,535	3,276,783
Corporate bond funds	1,676,306	1,528,572
Real estate, gold and commodities funds	323,509	621,522
Marketable absolute return funds	<u>449,324</u>	<u>520,058</u>
Total	<u>\$ 5,801,340</u>	<u>\$ 6,017,519</u>

The Organization is also a remainder beneficiary of two irrevocable charitable remainder trusts for which the Organization does not serve as the trustee, five charitable gift annuities, and one irrevocable bequest. Provisions of the charitable remainder trusts 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 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 use. The Organization records as temporarily restricted contributions the present value of the estimated future benefits to be received discounted at a rate of 1.4% to 4.37% as established by the IRS and applicable mortality tables, noted on the statement of financial position as residual interest in charitable remainder trusts. There is no further liability beyond the asset balance for the trusts, gift annuities or bequest.

**PENINSULA OPEN SPACE TRUST**  
**Notes to the Financial Statements**  
June 30, 2015

**Note 7 - Investments and remainder interests in charitable remainder trusts and gift annuities (continued):**

The present value of the estimated future benefits of all remainders based on IRS guidance and the actuarial life expectancy of the donor are presented below:

	<u>2015</u>	<u>2014</u>
Charitable Remainder Trusts with third party trustees, time restricted	\$ 103,977	\$ 109,597
Charitable Gift Annuities, time restricted	87,617	73,668
Charitable Gift Annuities, time and purpose restricted	20,828	22,646
Irrevocable bequest, time and purpose restricted	82,033	81,069
Total Residual Interest in charitable remainder trusts	<u>\$ 294,455</u>	<u>\$ 286,980</u>

**Note 8 - Life interest in real estate:**

During the year ended June 30, 2014, the Organization received a contribution of real estate for which the donor retained the right to use for the remainder of the donor's life. The retained life estate was carried at fair value of \$1,100,000 representing the value of the residence which cannot be sold until the death of the donor. During the donor's lifetime, the donor was responsible for executory costs related to the property. The Organization recorded the related obligation for the life interest based upon the actuarial life of the donor and IRS guidance. The amount of the obligation, included with Accounts payable and other liabilities, for the year ended June 30, 2014 was \$204,020.

During the year ended June 30, 2015, the retained life estate and related obligation terminated upon the donor's death. The residence transferred to the Organization immediately and was sold before June 30, 2015.

**PENINSULA OPEN SPACE TRUST**  
**Notes to the Financial Statements**  
June 30, 2015

**Note 9 - 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, 2013	\$ 101,842,413
Purchased land	5,850,000
Donations of land received	157,786
Change in land related deposits	(5,000)
Change in asset retirements, net	290,155
Dispositions of land	<u>(15,385,206)</u>
Balances, June 30, 2014	92,750,148
Purchased land	10,485,000
Change in asset retirements, net	(143,361)
Dispositions of land	<u>(21,852,601)</u>
Balances, June 30, 2015	<u>\$ 81,239,186</u>

Included within land held-for-conservation are costs recorded for future asset retirement obligations of \$1,151,946 and \$1,295,307 as of June 30, 2015 and 2014, respectively.

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

Balances, June 30, 2013	\$ 1,985,702
Liabilities removed in the current period through transfer of land	(254,507)
Liabilities settled in the current period	(241,842)
Liabilities added in the current period through acquisition	393,750
Accretion expense	<u>60,789</u>
Balances, June 30, 2014	1,943,892
Liabilities removed in the current period through transfer of land	(174,861)
Liabilities settled in the current period	(91,973)
Liabilities added in the current period through acquisition	63,000
Accretion expense	<u>48,391</u>
Balances, June 30, 2015	<u>\$ 1,788,449</u>

**PENINSULA OPEN SPACE TRUST**  
**Notes to the Financial Statements**  
June 30, 2015

**Note 10 - Property and equipment:**

Property and equipment consisted of the following at June 30:

	<u>2015</u>	<u>2014</u>
Building and improvements	\$ 3,765,821	\$ 3,524,273
Furniture	167,712	162,446
Equipment	265,043	169,613
Vehicles	<u>72,593</u>	<u>72,593</u>
Total property and equipment	4,271,169	3,928,925
Less: accumulated depreciation and amortization	(1,079,367)	(945,698)
Land	<u>2,351,899</u>	<u>2,351,899</u>
Total property and equipment, net	<u>\$ 5,543,701</u>	<u>\$ 5,335,126</u>

Depreciation and amortization expense, included in other operating expenses, for the years ended June 30, 2015 and 2014 was \$141,954 and \$145,029, respectively.

**Note 11 - Commitments:**

Offers to dedicate - The Organization periodically acquires properties subject to contingent restrictions on the title known as offers to dedicate. Offers to dedicate are sometimes required by grantors as a means to ensure the Organization maintains the land in a manner consistent with the grantors' wishes. These provisions are consistent with the Organization's mission and generally include restrictions regarding the preservation of land for conservation purposes, that the land is not used to secure debt, and that the land may not be transferred without prior approval of the grantor. If the Organization were to violate these provisions or to cease business, the offers to dedicate would automatically transfer title to the grantors. During the year ended June 30, 2015, the Organization acquired land with a carrying value of \$925,000, subject to offer to dedicate provisions which is recorded on the Statement of Financial Position as part of land held-for-conservation.

**PENINSULA OPEN SPACE TRUST**  
**Notes to the Financial Statements**  
June 30, 2015

**Note 12 - 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, life estate 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. Life estate obligations are calculated according to IRS guidance and life expectancy tables.

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

	<u>2015</u>	<u>2014</u>
Accounts payable	\$ 102,334	\$ 147,331
Vacation accrual	97,269	110,323
Interest payable	64,831	31,000
Life estate obligations	-	204,020
Other liabilities	<u>252,661</u>	<u>146,037</u>
Accounts payable and other liabilities	<u>\$ 517,095</u>	<u>\$ 638,711</u>

**Note 13 - Notes payable**

Notes payable include the Organization's capital lease for a copy machine, as well as two program-related investment loans obtained as part of land transactions. On December 31, 2012, the Organization borrowed \$6,200,000. The principal is due December 31, 2016. On July 16, 2014, the Organization borrowed \$3,520,000 with principal due July 16, 2020. Both loans accrue 1% interest with payments due annually. Both loans are subject to certain covenants related to programmatic use, reporting and overall debt carried by the Organization. As of June 30, 2015, the Organization was in compliance with all loan covenants. On August 28, 2015, the Organization repaid the principal and interest accrued on the \$6,200,000 loan.

**Note 14 - Board designations of unrestricted net assets:**

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

	<u>2015</u>	<u>2014</u>
Land held for conservation	\$ 81,239,186	\$ 92,750,148
Property and equipment	5,543,701	5,335,127
Other funds for future land, easements and stewardship	<u>149,709,404</u>	<u>127,720,367</u>
Total board designations	<u>\$ 236,492,291</u>	<u>\$ 225,805,642</u>

**PENINSULA OPEN SPACE TRUST**  
**Notes to the Financial Statements**  
June 30, 2015

**Note 15 - Temporarily restricted net assets:**

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

	<u>2015</u>	<u>2014</u>
Bequests, trusts and estate receivable	\$ 10,819,089	\$ 382,094
Net assets held in charitable remainder trusts	2,971,229	3,888,600
Land acquisitions	100,000	847,901
Conservation easement fund	1,150,639	1,145,605
Held for endowment	147,237	155,214
Other program activities	<u>920,734</u>	<u>1,366,284</u>
Total temporarily restricted net assets	<u>\$ 16,108,928</u>	<u>\$ 7,785,698</u>

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

	<u>2015</u>	<u>2014</u>
Bequests, trusts and estate receivable	\$ 12,098,342	\$ 886,775
Land acquisitions	1,894,889	5,532,513
Other program activities	<u>1,083,989</u>	<u>903,794</u>
Total temporarily restricted net assets released from restrictions	<u>\$ 15,077,220</u>	<u>\$ 7,323,082</u>

**Note 16 - 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>2015</u>	<u>2014</u>
Lane Stewardship Endowment	\$ 300,000	\$ 300,000
Wilbur's Watch Endowment	<u>250,500</u>	<u>250,500</u>
Total permanently restricted net assets	<u>\$ 550,500</u>	<u>\$ 550,500</u>

**PENINSULA OPEN SPACE TRUST**  
**Notes to the Financial Statements**  
June 30, 2015

**Note 17 - Endowment:**

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2013	\$ -	\$ 85,719	\$ 550,500	\$ 636,219
Net asset reclassification:				
Interest and dividend	-	16,565	-	16,565
Realized and unrealized	-	72,018	-	72,018
Total investment return	-	88,583	-	88,583
Contributions	-	-	-	-
Appropriation of Endowment Assets for Expenditure	-	(19,087)	-	(19,087)
Endowment net assets, June 30, 2014	-	155,215	550,500	705,715
Net asset reclassification:				
Interest and dividend	-	11,824	-	11,824
Realized and unrealized	-	5,590	-	5,590
Total investment return	-	17,414	-	17,414
Contributions	-	-	-	-
Appropriation of Endowment Assets for Expenditure	-	(25,390)	-	(25,390)
Endowment net assets, June 30, 2015	\$ -	\$ 147,239	\$ 550,500	\$ 697,739

## **PENINSULA OPEN SPACE TRUST**

### **Notes to the Financial Statements**

June 30, 2015

#### **Note 17 - 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, 2015 or June 30, 2014.

*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 18 - 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 \$395,615 and \$795,106 for the years ended June 30, 2015 and 2014, respectively. Outstanding receivables from the Board of Directors or from companies with which the Board of Directors are affiliated were \$50,666 and \$40,000 for the years ended June 30, 2015 and 2014, respectively.

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**Notes to the Financial Statements**  
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**Note 18 - Related-party transactions (continued):**

A member of the Board of Directors who left the Board in October 2014 leases agricultural land from the Organization with lease payments totaling \$18,200 for both years ended June 30, 2015 and 2014.

**Note 19 - 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 February 28, 2018, 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, 2015. The majority of the Organization's cash was held at one financial institution at June 30, 2015. The cash equivalents held with the Organization's brokerage firm are not insured. The checking and money market accounts held at the Organization's bank are completely insured up to a combined limit of \$250,000 by an agency of the federal government.

For the years ended June 30, 2015 and 2014, the following donors accounted for ten percent or more of the Organization's contributions and grants.

	<u>2015</u>	<u>2014</u>
Donor A	37%	Less than 10%
Donor B	18%	Less than 10%
Donor C	Less than 10%	15%
Donor D	Less than 10%	10%

**Note 20 - 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 \$120,157 and \$124,092 for the years ended June 30, 2015 and 2014, respectively.

## **PENINSULA OPEN SPACE TRUST**

### **Notes to the Financial Statements**

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#### **Note 20 - Benefit plans (continued):**

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.

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, 2015 and 2014.

#### **Note 21 - 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.

#### **Note 22 - Subsequent events:**

Subsequent to year end, on August 14, 2015, the Organization received partial payment for an outstanding financing note receivable (Note B) and settled the remaining balance. On August 28, 2015, the Organization repaid a \$6,200,000 program-related investment loan.