



PENINSULA OPEN SPACE TRUST

**Financial Statements
June 30, 2018 and 2017**

**Together with
Independent Auditors' Report**

PENINSULA OPEN SPACE TRUST

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June 30, 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Peninsula Open Space Trust
Palo Alto, California

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, 2018 and 2017, 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
Palo Alto, California

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, 2018 and 2017, 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
January 25, 2019

PENINSULA OPEN SPACE TRUST
Statements of Financial Position

ASSETS

	June 30,	
	2018	2017
Assets:		
Cash and cash equivalents	\$ 82,003	\$ 123,100
Cash held on behalf of public agencies	274,641	271,929
Accounts receivable	1,856,020	585,465
Pledges, grants and bequests receivable, net	6,382,873	4,543,202
Financing receivables, net	21,600,000	21,600,000
Interest receivable	25,086	50,456
Prepaid expenses and other assets	436,361	324,834
Investments	167,044,599	169,780,974
Residual interest in charitable remainder trusts	487,687	457,729
Investments held in charitable remainder trusts	6,523,203	5,646,800
Land held-for-conservation	103,760,981	84,182,978
Property and equipment, net	5,325,155	5,454,800
	<u>\$ 313,798,609</u>	<u>\$ 293,022,267</u>

LIABILITIES AND NET ASSETS

	June 30,	
	2018	2017
Liabilities:		
Accounts payable and other liabilities	\$ 1,676,600	\$ 872,451
Stewardship liabilities	542,832	615,145
Notes payable	3,895,534	3,622,868
Asset retirement obligations	2,376,125	2,327,611
Funds held in agency trust funds	274,641	271,928
Liabilities under remainder trusts	3,183,093	2,570,330
	<u>11,948,825</u>	<u>10,280,333</u>
Commitments		
Net assets:		
Unrestricted	19,168,336	18,041,592
Board-designated	270,283,494	255,052,323
	<u>289,451,830</u>	<u>273,093,915</u>
Temporarily restricted	11,847,454	9,097,519
Permanently restricted	550,500	550,500
	<u>301,849,784</u>	<u>282,741,934</u>
	<u>\$ 313,798,609</u>	<u>\$ 293,022,267</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, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue, support and gains:				
Contributions and grants	\$ 4,817,152	\$ 12,115,721	\$ -	\$ 16,932,873
Contributions of land and easements	1,107,900	-	-	1,107,900
Interest and dividends	4,120,595	257,009	-	4,377,604
Realized and unrealized gains on investments, net	9,303,240	131,117	-	9,434,357
Rental and other income	427,994	-	-	427,994
Net assets released from restrictions	9,753,912	(9,753,912)	-	-
	<u>29,530,793</u>	<u>2,749,935</u>	<u>-</u>	<u>32,280,728</u>
Total revenue, support and gains				
Operating expenses:				
Program services	8,674,408	-	-	8,674,408
Fundraising	2,901,367	-	-	2,901,367
Management and support services	1,597,103	-	-	1,597,103
	<u>13,172,878</u>	<u>-</u>	<u>-</u>	<u>13,172,878</u>
Total operating expenses				
Change in net assets	16,357,915	2,749,935	-	19,107,850
Net assets, beginning of year	<u>273,093,915</u>	<u>9,097,519</u>	<u>550,500</u>	<u>282,741,934</u>
Net assets, end of year	<u>\$ 289,451,830</u>	<u>\$ 11,847,454</u>	<u>\$ 550,500</u>	<u>\$ 301,849,784</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, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue, support and gains:				
Contributions and grants	\$ 4,537,721	\$ 3,309,349	\$ -	\$ 7,847,070
Contributions of land and easements	1,105,400	-	-	1,105,400
Interest and dividends	3,448,496	224,594	-	3,673,090
Realized and unrealized gains on investments, net	10,473,282	159,531	-	10,632,813
Rental and other income	411,901	-	-	411,901
Net assets released from restrictions	9,697,196	(9,697,196)	-	-
	<u>29,673,996</u>	<u>(6,003,722)</u>	<u>-</u>	<u>23,670,274</u>
 Operating expenses:				
Program services	10,795,192	-	-	10,795,192
Fundraising	2,470,820	-	-	2,470,820
Management and support services	1,279,120	-	-	1,279,120
	<u>14,545,132</u>	<u>-</u>	<u>-</u>	<u>14,545,132</u>
 Change in net assets	15,128,864	(6,003,722)	-	9,125,142
 Net assets, beginning of year	<u>257,965,051</u>	<u>15,101,241</u>	<u>550,500</u>	<u>273,616,792</u>
 Net assets, end of year	<u>\$ 273,093,915</u>	<u>\$ 9,097,519</u>	<u>\$ 550,500</u>	<u>\$ 282,741,934</u>

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, 2018

	Program Services	Fundraising	Management and Support Services	Total
Salaries and benefits	\$ 2,720,030	\$ 1,901,519	\$ 933,339	\$ 5,554,888
Professional services	4,220,442	387,100	477,041	5,084,583
Other operating	508,231	413,509	148,044	1,069,784
Grants and contributions	540,122	-	750	540,872
Property taxes	278,717	-	-	278,717
Printing and postage	56,045	199,239	2,138	257,422
Land and easement transactions	250,300	-	-	250,300
Interest expense	87,760	-	35,791	123,551
Rent	12,761	-	-	12,761
Total expenses	\$ 8,674,408	\$ 2,901,367	\$ 1,597,103	\$ 13,172,878

For the Year Ended June 30, 2017

	Program Services	Fundraising	Management and Support Services	Total
Salaries and benefits	\$ 2,218,432	\$ 1,730,846	\$ 992,084	\$ 4,941,362
Professional services	3,347,638	288,216	130,265	3,766,119
Land and easement transactions	3,525,300	-	-	3,525,300
Grants and contributions	921,481	5	-	921,486
Other operating	450,647	277,865	117,250	845,762
Printing and postage	77,487	173,888	3,570	254,945
Property taxes	173,425	-	-	173,425
Interest expense	66,822	-	35,951	102,773
Rent	13,960	-	-	13,960
Total expenses	\$ 10,795,192	\$ 2,470,820	\$ 1,279,120	\$ 14,545,132

The accompanying notes are an integral part of these financial statements

PENINSULA OPEN SPACE TRUST
Statement of Cash Flows

	For the Years Ended	
	June 30,	
	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 19,107,850	\$ 9,125,142
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	173,856	172,897
Accretion related to asset retirement obligation	82,436	66,111
Net gain on settlement of asset retirement obligations	(2,509)	-
In-kind land grants	-	1,375,000
Unrealized gain on investments	(170,371)	(293,839)
Impairment gain on land held-for-sale	(57,783)	-
Impairment of financing receivable	250,300	2,000,300
Decrease in non-controlling interest in LLMWC	(4,962)	(12,820)
Residual interest in charitable remainder trusts	(29,958)	(104,710)
Interest income related to investments	25,370	15,812
Interest payable	40,524	35,910
In-kind contributions received - land	(2,015,117)	(1,105,400)
In-kind contributions received - securities	1,604,454	(632,958)
Changes in operating assets and liabilities:		
Increase in cash held on behalf of public agencies	(2,712)	(708)
Accounts receivable	(1,270,555)	6,039
Pledges, grants and bequests receivable	(1,839,671)	6,232,121
Prepaid expenses and other assets	(111,527)	260,233
Proceeds from sale of land held-for-conservation	624,655	600,000
Proceeds from sale of property held-for-sale	965,000	-
Acquisition of land held-for-conservation	(19,026,796)	(9,279,600)
Accounts payable and other liabilities	763,625	197,254
Stewardship liabilities	(72,313)	(126,751)
Funds held in agency trust funds	2,713	708
Cash paid for settlement of asset retirement obligations	(94,413)	(30,014)
Liabilities under remainder trusts	(314,898)	(294,614)
Net cash provided (used) by operating activities	(1,372,802)	8,206,113

The accompanying notes are an integral part of these financial statements

PENINSULA OPEN SPACE TRUST
Statement of Cash Flows

	June 30,	
	2018	2017
Cash flows from investing activities:		
Issuance of financing receivable	\$ (250,300)	\$ (250,300)
Proceeds from sale of investments	73,568,176	67,171,185
Acquisition of investments	(70,884,739)	(75,116,968)
Proceeds from sale of investments held in charitable remainder trusts	1,897,820	1,695,180
Acquisition of investments held in charitable remainder trusts	(3,227,707)	(1,813,616)
Acquisition of property and equipment	(44,211)	(70,787)
	1,059,039	(8,385,306)
Cash flows from financing activities:		
Payments on notes payable	(2,947)	(4,015)
Borrowings of notes payable	275,613	90,383
	272,666	86,368
Decrease in cash and cash equivalents	(41,097)	(92,825)
Cash and cash equivalents, beginning of year	123,100	215,925
Cash and cash equivalents, end of year	\$ 82,003	\$ 123,100

Supplemental disclosure of cash flow information:

Cash paid during the year for interest	\$ 35,791	\$ 35,951
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Supplemental disclosure of non-cash investing and financing information:

Capitalization of asset retirement obligation related to acquisition of land held-for-conservation	\$ 63,000	\$ 457,936
In-kind contributions	\$ 78,013	\$ 69,789

The accompanying notes are an integral part of these financial statements

PENINSULA OPEN SPACE TRUST

Notes to the Financial Statements

June 30, 2018

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 open space on the Peninsula and in the South Bay for the benefit of all. This purpose is accomplished through gifts and purchases of land, transfer to public agencies, 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 include the discount for present value on pledges receivable, the useful lives of property and equipment, the allocation of expenses by function, 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, 2018

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 and changes in net assets. Accordingly, certain costs have been allocated, based on estimates of time, space, and other factors, 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, 2018 and 2017.

In-kind contributions - Significant donated property and equipment are recorded at estimated fair value at the time of receipt. Donated land is recorded at fair value on the date of receipt. In-kind contributions of land totaled \$2,015,117 and \$1,105,400 for the years ended June 30, 2018 and 2017, respectively. Donated stock is recorded at fair value on the date the stock is received. In-kind contributions of securities totaled \$1,604,454 and \$632,958 for the years ended June 30, 2018 and 2017, respectively. Included in the above totals are in-kind contributions of securities held in charitable remainder trusts of \$453,890 for the year ended June 30, 2018. There were no in-kind contributions of securities held in charitable remainder trusts for the year ended June 30, 2017. 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 \$78,013 and \$69,789 for in-kind legal and professional services and donated goods for program services were recognized for the years ended June 30, 2018 and 2017, respectively. These amounts have been recorded as both revenue and expenses in the statement of activities and changes in net assets. 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 2021.

PENINSULA OPEN SPACE TRUST

Notes to the Financial Statements

June 30, 2018

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

Cash and cash equivalents - Cash and cash equivalents consist of cash and money market funds. 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.

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, 2018 and 2017) 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, 3% for the year ended June 30, 2018. The financial statements reflect grants receivable net of the discount.

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 consist of one portfolio segment as of June 30, 2018 and 2017, respectively. 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.

PENINSULA OPEN SPACE TRUST

Notes to the Financial Statements

June 30, 2018

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 Investment Committee 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 investments' 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

PENINSULA OPEN SPACE TRUST

Notes to the Financial Statements

June 30, 2018

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

Investments in private equity funds (continued) - 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, 2018 and 2017 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.

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. There were no life interests in real estate as of June 30, 2018 and 2017, respectively.

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. There were no properties held-for-sale as of June 30, 2018 and 2017, respectively.

PENINSULA OPEN SPACE TRUST

Notes to the Financial Statements

June 30, 2018

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

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. There were no grants of land in the fiscal year ending June 30, 2018. Grants of land totaled \$1,375,000 in the fiscal year ending June 30, 2017.

Non-controlling interest - The Organization holds a 39.44% non-controlling interest in Lake Lucerne Mutual Water Company ("LLMWC"), at June 30, 2018 and 2017, respectively. 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, 2018 and 2017 was \$87,167 and \$82,205 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. The Organization received no donated conservation easements in the fiscal years ending June 30, 2018 and 2017. 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. The Organization purchased easements totaling \$150,000 for the fiscal year ending June 30, 2017. No easements were purchased in the fiscal year ending June 30, 2018.

PENINSULA OPEN SPACE TRUST

Notes to the Financial Statements

June 30, 2018

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

Property, equipment, amortization, 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 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 \$5,000. Expenditures for maintenance and repairs that do not improve or extend the lives of the respective assets are expensed as incurred.

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

Stewardship 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 \$154,072 and \$226,384 remaining at June 30, 2018 and 2017, respectively. Additionally, the Organization has a liability of \$388,760 related to active remediation efforts on a separate property for the years ended June 30, 2018 and 2017, 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 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. Asset retirement obligations were estimated at \$2,376,125 and \$2,327,611 for fiscal years ending June 30, 2018 and 2017, respectively.

PENINSULA OPEN SPACE TRUST
Notes to the Financial Statements
June 30, 2018

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

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.

Advertising - Advertising costs are expensed as incurred. Advertising and promotion expense for the years ended June 30, 2018 and 2017 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 for all uncertain tax positions in the aggregate could differ from the amount recognized. As of June 30, 2018 and 2017 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, 2015 and forward. The State of California tax jurisdiction is subject to potential examination for fiscal tax years June 30, 2014 and forward.

PENINSULA OPEN SPACE TRUST
Notes to the Financial Statements
June 30, 2018

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

Recent accounting pronouncements - In June 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) No. 2018-08 “Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.” The new standard provides a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction based on whether a resource provider is receiving value in return for the resources transferred. Further, the ASU provides additional guidance to help determine whether a contribution is conditional and better distinguish a donor-imposed condition from a donor-imposed restriction. The effective date of this amendment is for fiscal years beginning after December 15, 2018. Early application is permitted. Management has not determined the impact of this pronouncement.

In August 2016, the FASB issued ASU No. 2016-14 “Not-for-Profit Entities: Presentation of Financial Statements for Not-for-Profit Entities.” The ASU is intended to improve identified issues about the current financial reporting for Not-for-Profits. This ASU is effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Early application is permitted. Management has not determined the impact of this pronouncement.

In February 2016, the FASB issued ASU No. 2016-02 “Leases.” The ASU is intended to increase transparency and comparability between organizations recognizing lease assets and liabilities by recognizing lease assets and lease liabilities on the balance sheet and increasing the related disclosures. In January 2018, the FASB issued ASU No. 2018-01 “Leases: Land Easement Practical Expedient for Transition to Topic 842”, which provides entities with a practical expedient to not evaluate land easements that exist or expired before the entity’s adoption of Topic 842 and that were not previously accounted as leases under Topic 840. In July 2018, the FASB issued ASU No. 2018-11 “Leases (Topic 842): Targeted Improvements”, which provides lessors with a practical expedient, by class of underlying asset, to not separate non-lease components and, instead, to account for those components as a single component. For non-public entities, the effective date will be effective for annual reporting periods beginning after December 15, 2019, and interim periods within annual periods beginning after December 15, 2020. Early application is permitted. Management has not determined the impact of this pronouncement.

Subsequent events - Subsequent events have been evaluated through the date of the independent auditor’s report January 25, 2019, 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, 2018.

PENINSULA OPEN SPACE TRUST
Notes to the Financial Statements
June 30, 2018

Note 3 - Cash held on behalf of public agencies:

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

	<u>July 01, 2017</u>	<u>Fund Additions</u>	<u>Income Credited</u>	<u>Fund Expenditures</u>	<u>June 30, 2018</u>
United States Department of Interior	\$ 271,929	\$ -	\$ 2,712	\$ -	\$ 274,641
Cash held on behalf of public agencies	<u>\$ 271,929</u>	<u>\$ -</u>	<u>\$ 2,712</u>	<u>\$ -</u>	<u>\$ 274,641</u>

	<u>July 01, 2016</u>	<u>Fund Additions</u>	<u>Income Credited</u>	<u>Fund Expenditures</u>	<u>June 30, 2017</u>
United States Department of Interior	\$ 271,220	\$ -	\$ 709	\$ -	\$ 271,929
Cash held on behalf of public agencies	<u>\$ 271,220</u>	<u>\$ -</u>	<u>\$ 709</u>	<u>\$ -</u>	<u>\$ 271,929</u>

Note 4 - Pledges, grants and bequests receivable:

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

Pledges, grants and bequests receivable:

	<u>2018</u>	<u>2017</u>
Pledges receivable, net	\$ 609,616	\$ 992,097
Bequests receivable	5,385,988	2,862,734
Grants receivable	<u>387,269</u>	<u>688,371</u>
Pledges, grants and bequests receivable, net	<u>\$ 6,382,873</u>	<u>\$ 4,543,202</u>

PENINSULA OPEN SPACE TRUST
Notes to the Financial Statements
June 30, 2018

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

Pledges receivable at June 30, 2018, are expected to be received as follows:

Year Ending June 30,	
2019	\$ 259,986
2020	175,000
2021	165,000
2022	60,000
2023	10,000
Total pledges receivable	669,986
Less discount	(33,370)
Less allowance for doubtful accounts	(27,000)
Pledges receivable, net	<u>\$ 609,616</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. In a prior fiscal year, management recorded an allowance for doubtful accounts of \$27,000. No change to the allowance was considered necessary during the years ended June 30, 2018 and 2017, respectively.

Bequests receivable

The Organization had total bequests receivable of \$5,385,988 and \$2,862,734 at June 30, 2018 and 2017, respectively. All amounts are expected to be collected during the year ended June 30, 2019.

Grants receivable

Grants receivable at June 30, 2018, are expected to be received as follows:

Year Ending June 30,	
2019	\$ 200,000
2020	200,000
Total grants receivable	400,000
Less discount	(12,731)
Grants receivable, net	<u>\$ 387,269</u>

PENINSULA OPEN SPACE TRUST
Notes to the Financial Statements
June 30, 2018

Note 5 - Financing receivables and allowance for credit losses:

Financing receivables consist of the following at June 30:

	2018	2017
Note A	\$ 26,464,253	\$ 26,213,953
Less: allowance for credit losses	(4,864,253)	(4,613,953)
Note receivable, net	\$ 21,600,000	\$ 21,600,000

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, assuming all conditions are met, the loan will increase annually beginning in the year ended June 30, 2015 by \$250,300 (plus closing costs) until the loan balance is \$26,744,262.

The Organization did not have any interest receivable related to the financing receivables for the years ended June 30, 2018 and 2017. 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 \$21,600,000.

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. The Organization has placed Note A on nonaccrual status based on the most recent property valuation.

Ending allowance for credit losses and analysis of past due financing receivables - The Organization recorded an allowance for credit losses for Note A of \$4,864,253 and \$4,613,953 for the years ending June 30, 2018 and 2017, respectively. The allowance was determined by comparing the loan balance, and subsequent \$250,300 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.

PENINSULA OPEN SPACE TRUST
Notes to the Financial Statements
June 30, 2018

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,	
	2018	2017
Quoted market:		
Investment cash and cash equivalents	\$ 4,532,348	\$ 4,497,418
Marketable equity securities	89,689,529	95,235,585
Corporate bond funds	50,501,768	47,127,134
Marketable absolute return funds	12,384,699	10,203,571
Real estate, gold and commodities funds	8,862,333	9,223,631
Total quoted market	165,970,677	166,287,339
Alternative investments:		
Multi-strategy hedge funds	-	2,110,800
Private equity fund	1,073,922	1,382,835
Total alternative investments	1,073,922	3,493,635
Total investments	\$ 167,044,599	\$ 169,780,974

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. Investments measured using Net Asset Value (NAV) as a practical expedient are not classified in the fair value hierarchy (see Note 2).

PENINSULA OPEN SPACE TRUST

Notes to the Financial Statements

June 30, 2018

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, 2018 and 2017)
- Level 3: Significant unobservable inputs

	Year Ended June 30, 2018			
	Level 1	Level 3	NAV	Total
Investment cash and cash equivalents	\$ 4,532,348	\$ -	\$ -	\$ 4,532,348
Marketable equity securities	89,689,529	-	-	89,689,529
Corporate bond funds	50,501,768	-	-	50,501,768
Marketable absolute return funds	12,384,699	-	-	12,384,699
Real estate, gold and commodities funds	8,862,333	-	-	8,862,333
Private equity fund	-	1,073,922	-	1,073,922
Total	<u>\$ 165,970,677</u>	<u>\$ 1,073,922</u>	<u>\$ -</u>	<u>\$ 167,044,599</u>

	Year Ended June 30, 2017			
	Level 1	Level 3	NAV	Total
Investment cash and cash equivalents	\$ 4,497,418	\$ -	\$ -	\$ 4,497,418
Marketable equity securities	95,235,585	-	-	95,235,585
Corporate bond funds	47,127,134	-	-	47,127,134
Marketable absolute return funds	10,203,571	-	-	10,203,571
Real estate, gold and commodities funds	9,223,631	-	-	9,223,631
Multi-strategy hedge funds	-	-	2,110,800	2,110,800
Private equity fund	-	1,382,835	-	1,382,835
Total	<u>\$ 166,287,339</u>	<u>\$ 1,382,835</u>	<u>\$ 2,110,800</u>	<u>\$ 169,780,974</u>

PENINSULA OPEN SPACE TRUST
Notes to the Financial Statements
June 30, 2018

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):

	<u>Private Equity Fund</u>	
	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 1,382,835	\$ 1,480,536
Total gains or losses (realized or unrealized), net	199,449	55,442
Purchases, issuances, and settlements	<u>(508,362)</u>	<u>(153,143)</u>
Ending balance	<u>\$ 1,073,922</u>	<u>\$ 1,382,835</u>

The Organization uses 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, 2018:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Private equity fund (a)	<u>1,073,922</u>	<u>155,250</u>	N/A	N/A
	<u>\$ 1,073,922</u>	<u>\$ 155,250</u>		

PENINSULA OPEN SPACE TRUST
Notes to the Financial Statements
June 30, 2018

Note 6 - Investments (continued):

The following table lists investments in other investment companies by major category at June 30, 2017:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Private equity fund (a)	\$ 1,382,835	\$ 168,750	N/A	N/A
Multi-strategy hedge funds (b)	<u>2,110,800</u>	<u>-</u>	Yearly	95 days
	<u>\$ 3,493,635</u>	<u>\$ 168,750</u>		

(a) 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 distributions that 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, 2018 and 2017.

(b) 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, 2018 and 2017.

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

	<u>2018</u>	<u>2017</u>
Realized gains	\$ 8,948,997	\$ 10,636,471
Unrealized gains	833,457	391,166
Gain on property-held-for-sale	57,784	-
Management fees and trust expenses	<u>(405,881)</u>	<u>(394,824)</u>
Total net realized and unrealized gains on investments	<u>\$ 9,434,357</u>	<u>\$ 10,632,813</u>

PENINSULA OPEN SPACE TRUST

Notes to the Financial Statements

June 30, 2018

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 (\$3,183,093 and \$2,570,330 at June 30, 2018 and 2017, respectively) is calculated assuming investment returns of 5% to 7%, discount rates of 2.6% to 5.11% and life expectancies based on applicable mortality tables. At June 30, 2018 and 2017, 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>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 113,657	\$ 149,632
Marketable equity securities	3,648,268	3,315,912
Corporate bond funds	1,907,834	1,517,280
Real estate, gold and commodities funds	351,018	316,817
Marketable absolute return funds	<u>502,426</u>	<u>347,159</u>
Total	<u>\$ 6,523,203</u>	<u>\$ 5,646,800</u>

The Organization is also a remainder beneficiary of three irrevocable charitable remainder trusts for which the Organization does not serve as the trustee, twelve 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, 2018

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

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

	<u>2018</u>	<u>2017</u>
Charitable Remainder Trusts with third party trustees, time restricted	\$ 101,969	\$ 102,205
Charitable Gift Annuities, time restricted	284,486	251,419
Charitable Gift Annuities, time and purpose restricted	16,236	19,133
Irrevocable bequest, time and purpose restricted	84,996	84,972
Total Residual Interest in charitable remainder trusts	<u>\$ 487,687</u>	<u>\$ 457,729</u>

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:

Balance, June 30, 2016	\$ 75,302,222
Purchased land	10,310,000
Change in land related deposits	(25,000)
Change in asset retirements, net	457,936
Change in LLWMC POST interest	12,820
Dispositions of land	<u>(1,875,000)</u>
Balance, June 30, 2017	84,182,978
Purchased land	18,036,040
Donations of land received	1,107,900
Change in asset retirements, net	63,000
Change in land related deposits	366,101
Change in LLWMC POST interest	<u>4,962</u>
Balance, June 30, 2018	<u>\$ 103,760,981</u>

Included within land held-for-conservation are costs recorded for future asset retirement obligations of \$1,714,030 and \$1,651,030 as of June 30, 2018 and 2017, respectively.

PENINSULA OPEN SPACE TRUST
Notes to the Financial Statements
June 30, 2018

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

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

Balance, June 30, 2016	\$	1,833,578
Liabilities settled in the current period		(30,014)
Liabilities added in the current period through acquisition		457,936
Net gain on settlement of asset retirement obligation		-
Accretion expense		66,111
		<hr/>
Balance, June 30, 2017		2,327,611
Liabilities settled in the current period		(94,413)
Liabilities added in the current period through acquisition		63,000
Net gain on settlement of asset retirement obligation		(2,509)
Accretion expense		82,436
		<hr/>
Balance, June 30, 2018	\$	<u>2,376,125</u>

Note 9 - Property and equipment:

Property and equipment consisted of the following at June 30:

	<u>2018</u>	<u>2017</u>
Building and improvements	\$ 3,939,386	\$ 3,939,386
Furniture	20,007	20,007
Equipment	177,760	177,760
Vehicles	153,804	109,593
	<hr/>	<hr/>
Total property and equipment	4,290,957	4,246,746
Less: accumulated depreciation and amortization	(1,317,701)	(1,143,845)
Land	2,351,899	2,351,899
	<hr/>	<hr/>
Total property and equipment, net	\$ <u>5,325,155</u>	\$ <u>5,454,800</u>

Depreciation and amortization expense, included in other operating expenses, for the years ended June 30, 2018 and 2017 was \$173,856 and \$172,897, respectively.

PENINSULA OPEN SPACE TRUST

Notes to the Financial Statements

June 30, 2018

Note 10 - 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. There were no acquisitions subject to offer to dedicate provisions during the year ended June 30, 2018 and 2017.

Note 11 - 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>2018</u>	<u>2017</u>
Accounts payable	\$ 991,877	\$ 189,936
Vacation accrual	198,487	188,738
Interest payable	4,470	34,346
Other liabilities	<u>481,766</u>	<u>459,431</u>
Accounts payable and other liabilities	<u>\$ 1,676,600</u>	<u>\$ 872,451</u>

PENINSULA OPEN SPACE TRUST
Notes to the Financial Statements
June 30, 2018

Note 12 - Notes payable:

Notes Payable consisted of the following at June 30:

	<u>2018</u>	<u>2017</u>
Capital Lease - copier	\$ 9,538	\$ 12,485
Program Related Investment Loan	3,520,000	3,520,000
Farm Labor Housing Note A	200,149	34,312
Farm Labor Housing Note B	150,000	56,071
Farm Labor Housing Note C	<u>15,847</u>	<u>-</u>
Total Notes Payable	<u>\$ 3,895,534</u>	<u>\$ 3,622,868</u>

As of June 30, 2018, the notes payable balance includes one program-related investment loan obtained as part of a land transaction and three forgivable loans. On July 16, 2014, the Organization borrowed \$3,520,000 with a maturity date of July 16, 2020. This loan accrues 1% interest with payments due annually. The loan is subject to certain covenants related to programmatic use, reporting and overall debt carried by the Organization. As of June 30, 2018, the Organization was in compliance with all loan covenants.

The three forgivable loans are from a governmental entity to provide farm labor housing on three separate properties. Farm Labor Housing Note A is an interest-free loan up to \$300,000 and will be forgiven at a rate of \$20,000 per year once certain criteria are met. Farm Labor Housing Note B is an interest-free loan up to \$150,000 and will be forgiven at a rate of \$14,000 a year once certain criteria are met. Farm Labor Housing Note C is an interest-free loan up to \$300,000 and will be forgiven at a rate of \$20,000 a year once certain criteria are met. The Organization has recorded imputed interest at the rate of 3% for the years ended June 30, 2018 and 2017, respectively, and will record grant revenue in future years if the conditions are fulfilled and the loans are forgiven.

Note 13 - Board designations of unrestricted net assets:

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

	<u>2018</u>	<u>2017</u>
Land held for conservation	\$ 103,760,981	\$ 84,182,978
Property and equipment	5,325,155	5,454,800
Land, easements and stewardship	<u>161,197,358</u>	<u>165,414,545</u>
Total board-designated	<u>\$ 270,283,494</u>	<u>\$ 255,052,323</u>

PENINSULA OPEN SPACE TRUST
Notes to the Financial Statements
June 30, 2018

Note 14 - Temporarily restricted net assets:

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

	<u>2018</u>	<u>2017</u>
Bequests, trust receivable and estate receivable	\$ 5,873,675	\$ 3,320,463
Net assets held in charitable remainder trusts	3,340,110	3,076,470
Land acquisitions	387,268	572,371
Conservation easement fund	1,248,213	1,191,465
Held for endowment	207,752	167,450
Other program activities	790,436	769,300
Total temporarily restricted net assets	<u>\$ 11,847,454</u>	<u>\$ 9,097,519</u>

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

	<u>2018</u>	<u>2017</u>
Bequests, trusts and estate receivable	\$ 2,604,092	\$ 6,485,361
Land acquisitions	6,370,892	1,964,409
Other program activities	778,928	1,247,426
Total temporarily restricted net assets released from restrictions	<u>\$ 9,753,912</u>	<u>\$ 9,697,196</u>

Note 15 - 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>2018</u>	<u>2017</u>
Lane Stewardship Endowment	\$ 300,000	\$ 300,000
Wilbur's Watch	250,500	250,500
Total permanently restricted net assets	<u>\$ 550,500</u>	<u>\$ 550,500</u>

PENINSULA OPEN SPACE TRUST
Notes to the Financial Statements
June 30, 2018

Note 16 - 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, 2016	\$ -	\$ 126,466	\$ 550,500	\$ 676,966
Investment return:				
Interest and dividend income	-	2,118	-	2,118
Realized and unrealized gain	-	60,940	-	60,940
Total investment return	-	63,058	-	63,058
Assets for expenditure	-	(22,074)	-	(22,074)
Endowment net assets, June 30, 2017	-	167,450	550,500	717,950
Investment return:				
Interest and dividend income	-	18,511	-	18,511
Realized and unrealized gain	-	43,391	-	43,391
Total investment return	-	61,902	-	61,902
Appropriation of endowment	-	(21,600)	-	(21,600)
Endowment net assets, June 30, 2018	\$ -	\$ 207,752	\$ 550,500	\$ 758,252

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, 2018 or June 30, 2017.

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.

PENINSULA OPEN SPACE TRUST

Notes to the Financial Statements

June 30, 2018

Note 16 - Endowment (continued):

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 17 - 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 \$459,547 and \$964,771 for the years ended June 30, 2018 and 2017, respectively. Outstanding pledge receivables from the Board of Directors or from companies with which the Board of Directors are affiliated were \$420,000 and \$155,000 for the years ended June 30, 2018 and 2017, respectively.

A real estate agent was paid to facilitate the sale of a residential property that had been donated to the Organization. This individual was an existing donor to the Organization and was paid a 6% commission, totaling \$57,783, for his services.

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Notes to the Financial Statements

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Note 18 - 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 January 31, 2020, 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, 2018. The majority of the Organization's cash was held at one financial institution at June 30, 2018. 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 year ended June 30, 2018, one donor accounted for 25% of the Organization's contributions and grants. As of June 30, 2017, there were no concentrations of contributions and grants.

Note 19 - 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 \$207,164 and \$161,452 for the years ended June 30, 2018 and 2017, 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.

457(b) Deferred Compensation Plan - Effective January 2018, the Organization's existing supplemental executive retirement plan ("SERP") was revised and amended to expand eligibility to all Executive Team members and to allow catch-up contributions to the extent permitted by law. The Organization's contributions to the plan were \$22,000 for the year ended June 30, 2018. No contributions were made in fiscal year ending June 30, 2017.

Note 20 - 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.