



PENINSULA OPEN SPACE TRUST

**Financial Statements
June 30, 2019 and 2018**

**Together with
Independent Auditors' Report**

PENINSULA OPEN SPACE TRUST

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June 30, 2019

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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, 2019 and 2018, 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, 2019 and 2018, and the changes in its net assets, functional expenses and 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
November 14, 2019

PENINSULA OPEN SPACE TRUST
Statements of Financial Position

ASSETS

	June 30,	
	2019	2018
Assets:		
Cash and cash equivalents	\$ 255,810	\$ 82,003
Funds held on behalf of public agencies	279,984	274,641
Accounts receivable	1,369,147	1,856,020
Pledges, grants and bequests receivable, net	2,204,576	6,382,873
Financing receivables, net	24,236,657	21,600,000
Interest receivable related to investments	9,607	25,086
Prepaid expenses and other assets	339,519	436,361
Investments	175,619,818	167,044,599
Residual interest in charitable remainder trusts	533,433	487,687
Investments held in charitable remainder trusts	6,451,443	6,523,203
Land held-for-conservation	99,286,707	103,760,981
Property and equipment, net	5,188,381	5,325,155
Total assets	\$ 315,775,082	\$ 313,798,609

LIABILITIES AND NET ASSETS

	June 30,	
	2019	2018
Liabilities:		
Accounts payable and other liabilities	\$ 1,840,604	\$ 1,676,600
Stewardship liabilities	471,191	542,832
Notes payable	3,851,099	3,895,534
Asset retirement obligations	2,288,635	2,376,125
Funds held in agency trust funds	279,984	274,641
Liabilities under remainder trusts	3,053,790	3,183,093
Total liabilities	11,785,303	11,948,825
Commitments		
Net assets:		
Without donor restrictions	23,651,044	19,168,336
Without donor restrictions - Board-designated	271,433,226	270,283,494
Total without donor restrictions	295,084,270	289,451,830
With donor restrictions	8,905,509	12,397,954
Total net assets	303,989,779	301,849,784
Total liabilities and net assets	\$ 315,775,082	\$ 313,798,609

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, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, support and gains:			
Contributions and grants	\$ 6,608,166	\$ 10,864,116	\$ 17,472,282
Contributions of land and easements	3,740,000	-	3,740,000
Interest and dividends	4,021,861	281,020	4,302,881
Realized and unrealized gains on investments, net	2,607,565	(64,847)	2,542,718
Rental and other income	935,553	-	935,553
Net assets released from restrictions	14,572,734	(14,572,734)	-
Total revenue, support and gains	32,485,879	(3,492,445)	28,993,434
Operating expenses:			
Program services	21,727,658	-	21,727,658
Fundraising	2,873,227	-	2,873,227
Management and support services	2,252,554	-	2,252,554
Total operating expenses	26,853,439	-	26,853,439
Change in net assets	5,632,440	(3,492,445)	2,139,995
Net assets, beginning of year	289,451,830	12,397,954	301,849,784
Net assets, end of year	\$ 295,084,270	\$ 8,905,509	\$ 303,989,779

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>Without Donor Restrictions</u>	<u>With Donor Restrictions</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	<u>9,753,912</u>	<u>(9,753,912)</u>	<u>-</u>
Total revenue, support and gains	<u>29,530,793</u>	<u>2,749,935</u>	<u>32,280,728</u>
Operating expenses:			
Program services	8,674,408	-	8,674,408
Fundraising	2,901,367	-	2,901,367
Management and support services	<u>1,597,103</u>	<u>-</u>	<u>1,597,103</u>
Total operating expenses	<u>13,172,878</u>	<u>-</u>	<u>13,172,878</u>
Change in net assets	16,357,915	2,749,935	19,107,850
Net assets, beginning of year	<u>273,093,915</u>	<u>9,648,019</u>	<u>282,741,934</u>
Net assets, end of year	<u>\$ 289,451,830</u>	<u>\$ 12,397,954</u>	<u>\$ 301,849,784</u>

The accompanying notes are an integral part of these financial statements

PENINSULA OPEN SPACE TRUST
Statements of Functional Expense

For the Year Ended June 30, 2019

	Program Services	Fundraising	Management and Support Services	Total
Land and easement transactions	\$ 12,125,399	\$ -	\$ -	\$ 12,125,399
Salaries and benefits	3,239,901	1,959,190	1,421,369	6,620,460
Professional services	4,395,603	377,462	631,574	5,404,639
Grants and contributions	990,019	-	-	990,019
Other operating	499,238	334,596	155,008	988,842
Property taxes	289,902	3,335	-	293,237
Printing and postage	37,348	198,644	8,972	244,964
Interest expense	95,249	-	35,631	130,880
Rent	54,999	-	-	54,999
Total expenses	<u>\$ 21,727,658</u>	<u>\$ 2,873,227</u>	<u>\$ 2,252,554</u>	<u>\$ 26,853,439</u>

For the Year Ended June 30, 2018

	Program Services	Fundraising	Management and Support Services	Total
Land and easement transactions	\$ 250,300	\$ -	\$ -	\$ 250,300
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
Grants and contributions	540,122	-	750	540,872
Other operating	508,231	413,509	148,044	1,069,784
Property taxes	278,717	-	-	278,717
Printing and postage	56,045	199,239	2,138	257,422
Interest expense	87,760	-	35,791	123,551
Rent	12,761	-	-	12,761
Total expenses	<u>\$ 8,674,408</u>	<u>\$ 2,901,367</u>	<u>\$ 1,597,103</u>	<u>\$ 13,172,878</u>

The accompanying notes are an integral part of these financial statements

PENINSULA OPEN SPACE TRUST
Statements of Cash Flows

	For the Years Ended	
	June 30,	
	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ 2,139,995	\$ 19,107,850
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	168,189	173,856
Accretion related to asset retirement obligation	85,522	82,436
Net gain on settlement of asset retirement obligations	(29,148)	(2,509)
Grants to public agencies	260,888	-
Conservation easements retained on transferred land	8,428,082	-
Realized and unrealized gain on investments	(3,419,573)	(9,782,455)
Impairment (gain) loss on land held-for-sale	473,918	(57,783)
Impairment of financing receivable	279,709	250,300
Forgiveness of notes payable	(150,000)	-
Change in value in non-controlling interest in LLMWC	6,923	(4,962)
Residual interest in charitable remainder trusts	(45,746)	(29,958)
Interest payable	44,927	40,524
In-kind contributions received - land	(1,445,000)	(2,015,117)
Changes in operating assets and liabilities:		
Funds held on behalf of public agencies	(5,343)	(2,712)
Accounts receivable	486,873	(1,270,555)
Interest receivable related to investments	15,479	25,370
Pledges, grants and bequests receivable	4,147,797	(1,839,671)
Prepaid expenses and other assets	96,842	(111,527)
Proceeds from sale of land held-for-conservation	7,214,881	624,655
Proceeds from sale of property held-for-sale	4,096,082	965,000
Acquisition of land held-for-conservation	(14,656,000)	(19,026,796)
Accounts payable and other liabilities	119,077	763,625
Stewardship liabilities	(71,641)	(72,313)
Funds held in agency trust funds	5,343	2,713
Settlement of asset retirement obligations	(49,364)	(94,413)
Liabilities under remainder trusts	(330,716)	(314,898)
	7,867,996	(12,589,340)
Net cash provided (used) by operating activities		

The accompanying notes are an integral part of these financial statements

PENINSULA OPEN SPACE TRUST
Statements of Cash Flows (Continued)

	For the Years Ended	
	June 30,	
	2019	2018
Cash flows from investing activities:		
Issuance of financing receivable	\$ (2,916,366)	\$ (250,300)
Proceeds from sale of investments	79,246,724	73,568,176
Acquisition of investments	(84,319,990)	(61,158,432)
Proceeds from sale of investments held in charitable remainder trusts	1,591,262	2,560,907
Acquisition of investments held in charitable remainder trusts	(1,369,969)	(2,400,563)
Acquisition of property and equipment	(31,415)	(44,211)
Net cash provided (used) by investing activities	(7,799,754)	12,275,577
Cash flows from financing activities:		
Payments on notes payable	(3,107)	(2,947)
Borrowings of notes payable	108,672	275,613
Net cash provided by financing activities	105,565	272,666
Increase (decrease) in cash and cash equivalents	173,807	(41,097)
Cash and cash equivalents, beginning of year	82,003	123,100
Cash and cash equivalents, end of year	\$ 255,810	\$ 82,003

Supplemental disclosure of cash flow information:

Cash paid during the year for interest	\$ 35,631	\$ 35,791
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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
Receipt of investment against pledge receivables	\$ 30,500	\$ -
Disposal of fully depreciated property and equipment	\$ 19,526	\$ -

The accompanying notes are an integral part of these financial statements

PENINSULA OPEN SPACE TRUST
Notes to the Financial Statements
June 30, 2019

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 its financial statements in accordance with Generally Accepted Accounting Principles in the United States of America (“GAAP”), which requires the Organization to report information regarding its financial position and activities according to two classes of net assets:

- *Without donor restrictions* consist of net assets which are available to support all activities of the Organization without restrictions and include those net assets whose use is not restricted by donors, even though their use may be limited in other respects, such as by contract or board designation.
- *With donor restrictions* represent contributions where use is limited to donor-imposed stipulations that expire through the passage of time or other restrictions and for which the applicable restriction was not met as of the end of the current fiscal period. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds to be maintained 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, 2019

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. Certain costs are allocated between programmatic and support services based on estimates of time, space, or other factors. Salaries and fringe benefits are allocated on a percentage basis between functional categories based on job description or time estimates. Salary allocation percentages are also used to allocate certain indirect costs, including but not limited to facilities expenses, office supplies and equipment, information technology expenses and depreciation.

Revenue recognition - The Organization recognizes contributions received including unconditional pledges 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 net assets with donor restrictions 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and the reported amounts released from restriction. All other contributed support is recognized as revenue without restrictions 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, 2019 and 2018.

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 \$1,445,000 and \$2,015,117 for the years ended June 30, 2019 and 2018, respectively. Donated marketable securities are recorded at fair value on the date the securities are received. In-kind contributions of securities totaled \$1,572,484 and \$1,604,454 for the years ended June 30, 2019 and 2018, 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, 2019. 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 \$88,344 and \$78,013 for in-kind legal and professional services and donated goods for program services were recognized for the years ended June 30, 2019 and 2018, 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.

PENINSULA OPEN SPACE TRUST

Notes to the Financial Statements

June 30, 2019

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

Rental income - The Organization leases land and property under multiple lease agreements expiring at various dates through 2024.

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.

Accounts receivable and allowance for doubtful accounts - Accounts receivable consists primarily of amounts due to the Organization in conjunction with the Organization's program operations. An allowance reserve for uncollectible accounts receivables, if any, is determined based on management's evaluation of each outstanding accounts receivable for collectability. Management has determined the outstanding accounts receivable to be fully collectible for the fiscal years ended June 30, 2019 and 2018, respectively.

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, 2019 and 2018) 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.

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, 2019. 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.

PENINSULA OPEN SPACE TRUST
Notes to the Financial Statements
June 30, 2019

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

Financing receivables and related allowance for credit losses - The Organization has financing receivables, which consist of three portfolio segments and one portfolio segment as of June 30, 2019 and 2018, 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.

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 6.

Non-performing 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 corporate bonds. 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, unless otherwise directed by the Organization's financial advisors or the Investment Committee of the Board of Directors. 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.

PENINSULA OPEN SPACE TRUST
Notes to the Financial Statements
June 30, 2019

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

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, 2019 and 2018 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, 2019 and 2018, 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, 2019 and 2018, respectively.

PENINSULA OPEN SPACE TRUST

Notes to the Financial Statements

June 30, 2019

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. Grants of land totaled \$260,888 in the fiscal year ending June 30, 2019. There were no grants of land in the fiscal year ending June 30, 2018.

Non-controlling interest - The Organization holds a 39.44% non-controlling interest in Lake Lucerne Mutual Water Company ("LLMWC"), at June 30, 2019 and 2018, 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, 2019 and 2018 was \$80,245 and \$87,167 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, 2019 and 2018. 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 or received easements totaling \$11,598,082 for the fiscal year ending June 30, 2019. No easements were purchased in the fiscal year ending June 30, 2018.

PENINSULA OPEN SPACE TRUST

Notes to the Financial Statements

June 30, 2019

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 \$82,431 and \$154,072 remaining at June 30, 2019 and 2018, 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, 2019 and 2018, 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 \$2,288,635 and \$2,376,125 for fiscal years ending June 30, 2019 and 2018, respectively.

PENINSULA OPEN SPACE TRUST
Notes to the Financial Statements
June 30, 2019

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 Organization is subject to the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), the provisions of which apply to its endowment funds. As required by UPMIFA and GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Advertising - Advertising costs are expensed as incurred. Advertising and promotion expenses were \$420,599 and \$372,393 for the years ended June 30, 2019 and 2018, respectively.

Reclassifications - Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation in the current-year financial statements. These reclassifications have no effect on previously reported change in unrestricted net assets.

Accounting for uncertainty in income taxes - The Organization evaluates its uncertain tax positions and will recognize a loss contingency when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be 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, 2019 and 2018 management did not identify any uncertain tax positions.

Recently adopted accounting principles - During the fiscal year, the Organization adopted Financial Accounting Standards Board ("FASB") Accounting Standard Update ("ASU") No. 2016-14 "Not-for-Profit Entities: Presentation of Financial Statements for Not-for-Profit Entities." The ASU is intended to improve the net asset classification requirements and the information presented in the financial statements and footnotes about not-for-profit liquidity, financial performance, and cash flows. The Organization has adopted the provisions of ASU 2016-14 and has retrospectively applied this standard, which is reflected in the total for the year ending June 30, 2018.

PENINSULA OPEN SPACE TRUST
Notes to the Financial Statements
June 30, 2019

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

Recently adopted accounting principles (continued) - A summary of the net asset reclassifications driven by the adoption of ASU 2016-14 as of June 30, 2018 is as follows:

Net asset classifications	ASU 2016-14 classifications		
	Without donor restrictions	With donor restrictions	Total net assets
As previously presented:			
Unrestricted	\$ 289,451,830	\$ -	\$ 289,451,830
Temporarily restricted	-	11,847,454	11,847,454
Permanently restricted	-	550,500	550,500
Net assets previously presented	\$ 289,451,830	\$ 12,397,954	\$ 301,849,784

Recent accounting pronouncements - In August 2018, FASB issued ASU 2018-13 “Fair Value Measurements: Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurements”. This ASU modifies the disclosure requirements for fair value measurements. Those modifications include the removal and addition of disclosure requirements as well as clarifying specific disclosure requirements. The ASU is effective for fiscal years beginning after December 15, 2019. Certain provisions of the ASU will be applied prospectively while the rest of the provisions will be applied retrospectively. Management has not yet evaluated the impact of the guidance on the Organization’s financial statements.

In June 2018, the FASB issued 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 yet evaluated the impact of the guidance on the Organization’s financial statements.

PENINSULA OPEN SPACE TRUST
Notes to the Financial Statements
June 30, 2019

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

Recent accounting pronouncements (continued) - 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 yet evaluated the impact of the guidance on the Organization's financial statements.

In May 2014, the FASB issued ASU No. 2014-09 "Revenue from Contracts with Customers (Topic 606)." The ASU provides guidance over the core principle of recognizing revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods. ASU 2014-09 will supersede the revenue recognition requirements in FASB Accounting Standard Codification (ASC) 605, "Revenue Recognition," and most industry-specific guidance throughout the Industry Topics of the FASB ASC. The purpose of the new standard is to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and International Financial Reporting Standards (IFRS). In August 2015, the FASB issued ASU 2015-14 "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date" which will defer the effective date of ASU No. 2014-09 "Revenue from Contracts with Customers" for all entities by one year. In March 2016, the FASB issued ASU No. 2016-08 "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations. The ASU improves operability and understandability of Topic 606 in principal versus agent considerations. In April 2016, the FASB issued ASU No. 2016-10 "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing." The ASU expands on Topic 606 with clarification over identifying performance obligations and licensing. For non-public entities, the effective date will be effective for annual reporting periods beginning after December 15, 2018 and interim periods within annual periods beginning after December 15, 2019. Early adoption is permitted under several options, the earliest for a year beginning after December 15, 2016 and interim periods within that year. Various retrospective application methods are available. Management has not yet evaluated the impact of the guidance on the Organization's financial statements.

PENINSULA OPEN SPACE TRUST

Notes to the Financial Statements

June 30, 2019

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

Subsequent events - Subsequent events have been evaluated through the date of the independent auditor's report, 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, 2019.

Note 3 - Liquidity and availability of funds:

The Organization's financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, are as follows:

	<u>2019</u>	<u>2018</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 255,810	\$ 82,003
Accounts receivable	1,369,147	1,856,020
Pledges, grants and bequests receivable, net	2,204,576	6,382,873
Financing receivable, net	24,236,657	21,600,000
Interest receivable related to investments	9,607	25,086
Investments	<u>175,619,818</u>	<u>167,044,599</u>
Total financial assets	<u>203,695,615</u>	<u>196,990,581</u>
Less those not available for general expenditures within within one year, due to:		
Donor pledges receivable due in more than one year	1,267,647	596,746
Donor restrictions for easement monitoring and defense	1,287,823	1,248,213
Donor restrictions to maintain as an endowment	550,500	550,500
Board designations for land & easement acquisition and stewardship obligations	<u>166,958,138</u>	<u>161,197,358</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 33,631,507</u>	<u>\$ 33,397,764</u>

The organization regularly monitors liquidity in order to meet its operating needs and other contractual obligations as they come due, generally maintaining a two year operating reserve. The Board designates all other net assets for longer-term use, including conservation easement monitoring, land acquisition and stewardship needs. Amounts not available for general operating use due to Board designations could be drawn upon with Board approval if needed.

PENINSULA OPEN SPACE TRUST
Notes to the Financial Statements
June 30, 2019

Note 4 - Cash held on behalf of public agencies:

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

	<u>July 01, 2018</u>	<u>Fund Additions</u>	<u>Income Credited</u>	<u>Fund Expenditures</u>	<u>June 30, 2019</u>
United States Department of Interior	\$ 274,641	\$ -	\$ 5,343	\$ -	\$ 279,984
Cash held on behalf of public agencies	<u>\$ 274,641</u>	<u>\$ -</u>	<u>\$ 5,343</u>	<u>\$ -</u>	<u>\$ 279,984</u>

	<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>

Note 5 - Pledges, grants and bequests receivable:

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

Pledges, grants and bequests receivable:

	<u>2019</u>	<u>2018</u>
Pledges receivable, net	\$ 1,398,517	\$ 609,616
Bequests receivable	609,524	5,385,988
Grants receivable, net	<u>196,535</u>	<u>387,269</u>
Pledges, grants and bequests receivable, net	<u>\$ 2,204,576</u>	<u>\$ 6,382,873</u>

PENINSULA OPEN SPACE TRUST
Notes to the Financial Statements
June 30, 2019

Note 5 - Pledges, grants and bequests receivable (continued):

Pledges receivable

Pledges receivable at June 30, 2019, are expected to be received as follows:

Year Ending June 30,	
2020	\$ 359,973
2021	499,929
2022	435,000
2023	210,000
Total pledges receivable	1,504,902
Less discount	(79,385)
Less allowance for doubtful accounts	(27,000)
Pledges receivable, net	\$ 1,398,517

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. Allowance for doubtful accounts balance as of June 30, 2019 and 2018 is \$27,000. No change to the allowance was considered necessary during the years ended June 30, 2019 and 2018, respectively.

Bequests receivable

The Organization had total bequests receivable of \$609,524 and \$5,385,988 at June 30, 2019 and 2018, respectively. All amounts are expected to be collected during the year ended June 30, 2020.

Grants receivable

Grants receivable net of discount at June 30, 2019 is \$196,535 and is expected to be collected in the fiscal year ending June 30, 2020.

PENINSULA OPEN SPACE TRUST
Notes to the Financial Statements
June 30, 2019

Note 6 - Financing receivables and allowance for credit losses:

Financing receivables consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
Note A	\$ 26,743,961	\$ 26,464,253
Note B	2,569,919	-
Note C	<u>66,739</u>	<u>-</u>
Total financing receivables	29,380,619	26,464,253
Less: allowance for credit losses	<u>(5,143,962)</u>	<u>(4,864,253)</u>
Financing receivable, net	<u>\$ 24,236,657</u>	<u>\$ 21,600,000</u>

Note A is an advance to an individual land owner with the objective of facilitating protection of certain land. The note has the option to bear interest at 8.5% per annum (compound) and as of June 30, 2019, no interest has been accrued on this note. The note was due July 1, 2019. Management has the intention of extending the note to July 1, 2049, which has not been completed as of the date the financial statements were available to be issued. 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 were met, the loan increased annually beginning in the year ended June 30, 2015 by \$250,300 (plus closing costs) until the loan balance was \$26,744,262.

Note B is a participation loan with an external lender in which the lender will originate and service purchase money loans on designated properties the Organization owns and sells. There are two loans as of June 30, 2019. One loan is due May 2049 with a loan amount of \$1,836,374 and bears interest at 1.75% per annum (compound). The second loan is due May 2049 with a loan amount of \$733,545 and bears interest at 1.75% per annum (compound).

Note C is an undivided 11.24% interest in a private financing arrangement, which the Organization received in FY19 as part of a larger bequest. The loan originally matured in December 2015 and is in default. Bankruptcy proceedings are underway, but the loan is currently under active repayment with an interest rate of 11.27%. The loan amount of \$66,739 is secured by deed of trust.

The Organization did not have any interest receivable related to the financing receivables for the years ended June 30, 2019 and 2018. 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.

PENINSULA OPEN SPACE TRUST

Notes to the Financial Statements

June 30, 2019

Note 6 - Financing receivables and allowance for credit losses (continued):

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 \$5,143,962 and \$4,864,253 for the years ending June 30, 2019 and 2018, 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 value to be fully collectible.

Note 7 - 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.

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

PENINSULA OPEN SPACE TRUST

Notes to the Financial Statements

June 30, 2019

Note 7 - 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
- Level 3: Significant unobservable inputs

	Year Ended June 30, 2019			
	Level 1	Level 2	Level 3	Total
Investment cash and cash equivalents	\$ 9,513,785	\$ -	\$ -	\$ 9,513,785
Marketable equity securities	80,681,123	-	-	80,681,123
Marketable absolute return funds	7,162,216	-	-	7,162,216
Real estate, gold and commodities funds	5,498,483	-	-	5,498,483
Corporate bond funds	70,566,318	-	-	70,566,318
Corporate bonds	-	1,008,060	-	1,008,060
Private equity fund	-	-	1,189,833	1,189,833
Total	<u>\$ 173,421,925</u>	<u>\$ 1,008,060</u>	<u>\$ 1,189,833</u>	<u>\$ 175,619,818</u>

	Year Ended June 30, 2018			
	Level 1	Level 2	Level 3	Total
Investment cash and cash equivalents	\$ 4,532,348	\$ -	\$ -	\$ 4,532,348
Marketable equity securities	89,689,529	-	-	89,689,529
Marketable absolute return funds	12,384,699	-	-	12,384,699
Real estate, gold and commodities funds	8,862,333	-	-	8,862,333
Corporate bond funds	47,782,054	-	-	47,782,054
Corporate bonds	-	2,719,714	-	2,719,714
Private equity fund	-	-	1,073,922	1,073,922
Total	<u>\$ 163,250,963</u>	<u>\$ 2,719,714</u>	<u>\$ 1,073,922</u>	<u>\$ 167,044,599</u>

PENINSULA OPEN SPACE TRUST
Notes to the Financial Statements
June 30, 2019

Note 7 - 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>2019</u>	<u>2018</u>
Beginning balance	\$ 1,073,922	\$ 1,382,835
Total gains or losses (realized or unrealized), net	169,089	199,449
Purchases, issuances, and settlements	<u>(53,178)</u>	<u>(508,362)</u>
Ending balance	<u>\$ 1,189,833</u>	<u>\$ 1,073,922</u>

The underlying assets of the investment company are valued based on quoted market prices as available. When fair value is not readily determinable, other methods, including independent valuations, are utilized to determine fair value.

The following table lists investments in other investment companies by major category at June 30, 2019:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Private equity fund (a)	\$ <u>1,189,833</u>	\$ <u>148,500</u>	N/A	N/A

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>155,520</u>	N/A	N/A

- (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, 2019 and 2018.

PENINSULA OPEN SPACE TRUST
Notes to the Financial Statements
June 30, 2019

Note 7 - Investments (continued):

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

	<u>2019</u>	<u>2018</u>
Realized gains	\$ 5,366,433	\$ 8,948,997
Unrealized gains (losses)	(1,946,860)	833,457
Gain (loss) on property-held-for-sale	(473,918)	57,784
Management fees and trust expenses	<u>(402,937)</u>	<u>(405,881)</u>
Total net realized and unrealized gains on investments	<u>\$ 2,542,718</u>	<u>\$ 9,434,357</u>

Note 8 - Investments and remainder interests in charitable remainder trusts and gift annuities:

The Organization is a trustee and remainder beneficiary of seven 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 contributions with donor restrictions 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 (\$3,053,790 and \$3,183,093 at June 30, 2019 and 2018, 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, 2019 and 2018, 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>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 78,975	\$ 113,657
Marketable equity securities	3,798,362	3,648,268
Corporate bond funds	1,974,725	1,907,834
Real estate, gold and commodities funds	236,065	351,018
Marketable absolute return funds	<u>363,316</u>	<u>502,426</u>
Total	<u>\$ 6,451,443</u>	<u>\$ 6,523,203</u>

PENINSULA OPEN SPACE TRUST

Notes to the Financial Statements

June 30, 2019

Note 8 - Investments and remainder interests in charitable remainder trusts and gift annuities (continued):

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 contributions with donor restrictions 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.

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>2019</u>	<u>2018</u>
Charitable Remainder Trusts with third party trustees, time restricted	\$ 103,534	\$ 101,969
Charitable Gift Annuities, time restricted	327,389	284,486
Charitable Gift Annuities, time and purpose restricted	16,757	16,236
Irrevocable bequest, time and purpose restricted	<u>85,753</u>	<u>84,996</u>
Total Residual Interest in charitable remainder trusts	<u>\$ 533,433</u>	<u>\$ 487,687</u>

PENINSULA OPEN SPACE TRUST
Notes to the Financial Statements
June 30, 2019

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:

Balance, June 30, 2017	\$ 84,182,978
Purchased land	18,036,040
Change in land related deposits	366,101
Change in asset retirements, net	63,000
Change in LLWMC POST interest	4,962
Donations of land received	<u>1,107,900</u>
Balance, June 30, 2018	103,760,981
Purchased land	12,225,000
Donations of land received	1,445,000
Change in asset retirements, net	515,899
Change in land related deposits	(110,250)
Change in LLWMC POST interest	(6,923)
Dispositions of land	<u>(18,543,000)</u>
Balance, June 30, 2019	<u>\$ 99,286,707</u>

Included within land held-for-conservation are costs recorded for future asset retirement obligations of \$1,603,780 and \$1,714,030 as of June 30, 2019 and 2018, respectively.

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

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	<u>82,436</u>
Balance, June 30, 2018	2,376,125
Liabilities removed in the current period through transfer of land	(123,648)
Liabilities settled in the current period	(49,364)
Accretion expense	<u>85,522</u>
Balance, June 30, 2019	<u>\$ 2,288,635</u>

PENINSULA OPEN SPACE TRUST
Notes to the Financial Statements
June 30, 2019

Note 10 - Property and equipment:

Property and equipment consisted of the following at June 30:

	<u>2019</u>	<u>2018</u>
Building and improvements	\$ 3,970,801	\$ 3,939,386
Furniture	11,721	20,007
Equipment	177,760	177,760
Vehicles	<u>142,564</u>	<u>153,804</u>
Total property and equipment	4,302,846	4,290,957
Less: accumulated depreciation and amortization	(1,466,364)	(1,317,701)
Land	<u>2,351,899</u>	<u>2,351,899</u>
Total property and equipment, net	<u>\$ 5,188,381</u>	<u>\$ 5,325,155</u>

Depreciation and amortization expense, included in other operating expenses, for the years ended June 30, 2019 and 2018 was \$168,189 and \$173,856, 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. There were no acquisitions subject to offer to dedicate provisions during the year ended June 30, 2019 and 2018.

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.

PENINSULA OPEN SPACE TRUST
Notes to the Financial Statements
June 30, 2019

Note 12 - Accounts payable and other liabilities (continued):

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

	<u>2019</u>	<u>2018</u>
Accounts payable	\$ 777,593	\$ 991,877
Vacation accrual	294,837	198,487
Interest payable	43,417	4,470
Other liabilities	<u>724,757</u>	<u>481,766</u>
Accounts payable and other liabilities	<u>\$ 1,840,604</u>	<u>\$ 1,676,600</u>

Note 13 - Notes payable:

Notes payable consisted of the following at June 30:

	<u>2019</u>	<u>2018</u>
Capital Lease - copier	\$ 6,430	\$ 9,538
Program Related Investment Loan	3,520,000	3,520,000
Farm Labor Housing Note A	300,000	200,149
Farm Labor Housing Note B	-	150,000
Farm Labor Housing Note C	<u>24,669</u>	<u>15,847</u>
Total notes payable	<u>\$ 3,851,099</u>	<u>\$ 3,895,534</u>

As of June 30, 2019, the notes payable balance includes one program-related investment loan obtained as part of a land transaction and two 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, 2019, management is not aware of any violations with covenants.

The forgivable loans are from a governmental entity to provide farm labor housing on 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 was forgiven during the year ended June 30, 2019. 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, 2019 and 2018, respectively, and will record grant revenue in future years if the conditions are fulfilled and the loans are forgiven.

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Notes to the Financial Statements
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Note 14 - Board designations of net assets without donor restrictions:

Board designations of net assets without donor restrictions were as follows at June 30:

	<u>2019</u>	<u>2018</u>
Land held for conservation	\$ 99,286,707	\$ 103,760,981
Property and equipment	5,188,381	5,325,155
Land & easement acquisition and stewardship obligations	<u>166,958,138</u>	<u>161,197,358</u>
Total board-designated	<u>\$ 271,433,226</u>	<u>\$ 270,283,494</u>

Note 15 - Net assets with donor restrictions:

Net assets with donor restrictions were available for the following purposes at June 30:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for a specific purpose:		
Conservation easement fund	\$ 1,287,823	\$ 1,248,213
Other program activities	2,096,070	790,436
Held for endowment	216,995	207,752
Land acquisitions	<u>196,535</u>	<u>387,268</u>
Total purpose restrictions	3,797,423	2,633,669
Subject to appropriation and expenditure when a specified event occurs:		
Net assets held in charitable remainder trusts	3,397,653	3,340,110
Subject to passage of time:		
Bequests, trust receivable and estate receivable	1,159,933	5,873,675
Endowment:		
Perpetual in nature -		
Lane Stewardship Endowment	300,000	300,000
Wilbur's Watch	<u>250,500</u>	<u>250,500</u>
Total net assets with donor restrictions	<u>\$ 8,905,509</u>	<u>\$ 12,397,954</u>

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Note 15 - Net assets with donor restrictions (continued):

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

	<u>2019</u>	<u>2018</u>
Bequests, trusts and estate receivable	\$ 7,321,435	\$ 2,604,092
Land acquisitions	6,385,317	6,370,892
Other program activities	<u>865,982</u>	<u>778,928</u>
Total net assets released from restrictions	<u>\$ 14,572,734</u>	<u>\$ 9,753,912</u>

Note 16 - Endowment:

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

	<u>Endowment accumulated earnings - unappropriated</u>	<u>Perpetual in nature</u>	<u>Total</u>
Endowment net assets as of June 30, 2017	\$ 167,449	\$ 550,500	\$ 717,950
Investment return:			
Interest and dividend income	18,513	-	18,513
Realized and unrealized gain	<u>43,391</u>	<u>-</u>	<u>43,391</u>
Total investment return	<u>61,904</u>	<u>-</u>	<u>61,904</u>
Appropriation of endowment	<u>(21,601)</u>	<u>-</u>	<u>(21,601)</u>
Endowment net assets as of June 30, 2018	<u>207,752</u>	<u>550,500</u>	<u>758,253</u>
Investment return:			
Interest and dividend income	18,226	-	18,226
Realized and unrealized gain	<u>14,804</u>	<u>-</u>	<u>14,804</u>
Total investment return	<u>33,030</u>	<u>-</u>	<u>33,030</u>
Appropriation of endowment	<u>(23,787)</u>	<u>-</u>	<u>(23,787)</u>
Endowment net assets as of June 30, 2019	<u>\$ 216,995</u>	<u>\$ 550,500</u>	<u>\$ 767,496</u>

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Note 16 - 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 UPMIFA requires the Organization to retain as a fund of perpetual duration. There were no deficiencies of this nature as of June 30, 2019 or June 30, 2018.

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 Investment 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% of its endowment funds' average fair value over the prior 12 quarters through the quarter ending March 31, proceeding the fiscal year in which the distribution is planned. In establishing this policy, the Organization considered the long-term expected real return on its endowment. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

PENINSULA OPEN SPACE TRUST

Notes to the Financial Statements

June 30, 2019

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 \$669,127 and \$459,547 for the years ended June 30, 2019 and 2018, respectively. Outstanding pledge receivables from the Board of Directors or from companies with which the Board of Directors are affiliated were \$75,000 and \$420,000 for the years ended June 30, 2019 and 2018, respectively.

For the fiscal year ended June 30, 2018 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. No services were provided for the fiscal year ended June 30, 2019.

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 5, the Organization believes these amounts are fully collectible. The notes receivable are fully secured at June 30, 2019. The majority of the Organization's cash was held at one financial institution at June 30, 2019. 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, 2019, two donors accounted for 24% of the Organization's contributions and grants. For the year ended June 30, 2018, one donor accounted for 25% of the Organization's contributions and grants.

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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 \$247,990 and \$207,164 for the years ended June 30, 2019 and 2018, 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 \$11,000 for the year ended June 30, 2019 and \$22,000 for the year ended June 30, 2018.

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.