Tri-Valley Conservancy

Financial Statements
and
Independent Auditor's Report
For the Years Ended
December 31, 2012 and 2011

Tri-Valley Conservancy

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December 31, 2012 and 2011

DAMORE
HAMRIC &
SCHNEIDER,
INC.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Tri-Valley Conservancy

We have audited the accompanying financial statements of the Tri-Valley Conservancy (a nonprofit organization), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements. The prior year summarized comparative information has been derived from another auditor's 2011 financial statements and, in their report dated March 30, 2013, they expressed an unqualified opinion on those 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 Conservancy'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.

2856 Arden Way, Suite 200
Sacramento, CA 95825-1379
Tel (916) 481-2856
Fax (916) 488-4428
http://www.dhscpa.com

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tri-Valley Conservancy as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Damore, Hamric + Schneider Inc

DAMORE, HAMRIC & SCHNEIDER, INC.
Certified Public Accountants

April 2, 2013

Tri-Valley Conservancy

STATEMENTS OF FINANCIAL POSITION

December 31, 2012 and 2011

ASSETS

Assets:	**2012**	2011
Cash and Cash Equivalents	**$ 724,847**	$ 399,176
Investments:		
Custodial Accounts		
Capital Account	**5,570,354**	5,528,117
Endowment Account	**8,071,324**	7,160,386
Accrued Investment Income	**82,992**	27,963
Deposits	**2,396**	2,396
Prepaid Expenses	**7,601**	6,506
Total Current Assets	**$ 14,459,514**	$ 13,124,544
Fixed Assets:		
Land	**$ 1,500,000**	$ 1,500,000
Office Furniture, Equipment, and Fixtures - Net of Accumulated Depreciation	**7,861**	9,498
Total Fixed Assets	**$ 1,507,861**	$ 1,509,498
Deeds of Agricultural Conservation Easements	**60**	58
Total Assets	**$ 15,967,435**	$ 14,634,100

The accompanying notes are an integral part of the financial statements.

Tri-Valley Conservancy

STATEMENTS OF FINANCIAL POSITION

December 31, 2012 and 2011

LIABILITIES AND NET ASSETS

Liabilities:	**2012**	2011
Accounts Payable and Accrued Liabilities	**$ 9,406**	$ 28,006
Accrued Vacation	**13.004**	
Deferred Revenue	**25,000**	
Total Liabilities	**$ 47,410**	$ 28,006
Net Assets:		
Unrestricted for TVC	**$ 1,562,913**	$ 1,288,937
Unrestricted for South Livermore Valley Area Plan	**1,349,675**	1,393,107
Temporarily Restricted for South Livermore Valley Area Plan	**13,007,437**	11,924,050
Total Net Assets	**$ 15,920,025**	$ 14,606,094
Total Liabilities and Net Assets	**$ 15,967,435**	$ 14,634,100

The accompanying notes are an integral part of the financial statements.

Tri-Valley Conservancy

STATEMENTS OF ACTIVITIES

For the Year Ended December 31, 2012
With Comparative Totals for 2011

Revenue:	TVC Unrestricted	South Livermore Valley Area Plan Unrestricted	South Livermore Valley Area Plan Temporarily Restricted	**2012**	2011
Mitigation Income	$ 207,495	$	$ 665	**$ 208,160**	$ 23,145
Other Income		1,026		**1,026**	377
Contributions	52,773			**52,773**	43,767
Special Events	67,698			**67,698**	43,480
Grants	5,000			**5,000**	5,000
Stewardship Income	6,000	3,601	153,133	**162,734**	22,838
Dividends and Interest	20,351		449,459	**469,810**	415,169
Net Unrealized Gain (Loss) on Investments	33,790		1,187,174	**1,220,964**	(955,354)
Net Realized (Loss) Gain on Investments	(11,661)		(199,591)	**(211,252)**	484,082
Total Revenues	$ 381,446	$ 4,627	$ 1,590,840	**$ 1,976,913**	$ 82,504
Expenses:					
Program Services	$ 83,805	$ 37,477	$ 395,752	**$ 517,034**	$ 768,317
Management and General Expenses	7,125	3,186	33,617	**43,928**	62,510
Fundraising Expenses	16,540	7,396	78,084	**102,020**	66,830
Total Expenses	$ 107,470	$ 48,059	$ 507,453	**$ 662,982**	$ 897,657
Increase (Decrease) in Net Assets	273,976	(43,432)	1,083,387	**1,313,931**	(815,153)
Net Assets, Beginning of Year	1,288,937	1,393,107	11,924,050	**14,606,094**	15,421,247
Net Assets, End of Year	$ 1,562,913	$ 1,349,675	$ 13,007,437	**$ 15,920,025**	$ 14,606,094

The accompanying notes are an integral part of the financial statements.

Tri-Valley Conservancy

STATEMENTS OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2012
With Comparative Totals for 2011

	Program Services	Management and General Expenses	Fundraising Expenses	**2012**	2011
Salaries and Wages	$ 218,189	$ 12,835	$ 25,669	**$ 256,693**	$ 206,509
Payroll Taxes and Related Costs	19,230	1,131	2,262	**22,623**	19,257
Employee Benefits	15,851	932	1,865	**18,648**	20,323
Total Salaries and Related Costs	$ 253,270	$ 14,898	$ 29,796	**$ 297,964**	$ 246,089
Accounting	$ 12,286	$ 2,304	$ 768	**$ 15,358**	$ 12,040
Appraisal Expenses					2,500
Automobile Expense	1,054	55		**1,109**	
Business Promotions and Advertising	37,762		12,588	**50,350**	36,741
Conferences, Seminars, Workshops and Meetings	14,582	3,889	972	**19,443**	26,344
Depreciation	3,179	848	212	**4,239**	4,281
Dues and Subscriptions	7,471			**7,471**	5,200
Fees, Licenses and Permits	1,609	301	101	**2,011**	1,144
Insurance	7,132	1,902	475	**9,509**	8,480
Investment Fees	75,582	8,398		**83,980**	87,867
Investment Management - Professional Fees	10,564	1,174		**11,738**	18,374
Land Conservation Plan Project					250
Legal	29,865	3,318		**33,183**	37,346
Loss on Disposition of Assets					1,112
Occupancy	17,191	3,223	1,075	**21,489**	18,909
Office Equipment	1,700	319	106	**2,125**	9,366
Office Expense	3,692	692	231	**4,615**	3,520
Outside Services					10,602
Printing and Postage	2,563	481	160	**3,204**	2,414
Recruiting Expenses	12,458		12,458	**24,916**	
Special Events			42,547	**42,547**	39,856
Stewardship Expenses	17,103			**17,103**	17,338
Utilities	3,273	873	218	**4,364**	4,361
Website	4,698	1,253	313	**6,264**	2,139
Write-down of Conservation Easement					301,384
	$ 263,764	$ 29,030	$ 72,224	**$ 365,018**	$ 651,568
Total Expenses	$ 517,034	$ 43,928	$ 102,020	**$ 662,982**	$ 897,657

The accompanying notes are an integral part of the financial statements.

Tri-Valley Conservancy

STATEMENTS OF CASH FLOWS

For the Year Ended December 31, 2012
With Comparative Totals for 2011

	2012	2011
Cash Flows from Operating Activities:		
Increase (Decrease) in Net Assets	**$ 1,313,931**	($ 815,153)
Adjustments to Reconcile Increase (Decrease) in Net Assets to Cash provided (used) by Operating Activities		
Depreciation	**4,239**	4,281
Loss on Disposition of Assets		1,112
Write-down of Conservation Easement		301,384
Net Unrealized (Gain) Loss on Investments	**(1,220,964)**	955,354
Net Realized Loss (Gain) on Investments	**211,252**	(484,082)
(Increase) Decrease in Operating Assets:		
Accounts Receivable		1,262
Accrued Investment Income	**(55,029)**	(2,936)
Prepaid Expenses	**(1,095)**	2,478
Deeds of Agricultural Conservation Easements	**(2)**	
Increase (Decrease) in Operating Liabilities:		
Accounts Payable and Accrued Expenses	**(18,600)**	16,161
Accrued Vacation	**13,004**	
Deferred Revenue	**25,000**	
Net Cash Provided by (Used for) Operating Activities	**$ 271,736**	($ 20,139)
Cash Flows from Investing Activities:		
Purchase of Property and Equipment	**($ 2,602)**	$
Purchase of Investments	**(6,740,482)**	(7,358,769)
Proceeds from Sales/Maturities of Investments	**6,797,019**	7,672,544
Purchase of Conservation Easement		(301,385)
Net Cash Provided by Investing Activities	**$ 53,935**	$ 12,390
Net Increase (Decrease) in Cash and Cash Equivalents	**$ 325,671**	($ 7,749)
Beginning Cash and Cash Equivalents	**399,176**	406,925
Ending Cash and Cash Equivalents	**$ 724,847**	$ 399,176

The accompanying notes are an integral part of the financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Organization - The Tri-Valley Conservancy (TVC) is a California nonprofit, public benefit corporation organized under the Nonprofit Public Benefit Corporation Law for charitable purposes. The specific and primary purpose of this corporation is to engage in charitable activities within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, or the corresponding provisions of any future United States Internal Revenue Law (the "Code") for the preservation, protection, or enhancement of land in its natural, scenic, historical, agricultural, forested, or open-space condition or use for the conservation purposes specified in Section 170(h)(4)(A) of the Internal Revenue Code.

B. Nature of Activities - Through its years of operation, TVC has acquired sixty deeds of perpetual agricultural or open space easements in the South Livermore Valley Area Plan (SLVAP), totaling 4,177 acres. These acres come from mitigation (3,108 acres), SLVP Bonus Density (555 acres) and acquisitions (514 acres). TVC has expended $8,519,513 for these easements, and has received $2,258,333 from grants, thus resulting in a net cost to TVC of $6,261,180. These easements have no financial value since the development rights associated with the properties have been permanently "extinguished". Therefore, the easements are valued nominally at $1 each, for a total of $60 in these financial statements.

Certain residential developments within the boundary of the Plan area are required to pay TVC mitigation fees at the time individual building permits are pulled (Ruby Hill Development in Pleasanton, California) or in other cases at the time of final map approval. Such fees have been collected by the City of Pleasanton, and TVC anticipates revenues from the remaining seven plus residential lots still available in the Ruby Hill development. All monies received from Ruby Hill are restricted for use within the South Livermore Valley Area Plan. TVC uses the developer mitigation fees it receives from Ruby Hill to purchase conservation easements, to steward the portfolio of easements under its care and to cover its general and administrative operations.

TVC accepts and holds conservation easements committing to annual stewardship in perpetuity, to enforce their terms and to building positive landowner and community relationships to support its conservation programs and enforcement actions. For every easement, TVC has a baseline documentation report prepared prior to closing which is signed by the landowner at closing.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

B. Nature of Activities (Continued) -

The report documents the important conservation values protected by the easement and the relevant conditions of the property as necessary to monitor and enforce the easement(s). The easement properties are monitored regularly, at least annually, and documentation is kept of each monitoring activity. TVC maintains regular contact with owners of easement properties. Changes in land ownership are traced. TVC strives to promptly build a positive working relationship with new owners of easement properties and informs them about the easement's existence and restrictions, and TVC's stewardship effort requires TVC to take necessary and consistent steps to see the violations are resolved utilizing legal resources for enforcement and defense when necessary.

C. Basis of Reporting - Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Conservancy and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subjected to donor-imposed stipulations. The TVC unrestricted net assets are derived from donations and special events, in addition to mitigation income from the Vineyard corridor project. SLVAP unrestricted net assets are derived from income (Livermore mitigation income and stewardship income) that can be used for other purposes as designated by the Board, as long as it furthers the mission of TVC and is spent within the SLVAP.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Conservancy and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Mitigation Income from the Ruby Hill development is restricted for purchases of land and/or easements within the SLVAP and the administration of those purchases. Temporarily restricted net assets balance for the year ended December 31, 2012 and 2011 was **$13,007,437** and $11,924,050, respectively.

Permanently Restricted Net Assets - This component of net assets consists of donated assets that are to be maintained permanently by the recipient. Generally, the donors of these assets permit the recipient to use all or part of the income earned on any related investments for general or specific purposes. The Conservancy did not have permanently restricted net assets at December 31, 2012 and 2011.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

D. Cash and Cash Equivalents - For purposes of the statements of cash flows, TVC considers all highly liquid investments available for current use with an initial maturity of less than one month to be cash equivalents.

E. Investments - Investments primarily consist of fixed income and equity securities that are carried at estimated fair value based on quoted market prices in active markets for identical investments as of the reporting date (Level 1 investments). Investments received through donations are recorded at their estimated fair value as of the date of donation. Unrealized gains and losses arising from market fluctuations are recognized in the period when such fluctuations occur. Realized gains and losses resulting from sales or maturities are calculated on an adjusted cost basis.

F. Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the reporting date and revenues and expenses during the reporting period. Actual results could differ from those estimates.

G. Office Furniture, Equipment and Fixtures - This category consists of office equipment, software and furniture and fixtures. The Conservancy follows the practice of capitalizing all expenditures in excess of $500 for office furniture, equipment and fixtures and is reported at cost. Depreciation is provided using the straight-line method over estimated useful lives of the related assets, which are as follows:

	Years
Software	2 - 5
Office Furniture and Equipment	5 - 10
Fixtures - Signage	10

Depreciation expense for the year ended December 31, 2012 was **$4,239**.

H. Deferred Revenue - Deferred revenue represents funding received in advance of work performed or before revenue is earned.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

I. Income Taxes - TVC is a California nonprofit public benefit corporation, exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code, and State income taxes under Section 23701(d) of the California Revenue and Taxation Code. Annual income returns are filed with federal and state governmental agencies and the accounting methods used for such fillings are the same as those used for financial reporting.

J. Functional Expense Reporting - The costs of providing TVC's programs have been summarized on a functional basis in these financial statements. Based on management estimates, costs have been allocated between programs and supporting services as they relate to those functions. Program Services are identified as expenses related to fulfilling the mission of TVC whereas Management and General Expenses are related to supporting services. Priority for TVC staff and the organization in 2012 was the preservation of the South Livermore Valley Area Plan (SLVAP) and South Livermore Valley Specific Plan (SLVSP). Program Services includes stewardship of TVC's easements, acquisition of conservation assessments, maintaining the mitigation requirements for the SLVSP and ensuring the SLVAP intent remains in place. Fundraising expenses reflect the amount TVC spent to generate funds including amounts incurred to pay for annual appeals, renewal, special events and fees for a fundraising consultant.

K. Reclassifications - Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 financial statement presentation.

L. Subsequent Events - Management has evaluated subsequent events through the date of the audit report, which is the date the financial statements were available to be issued.

NOTE 2 INVESTMENTS:

TVC has three investment accounts: two custodial accounts with the Bank of New York, managed by Thornburg Investments Management, an institutional investment manager, and a third account, Thornburg International Fund, held at Thornburg Investments. Altamont Wealth Management serves as TVC's investor advisor. TVC has established asset allocation guidelines - asset class targets and style allocation guidelines for the Capital account and Endowment account. The Capital account's primary purpose is to finance acquisition of conservation easements, property and operating costs. See Note 8 for the Endowment account.

NOTE 2 INVESTMENTS (Continued):

Investments consist of the following at December 31, 2012:

	Cost Basis	Fair Value	Gains (Losses)
Capital Fund Account			
Taxable Fixed Income	$ 4,149,501	$ 4,389,506	$ 240,005
International-Developed	189,218	207,471	18,253
US Common Stocks	809,515	973,377	163,862
Subtotal	5,148,234	5,570,354	422,120
Cash and Cash Equivalents	209,766	209,766	
	$ 5,358,000	$ 5,780,120	$ 422,120
Endowment Fund Account			
Taxable Fixed Income	$ 3,107,244	$ 3,227,286	$ 120,042
Tax Exempt Fixed Income	49,829	50,740	911
International-Developed	450,023	496,732	46,709
US Common Stocks	2,988,268	3,643,400	655,132
Thornburg International Fund	621,143	653,166	32,023
Subtotal	7,216,507	8,071,324	854,817
Cash and Cash Equivalents	421,534	421,534	
	$ 7,638,041	$ 8,492,858	$ 854,817
Total Investments	$ 12,996,041	$ 14,272,978	$ 1,276,937

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended December 31, 2012:

Interest and Dividends (Less Investment Fees of $83,980)		$ 385,676
Unrealized Gain	$ 1,220,964	
Realized Loss	(211,252)	1,009,712
Total Investment Return		$ 1,395,388

NOTE 2 INVESTMENTS (Continued):

Investments consist of the following at December 31, 2011:

	Cost Basis	Fair Value	Unrealized Gains (Losses)
Capital Fund Account			
Taxable Fixed Income	$ 4,318,605	$ 4,411,246	$ 92,641
International-Developed	101,817	116,134	14,317
US Common Stocks	1,113,926	1,000,737	(113,189)
Subtotal	5,534,348	5,528,117	(6,231)
Cash and Cash Equivalents	54,270	54,270	
	$ 5,588,618	$ 5,582,387	($ 6,231)
Endowment Fund Account			
Taxable Fixed Income	$ 2,936,792	$ 2,990,058	$ 53,266
Tax Exempt Fixed Income	49,998	50,301	303
International-Developed	222,838	254,564	31,726
US Common Stocks	3,275,515	3,301,651	26,136
Thornburg International Fund	613,038	563,812	(49,226)
Subtotal	7,098,181	7,160,386	62,205
Cash and Cash Equivalents	288,886	288,886	
	$ 7,387,067	$ 7,449,272	$ 62,205
Total Investments	$ 12,975,685	$ 13,031,659	$ 55,974

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended December 31, 2011:

Interest and Dividends (Less Investment Fees of $87,867)		$ 327,171
Net Unrealized Losses	($ 955,354)	
Net Realized Gains	484,082	(471,272)
Total Investment Return		($ 144,101)

NOTE 3 LEASES:

Effective April 1, 2003, TVC executed a lease for office space in Livermore, California. An addendum to this lease was made and entered into during April 2010. The lease calls for monthly rent of $1,559, with free rent in May of each year. This lease is scheduled to expire on June 30, 2013. In October 2012, TVC entered into a 60 month copier lease at $137 per month. For the year ended December 31, 2012, TVC spent **$18,632** on rent for these leases.

Minimum future rental payments under operating leases having remaining terms in excess of one year as of December 31, 2012, for each of the next five years and in the aggregate are:

Year Ended December 31		
2013	$	9,438
2014		1,644
2015		1,370
2016		1,644
2017		1,370
Total minimum future rental payments	$	15,466

NOTE 4 LAND PURCHASE:

TVC purchased Bobba property in August 2009. The Bobba property is approximately 70 acres and is located in Alameda County. It is located between Del Valle State Park, a state park unit operated by East Bay Regional Park District (EBRPD), and Sycamore Grove Park, a regional park owned and operated by the Livermore Area Recreation and Park District (LARPD). The primary purpose of the acquisition is for use as additional parkland that will enable public access and a regional trail connection to be constructed in Sycamore Grove Park.

The total cost of the property was $1,500,000. The State coastal Conservancy awarded TVC a $600,000 grant in 2009 to assist in the purchase of this property. In 2010, Alameda County's Altamont Landfill Open Space Committee awarded a $300,000 grant to TVC for its purchase of this property. In 2009, TVC incurred $600,000 of its own funds for this purchase.

NOTE 4 LAND PURCHASE (Continued):

In January 2009, TVC entered into a cooperative funding agreement for $150,000 with East Bay Regional Park District (EBRPD), whereby TVC agreed to convey a trail easement to EBRPD for the Shadow Cliffs to Del Valle Regional Trail along the lower portion of the property adjacent to Arroyo Road. In 2012, this condition was met when the easement was approved and received $150,000 from EBRPD.

On March 13, 2009, an agreement was entered into between TVC and Livermore Area Recreation & Park District (LARPD) to transfer the Bobba property to LARPD. Certain items had to be completed before the transfer could occur. These items include an Executed Conservation Easement, Resource Management Plan (RMP), and Cooperative Funding Agreement for $150,000. LARPD and TVC are currently working on the Cooperative Funding Agreement and a Conservation Easement. LARPD has just obtained funding to begin the RMP. The RMP is scheduled to be completed by 2013. It is TVC's intent to have both of the items above completed and transfer the property to LARPD by early 2014. At that time TVC will receive the $150,000 from LARPD.

NOTE 5 CONSERVATION EASEMENT:

In August 2011, TVC's Board of Directors approved the acquisition of a Conservation Easement for the amount of $300,000. This approved value was based on an appraisal, TVC's mission and the Board of Director's fiduciary responsibilities to protect the SLVAP. The conservation easement was executed in August 2011. This 14 acre parcel is located within the South Livermore Area Plan located at 2060 South Livermore Avenue, Livermore, California.

NOTE 6 OFFICE FURNITURE, EQUIPMENT AND FIXTURES:

Office Furniture, Equipment and Fixtures, consist of the following as of December 31:

Description	**2012**	2011
Office Furniture and Equipment	**$ 16,182**	$ 18,334
Fixtures - Signage	**28,767**	24,013
Totals	**$ 44,949**	$ 42,347
Less: Accumulated Depreciation	**37,088**	32,849
Net Fixed Assets	**$ 7,861**	$ 9,498

NOTE 7 EMPLOYEE BENEFIT PLAN:

Effective January 1, 2009, the conservancy amended and restated the retirement plan it previously established under Section 403(b) of the Internal Revenue Code. The employer may contribute no more than 100% of the employee's allowable contribution for the year under the Section 403(b) provisions. Total employer contributions were **$9,021** in 2012 and $13,270 in 2011.

Effective February 1, 2009, the Conservancy established a Cafeteria Plan under Internal Revenue Code Section 125. The plan permits the purchase of health insurance premiums on a pre-tax basis to employees of TVC. Under the plan, TVC designates a specific dollar amount for the employee to use for health and/or retirement benefits. The employee allocates the dollar amount to health and/or retirement benefits.

NOTE 8 ENDOWMENT FUNDS:

TVC's endowment consists of a number of individual funds established to ensure proper stewardship of TVC's easements and property interests by funding its legal, operating and monitoring activities in perpetuity. Its endowment may include both donor-restricted endowment funds and funds designated by the Board to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. As of December 31, 2012 and 2011, all endowment funds have been designated by the Board.

Funds are transferred from the Capital account to the Endowment account by a majority vote of the Board of Directors. TVC continues to transfer $15,000 per month to the Endowment account from the Capital account. In 2012, there were no amounts appropriated for expenditure.

NOTE 8 ENDOWMENT FUNDS (Continued):

The changes in endowment net assets for the year ended December 31, 2012 and 2011 are as follows:

Temporarily Restricted

	2012	2011
Endowment net assets - beginning of year	**$ 7,449,272**	$ 7,467,128
Transfer of board designated endowments	**180,000**	180,000
Unrealized gain (loss)	**729,177**	(323,784)
Dividends and interest	**134,409**	125,928
Endowment net assets - end of year	**$ 8,492,858**	$ 7,449,272

TVC has adopted investment and spending policies for endowment assets that attempt to provide a stream of funding to activities in perpetuity by its endowment while seeking to maintain the purchasing power of the endowment assets. TVC's current investment policy calls for target asset allocation of 62% equities, 35% fixed income, and 3% cash and cash equivalents. The performance of these investments are measured against established equity and fixed income indices to provide for the a) preservation of capital, b) current income, and c) long-term growth of capital and income. To satisfy its long-term rate-of-return objectives, TVC relies on a total return strategy in which investment returns are achieved through both capital (realized and unrealized) and current yield (interest and dividends). TVC targets a diversified asset allocation intended to achieve its long-term return objectives within prudent risk constraints.

TVC's policy allows for distribution of funds, with the approval of the Board of Directors, to be used to meet extraordinary expenses associated with managing, upholding or defending an easement or other interest in land held by TVC. In establishing this policy, TVC considered the long-term, expected return on its endowment. Accordingly, over the long term, TVC expects the current spending policy to allow its endowment to grow at an average real rate of return of 5% in excess of inflation with moderate risk tolerance and a 10+ year time horizon. Inflation on average is assumed to be 2.5%. Actual returns in any given year may vary from TVC's long-term goals.

NOTE 9 ACCRUED BENEFITS:

Accumulated unpaid employee compensatory pay and vacation benefits are recognized as liabilities of the Conservancy. The amounts of compensatory benefits for the year were **$6,794** in 2012 and $2,508 in 2011. The amounts of accumulated vacation benefits for the year were **$13,004** in 2012 and $6,629 in 2011.

The employees do not have a vested right to accumulated sick leave. For this reason, the Conservancy does not accrue a liability for accumulated sick leave benefits. Sick leave benefits are recorded as expenditures in the period sick leave is taken.