

Sempervirens Fund

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
for the year ended June 30, 2016

(with summarized comparative totals for June 30, 2015)

CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	3
FINANCIAL STATEMENTS	
STATEMENT OF FINANCIAL POSITION	5
STATEMENT OF ACTIVITIES	6
STATEMENT OF FUNCTIONAL EXPENSES	7
STATEMENT OF CASH FLOWS	8
NOTES TO FINANCIAL STATEMENTS	10
SUPPLEMENTARY INFORMATION	
SCHEDULE OF LAND HOLDINGS	26

INDEPENDENT AUDITORS' REPORT

Board of Directors
Sempervirens Fund

We have audited the accompanying financial statements of Sempervirens Fund (the “Fund,” a California nonprofit land conservation organization) which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses and cash flows for the year 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.

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

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

INDEPENDENT AUDITORS' REPORT (continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sempervirens Fund as of June 30, 2016, 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.

Report on Summarized Comparative Information

The financial statements of Sempervirens Fund as of and for the year ended June 30, 2015, were audited by other auditors whose report dated October 20, 2015, expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Land Holdings on page 26 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

DZH Phillips LLP

San Francisco, California
October 31, 2016

Sempervirens Fund

STATEMENT OF FINANCIAL POSITION

June 30, 2016

(with summarized comparative totals for June 30, 2015)

ASSETS	2016	2015
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,620,845	\$ 3,220,415
Certificates of deposit	1,633,524	1,510,017
Grants receivable, net	1,027,720	845,511
Notes receivable	14,137	10,584
Other assets	66,107	24,972
Total current assets	7,362,333	5,611,499
CONSERVATION LAND AND EASEMENT HOLDINGS	17,306,375	17,164,427
PROPERTY AND EQUIPMENT, NET	27,249	11,237
OTHER ASSETS		
Certificates of deposit	-	135,040
Investments - endowment	222,496	226,852
Investments - capital	820,460	777,009
Grants receivable, net	60,856	141,103
Charitable remainder trust, net	160,148	165,809
Notes receivable, less current portion	164,060	219,955
Other non-current assets	75,000	75,000
Total other assets	1,503,020	1,740,768
Total assets	\$ 26,198,977	\$ 24,527,931
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 44,981	\$ 237,214
Accrued payroll and other liabilities	86,522	44,883
Total current liabilities	131,503	282,097
NET ASSETS		
Unrestricted		
Board designated land reserve fund	17,306,375	17,164,427
Board designated land easement monitoring	300,000	300,000
Board designated easement defense	50,000	50,000
Undesignated	5,766,525	5,049,515
Total unrestricted	23,422,900	22,563,942
Temporarily restricted	2,458,118	1,495,436
Permanently restricted	186,456	186,456
Total net assets	26,067,474	24,245,834
Total liabilities and net assets	\$ 26,198,977	\$ 24,527,931

The accompanying notes are an integral part of this statement.

Sempervirens Fund

STATEMENT OF ACTIVITIES

for the year ended June 30, 2016
(with summarized comparative totals for June 30, 2015)

	2016			2015	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenue and other support					
Contributions and grants	\$ 3,002,618	\$ 1,386,159	\$ -	\$ 4,388,777	\$ 2,957,284
Land and stewardship income	55,000	-	-	55,000	5,460,702
Investment income	57,926	8,620	-	66,546	37,492
Unrealized (loss) gain on investments	4,875	(10,458)	-	(5,583)	(6,488)
Net change in value of charitable remainder trusts	-	(5,661)	-	(5,661)	(20,621)
Other support	40,908	-	-	40,908	69,541
Total revenue and other support	<u>3,161,327</u>	<u>1,378,660</u>	<u>-</u>	<u>4,539,987</u>	<u>8,497,910</u>
Net assets released from restrictions	415,978	(415,978)	-	-	-
Total revenue and other support	<u>3,577,305</u>	<u>962,682</u>	<u>-</u>	<u>4,539,987</u>	<u>8,497,910</u>
Operating expenses:					
Programs:					
Land	661,200	-	-	661,200	8,822,120
Stewardship	435,207	-	-	435,207	664,346
Education and outreach	324,147	-	-	324,147	295,711
Trees and groves	122,356	-	-	122,356	155,462
Total program services	<u>1,542,910</u>	<u>-</u>	<u>-</u>	<u>1,542,910</u>	<u>9,937,639</u>
Support services:					
General and administrative	379,261	-	-	379,261	345,942
Fundraising	796,176	-	-	796,176	719,887
Total support services	<u>1,175,437</u>	<u>-</u>	<u>-</u>	<u>1,175,437</u>	<u>1,065,829</u>
Total expenses	<u>2,718,347</u>	<u>-</u>	<u>-</u>	<u>2,718,347</u>	<u>11,003,468</u>
Change in net assets	858,958	962,682	-	1,821,640	(2,505,558)
Net assets, beginning of year	22,563,942	1,495,436	186,456	24,245,834	26,751,392
Net assets, end of year	<u>\$ 23,422,900</u>	<u>\$ 2,458,118</u>	<u>\$ 186,456</u>	<u>\$ 26,067,474</u>	<u>\$ 24,245,834</u>

The accompanying notes are an integral part of this statement.

Sempervirens Fund

STATEMENT OF FUNCTIONAL EXPENSE

for the year ended June 30, 2016
(with summarized comparative totals for June 30, 2015)

	2016								2015	
	Program Services				Support Services				Total	Total
	Land	Stewardship	Education and Outreach	Trees and Groves	Total Program Services	General and Administrative	Fundraising	Total Support Services		
Salaries and related expenses:										
Salaries	\$ 127,645	\$ 85,496	\$ 129,763	\$ 70,476	\$ 413,380	\$ 179,792	\$ 237,775	\$ 417,567	\$ 830,947	\$ 945,101
Payroll taxes and employee benefits	22,370	21,208	23,108	19,189	85,875	44,582	63,341	107,923	193,798	204,028
Total salaries and related expenses	150,015	106,704	152,871	89,665	499,255	224,374	301,116	525,490	1,024,745	1,149,129
Other expenses:										
Land value adjustments	-	-	-	-	-	-	-	-	-	7,785,247
Land expenses	355,906	-	-	-	355,906	-	-	-	355,906	273,413
Stewardship expenses	-	280,255	-	-	280,255	-	-	-	280,255	497,243
Other outside services	4,900	8,261	37,321	1,365	51,847	56,327	55,390	111,717	163,564	257,249
IT services	5,675	2,911	4,725	2,726	16,037	8,034	16,983	25,017	41,054	59,046
Office expenses	29,875	6,635	4,426	2,518	43,454	25,106	14,065	39,171	82,625	67,339
Occupancy expenses	29,333	15,476	14,566	14,566	73,941	31,146	43,695	74,841	148,782	140,454
Printing, postage and direct mail	1,384	1,247	34,564	2,596	39,791	3,615	337,199	340,814	380,605	327,560
Interest expense	-	-	-	-	-	1,421	-	1,421	1,421	15,729
Contributions	27,500	-	-	-	27,500	-	-	-	27,500	175,000
Legal and accounting	25,046	3,048	3,048	3,048	34,190	14,787	9,144	23,931	58,121	42,522
Insurance	5,139	2,991	2,731	2,731	13,592	5,562	8,193	13,755	27,347	27,125
Special events	-	-	62,160	25	62,185	-	-	-	62,185	60,008
Travel, trainings, meetings and entertainment	9,314	6,847	6,903	2,284	25,348	6,389	5,653	12,042	37,390	61,503
Government fees	-	-	-	-	-	-	3,066	3,066	3,066	18,726
In-kind expenses	15,441	-	-	-	15,441	-	-	-	15,441	34,058
Total other expenses	509,513	327,671	170,444	31,859	1,039,487	152,387	493,388	645,775	1,685,262	9,842,222
Depreciation and amortization	1,672	832	832	832	4,168	2,500	1,672	4,172	8,340	12,117
Total functional expenses	\$ 661,200	\$ 435,207	\$ 324,147	\$ 122,356	\$ 1,542,910	\$ 379,261	\$ 796,176	\$ 1,175,437	\$ 2,718,347	\$ 11,003,468

The accompanying notes are an integral part of this statement.

Sempervirens Fund

STATEMENT OF CASH FLOWS

for the year ended June 30, 2016
(with summarized comparative totals for June 30, 2015)

	<u>2016</u>	<u>2015</u>
Cash flows provided by (used in) operating activities:		
Contributions and grants receipts	3,580,401	412,752
Land and stewardship income receipts	-	5,365,701
Investment income receipts	48,891	10,415
Other receipts	40,908	69,541
Payments for salaries and related expenses	(1,025,172)	(1,149,129)
Payments for land and related expenses	(318,481)	(3,063,862)
Payments for land improvements	(141,948)	(128,963)
Payments for stewardship expenses	(280,255)	(497,243)
Payments for interest expense	(1,421)	(15,729)
Payments for other operating expenses	(1,261,267)	(1,129,969)
Net cash provided by (used in) operating activities	<u>641,656</u>	<u>(126,486)</u>
Cash flows provided by (used in) investing activities:		
Sale of land and easements	630,000	2,935,701
Net decrease in investments and certificates of deposit	100,783	1,364,134
Purchase of equipment	(24,351)	-
Principal payments on note receivable	52,342	9,924
Net cash provided by investing activities	<u>758,774</u>	<u>4,309,759</u>
Cash flows provided by (used in) financing activities:		
Payments of note payable	-	(2,500,000)
Net cash used in financing activities	<u>-</u>	<u>(2,500,000)</u>
Net increase in cash and cash equivalents	1,400,430	1,683,273
Cash and cash equivalents, beginning of year	<u>3,220,415</u>	<u>1,537,142</u>
Cash and cash equivalents, end of year	<u>\$ 4,620,845</u>	<u>\$ 3,220,415</u>

The accompanying notes are an integral part of this statement.

Sempervirens Fund

STATEMENT OF CASH FLOWS (continued)

for the year ended June 30, 2016
(with summarized comparative totals for June 30, 2015)

	<u>2016</u>	<u>2015</u>
Change in net assets	\$ 1,821,640	\$ (2,505,558)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	8,340	12,117
Donated securities	(116,274)	(150,516)
Gain from sale of land and easements	(55,000)	(95,001)
Net realized and unrealized gain on investments	(12,072)	(20,589)
Net change in charitable remainder trusts	5,661	20,621
Changes in land improvement	(141,948)	(128,963)
Donation of land	(575,000)	(2,575,000)
Reduction in carrying value of land	-	2,134,299
Adjustment of value of Conservation Easement	-	2,860,499
Changes in operating assets and liabilities:		
Grants receivable	(101,962)	180,984
Other assets	(41,135)	3,056
Accounts payable, accrued payroll, and other liabilities	(150,594)	137,565
Net cash provided by (used in) operating activities	<u>641,656</u>	<u>(126,486)</u>

The accompanying notes are an integral part of this statement.

Sempervirens Fund

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE A – DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Organization

Sempervirens Fund (the “Fund”) is a California nonprofit land conservation organization that has been protecting the coast redwoods of the Santa Cruz Mountains since 1900. Its mission is to preserve redwood forests, wildlife habitats, watersheds, and other important natural features of California’s Santa Cruz Mountains and to encourage people to appreciate and enjoy this environment. Since its founding, the Fund has protected more than 35,000 acres of redwood forestland, most of which have been incorporated into Big Basin Redwoods, Butano, Castle Rock, and Portola Redwoods State Parks.

The Fund currently has four programs:

Land Acquisition and Disposition (“Land”) – the Fund works closely with California State Parks, other public agencies, and local nonprofits to make strategic land purchases that create, expand, and link redwood forests and parks. In most cases, the Fund acquires fee title to land with the intention of eventually transferring it into public ownership; however, in some cases, it acquires and holds conservation easements that provide certain rights such as trail access, or prevent future subdivision, development or timber harvesting on privately held parcels of land. When appropriate, the Fund also enters into joint ventures with other land conservation organizations providing cash or other assets to support priority conservation projects. The Fund’s participation appears as direct expenses within land program expenses.

Stewardship – properties that are held by the Fund require ongoing stewardship to ensure that the land is in good condition and the forests remain healthy. Stewardship activities include removing debris, maintaining trails, monitoring wildlife, restoring waterways and controlling erosion, clearing invasive plants, and planting new seedlings as needed.

In addition to regular stewardship of the Fund’s land and easements, the Fund acts as a fiscal agent for the Amah Mutsun Land Trust, which is seeking its own nonprofit status. For the year ended June 30, 2016, expenses included in the Stewardship Program for the Amah Mutsun Land Trust were approximately \$101,400.

Education and Outreach – the Fund regularly communicates general information about its work, and opportunities to find recreation in the Santa Cruz Mountains. The communication strategies include publications, other printed materials, website, social media and electronic newsletters. The outreach activities include events, speakers, hiking and volunteer opportunities. The focus of this fund is to educate new groups of people about the Fund’s work, introduce them to outdoor recreation opportunities, and cultivate their interest to become new stewards of the redwood habitat.

Sempervirens Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2016

NOTE A – DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Description of organization (continued)

Trees and Groves – the Fund provides the opportunity for its donors to dedicate a tree or grove located within one of the State Parks of the Santa Cruz Mountains. The Fund has entered into an agreement with California State Parks whereby the Fund is permitted to sell the naming rights to the trees.

Basis of accounting

The Fund maintains its books and records on the accrual basis of accounting, and accordingly these financial statements reflect all significant receivables, payables, and other liabilities.

Basis of presentation

Unrestricted Net Assets

Unrestricted net assets are the portion of net assets that are neither temporarily nor permanently restricted by donor-imposed stipulations. Unrestricted net assets include board designated funds.

In May 2015, the Board designated funds for the land reserve to be a more flexible amount that represents the value of all land and easement holdings (\$17,306,375 at June 30, 2016). The Board was also designated additional funds for Conservation Easement Monitoring in the amount of \$300,000 and for Conservation Easement Defense in the amount of \$50,000.

Temporarily Restricted Net Assets

Temporarily restricted net assets are the portion of net assets for which use is limited by donor-imposed restrictions that either expire by passage of time or can be fulfilled and removed by certain actions of the Fund.

Permanently Restricted Net Assets

Permanently restricted net assets, are the portion of net assets for which use is limited by donor-imposed stipulations that neither expire by the passage of time nor can otherwise be removed by actions of the Fund.

Sempervirens Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2016

NOTE A – DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

For purposes of the statement of cash flows, the Fund considers all highly liquid investments with an initial maturity of three months or less when purchased to be cash equivalents.

Financial instruments that potentially subject the Fund to concentrations of credit risk consist principally of cash and cash equivalents. Risks associated with cash and cash equivalents are mitigated by banking with creditworthy institutions. Such balances with any one institution may, at times, be in excess of federally insured amounts (currently \$250,000 per depositor). The Fund has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

Investments

Certificates of deposit with original maturity dates of more than three months are stated at fair market value. Interest income is recognized in the period that it is earned.

A capital investment pool was established to serve as a potential source of funds for large scale land projects in compliance with a revised investment policy. The investments consist of money market funds, mutual funds, exchange-traded funds and certificates of deposit which are stated at fair market value using quoted market prices. Unrealized and realized gains and losses are recorded in the Statement of Activities.

Long-term investments relate to the Fund's permanent endowment. The investments consist of money market funds, mutual funds and exchange-traded funds which are stated at fair market value using quoted market prices. Unrealized and realized gains and losses are recorded in the Statement of Activities.

Grants receivable

Grants receivable and contributions are recorded when the grant or contribution is unconditional in substance. If the grant or contribution is restricted by the donor, they are reported as increases in temporarily or permanently restricted net assets. The Fund uses the allowance method to determine uncollectable grants receivable. The allowance is based on prior years' experience and management's analysis of grants receivable. Management has determined that no allowance for uncollectable grants receivable is necessary at June 30, 2016.

Sempervirens Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2016

NOTE A – DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Grants receivable (continued)

Grants receivable that extend beyond one fiscal year are discounted to reflect their net present value. The discounts on these amounts are computed using a risk-free interest rate applicable to the year in which the promises were received plus an additional risk premium factor.

Land and land transactions

Land is held for resale or transfer to public agencies and is recorded at the lower of cost or fair market value except when acquired at less than appraised value in a bargain purchase. When fair market value is greater than consideration paid by the Fund, a contribution is recorded from the seller to the Fund for the difference. The Fund performs periodic assessments of land carrying value and records any decreases in value as necessary. Any such decreases are recorded as program expenses on the Statement of Activities as adjustments to land value. The Fund does not appraise all of its land holdings each year. However, when information is obtained concerning the current valuation of a land holding, a determination is made by management whether a new appraisal is warranted.

In years when land is conveyed to a public agency and an updated appraisal, obtained for sales purposes, is higher than the carrying value, the Fund will record the increase in value as an adjustment to land value and record any difference between consideration received from the agency and the revised value as a contribution of land value to the agency.

Land with life estate

Land with life estate is recorded at the lower of cost or market value, less a discount to present value. For the year ended June 30, 2016, the Fund had one parcel of land with a life estate value of \$200,000.

Charitable remainder trusts

Charitable remainder trusts are recorded at the fair value of their assets, less a discount to present value.

Sempervirens Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2016

NOTE A – DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

Property and equipment consists of leasehold improvements, office furniture and equipment which are recorded at cost, if purchased or at fair market value on the date of donation, if donated. Assets costing \$5,000 or more individually will be capitalized and depreciated in accordance with the Fund's depreciation policies. Improvements to real property and leasehold improvements are capitalized if they cost \$5,000 or more individually.

The Fund computes depreciation for office furniture and equipment using the straight-line method over estimated useful lives, ranging from four to ten years. Leasehold improvements are amortized over the lease term. Accumulated depreciation and amortization was \$313,134 at June 30, 2016. Depreciation and amortization expense for the year ended June 30, 2016 totaled \$8,340.

Revenue recognition

Unconditional promises to give to the Fund are recorded as revenue at their fair value when the promise is made. Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support based on whether they include donor stipulations that limit the use of the contributions. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restriction.

The Fund is occasionally notified by donors or the trustees of their estates that they have been named as a beneficiary in their will. The Fund will not immediately recognize these gifts as receivables and contributions unless they are irrevocable, unconditional and measurable. If a gift does not meet these criteria it is not recognized as contribution revenue until the will is declared valid and subject to final distribution. At that time, the Fund recognizes the contribution at fair value, net of a discount for likely fees and taxes, based on historical experience.

Donated assets and services

Donated equipment, goods and services are recorded at their fair value as of the date of the donation. Contributed services which require specialized skill, and which the Fund would have paid for if not donated, are recorded at the fair value at the time the services are rendered.

Sempervirens Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2016

NOTE A – DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Donated assets and services (continued)

During the year ended June 30, 2016, volunteers contributed their time to the Fund, primarily for the building and maintenance of trails and the restoration program in the Santa Cruz Mountains State Parks. The value of this contributed time is not reflected in the financial statements.

During the year ended June 30, 2016, pro bono legal services of approximately \$15,000 were received by the Fund and recorded in the financial statements as In-Kind expenses.

Functional expense allocation

Costs that are directly attributed to a program are charged to that program. Other costs and support services are allocated to programs, fundraising, general and administrative services based on the amount of time spent on the programs or support services by the Fund's employees.

Income taxes

The Fund has been granted tax exempt status under Section 501(c)(3) by the Internal Revenue Service (IRS) and under Section 23701(d) by the California Franchise Tax Board.

Each year, management considers whether any material tax position the Fund has taken is more likely than not to be sustained upon examination by the applicable taxing authority. Management believes that any positions the Fund has taken are supported by substantial authority and, hence, do not need to be measured or disclosed in these financial statements.

Use of estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from these estimates.

Reclassifications

Certain reclassifications have been made to the 2015 financial statement presentation to correspond to the current year's financial statement presentation. The reclassifications had no impact on the change in net assets. The statement of cash flows for the year ended June 30, 2015 has been restated to be on the direct method.

Sempervirens Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2016

NOTE A – DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Fund’s financial statements for the year ended June 30, 2015, from which the summarized information was derived.

Subsequent events

Management has evaluated subsequent events through the date the financial statements are available to be issued, October 31, 2016.

NOTE B - CONCENTRATION OF CREDIT RISK

Contribution and Grant Revenue

At June 30, 2016, two donors had receivables that made up a total of 78% of the grants receivable balance. There were two donors that made up approximately 33% of contribution and grant revenue for the year ended June 30, 2016.

NOTE C - GRANTS RECEIVABLE

Grants receivable at June 30, 2016 consists of the following:

	<u>2016</u>
Receivables in one year or less	\$ 1,027,720
Receivables in two to five years	63,250
Less: discount to present value	<u>(2,394)</u>
	<u>\$ 1,088,576</u>

These receivables have been discounted using interest rate of 3%.

Sempervirens Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2016

NOTE D - CONDITIONAL GRANTS

In fiscal year June 30, 2010, the Fund received a conditional grant in the amount of \$1,500,000 pursuant to a grant agreement with Peninsula Open Space Trust ("POST") and the Kirkwood Family Foundation for the purchase of property adjacent to Castle Rock State Park. The grant was recognized as income during fiscal years June 30, 2011 and June 30, 2012, as the conditions were met. The balance of \$435,990 remains in grants receivable at June 30, 2016, which management expects to receive in the year ending June 30, 2017.

NOTE E - CHARITABLE REMAINDER TRUSTS

The Fund is the beneficiary of certain irrevocable charitable remainder trusts. The Fund will not have the use of these assets until the remainder benefits are realized. Under the terms of these remainder trusts, the donors receive annuities out of the trust assets. The Fund has determined that the liability related to the beneficiary interests is equivalent to the principal and income growth of the trust assets and is not recorded in the financial statements. The Fund has determined the fair market value of these trust assets, which consist wholly of marketable securities and/or tradable mutual funds, by using quoted prices for identical assets in active markets and applying an appropriate present value discount.

At June 30, 2016, the value of these assets is as follows:

	<u>2016</u>
Charitable remainder trusts, at fair market value	\$ 190,792
Less present value discount at the applicable federal rate of 1.8% for 2016	<u>(30,644)</u>
Charitable remainder trusts, net	<u><u>\$ 160,148</u></u>

Sempervirens Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2016

NOTE F - NOTES RECEIVABLE

Notes receivable from two unrelated parties consist of the following:

	<u>2016</u>
Note receivable from an unrelated party issued in October 2002 in connection with the sale of land, which bears interest at 6.45% with monthly principal and interest payment of \$1,997. The note is secured by the land and matures in April 1, 2018.	\$ 159,936
Note receivable from an unrelated party issued in June 2011, which bears interest at 3% with interest only payment due annually. The note is secured by a land with no stated maturity date. The note has been classified as noncurrent as management does not anticipate repayment within the next year.	18,261
Less: current maturities	<u>(14,137)</u>
	<u><u>\$ 164,060</u></u>

NOTE G - FAIR VALUE MEASUREMENTS

The Fund accounts for all its financial instruments which are required to be measured at fair value on a recurring basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e. the exit price) in an orderly transaction between market participants at the measurement date.

In determining fair value, the Fund uses various valuation approaches. A hierarchy has been established for inputs used in measuring fair value that maximize the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Fund. Unobservable inputs are inputs that reflect the Fund's assumptions about what market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

Sempervirens Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2016

NOTE G - FAIR VALUE MEASUREMENTS (continued)

The hierarchy is broken down into three levels based on the observability of inputs as follows:

- *Level 1*- quoted prices in active markets for identical investments. Investments in Level 1 include listed equities held in the name of the Fund, and exclude listed equities and other securities held indirectly through commingled funds.
- *Level 2*- pricing inputs, including broker quotes, are those other than exchange quoted prices in active markets, are either directly or indirectly observable as of the reporting date which the fair value is determined through the use of models or other valuation methodologies. Level 2 assets are based on estimated current market inputs for similar financial instruments with comparable terms and credit quality.
- *Level 3*- pricing inputs are unobservable for the investment and includes situations where there is little, if any, market activity for the investments and may require a high level of judgment to determine the fair value.

The categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The table below presents the level hierarchy of assets measured at fair value on a recurring basis as of June 30, 2016:

	Assets at Fair Value as of June 30, 2016			
	Level 1	Level 2	Level 3	Total
Certificates of deposit	\$ -	\$ 1,633,524	\$ -	\$ 1,633,524
Mutual funds	53,026	-	-	53,026
Exchange-traded and closed-end funds	989,930	-	-	989,930
Charitable remainder trusts	-	160,148	-	160,148
Total investments	<u>\$ 1,042,956</u>	<u>\$ 1,793,672</u>	<u>\$ -</u>	<u>\$ 2,836,628</u>

Sempervirens Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2016

NOTE H - OTHER ASSETS

Included in other assets is a portfolio of artwork, at its original appraised value of \$75,000 and other miscellaneous assets, totaling \$66,107 at June 30, 2016.

NOTE I - RETIREMENT PLAN

The Fund has a retirement income account plan for its employees. The Fund makes matching contributions on an annual basis of 6% of each participant's current base salary. The contributions to the plan amounted to \$43,540 for the year ended June 30, 2016.

NOTE J - CARBON CONTRACT

During fiscal year 2008, a contract was executed with a major public utility to sell Verifiable Emission Reduction units, commonly referred to as carbon credits, related to land and conservation easements owned by the Fund. The contract has a total potential value of \$152,532, receipt of which is contingent upon a number of approvals, verifications and methodologies to be performed periodically. Future realization of these credits is currently not predictable with any certainty; therefore, they are not recognized as revenue until received by the Fund. During the year ended June 30, 2016, revenue was received and recorded in other support in the amount of \$9,832.

NOTE K - COMMITMENTS

The Fund entered into a seven year office lease agreement in 2010. Minimum monthly rent is \$6,809 with increases according to the consumer price index. The Fund also leases storage space on a month-to-month basis. During the year ended June 30, 2016, total office rent expense was \$134,814. These amounts include charges for common area costs. Additionally the Fund entered into a five year copier machine lease in 2015 with monthly payments of \$179.

Future minimum payments under the leases are as follows:

<u>Year ending June 30,</u>	<u>Facilities</u>	<u>Equipment</u>	<u>Total</u>
2017	\$ 81,297	\$ 2,148	\$ 83,445
2018	-	2,148	2,148
2019	-	2,148	2,148
	<u>\$ 81,297</u>	<u>\$ 6,444</u>	<u>\$ 87,741</u>

Sempervirens Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2016

NOTE L - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2016 were restricted for the following time and purpose restrictions:

	<u>2016</u>
Time restricted:	
Interest in charitable remainder trusts, net	<u>\$ 160,148</u>
Program restricted:	
Castle Rock	691,529
Castle Rock State Park entrance	435,990
Castle Rock State Park entrance donors	228,800
Cemex cement plant	245,000
Amah Mutsun Tribe	171,960
Santa Cruz Mountains Stewardship	146,043
Planted trees	135,284
Endowment Fund Investment Return	53,712
National Monument	37,256
Other program services	<u>152,396</u>
Total program restricted	<u>2,297,970</u>
Total temporarily restricted	<u><u>\$ 2,458,118</u></u>

For the year ended June 30, 2016, temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restriction specified by donors as follows:

	<u>2016</u>
Time restricted:	
Bequest	<u>\$ 54,486</u>
Program purpose:	
National Monument	113,523
Amah Mutsun Tribe	101,363
Carbon Project	69,450
Santa Cruz Mountain Stewardship	53,784
Planted trees	19,748
Other program services	<u>3,624</u>
Total program purpose accomplished	<u>361,492</u>
Total temporarily restricted net assets released from restriction	<u><u>\$ 415,978</u></u>

Sempervirens Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2016

NOTE M - ENDOWMENT FUND

The Fund's endowment currently consists of one fund created as the result of a bequest of \$186,456 received with the stipulation that it be used for endowment purposes with income henceforth to be used for the Fund's operations. The endowment is recorded on the Statement of Financial Position as long-term investments. All income earned on endowment fund investments is treated as temporarily restricted until appropriated by the Fund's Board. The endowment fund investment income (loss) and net realized and unrealized gain (loss) at June 30, 2016 was \$1,838.

The State of California enacted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") effective January 1, 2009, the provisions of which apply to endowment funds existing on or established after that date. Net asset classifications of donor-restricted endowment funds subject to an enacted version of UPMIFA have been accounted for appropriately in these financial statements. Additional disclosures about the Fund's endowment funds subject to UPMIFA have been included for the year ended June 30, 2016.

Interpretation of Relevant Law

The Fund's Board has interpreted California's enacted version of UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Fund classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts donated to the permanent endowment, and (3) additions to the permanent endowment in accordance with donor directions. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Fund in a manner consistent with the standard of prudence prescribed by the enacted version of UPMIFA.

Spending Policy

In accordance with the State of California's enacted version of UPMIFA, the Fund considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the endowment funds;
- (2) The purposes of the endowment funds;
- (3) General economic conditions;
- (4) The possible effect of inflation and deflation;
- (5) The expected total return from income and the appreciation of investments;
- (6) Other resources of the Fund; and
- (7) The investment policies of the Fund.

Sempervirens Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2016

NOTE M - ENDOWMENT FUND (continued)

The Fund does not have a policy for appropriating for distribution each year. This is consistent with the Fund's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

Investment Policy, Strategies, and Objectives

The Fund has adopted investment and spending policies for endowment assets that attempts to maximize total return consistent with an acceptable level of risk, and to provide a predictable stream of funding to programs supported by its endowment. Under this policy, as approved by the Board, the Endowment's funds are invested in a manner that is intended to produce results that exceed the price and yield results while assuming a moderate level of investment risk. The Fund expects its endowment funds, over time, to provide an average rate of return of approximately 4% percent annually. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Fund relies on a total return in which investment returns are achieved through both capital appreciation and current yield. The Fund targets a diversified asset allocation that helps to achieve its long-term objectives within prudent risk constraints.

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 Fund to retain as a fund of perpetual duration. No deficiencies were noted at June 30, 2016.

Sempervirens Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2016

NOTE M - ENDOWMENT FUND (continued)

Changes in endowment net assets for the year ended June 30, 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2015	\$ -	\$ 55,550	\$ 186,456	\$ 242,006
Investment return:				
Interest income	-	6,075	-	6,075
Net realized and unrealized loss on investment	-	(7,913)	-	(7,913)
Total investment return	<u>-</u>	<u>(1,838)</u>	<u>-</u>	<u>(1,838)</u>
Endowment net assets, June 30, 2016	<u>\$ -</u>	<u>\$ 53,712</u>	<u>\$ 186,456</u>	<u>\$ 240,168</u>

NOTE N - LAND AND LAND TRANSACTIONS

In September 2015, the Fund received a donation of the Geisler Estate property valued at \$575,000. The Fund sold the property in January 2016 for a gain of \$55,000.

SUPPLEMENTARY INFORMATION

Sempervirens Fund

SCHEDULE OF LAND HOLDINGS

for the year ended June 30, 2016

Conservation Land and Easement Holding Activity:	
Beginning of year, June 30, 2015	\$ 17,164,427
Improvements to land holdings	141,948
Donation of land	575,000
Sale of donated land	<u>(575,000)</u>
End of year, June 30, 2016	<u><u>\$ 17,306,375</u></u>