

SEMPERVIRENS FUND

AUDITED FINANCIAL STATEMENTS

for the year ended June 30, 2013
(with summarized comparative totals for June 30, 2012)

SEMPERVIRENS FUND

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
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, 2013, 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 auditors' consider 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.

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, 2013, 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

We have previously audited the Sempervirens Funds' 2012 financial statements, and our report dated November 8, 2012, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The information contained in the Schedule of Land Holdings on page 21 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.

Burr Pilsen Mayer, INC.

San Jose, California
November 14, 2013

SEMPERVIRENS FUND
STATEMENTS OF FINANCIAL POSITION
June 30, 2013
(with summarized comparative totals for June 30, 2012)

	2013	2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,513,143	\$ 882,153
Certificates of deposit	2,083,864	4,979,140
Grants receivable	1,187,783	1,035,990
Notes receivable	80,000	-
Other assets	17,777	33,308
Total current assets	4,882,567	6,930,591
Long-term assets:		
Certificates of deposit	811,836	248,836
Long-term investments - endowment	218,754	201,952
Long-term investments - capital	422,847	-
Grants receivable	113,135	-
Conservation land and easement holding	21,347,254	20,063,312
Charitable remainder trust, net	480,719	451,463
Notes receivable, less current portion	248,261	328,261
Property and equipment, net	46,664	78,456
Other assets	75,000	75,000
Total long-term assets	23,764,470	21,447,280
Total assets	\$ 28,647,037	\$ 28,377,871
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 143,010	\$ 154,612
Accrued payroll and other liabilities	112,838	94,626
Total current liabilities	255,848	249,238
Long-term liabilities:		
Note payable	2,500,000	2,500,000
Accrued retirement—full year	-	40,685
Total long-term liabilities	2,500,000	2,540,685
Total liabilities	2,755,848	2,789,923
Net assets:		
Unrestricted net assets:		
Board designated land reserve fund	14,000,000	14,000,000
Board designated land easement fund	100,000	100,000
Undesignated	9,803,337	9,516,767
Total unrestricted net assets	23,903,337	23,616,767
Temporarily restricted net assets	1,801,396	1,784,725
Permanently restricted net assets	186,456	186,456
Total net assets	25,891,189	25,587,948
Total liabilities and net assets	\$ 28,647,037	\$ 28,377,871

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

SEMPERVIRENS FUND
STATEMENT OF ACTIVITIES
for the year ended June 30, 2013
(with summarized comparative totals for June 30, 2012)

	2013				(For comparative purposes only)
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2012 Total
Revenue and other support:					
Contributions and grants	\$ 1,882,764	\$ 1,268,852	\$ -	\$ 3,151,616	\$ 9,783,044
Land and stewardship income	-	-	-	-	8,743
Investment income	16,105	8,912	-	25,017	67,748
Unrealized gain (loss) on long-term investments	(13,564)	39,153	-	25,589	(6,080)
Net change in value of charitable remainder trusts	-	544	-	544	4,388
Other support	36,809	-	-	36,809	8,525
Total revenue and other support	1,922,114	1,317,461	-	3,239,575	9,866,368
Net assets released from restrictions	1,300,790	(1,300,790)	-	-	-
Total revenue and other support	3,222,904	16,671	-	3,239,575	9,866,368
Operating expenses:					
Programs:					
Land	1,009,846	-	-	1,009,846	3,946,112
Stewardship	276,518	-	-	276,518	315,146
Trees and groves	161,015	-	-	161,015	174,059
Total program services	1,447,379	-	-	1,447,379	4,435,317
Support services:					
General and administrative	534,901	-	-	534,901	504,732
Fundraising	954,054	-	-	954,054	845,841
Total support services	1,488,955	-	-	1,488,955	1,350,573
Total expenses	2,936,334	-	-	2,936,334	5,785,890
Change in net assets	286,570	16,671	-	303,241	4,080,478
Net assets, beginning of year	23,616,767	1,784,725	186,456	25,587,948	21,507,470
Net assets, end of year	\$ 23,903,337	\$ 1,801,396	\$ 186,456	\$ 25,891,189	\$ 25,587,948

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

SEMPERVIRENS FUND
STATEMENT OF FUNCTIONAL EXPENSES
for the year ended June 30, 2013
(with summarized comparative totals for June 30, 2012)

	2013								(For comparative purposes only) 2012 Total
	Program Services				Support Services				
	Land	Stewardship	Trees and Groves	Total Program Services	General and Administrative	Fundraising	Total Support Services	Total	
Salaries and related expenses:									
Salaries	\$ 176,360	\$ 84,851	\$ 92,883	\$ 354,094	\$ 206,227	\$ 301,713	\$ 507,940	\$ 862,034	\$ 855,139
Payroll taxes and employee benefits	39,122	20,942	20,607	80,671	18,648	68,097	86,745	167,416	231,561
Total salaries and related expenses	<u>215,482</u>	<u>105,793</u>	<u>113,490</u>	<u>434,765</u>	<u>224,875</u>	<u>369,810</u>	<u>594,685</u>	<u>1,029,450</u>	<u>1,086,700</u>
Other expenses:									
Land expenses	63,414	-	-	63,414	-	-	-	63,414	622,818
Stewardship expenses	-	26,795	-	26,795	-	-	-	26,795	116,877
Other outside services	188,420	112,014	14,300	314,734	90,795	212,323	303,118	617,852	735,095
IT services	10,537	4,384	4,879	19,800	14,539	31,560	46,099	65,899	47,328
Office expenses	21,654	5,340	4,603	31,597	13,899	21,314	35,213	66,810	81,595
Occupancy expenses	29,260	14,596	15,145	59,001	35,390	47,945	83,335	142,336	140,196
Printing, postage and direct mail	2,274	1,097	5,040	8,411	6,835	179,754	186,589	195,000	226,683
Grants and aid	-	500	-	500	2,000	-	2,000	2,500	252,000
Interest expense	-	-	-	-	38,021	-	38,021	38,021	20,521
Contributions	450,000	-	-	450,000	2,000	-	2,000	452,000	75,000
Legal and accounting	7,563	140	-	7,703	33,066	3,295	36,361	44,064	80,673
Insurance	-	358	-	358	27,454	-	27,454	27,812	26,857
Special events	-	61	-	61	-	56,481	56,481	56,542	68,766
Travel, trainings, meetings and entertainment	21,242	5,440	3,558	30,240	13,200	9,560	22,760	53,000	52,739
Government fees	-	-	-	-	1,035	4,630	5,665	5,665	13,890
In-kind expenses	-	-	-	-	-	17,382	17,382	17,382	-
Adjustments to land value	-	-	-	-	-	-	-	-	2,106,250
Total other expenses	<u>794,364</u>	<u>170,725</u>	<u>47,525</u>	<u>1,012,614</u>	<u>278,234</u>	<u>584,244</u>	<u>862,478</u>	<u>1,875,092</u>	<u>4,667,288</u>
Depreciation and amortization	-	-	-	-	31,792	-	31,792	31,792	31,902
Total functional expenses	<u>\$ 1,009,846</u>	<u>\$ 276,518</u>	<u>\$ 161,015</u>	<u>\$ 1,447,379</u>	<u>\$ 534,901</u>	<u>\$ 954,054</u>	<u>\$ 1,488,955</u>	<u>\$ 2,936,334</u>	<u>\$ 5,785,890</u>

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

SEMPERVIRENS FUND
STATEMENTS OF CASH FLOWS
for the years ended June 30, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities:		
Change in net assets	\$ 303,241	\$ 4,080,478
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	31,792	31,902
Donated securities	(149,263)	(60,512)
(Gain) from sale of fixed asset	(1,809)	-
Realized (gain) on investments	(734)	(7,275)
Unrealized (gain) loss on long-term investments	(15,056)	26,050
Net change in charitable remainder trusts	(29,256)	(4,386)
Changes in land improvement	(258,942)	-
Purchase of land	(500,000)	(9,804,560)
Purchase of easement holdings	(525,000)	(2,860,000)
Reduction in carrying value of land	-	2,106,250
Donation of land to public agencies	-	515,000
(Increase) decrease in operating assets:		
Grants receivable	(264,928)	(604,774)
Other assets	15,531	(6,395)
Increase (decrease) in operating liabilities:		
Accrued payroll, retirement, and other liabilities	(34,075)	97,089
Total adjustments	(1,731,740)	(10,571,611)
Net cash used in operating activities	(1,428,499)	(6,491,133)
Cash Flows from Investing Activities:		
Proceeds from sale of fixed assets	1,809	-
Sale of land	-	515,000
Net decrease in investments and certificates of deposit	2,057,680	2,538,733
Purchase of equipment	-	(5,269)
Proceeds from dissolution on charitable remainder trust	-	32,446
Net cash provided by investing activities	2,059,489	3,080,910
Cash Flows from Financing Activities:		
Proceeds from issuance of debt	-	2,500,000
Net cash provided by financing activities	-	2,500,000
Net increase (decrease) in cash and cash equivalents	630,990	(910,223)
Cash and cash equivalents, beginning of year	882,153	1,792,376
Cash and cash equivalents, end of year	\$ 1,513,143	\$ 882,153
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 37,500	\$ -
Donated securities received for reduction of grants receivable	\$ 51,097	\$ -

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

SEMPERVIRENS FUND

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

1. Nature 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 25,000 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 three programs:

Land Acquisition and Disposition (the “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 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, clearing invasive plants, and planting new seedlings as needed.

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.

2. Summary of Significant Accounting Policies

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 are the portion of net assets that are neither temporarily nor permanently restricted by donor-imposed stipulations.

The Board had previously designated funds for the acquisition of unspecified properties in the stated service area of the Fund; however, during 2010 the Board resolved to undesignate these funds and instead permit the use of its undesignated funds for land acquisitions. The Fund established the Board designated land reserve and easement fund of \$14,100,000 for this purpose.

Temporarily restricted net assets are the portion of net assets for which use by the Fund 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.

SEMPERVIRENS FUND
NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

2. Summary of Significant Accounting Policies, continued

Basis of Presentation, continued

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

Cash and Cash Equivalents

Cash consists of cash on hand and cash in demand deposit accounts. Cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less.

The Fund maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Fund has not experienced any losses in such accounts. Management believes it is not exposed to any significant risk on cash accounts.

Investments

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

A capital investment pool was established during fiscal year 2012-2013 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 and Allowance for Uncollectable 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 deemed necessary at June 30, 2013 and 2012.

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.

SEMPERVIRENS FUND

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

2. Summary of Significant Accounting Policies, continued

Land and Land Transactions, continued

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 years ended June 30, 2013 and 2012, the Fund has 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.

Property and Equipment

Property and equipment consist 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 \$348,294 at June 30, 2013 and \$325,003 at June 30, 2012. Depreciation and amortization expense for the years ended June 30, 2013 and 2012 totaled \$31,792 and \$31,902, respectively.

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.

SEMPERVIRENS FUND

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

2. Summary of Significant Accounting Policies, continued

Donated Services

During fiscal year June 30, 2013 and 2012, 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 fiscal year June 30, 2013, pro bono legal services of approximately \$17,000 were received by the Fund and recorded in the financial statements.

Functional Allocation of Expenses

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 is a nonprofit public charity organization and is exempt from federal income tax under Internal Revenue Code Section 501(c)(3) and Section 23701(d) of the California Revenue and Taxation Code. The Fund has also been determined to not be a private foundation by the Internal Revenue Service.

Uncertainty in Income Taxes

The Fund reviews and assesses tax positions taken or expected to be taken against the more-likely-than-not recognition threshold and measurement attributes for financial statement recognition.

The Fund's policy for evaluating uncertain tax positions is a two step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more-likely-than-not that the position will be sustained upon audit, including resolution of related appeals or litigations processes, if any. The second step is to measure the tax benefit or liability as the largest amount that is more than 50% likely to be realized or incurred upon settlement. Based on an analysis prepared by the Fund, it was determined that the tax positions taken or expected to be taken had no material effect on the recorded tax assets and liabilities of the Fund.

The Fund applies this guidance to all tax positions for which the statute of limitations remain open (fiscal years ended since June 30, 2009) and determined there were no material unrecognized tax benefits. There have been no related tax penalties or interest, which would be classified as tax expense in the statement of activities. As the Fund is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code and Section 23701 (d) of the California Revenue and Taxation Code it generally is not subject to federal or state income taxes, the adoption of this guidance did not have a material effect on the Fund's financial statements.

Estimates Included in the Financial Statements

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

SEMPERVIRENS FUND

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

2. Summary of Significant Accounting Policies, continued

Reclassification

Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications have no effect on the net assets or changes in net assets.

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 generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Fund's financial statements for the year ended June 30, 2012, from which the summarized information was derived.

New Accounting Pronouncements

In October 2012, the Financial Accounting Standards Board issued Accounting Standards Updated 2012-05, *Statement of Cash Flows (Topic 230) – Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows* (ASU 2012-05), which require a not-for-profit entities to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows if those cash receipts were from the sale of donated financial assets that upon receipt were directed without any imposed limitation for sale and were converted nearly immediately into cash. Accordingly, the cash receipts from the sale of those financial assets should be classified as cash inflows from operating activities, unless the donor restricted the use of the contributed resources to long-term purposes, in which case those cash receipts should be classified as cash flows from financing activities. This pronouncement is effective for fiscal years beginning after June 15, 2013; however, early adoption from the beginning of the fiscal year of adoption is permitted. The Fund decided to implement early adoption and is reflected as part of the cash flows for the years ended June 30, 2013 and 2012.

3. Concentrations of Risk

Contribution and Grant Revenue

At June 30, 2013, approximately 13% of the contribution and grant revenue was comprised of donations from one donor. At June 30, 2013, approximately 68% of the grants receivable balance was receivable from three donors.

At June 30, 2012, approximately 59% of the contribution and grant revenue was comprised of donations from one donor. At June 30, 2012, approximately 83% of the grants receivable balance was receivable from two donors.

4. Grants Receivable

At June 30, 2013 and 2012, the balance of grants receivable of \$1,300,918 and \$1,035,990, respectively, are receivable in one to five years. Included in the grants receivable balance is \$113,135 due in two to five years at June 30, 2013.

SEMPERVIRENS FUND

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

5. Conditional Grants

At June 30, 2010, the Fund had one conditional grant in the amount of \$300,000 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 year June 30, 2011 since the conditions were met as of the end of the fiscal year. At June 30, 2012, an additional \$135,990 was added to the grant and recognized as income during fiscal year June 30, 2012 as the conditions remained. The balance of \$435,990 remains in grants receivable at June 30, 2013.

6. 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, 2013 and 2012, the value of these assets is as follows:

	2013	2012
Charitable remainder trusts, at fair market value	\$ 507,077	\$ 492,711
Less present value discount at the applicable federal rate of 1.2% for 2013 and 2012	<u>(26,358)</u>	<u>(41,248)</u>
Charitable remainder trusts, net	<u>\$ 480,719</u>	<u>\$ 451,463</u>

7. Notes Receivable

The Fund issued a note receivable in October 2002 in connection with the sale of land for \$320,000. Interest on this note accrues at the rate of 7% per annum. Interest only payments are due the first of the month and the principal was due on November 1, 2007 at which time it was extended an additional five years with principal due on November 1, 2012. Subsequent to year end, the note was amended with a required payment of \$80,000 due on September 1, 2013 and monthly payments of principal and interest at a new interest rate of 6.45%. The amended loan is due April 1, 2018. Interest accrued and paid during year ended June 30, 2012 was \$13,074. The balance of the note receivable at June 30, 2013 and 2012 was \$310,000. The loan is secured by the land.

The Fund has also loaned a potential land donor \$18,261 during fiscal year June 30, 2011 to bring delinquent property taxes current. Interest only payments are due annually at the rate of 3% per annum. Interest accrued and paid during the years ended June 30, 2013 and 2012 was \$420. The balance of the note at June 30, 2013 and 2012 was \$18,261. The loan is secured by the land.

SEMPERVIRENS FUND

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

8. 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.

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

- Level 1*- quote prices in active markets for identical investments. Investments in Level 1 include listed equities held in the name of the Funds, 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 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.

Level 1 assets are based on quoted marked prices. Level 2 assets are based on estimated current market inputs for similar financial instruments with comparable terms and credit quality. The Fund had no Level 3 assets for years ended June 30, 2013 and 2012.

SEMPERVIRENS FUND

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

8. Fair Value Measurements, continued

The table below presents the level hierarchy of assets measured at fair value on a recurring basis as of June 30, 2013 and 2012.

	Assets at Fair Value as of June 30, 2013		
	Level 1	Level 2	Total
Short-term investments:			
Certificates of deposit	\$ -	\$ 2,083,864	\$ 2,083,864
Long-term investments:			
Certificates of deposit	-	811,836	811,836
Other long-term investments:			
Money market funds	21,099	-	21,099
Mutual funds	70,966	-	70,966
Exchange-traded bonds	341,225	-	341,225
Exchange-traded foreign, emerging markets, REIT, and others	208,311	-	208,311
Total other long-term investments	641,601	-	641,601
Charitable remainder trusts	-	480,719	480,719
	\$ 641,601	\$ 3,376,419	\$ 4,018,020

	Assets at Fair Value as of June 30, 2012		
	Level 1	Level 2	Total
Short-term investments:			
Certificates of deposit	\$ -	\$ 4,979,140	\$ 4,979,140
Long-term investments:			
Certificates of deposit	-	248,836	248,836
Other long-term investments:			
Money market funds	16,476	-	16,476
Mutual funds	185,476	-	185,476
Total other long-term investments	201,952	-	201,952
Charitable remainder trusts	-	451,463	451,463
	\$ 201,952	\$ 5,679,439	\$ 5,881,391

The Fund did not have any Level 3 assets for years ended June 30, 2013 and 2012.

9. Other Assets

Included in other assets is a portfolio of artwork, at its original appraised value of \$75,000 and other miscellaneous assets totaling \$92,777 and \$108,308 for the years ended June 30, 2013 and 2012, respectively.

10. Retirement Plans

The Fund has a retirement income account plan for its employees. The Fund makes contributions on an annual basis of 6% of each participant's current base salary. The contributions to the plan amounted to \$47,296 and \$45,529 at June 30, 2013 and 2012, respectively.

Continued

SEMPERVIRENS FUND

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

10. Retirement Plans, continued

Additionally, the Fund provided retirement benefits for a former Executive Director's surviving spouse. In December 2012, the former Executive Director's surviving spouse passed away and no liability was accrued at June 30, 2013. For June 30, 2012 the present value of the accrued retirement liability at the applicable federal rate of 4.00% had a balance of \$40,685.

11. Note Payable

In December 2011, the Fund received a secured Program Related Investment (PRI) from the Packard Foundation in the amount of \$2,500,000 to be used to purchase the CEMEX property. The note has a maturity date as of the close of escrow on a conservation easement or December 16, 2014, whichever occurs first. The annual interest rate on the note payable is 1.5% payable annually.

12. Carbon Contract

During fiscal year 2008, a contract was executed with a major public utility to sell Verifiable Emission Reduction (VER) 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 is currently not predictable with any certainty therefore is not recognized as revenue until received by the fund. During the fiscal years ended June 30, 2013 and 2012, revenue was received and recorded in other income in the amount of \$8,912 and \$8,743, respectively.

13. Commitments

During fiscal year 2010, the Fund moved to a new office and entered into a seven year lease agreement. 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. In the fiscal years ended June 30, 2013 and 2012, total rent expense was \$125,554 and \$123,706, respectively. These amounts include charges for common area costs.

Future minimum payments under the lease are as follows:

2014	\$	89,724
2015		92,416
2016		95,189
2017		81,297
	\$	<u>358,626</u>

During fiscal years ended June 30, 2013 and 2012, the Fund entered into various contracts or agreements for services related to the construction of the Castle Rock State Park Entrance, maintenance of properties, and consulting for approximately \$407,000 and \$808,000, respectively, with end dates of December 2013 through February 2015.

SEMPERVIRENS FUND

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

14. Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2013 and 2012 were restricted for the following time and purpose restrictions:

	<u>2013</u>	<u>2012</u>
Time restricted:		
Restricted to future expense	\$ 252,200	\$ 100,000
Total time restricted	<u>252,200</u>	<u>100,000</u>
Program restricted:		
Interest in remainder trusts, net	480,719	451,464
Castle Rock State Park Entrance	435,990	586,185
Bureau of Land Management Parcel Purchase	250,000	-
Planted trees	70,513	47,710
Amah Mutsun Tribe	50,000	-
YMCA Easement	50,000	-
Lagomarsino/Gallaway Stewardship	50,000	50,000
Endowment Fund Investment Return	34,845	15,496
Lagomarsino/Gallaway Acquisition	-	375,000
Cemex Stewardship	-	42,914
Wildlife Conservation	-	15,706
Other program services	127,129	100,250
Total program restricted	<u>1,549,196</u>	<u>1,684,725</u>
Total temporarily restricted	<u>\$ 1,801,396</u>	<u>\$ 1,784,725</u>

Continued

SEMPERVIRENS FUND

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

14. Temporarily Restricted Net Assets, continued

For the years ended June 30, 2013 and 2012, temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the purpose restriction specified by donors as follows:

	2013	2012
Time restricted:		
Bequest	\$ 100,000	\$ 10,000
Charitable Remainder Trusts	-	32,446
Total program purpose accomplished	100,000	42,446
Program purpose:		
Castle Rock State Park Entrance	194,248	111,957
Castle Rock State Park Operating	50,000	51,415
Cemex Stewardship	45,479	32,086
Planted trees	18,372	57,149
Wildlife Conservation	15,706	-
Cemex Easement	-	50,000
Conceptual Area Protection	-	99,079
Coastal Watershed Pre-acquisition grant	-	54,250
Other program services	58,528	93,307
Total program purpose accomplished	382,333	549,243
Land acquisition:		
Lagomarsino/Gallaway	375,000	-
Redwood Meadows Easement	250,200	-
Lachenbrauch	125,000	-
Cemex	68,257	4,974,902
Girl Scout Camp Easement	-	750,000
Total land acquisitions	818,457	5,724,902
Total temporarily restricted net assets released from restriction	\$ 1,300,790	\$ 6,316,591

15. 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 operation. The balance of 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. At June 30, 2013, the endowment fund investment income and net realized and unrealized gain was \$16,802. Investment losses on the endowment fund as of June 30, 2012 were \$12,002.

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 years ended June 30, 2013 and 2012, respectively.

SEMPERVIRENS FUND

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

15. Endowment Fund, continued

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 Fund;
- (2) The purposes of the Fund and 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.

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.

SEMPERVIRENS FUND

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

15. Endowment Fund, 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 Fund to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in temporary restricted net assets were \$12,002 as of June 30, 2012. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board. No deficiencies were noted at June 30, 2013.

Changes in endowment net assets for the years ended June 30, 2013 and 2012 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2011	\$ -	\$ 27,498	\$ 186,456	\$ 213,954
Investment return:				
Net realized and unrealized gain on investment	-	(12,002)	-	(12,002)
Total investment return	-	(12,002)	-	(12,002)
Endowment net assets, June 30, 2012	-	15,496	186,456	201,952
Investment return:				
Interest income	-	4,892	-	4,892
Net realized and unrealized gain on investment	-	11,910	-	11,910
Total investment return	-	16,802	-	16,802
Endowment net assets, June 30, 2013	\$ -	\$ 32,298	\$ 186,456	\$ 218,754

16. Land and Land Transactions

Conservation land holdings at June 30, 2012 include the 455 acre Lompico property. A Restrictive Covenant and Project Implementation Agreement between Sempervirens and the Climate Action Reserve were recorded on the Lompico property as part of Sempervirens' Lompico Carbon Project. The agreement strips the Lompico property of its timber value by prohibiting any commercial timber harvests for the next 100 years. This reduced the book value of the property by \$2,170,000. The adjustment to fair market value was recorded as a land expense in June 30, 2011.

In December 2011, the Fund in collaboration with Peninsula Open Space Trust purchased the CEMEX property comprised of 8,532 acres for \$30,000,000. The Fund owns 25% of this property and Peninsula Open Space Trust owns the remaining 75%. It is anticipated that a conservation easement will be negotiated between the Fund, Peninsula Open Space Trust, and other land trust partners.

In March 2012, the Fund purchased a conservation easement on the Girl Scouts of Northern California's Skylark Ranch property for \$1,610,000 and Butano property for \$1,250,000. The easement grants the Fund the right to protect the land conservation values in perpetuity.

SEMPERVIRENS FUND

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

16. Land and Land Transactions, continued

In June 2012, the Fund sold the Lagomarsino property to Midpeninsula Regional Open Space District for \$515,000. This represented half of the land value on the Fund's records. A land expense adjusting the property value was recorded for \$515,000 at June 30, 2012.

On September 10, 2012, the Fund successfully facilitated the purchase of the 58 acre Gallaway property by Midpeninsula Regional Open Space District for which the temporarily restricted net assets from Resources Legacy fund of \$375,000 were released at June 30, 2013.

In May 2013, the Fund purchased an easement on the Redwood Meadows property for \$525,000. The easement grants the Fund all timber rights, while home owners on the property retain rights to the property.

In April 2013, the Fund purchased the Lachnbrauch property for \$500,000, of which the funding of \$125,000 was contributed by Resources Legacy Fund.

17. Subsequent Events

In July, 2013 a modified loan agreement was executed between the Fund and Mr. Misha Groysman. Under the terms of the agreement the existing notes receivable of \$310,000 as referenced in Note 7 remain in force. The interest rate on the modified loan is 6.45% and will mature on April 1, 2018. A payment of \$80,000 is due and payable on September 1, 2013. Monthly payments of principal and interest of \$1,997 will begin on September 1, 2013. The loan is secured by land. On September 13, 2013, the Fund purchased two land parcels at Butano Creek and Waterman Creek from the Bureau of Land Management for \$870,000.

On October 3, 2013, the Coastal Conservancy approved a \$2 million grant to Save the Redwoods League for the purchase of a conservation easement from Sempervirens Fund and the Peninsula Open Space Trust to permanently protect the Cemex property. The State Wildlife Conservation Board is expected to make an \$8 to \$10 million grant for this same purpose at its January or February 2014 meeting. These funds (\$10 to \$12 million), combined with \$2.5 million each from Save the Redwoods League and the Land Trust for Santa Cruz County, will be used to pay back Sempervirens Fund and POST's capital investment, less the \$2.5 million each of the four land trusts agreed to leave in the project, and allow Sempervirens Fund to repay our \$2.5 million loan with the Packard Foundation.

The Fund's management has evaluated subsequent events for recognition and disclosure through November 14, 2013, the date which these financial statements were available to be issued. Management concluded that, except as disclosed in Note 7 and above, no material subsequent events have occurred since June 30, 2013 that required recognition or disclosure in such financial statements.

SUPPLEMENTARY INFORMATION

SEMPERVIRENS FUND
SCHEDULE OF LAND HOLDINGS
for the year ended June 30, 2013

Conservation Land and Easement Holding Activity:

Beginning of year, June 30, 2012	\$ 20,063,312
Land purchased	500,000
Easement holdings purchased	525,000
Improvements to land holdings	258,942
End of year, June 30, 2013	<u>\$ 21,347,254</u>