



Certified Public Accountants
and Financial Advisors

Sempervirens Fund

Financial Statements

for the year ended June 30, 2019

(with summarized comparative totals for
June 30, 2018)

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Sempervirens Fund

Report on the Financial Statements

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, 2019, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund'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 Fund'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, 2019, 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 Fund's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 26, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, 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 23 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.

SQUAR MILNER LLP

San Francisco, California
November 20, 2019

SEMPERVIRENS FUND
STATEMENT OF FINANCIAL POSITION
June 30, 2019
(with comparative totals for June 30, 2018)

	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,182,592	\$ 3,836,020
Certificates of deposit	1,882,383	1,464,943
Grants and contribution receivable, net	88,167	229,263
Prepays and other current assets	103,491	110,139
Total current assets	3,256,633	5,640,365
Conservation Land and Easement Holdings	26,356,367	21,570,379
Property and Equipment, net	2,246	10,569
Other Assets		
Investments	1,692,769	1,633,111
Grants receivable - long-term, net	-	31,279
Charitable remainder trust, net	166,215	163,855
Note receivable	18,261	18,261
Artwork	52,500	52,500
Total other assets	1,929,745	1,899,006
Total assets	\$ 31,544,991	\$ 29,120,319
LIABILITIES AND NET ASSETS		
Current Liabilities		
Current portion of notes payable	\$ 910,000	\$ 450,000
Accounts payable	137,411	306,002
Accrued payroll and other liabilities	136,339	107,125
Total current liabilities	1,183,750	863,127
Long-Term Liabilities		
Note payable, net of current portion	1,060,000	450,000
Net Assets		
Without donor restrictions		
Board designated	27,089,218	24,059,348
Undesignated	664,826	1,170,119
	27,754,044	25,229,467
With donor restrictions		
Time and purpose restricted	1,355,398	2,391,269
Donor restricted endowment	191,799	186,456
	1,547,197	2,577,725
Total net assets	29,301,241	27,807,192
Total liabilities and net assets	\$ 31,544,991	\$ 29,120,319

SEMPERVIRENS FUND
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2019
(with summarized comparative totals for the year ended June 30, 2018)

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
SUPPORT AND REVENUE				
Contributions and grants	\$ 4,126,249	\$ 2,251,866	\$ 6,378,115	\$ 4,443,716
Land and stewardship income	40,244	-	40,244	37,354
Investment income, net	122,661	9,696	132,357	75,256
Net change in value of charitable remainder trusts	-	2,360	2,360	(3,661)
Other income	1,422	-	1,422	432
	<u>4,290,576</u>	<u>2,263,922</u>	<u>6,554,498</u>	<u>4,553,097</u>
Total revenue and other support	4,290,576	2,263,922	6,554,498	4,553,097
Net assets released from restrictions	3,294,450	(3,294,450)	-	-
	<u>7,585,026</u>	<u>(1,030,528)</u>	<u>6,554,498</u>	<u>4,553,097</u>
Total revenue and other support	7,585,026	(1,030,528)	6,554,498	4,553,097
OPERATING EXPENSE				
Programs:				
Land	1,515,833	-	1,515,833	1,289,374
Stewardship	1,428,847	-	1,428,847	939,801
Education and outreach	386,273	-	386,273	409,817
Trees and groves	97,617	-	97,617	114,947
	<u>3,428,570</u>	<u>-</u>	<u>3,428,570</u>	<u>2,753,939</u>
Total program services	3,428,570	-	3,428,570	2,753,939
Support services:				
General and administrative	358,239	-	358,239	410,314
Fundraising	1,273,640	-	1,273,640	1,015,979
	<u>1,631,879</u>	<u>-</u>	<u>1,631,879</u>	<u>1,426,293</u>
Total support services	1,631,879	-	1,631,879	1,426,293
Total expenses	<u>5,060,449</u>	<u>-</u>	<u>5,060,449</u>	<u>4,180,232</u>
	5,060,449	-	5,060,449	4,180,232
CHANGE IN NET ASSETS	2,524,577	(1,030,528)	1,494,049	372,865
Net assets, beginning of year	25,229,467	2,577,725	27,807,192	27,434,327
Net assets, end of year	<u>\$ 27,754,044</u>	<u>\$ 1,547,197</u>	<u>\$ 29,301,241</u>	<u>\$ 27,807,192</u>

SEMPERVIRENS FUND
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2019
(with summarized comparative totals for the year ended June 30, 2018)

	2019								2018	
	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	\$ 81,379	\$ 214,373	\$ 153,859	\$ 49,835	\$ 499,446	\$ 181,911	\$ 448,295	\$ 630,206	\$ 1,129,652	\$ 1,031,724
Payroll taxes and employee benefits	42,756	32,791	25,096	5,186	105,829	45,306	101,560	146,866	252,695	234,961
Total salaries and related expenses	124,135	247,164	178,955	55,021	605,275	227,217	549,855	777,072	1,382,347	1,266,685
OTHER EXPENSES										
Special projects	1,081,835	150,663	-	-	1,232,498	-	-	-	1,232,498	1,116,263
Stewardship expenses	53,148	936,595	-	-	989,743	-	-	-	989,743	361,200
Direct mail services	-	-	35	-	35	-	446,295	446,295	446,330	441,903
Contractual services	79,469	15,178	55,107	8,917	158,671	25,451	87,106	112,557	271,228	297,847
Space and rental costs	36,062	36,063	23,993	23,993	120,111	50,742	72,949	123,691	243,802	237,179
Advertising and marketing	10,000	-	77,293	-	87,293	-	2,663	2,663	89,956	42,956
Land expense	69,062	9,556	-	-	78,618	-	-	-	78,618	45,169
Telephone and internet	5,735	1,493	2,308	739	10,275	7,750	32,037	39,787	50,062	91,654
Insurance	4,488	9,344	2,990	2,990	19,812	5,882	8,977	14,859	34,671	34,448
Meeting costs	6,786	1,624	1,644	-	10,054	8,689	13,584	22,273	32,327	23,533
Newsletter costs	-	-	32,193	-	32,193	-	-	-	32,193	34,448
Bank fees	-	-	-	-	-	-	26,661	26,661	26,661	33,504
Interest expense	23,094	-	-	-	23,094	-	-	-	23,094	2,372
Memberships	9,907	10,250	-	-	20,157	438	1,313	1,751	21,908	12,363
Supplies and materials	439	1,597	1,352	359	3,747	16,126	1,906	18,032	21,779	19,456
Travel costs	6,965	5,277	1,491	179	13,912	461	6,674	7,135	21,047	30,696
Printing costs	261	121	124	2,946	3,452	2,649	11,549	14,198	17,650	16,078
Utilities	1,834	1,625	1,079	1,079	5,617	2,171	3,397	5,568	11,185	9,216
Postage	758	550	550	562	2,420	1,450	5,852	7,302	9,722	9,707
Leased equipment	-	-	-	-	-	7,155	-	7,155	7,155	6,593
Events	-	-	5,957	-	5,957	-	-	-	5,957	37,744
Training costs	63	500	270	-	833	140	266	406	1,239	479
Taxes and fees	540	-	-	-	540	95	60	155	695	106
Dues and subscriptions	-	-	100	-	100	160	-	160	260	293
Total other expenses	1,390,446	1,180,436	206,486	41,764	2,819,132	129,359	721,289	850,648	3,669,780	2,905,207
Depreciation and amortization	1,252	1,247	832	832	4,163	1,663	2,496	4,159	8,322	8,340
Total functional expenses	\$ 1,515,833	\$ 1,428,847	\$ 386,273	\$ 97,617	\$ 3,428,570	\$ 358,239	\$ 1,273,640	\$ 1,631,879	\$ 5,060,449	\$ 4,180,232

SEMPERVIRENS FUND
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2019
(with summarized comparative totals for the year ended June 30, 2018)

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Contributions and grants	\$ 6,163,421	\$ 4,315,095
Investment income	71,649	65,705
Land and stewardship income	800,243	37,354
Other receipts	8,070	34,263
Payments for salaries and related expenses	(1,521,724)	(1,062,951)
Payments for land and related expenses	(84,145)	(84,145)
Payments for land acquisition and improvements	(5,340,987)	(4,139,043)
Payments special projects	(1,170,212)	(1,170,212)
Payments for stewardship expenses	(268,709)	(268,709)
Payments for interest expense	(23,789)	(2,478)
Payments for other operating expenses	(2,122,928)	(1,396,582)
Net cash used in operating activities	<u>(3,489,111)</u>	<u>(3,671,703)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(4,689,476)	(6,997,309)
Sale of investments	4,455,159	7,210,154
Principal payments on note receivable	-	71,607
Net cash (used in) provided by investing activities	<u>(234,317)</u>	<u>284,452</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Loan proceeds	1,520,000	900,000
Principal payments on note payable	(450,000)	-
Net cash provided by financing activities	<u>1,070,000</u>	<u>900,000</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,653,428)	(2,487,251)
Cash and cash equivalents, beginning of year	<u>3,836,020</u>	<u>6,323,271</u>
Cash and cash equivalents, end of year	<u>\$ 1,182,592</u>	<u>\$ 3,836,020</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW		
Land acquisition donation	<u>\$ 205,000</u>	<u>-</u>

SEMPERVIRENS FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

1. 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 acted as a fiscal agent for the Amah Mutsun Land Trust, which ended during the year. For the year ended June 30, 2019, expenses included in the Stewardship Program for the Amah Mutsun Land Trust amounted to \$50,235.

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.

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.

SEMPERVIRENS FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

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.

Net Assets

The net assets of the Fund are reported in two classes as follows:

Net Assets without Donor Restrictions

Net assets without donor restrictions consist of net assets and activities which represent the portion of expendable funds that are available to support the Fund's operations. A portion of these net assets are designated by the Board of Directors for specific purposes (see Note 12).

Net Assets with Donor Restrictions

Net assets with donor restrictions includes a 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. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

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.

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
June 30, 2019

1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

Fair Value Measurements (continued)

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

- *Level 1* inputs to the valuation methodology include unadjusted quoted prices for identical assets or liabilities in active markets.
- *Level 2* inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- *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.

Investments

Certificates of deposit with original maturity dates of more than three months are stated at quoted market prices. All investments, other than certificates of deposit, are classified as long-term as the funds are not expected to be utilized in the next year.

A capital investment pool was established to serve as a potential source of funds for large scale land projects. The investments consist of mutual funds and exchange-traded funds which are stated at fair market value using quoted market prices.

The endowment investments consist of mutual funds and exchange-traded funds which are stated at fair market value using quoted market prices. Investment income earned on donor restricted endowment investments are recorded in the Statement of Activities as income with donor restrictions, until such time as the earnings are appropriated for expenditure. Income earned on board designated endowment investments are recorded in the Statement of Activities as income without donor restrictions.

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, it is reported as an increase in net assets with donor restrictions. The Fund uses the allowance method to record estimated uncollectable grants receivable. The allowance is based on prior years' experience and management's analysis of the collectability of grants receivable. Management has determined that no allowance for uncollectable grants receivable is necessary at June 30, 2019.

SEMPERVIRENS FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

1. 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. At June 30, 2019, the Fund determined that all grants receivable were collectable within one fiscal year.

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 values and records any decreases in value as necessary. Any such decreases are recorded as program expenses in 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 about 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 any substantial difference between consideration received from the agency and the revised value as a contribution of land value to the agency.

Land with a Life Estate

Land with a life estate is recorded at the lower of cost or market value, less a discount to present value. For the year ended June 30, 2019, 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 (refer to Note 6).

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. Repairs and maintenance are expensed as incurred.

SEMPERVIRENS FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

Property and Equipment (continued)

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.

Revenue Recognition

Unconditional promises to give to the Fund are recorded as revenue at fair value when the promise is made. Contributions are recorded as support with or without donor restrictions based on whether they include donor stipulations that limit the use of the contributions. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions.

Bequests are recognized when they are irrevocable, unconditional and measurable. 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 and goods 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.

During the year ended June 30, 2019, 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, 2019, pro bono legal services of \$28,710 were received by the Fund and recorded as revenues and expenses in the Statement of Activities.

During the year ended June 30, 2019, the Fund purchased land with a fair market value that was \$205,000 greater than the purchase price paid. The excess fair market value was considered a contribution from the donor and was recorded as such.

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.

SEMPERVIRENS FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

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. Significant estimates include the functional allocation of expenses and the fair value of investments. Actual results could differ from these estimates.

Reclassifications

Certain reclassifications have been made to the summarized comparative totals for June 30, 2018 presentation to correspond to the current year's financial statement presentation. The reclassifications had no impact on the change 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, 2018, from which the summarized information was derived.

Recently Issued Accounting Standards

The FASB issued ASU No. 2018-08, Not-For-Profit Entities (Topic 958) ("ASU 2018-08") clarifying the scope and the accounting guidance for contributions received and contributions made, including the criteria for evaluating whether contributions are conditional or unconditional. The new standard will be effective for the Fund for the year ending June 30, 2020. The Fund is currently evaluating the timing of its adoption and the impact on its financial statements.

SEMPERVIRENS FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

Recently Issued Accounting Standards (continued)

The Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers (Topic 606) (“ASU 2014-09”). The new standard is based on principles that govern the recognition of revenue at an amount an entity expects to be entitled when products are transferred to customers. The new standard will be effective for the Fund for the year ending June 30, 2020. The Fund is currently evaluating the impact on its financial statements.

Subsequent Events

Management has evaluated subsequent events through the date the financial statements are available to be issued November 20, 2019.

2. NEW ACCOUNTING PRONOUNCEMENT

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The Fund has adjusted the presentation of its financial statements accordingly. The new standards change the following aspects of the Fund’s financial statements:

1. The unrestricted net asset class has been renamed net assets without donor restrictions. The temporarily and permanently restricted net asset classes have been renamed net assets with donor restrictions.
2. The financial statements include a new disclosure about liquidity and availability of resources (refer to Note 3).

3. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

As a land trust, the Fund strives to maintain significant liquid financial assets for operating expenditures, and land and easement acquisitions. Over the past year, the Fund has made several land acquisitions which utilized cash assets as well as increased mortgage debt.

The Fund operates with a balanced budget and an expectation of surplus operating revenues to be accumulated for future land acquisitions. The Board of Directors may designate some surplus operating revenues into a variety of designated funds. With the exception of the easement monitoring defense fund, all Board designated funds are available to meet cash needs for general expenditures at the discretion of the Board. Donor restricted funds are maintained to be expensed for specific purposes.

SEMPERVIRENS FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

3. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS (continued)

The table below presents financial assets available to fund general operating expenses within one-year at June 30, 2019:

Financial assets at June 30, 2019:	
Cash and cash equivalents	\$ 1,182,592
Certificates of deposit	1,882,383
Grants and contribution receivable, net	88,167
Investments	<u>1,692,769</u>
Total financial assets	<u>4,845,911</u>
Less amounts not available to be used within one year:	
Donor restricted endowment invested in perpetuity	(186,456)
Time and purpose restricted net assets	(1,189,183)
Board designated land easement monitoring fund	<u>(324,798)</u>
	<u>(1,700,437)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 3,145,474</u>

4. CONCENTRATIONS

Contribution and Grant Revenue

For the year ended June 30, 2019, two donors made up approximately 46% of the total contribution and grant revenue balance.

Credit Risk

Financial instruments that potentially subject the Fund to concentrations of credit risk consist principally of cash and cash equivalents and investments. 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 in general are exposed to various risks, such as interest rate, credit and overall market volatility. Investments are secured up to the limit set by the Securities Investor Protection Corporation ("SIPC"). As of June 30, 2019, the Fund held investments in excess of the SIPC insurance limits (currently \$500,000 per depositor).

SEMPERVIRENS FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

5. PROPERTY AND EQUIPMENT

At June 30, 2019, property and equipment consisted of the following:

Office equipment	\$	153,467
Leasehold improvements		96,792
Furniture and fixtures		<u>90,124</u>
		340,383
Less: accumulated depreciation		<u>(338,137)</u>
	<u>\$</u>	<u>2,246</u>

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 future income growth of the trust assets and therefore, it 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, 2019, the value of these assets is as follows:

Charitable remainder trusts, at fair market value (Level 1)	\$	204,031
Less: present value discount at the applicable federal rate of 2.8% for 2019 and estimated life expectancy published by the IRS		<u>(37,816)</u>
	<u>\$</u>	<u>166,215</u>

SEMPERVIRENS FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

7. NOTE RECEIVABLE

Note receivable consists of following at June 30, 2019:

Note receivable from an unrelated party issued in June 2011, which bears interest at 3% with interest only payments due annually. The note is secured by land and has no stated maturity date. The note has been classified as noncurrent as management does not anticipate repayment within the next year.

\$ 18,261

8. INVESTMENTS

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 investments measured at fair value on a recurring basis as of June 30, 2019:

	Assets at Fair Value as of June 30, 2019			
	Level 1	Level 2	Level 3	Total
Certificates of deposit	\$ -	\$ 1,882,383	\$ -	\$ 1,882,383
Mutual funds	424,994	-	-	424,994
Exchange-traded and closed-end funds	<u>1,267,775</u>	<u>-</u>	<u>-</u>	<u>1,267,775</u>
	<u>\$ 1,692,769</u>	<u>\$ 1,882,383</u>	<u>\$ -</u>	<u>\$ 3,575,152</u>

The table below presents the fund allocation of investments as of June 30, 2019:

Capital pool fund	\$ 638,807
Donor restricted endowment fund	191,833
Board designated endowment fund	551,877
Board designated easement monitoring fund	<u>310,252</u>
	<u>\$ 1,692,769</u>

SEMPERVIRENS FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

9. NOTES PAYABLE

Notes payable consists of the following at June 30, 2019:

Note payable to an unrelated party with annual principal installments of \$450,000 due on or before March 1, 2020, plus interest at 1% per annum due on or before the principal payment date.	\$ 450,000
Note payable to an unrelated party with annual principal installments of \$130,000 due on or before October 1, 2019 through 2022, respectively, plus interest at 4% per annum due on or before the principal payment dates.	520,000
Note payable to an unrelated party with annual principal installments of \$330,000 due on or before April 1 2020 and 2021 and \$340,000 due on or before April 1, 2022, plus interest at 1% per annum due on or before the principal payment dates.	1,000,000
	1,970,000
Less: current maturities	(910,000)
	\$ 1,060,000

The annual maturity of the note payable is as follows:

Year ending June 30,	
2020	\$ 910,000
2021	460,000
2022	470,000
2023	130,000
	\$ 1,970,000

10. RETIREMENT PLAN

The Fund has a 403(b) retirement income account plan (the "Plan") for its employees. Starting from the first day of hire, employees may defer a portion of their salaries to the Plan. 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 \$72,711 for the year ended June 30, 2019.

SEMPERVIRENS FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

11. COMMITMENTS

The Fund entered into a seven year office lease agreement in 2010. In 2017, the Fund renewed and modified terms of the agreement to include the leasing of an additional suite, which expires in April 2022. Minimum monthly rent for the lease is \$13,689, with increases in accordance with the consumer price index. Additionally, the Fund entered into a five year copier machine lease in February 2019 with monthly payments of \$218. The Fund also leases storage space on a month-to-month basis. During the year ended June 30, 2019, total office and equipment rent expense was \$236,369. This amount includes charges for common area costs.

Future minimum payments under the leases are as follows:

<u>Year ending June 30,</u>	<u>Facilities</u>	<u>Equipment</u>	<u>Total</u>
2020	\$ 178,850	\$ 2,616	\$ 181,466
2021	186,004	2,616	188,620
2022	160,136	2,616	162,752
2023	-	2,616	2,616
2024	-	1,526	1,526
	<u>\$ 524,990</u>	<u>\$ 11,990</u>	<u>\$ 536,980</u>

12. BOARD DESIGNATED NET ASSETS

At June 30, 2019, board designated net assets were designated for the following purposes:

Land reserve fund	\$ 24,181,367
Operating reserve fund	1,000,000
Conservation initiative fund	773,629
Quasi-endowment fund	541,330
Land easement monitoring fund	324,798
Land emergency fund	106,630
Stewardship reserve fund	106,630
Conservation easement defense fund	53,315
Land acquisition fund	<u>1,519</u>
	<u>\$ 27,089,218</u>

SEMPERVIRENS FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

13. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions as of June 30, 2019 were restricted for the following time and purpose restrictions:

Time restricted:	
Interest in charitable remainder trusts, net	<u>\$ 166,215</u>
Program restricted:	
Land acquisition	854,309
Planted trees	103,491
Cemex cement plant	51,321
Santa Cruz Mountain Stewardship	50,792
Amah Mutsun Tribe	43,000
Castle Rock	37,500
Other program services	25,117
National Monument	20,000
Carbon project	<u>3,653</u>
	<u>1,189,183</u>
Donor restricted endowment	
Amounts to be maintained in perpetuity	186,456
Unappropriated endowment earnings	<u>5,343</u>
	<u>191,799</u>
	<u><u>\$ 1,547,197</u></u>

For the year ended June 30, 2019, net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restriction specified by donors as follows:

Program purpose:	
Land acquisition	\$ 1,816,711
Castle Rock	1,136,323
Cemex cement plant	114,485
Planted trees	73,769
Carbon project	64,227
Amah Mutsun Tribe	50,235
Santa Cruz Mountain Stewardship	33,106
Endowment fund investment return	<u>5,594</u>
	<u><u>\$ 3,294,450</u></u>

SEMPERVIRENS FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

14. ENDOWMENT FUND

The Fund's endowment consists of a donor restricted endowment 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 Fund's endowment also consists of funds designated by the Board of Directors to function as endowments. All investment income earned on the donor restricted endowment fund is treated as income with donor restrictions until appropriated by the Fund's Board. All investment income earned on the board designated endowment fund is treated as income without donor restrictions.

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, 2019.

Interpretation of Relevant Law

The Fund's Board has interpreted California's 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 net assets with donor restrictions (1) the original value of gifts donated to the donor-restricted endowment, (2) the original value of subsequent gifts donated to the donor-restricted endowment, and (3) additions to the donor-restricted endowment in accordance with donor directions. The remaining portion of the donor-restricted endowment is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Fund in a manner consistent with the standard of prudence prescribed by UPMIFA.

Spending Policy

In accordance with the State of California's 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
June 30, 2019

14. ENDOWMENT FUND (continued)

Spending Policy (continued)

Up to 3% of the fair value of the assets held under the donor-restricted endowment is appropriated for spending from the donor restricted endowment fund, and any additional return of the endowment assets is retained to grow the endowment fund. All income earned the board designated endowment assets is to be retained to grow the endowment fund, but can be utilized at the discretion of the Board.

Investment Policy, Strategies, and Objectives

The Fund has adopted investment and spending policies for the 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 approximating inflation plus the annual spending rate. 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, 2019.

Endowment net asset composition by type of fund as of June 30, 2019 is as follows:

	Without Donor Restrictions	With Donor Restrictions		Total
		Unappropriated Earnings	Perpetual in Nature	
Board designated endowment funds	\$ 541,330	\$ -	\$ -	\$ 541,330
Donor restricted endowment funds	-	5,343	186,456	191,799
Total funds	<u>\$ 541,330</u>	<u>\$ 5,343</u>	<u>\$ 186,456</u>	<u>\$ 733,129</u>

SEMPERVIRENS FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

14. ENDOWMENT FUND (continued)

Changes in endowment net assets for the year ended June 30, 2019 are as follows:

	Without Donor Restrictions	With Donor Restrictions		Total
		Unappropriated Earnings	Perpetual in Nature	
Endowment net assets, June 30, 2018	\$ 517,087	\$ 1,241	\$ 186,456	\$ 704,784
Investment income - net	24,243	9,696	-	33,939
Appropriations	-	(5,594)	-	(5,594)
Endowment net assets, June 30, 2019	<u>\$ 541,330</u>	<u>\$ 5,343</u>	<u>\$ 186,456</u>	<u>\$ 733,129</u>

SUPPLEMENTARY INFORMATION

SEMPERVIRENS FUND
SCHEDULE OF LAND HOLDINGS
For the Year Ended June 30, 2019

Conservation land and easement holding activity:	
Beginning of year, June 30, 2018	\$ 21,570,379
Purchases of land holdings	3,150,000
Improvements to land holdings	2,190,987
Donation of land holding	205,000
Land holding impairment	<u>(759,999)</u>
End of year, June 30, 2019	<u>\$ 26,356,367</u>