

# SEMPERVIRENS FUND

JUNE 30, 2008

---

INDEPENDENT AUDITORS' REPORT,  
FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

# Sempervirens Fund

## Table of Contents

---

<b>Independent Auditors' Report</b>	1
<b>Financial Statements</b>	
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6 – 12
<b>Supplementary Information</b>	
Schedule of Land Holdings	13

## Independent Auditors' Report

BOARD OF DIRECTORS  
SEMPERVIRENS FUND  
Los Altos, California

We have audited the accompanying statement of financial position of *Sempervirens Fund (the Fund)* as of June 30, 2008 and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Fund's fiscal year ended June 30, 2007 financial statements, and in our report dated January 4, 2008, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2008 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The information contained in the Schedule of Land Holdings is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Hood & Strong LLP*

September 18, 2008

*Consultants and*

*Business Advisors*

*10 Almaden Boulevard*

*Suite 250*

*San Jose*

*CA 95113*

*408.998.8400*

*fax 408.998.8485*

*San Francisco*

*San Jose*

*Redwood Shores*

# Sempervirens Fund

## Statement of Financial Position

<i>June 30,</i>	2008	2007
<b>Assets</b>		
Cash and cash equivalents	\$ 6,150,511	\$ 5,158,648
Notes receivable	323,849	310,000
Conservation land and easement holdings	12,937,404	14,235,752
Land subject to life estate, net	415,722	337,732
Charitable remainder trusts, net	435,595	406,390
Property and equipment, net	26,208	88,815
Other assets	138,154	113,956
<b>Total assets</b>	<b>\$ 20,427,443</b>	<b>\$ 20,651,293</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Accrued payroll and other liabilities	\$ 242,817	\$ 86,413
Accrued retirement	52,576	54,437
Note payable	62,800	
<b>Total liabilities</b>	<b>358,193</b>	<b>140,850</b>
<b>Net Assets:</b>		
Unrestricted:		
Board-designated land reserve fund	1,604,966	1,397,449
Undesignated	17,313,510	17,903,628
<b>Total unrestricted</b>	<b>18,918,476</b>	<b>19,301,077</b>
Temporarily restricted	964,318	1,022,910
Permanently restricted	186,456	186,456
<b>Total net assets</b>	<b>20,069,250</b>	<b>20,510,443</b>
<b>Total liabilities and net assets</b>	<b>\$ 20,427,443</b>	<b>\$ 20,651,293</b>

The accompanying notes are an integral part of this statement. 2

## Sempervirens Fund

### Statement of Activities

*Year Ended June 30, 2008 (with comparative totals for the year ended June 30, 2007)*

	2008				2007 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
<b>Revenues:</b>					
Purchase funds from public agencies	\$ 837,500			\$ 837,500	
Adjustments to land value and contribution of land value received	(1,152,500)			(1,152,500)	\$ 3,800,000
Contributions and grants	978,241	\$ 868,294		1,846,535	1,581,685
Bequests	146,837			146,837	2,993,918
Noncash donations	1,894			1,894	16,201
Net change in value of charitable remainder trusts and life estate		107,195		107,195	94,780
Investment income	256,120	3,196		259,316	300,754
Other income	53,329			53,329	155,600
Net assets released from restrictions	1,037,277	(1,037,277)			
<b>Total revenue</b>	<b>2,158,698</b>	<b>(58,592)</b>		<b>2,100,106</b>	<b>8,942,938</b>
<b>Operating Expenses:</b>					
Programs:					
Land	1,379,909			1,379,909	1,182,963
Trees	83,904			83,904	94,286
Community services	88,014			88,014	88,786
<b>Total program expenses</b>	<b>1,551,827</b>			<b>1,551,827</b>	<b>1,366,035</b>
Support services:					
General and administrative	475,723			475,723	459,382
Fundraising	513,749			513,749	295,168
<b>Total support services</b>	<b>989,472</b>			<b>989,472</b>	<b>754,550</b>
<b>Total expenses</b>	<b>2,541,299</b>			<b>2,541,299</b>	<b>2,120,585</b>
<b>Change in Net Assets</b>	<b>(382,601)</b>	<b>(58,592)</b>		<b>(441,193)</b>	<b>6,822,353</b>
<b>Net Assets - beginning of year</b>	<b>19,301,077</b>	<b>1,022,910</b>	<b>\$ 186,456</b>	<b>20,510,443</b>	<b>13,688,090</b>
<b>Net Assets - end of year</b>	<b>\$ 18,918,476</b>	<b>\$ 964,318</b>	<b>\$ 186,456</b>	<b>\$ 20,069,250</b>	<b>\$ 20,510,443</b>

## Sempervirens Fund

### Statement of Functional Expenses

*Year Ended June 30, 2008 (with comparative totals for the year ended June 30, 2007)*

	Program Services				Support Services			2008 Total	2007 Total
	Land	Trees	Community Services	Total Program Services	General and Administrative	Fundraising	Total Support Services		
Land value and assets pledged or transferred to public agencies	\$ 883,875			\$ 883,875				\$ 883,875	\$ 837,500
Salaries and related expenses	95,262	\$ 354	\$ 39,116	134,732	\$ 285,843	\$ 227,013	\$ 512,856	647,588	485,564
Staff training	2,322	154	463	2,939	1,698	5,892	7,590	10,529	
Land expense and appraisals	309,754			309,754				309,754	121,288
Contract services	297	77,318	122	77,737	5,785	707	6,492	84,229	100,222
Other outside services	5,777	1,020	2,844	9,641	8,710	47,411	56,121	65,762	98,533
General office expenses	13,417	171	2,771	16,359	41,173	15,444	56,617	72,976	91,967
Rent	12,821	48	5,264	18,133	19,330	30,553	49,883	68,016	56,445
Printing, artwork and graphics	719	2,646	2,553	5,918	1,084	74,421	75,505	81,423	50,592
Grants and aids	30,000			30,000				30,000	50,000
Retirement expense (see Note 7)	5,052	19	2,074	7,145	17,756	12,039	29,795	36,940	47,398
Legal and accounting	2,699	10	1,108	3,817	77,578	6,432	84,010	87,827	45,786
Postage	2,028	1,336	2,494	5,858	3,058	71,368	74,426	80,284	36,364
Insurance	2,319	7	952	3,278	3,496	5,526	9,022	12,300	35,832
Special events			25,274	25,274				25,274	20,315
Travel and meetings	8,063	132	718	8,913	1,912	3,825	5,737	14,650	12,419
Telephone	761	3	313	1,077	1,148	1,814	2,962	4,039	6,757
Repairs and maintenance	209	193	86	488	316	499	815	1,303	5,241
Utilities	720	3	296	1,019	1,086	1,716	2,802	3,821	3,210
Other expenses		476		476				476	900
<b>Total expenses before depreciation</b>	<b>1,376,095</b>	<b>83,890</b>	<b>86,448</b>	<b>1,546,433</b>	<b>469,973</b>	<b>504,660</b>	<b>974,633</b>	<b>2,521,066</b>	<b>2,106,333</b>
<b>Depreciation</b>	<b>3,814</b>	<b>14</b>	<b>1,566</b>	<b>5,394</b>	<b>5,750</b>	<b>9,089</b>	<b>14,839</b>	<b>20,233</b>	<b>14,252</b>
<b>Total expenses</b>	<b>\$ 1,379,909</b>	<b>\$ 83,904</b>	<b>\$ 88,014</b>	<b>\$ 1,551,827</b>	<b>\$ 475,723</b>	<b>\$ 513,749</b>	<b>\$ 989,472</b>	<b>\$ 2,541,299</b>	<b>\$ 2,120,585</b>

The accompanying notes are an integral part of this statement.

# Sempervirens Fund

## Statement of Cash Flows

<i>Years Ended June 30,</i>	2008	2007
<b>Cash Flows from Operating Activities:</b>		
Change in net assets	\$ (441,193)	\$ 6,822,353
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	20,233	14,252
Loss on disposal of property and equipment	42,374	
Loss on sale of investment land holdings		(4,102)
Net change in charitable remainder trusts	(29,205)	(60,860)
Net change in land with life estate	(77,990)	(33,919)
Land value and assets pledged or transferred to public agencies	837,500	837,500
Adjustments to land value and contribution of land value received		(100,000)
Purchase of land	(691,652)	(5,700,000)
Reduction in carrying value of land	1,152,500	
Change in operating assets and liabilities:		
Other assets	(24,198)	31,800
Accrued payroll, retirement and other liabilities	154,543	44,944
Net cash provided by operating activities	942,912	1,851,968
<b>Cash Flows from Investing Activities:</b>		
Issuance of note receivable	(13,849)	
Proceeds from sale of investment land holdings		499,102
Purchase of equipment		(12,291)
Net cash (used) provided by investing activities	(13,849)	486,811
<b>Cash Flows from Financing Activities:</b>		
Proceeds from (repayment of) note payable	62,800	(2,800,000)
Net cash provided (used) by financing activities	62,800	(2,800,000)
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	991,863	(461,221)
<b>Cash and Cash Equivalents - beginning of year</b>	5,158,648	5,619,869
<b>Cash and Cash Equivalents - end of year</b>	\$ 6,150,511	\$ 5,158,648
<b>Supplemental Information:</b>		
Interest paid		\$ 46,516

# Sempervirens Fund

## Notes to Financial Statements

---

### Note 1 - Nature of Organization:

Sempervirens Fund (the Fund) is a California nonprofit land conservation organization established to preserve and protect the natural character of California's Santa Cruz Mountains and to encourage appropriate public enjoyment of this environment. Historically, its primary activity is the acquisition of land that is then transferred to public agencies, in particular to expand Big Basin Redwoods, Castle Rock and Butano State Parks. The Fund also reforests damaged areas, assists in building and maintaining trails and primitive camps, and dedicates grove sites and standing trees.

The Fund has typically acquired title to land through direct fee-simple purchases. However, the Fund has also adopted alternative strategies, including conservation easements and land purchase assistance, whereby the Fund foregoes title, but still adheres to its mission of protecting precious coastal redwood land. The Fund's easement purchases are strategic in nature and provide the Fund with certain rights, such as trail access linking park boundaries or the prevention of future timber harvesting on privately held parcels of land. Land purchase assistance occurs when the Fund provides cash or other assets to other entities involved in land conservation in joint venture agreements. The Fund's participation appears as a direct expense within land programs expenses.

In instances where the Fund acquires title to property within or adjacent to park boundaries, the Fund generally holds the land for a period of time pending formal approval from the State for funding.

### Note 2 - Summary of Significant Accounting Policies:

#### a. Basis of Accounting

The Fund maintains its books and records on the accrual basis of accounting.

#### b. Description of Net Assets

Unrestricted net assets are the portion of net assets that are neither temporarily nor permanently restricted by donor-imposed stipulations. Amounts designated by the Board for special uses are shown as Board Designated unrestricted net assets. At June 30, 2008 the Board had designated \$1,604,996 for a Land Reserve Fund to be used for the acquisition of unspecified properties in the stated service area of the Fund.

Temporarily restricted net assets, as described in Note 11, 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

---

Permanently restricted net assets, as described in Note 11, are the portion of net assets for which use by the Fund is limited by donor-imposed stipulations that neither expire by passage of time nor can otherwise be removed by actions of the Fund.

c. Land and Land Transactions

Land is held for resale and is recorded at fair market value. When the fair market value is greater than the consideration paid by the Fund, a contribution is recorded from the seller. The fund performs periodic assessments of the carrying value and revalues land as necessary. Any changes to land value are recorded on the Statement of Activities as adjustments to land value. During fiscal year 2008 a more current appraisal was received covering land acquired just prior to the end of fiscal year 2007. This appraisal reduced the value of the land from \$5,700,000 to \$4,547,500 and the change of \$1,152,500 was recorded as an adjustment to land value received (see also Note 12).

When land is sold to public agencies, the proceeds are recorded as purchase funds from public agencies and the cost of the land sold is recorded as land value transferred to public agencies on the Statement of Activities.

d. Land with Life Estate

Land with life estate is recorded at the lower of cost or market value, less a discount to present value.

e. Charitable Remainder Trusts

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

f. 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.

The Fund computes depreciation for office furniture and equipment using the straight-line method over estimated useful lives, ranging from 3 to 10 years. Leasehold improvements are amortized over the lease term.

g. 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 restrictions.

# Sempervirens Fund

## Notes to Financial Statements

---

Receivables for State matching funds are not recorded in the Fund's financial statements until formal approval is received from the State. This approval establishes the amount of the receivable and the certainty of collection.

Bequests are recorded as receivables when the collection of the bequest becomes certain.

h. Donated Services

During fiscal year 2008, volunteers contributed 1,449 hours of 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.

i. 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.

j. 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.

k. Statement of Cash Flows

For purposes of the Statement of Cash Flows, demand deposits and money market funds are considered to be cash equivalents.

l. 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

---

m. Prior Year Information

The financial information shown for the year ended June 30, 2007 is included to provide a basis for comparison and presents summarized totals only. The information is not intended to include all information necessary for a fair presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Fund's financial statements for the year ended June 30, 2007 from which the summarized information was derived.

n. Reclassification

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

o. New Accounting Pronouncement:

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 157, Fair Value Measurements (SFAS No. 157), which addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under generally accepted accounting principles. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, except for nonfinancial assets and nonfinancial liabilities of which the effective date has been delayed for one year.

The Fund is currently evaluating the impact SFAS No. 157 will have on its financial statements, but does not believe that its adoption of SFAS No. 157 will have a material impact on its financial position and changes in net assets.

**Note 3 - Note Receivable:**

The Fund issued a note receivable on October 21, 2002 in connection with the sale of land for \$320,000. Interest 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. In the year ended June 30, 2008, there were no principal payments received. The balance of the note at June 30, 2008 was \$310,000.

The Fund also loaned a potential land donor \$13,849 to bring delinquent property taxes current. The loan is secured by the land.

# Sempervirens Fund

## Notes to Financial Statements

---

### Note 4 - Land Subject to Life Estate:

Land subject to life estate is a land purchase which is encumbered by the seller's right to remain on a portion of the land for the seller's lifetime.

At June 30, 2008, the land subject to life estate account consists of the following:

Land subject to life estate	\$ 615,000
Less the present value discount at the applicable federal rate of 3.8% to record at fair market value	( 199,278)
<hr/>	
Land subject to life estate, net	<hr/> \$ 415,722

### Note 5 - 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 beneficiary interests is equivalent to the principal and income growth of the trust assets and is not recorded in the financial statements.

At June 30, 2008, the value of these assets is as follows:

Charitable remainder trusts, at fair market value	\$ 615,498
Less the present value discount at the applicable federal rate of 3.8% to record at fair market value	( 179,903)
<hr/>	
Charitable remainder trusts, net	<hr/> \$ 435,595

### Note 6 - Other Assets:

Included in other assets is a portfolio of artwork, at its original appraised value of \$75,000 and other miscellaneous assets.

# Sempervirens Fund

## Notes to Financial Statements

---

### **Note 7 - 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 base salary for the previous calendar year. The contributions to the plan amounted to \$26,800 for fiscal 2008.

Additionally, the Fund provides retirement benefits for a former executive director's surviving spouse. The present value of the accrued retirement liability at the applicable federal rate of 3.8% at June 30, 2008 was \$52,576.

### **Note 8 - Note Payable:**

During the year the Fund received an unsecured, no-interest loan from a Director, in the amount of \$62,800, to be used to assist in covering expenses to be incurred related to an assessment of the commercial fair market value of Verifiable Emission Reduction (VER) units, commonly referred to as carbon credits, on certain land and conservation easements owned by the Fund and for pursuing the qualification process needed to become a seller of such units. The note has a maturity date of July 12, 2012 and is only payable to the extent that are revenues received from sales of the VER units. (See also Note 9.)

### **Note 9 - Carbon Contract:**

During the fiscal year a contract was executed with a major public utility to sell (VER) units, 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 and whose future realization is currently not predictable with any certainty so was not recognized as revenue. During fiscal 2008 \$22,974 was received under the contract and recognized as revenue and is included in "Other income" on the Statement of Activities (see also Note 8).

### **Note 10 - Commitments and Contingencies:**

The Fund leases office space under a noncancelable lease that expires in April 2010. Minimum annual rent is \$4,993 per month. Rent shall increase according to percentage increases in the Consumer Price Index. The Organization also leases storage space on a month-to-month basis. In the year ended June 30, 2008, total rent expense was \$68,016. Future minimum payments under the lease approximate \$59,900 for the year ending June 30, 2009 and \$49,900 for the year ending June 30, 2010.

# Sempervirens Fund

## Notes to Financial Statements

---

**Note 11 - Restricted Net Assets:**

Temporarily restricted net assets at June 30, 2008 were available for the following purposes:

Interest in remainder trusts	\$ 435,595
Interest in land with life estate	415,722
Land acquisition	64,716
Program services	121,991
	<hr/>
	\$ 1,038,024

Permanently restricted net assets represent endowment funds, for which the principal is to remain intact and earnings are available for use by the Fund.

**Note 12 - Joint Ownership Land Holdings:**

Conservation land holdings at June 30, 2008 include a 535 acre parcel purchased jointly with another land conservation organization. The Fund's 50% ownership interest is valued at \$4,547,500 and both organizations have agreed to share equally in any related transaction, holding and management costs during their joint ownership. The property contains numerous cabins, developed camp sites and recreational facilities and is currently open for use by the general public on a fee basis. Day-to-day management has been contracted out to an independent contractor.

**Note 13 - Concentrations of Risk:**

The primary concentrations of market risk exist in the cash area. The Fund has cash deposits in financial institutions in excess of federally insured limits at June 30, 2008.

## Sempervirens Fund

### Supplementary Information - Schedule of Land Holdings (See Auditors' Report)

---

*Year Ended June 30, 2008*

---

**Conservation Land and Easement Holdings Activity:**

Beginning of year	\$ 14,235,752
Land purchased	691,652
Land sold to public agency	(837,500)
Adjustments to land value	(1,152,500)

---

End of year	\$ 12,937,404
-------------	---------------

---

**Land Subject to Life Estate:**

Beginning of year	\$ 337,732
Net change in value	77,990

---

End of year	\$ 415,722
-------------	------------

---