


<b>TNBC</b> The Natomas Basin Conservancy  Web site: www.natomasbasin.org	<b>Audit Committee Meeting</b>	  <b>April 1, 2014</b>
	12:00 p.m. Offices of TNBC 2150 River Plaza Drive, Suite 460 Sacramento, CA 95833	

#	Section	Item	Type	Pg.	Discussion
1	Call to Order	Call to Order of the Meeting of the Audit Committee	Admin.		○ The Committee Chair will call the meeting to order if a quorum is present. Announcements may be made at this time.
2	Action	Approval of Minutes	Action	①	⊕ The Committee Chair will request approval of the minutes of the Committee meetings of April 2, 2013.
3	Action	Review the audited financial statements for the year ended December 31, 2013	Action	①	⊕ The Committee will review the audited financial statements for the year ended December 31, 2013. Peggy Vande Vooren with Gilbert Associates, Inc. will present the audit and discuss it with the Committee.  The Committee may exercise its right to have discussions with the auditors without staff present at this time.
4	Discussion	Review of credit card statements	No action	∅	○ At its last meeting, the Committee discussed reviewing Conservancy management credit card statements. This Committee will discuss the process for reviewing those statements.
5	Discussion	Public comment	No action	∅	○ Opportunity for members of the public to address the Committee.
6	Adjournment	Adjournment	Admin.	∅	○ Official adjournment of the meeting.

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① = More information in supplemental handouts.  
∅ = No additional exhibits in Agenda Packet.

⊕ = Staff recommends approval.  
○ = Staff recommendation not needed or indicated.  
● = Staff does not recommend approval.

**Minutes of the Audit Committee Meeting**  
of  
**The Natomas Basin Conservancy**  
April 2, 2013  
2150 River Plaza Drive, Suite 460  
Sacramento, CA  
12:00 p.m.

**COMMITTEE MEMBERS PRESENT:**  
 Mike Bradbury  
 Kevin McRae  
 Steve Willey

= attended  
 = did not attend

**STAFF PRESENT:** John Roberts, Kim Burns  
**OTHERS PRESENT:** David Christophel, Board President  
Peggy Vande Vooren, Gilbert Associates, Inc.

**CALL TO ORDER**

Committee chair Bradbury called the meeting to order.

**ACTION**

Approval of Minutes.

Bradbury requested approval of the minutes of the March 29, 2012 Audit Committee meeting. McRae requested changes to the minutes to reflect his abstention from the vote on the meeting minutes. Staff noted that change.

With the recommended change, on a motion by McRae and a second by Willey, the committee approved the minutes of the March 29, 2012 Audit Committee meeting.

Committee members

Mike Bradbury  
 Kevin McRae  
 Steve Willey

Vote symbols

= "aye" vote  
 = "no" vote  
 = not present  
◆ = abstain or recuse

Review the audited financial statements for the year ended December 31, 2012

Peggy Vande Vooren with Gilbert Associates, Inc. (Gilbert) reviewed with the committee the scope and the results of the Conservancy's audited financial statements for the year ended December 31, 2012. Gilbert issued an unqualified (clean) opinion on the Conservancy's 2012 financial statements and internal control over financial reporting.

Vande Vooren reviewed the required communications with the Committee. She reviewed the auditors' responsibilities, noted there were no disagreements with management or difficulties in performing the audit, and found management's judgments and accounting estimates to be appropriate.

Vande Vooren then reviewed the audit in detail with the committee. She noted that the Conservancy's audit this year was a smooth process and commended Conservancy staff for their efforts. At 12:30 pm management was excused so that the committee members could meet

privately with the auditors. Reporting from closed session, the committee would like to review Conservancy management credit card charges annually.

Bradbury requested a motion to accept the audited financial statement for the year ended December 31, 2012 and recommend its acceptance by the Board of Directors.

On a motion by Willey and a second by McRae, the committee agreed to recommend to the full Board of Directors acceptance of the audited financial statement for the year ended December 31, 2012.

Committee members

- Mike Bradbury
- Kevin McRae
- Steve Willey

Vote symbols

- = "aye" vote
- = "no" vote
- = not present
- ◆ = abstain or recuse

**PUBLIC COMMENT**

There were no members of the public present.

**ADJOURNMENT**

On a motion by Willey and a second by McRae, the committee adjourned the meeting of the Audit Committee at 1:10 p.m.

Committee members

- Mike Bradbury
- Kevin McRae
- Steve Willey

Vote symbols

- = "aye" vote
- = "no" vote
- = not present
- ◆ = abstain or recuse

**ATTEST:**

*Michael Bradbury*

*Date*

**THE NATOMAS BASIN  
CONSERVANCY**

**FINANCIAL STATEMENTS  
WITH INDEPENDENT AUDITOR'S  
REPORT**

**YEAR ENDED DECEMBER 31, 2013**

DRAFT

# THE NATOMAS BASIN CONSERVANCY

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**FINANCIAL SECTION**

DRAFT

# INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors  
The Natomas Basin Conservancy  
Sacramento, California**

## **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of the Natomas Basin Conservancy (the Conservancy), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Conservancy's basic financial statements as listed in the table of contents.

### ***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 opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 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 opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Conservancy, as of December 31, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 8 and the budgetary comparison information on pages 24 through 26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Conservancy's basic financial statements. The Schedule of Mitigation Fees Collected is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Mitigation Fees Collected is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Mitigation Fees Collected is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April [REDACTED] 2014, on our consideration of the Conservancy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Conservancy's internal control over financial reporting and compliance.

**GILBERT ASSOCIATES, INC.**  
**Sacramento, California**

April [REDACTED], 2014



# THE NATOMAS BASIN CONSERVANCY

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2013

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As management of The Natomas Basin Conservancy (the Conservancy), we offer readers of the Conservancy's financial statements this narrative overview and analysis of the financial activities of the Conservancy for the year ended December 31, 2013. We encourage readers to consider the information presented here in conjunction with the Conservancy's financial statements, which begin on page 9.

### **FINANCIAL HIGHLIGHTS**

- The net position of the Conservancy at the close of the most recent fiscal year is \$64,572,999, an increase of \$495,714 from December 31, 2012.
- Of the Conservancy's \$64,572,999 in net position, \$34,180,274 is invested in capital assets, \$15,524,636 is invested in the Conservancy's Endowment fund and the balance of \$14,868,089 is invested in the Conservancy's non-Endowment funds.
- Unrestricted net position for 2013 totaled \$13,903,391.
- Total cash and investments at December 31, 2013, were \$30,271,953, representing an increase of \$848,655 from December 31, 2012.
- Mitigation fee collections in 2013 totaled \$516,370.
- Investment income from all funds in the current year was \$2,748,027, an increase of \$989,224 from 2012.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the Conservancy's basic financial statements which have the following components, in addition to management's discussion and analysis: 1) Conservancy-wide financial statements, 2) fund financial statements, 3) notes to the financial statements, and 4) required supplementary schedules. The Conservancy-wide and fund financial statements are presented in a combined format on pages 9 through 12.

As the Conservancy's Board of Directors is appointed by governmental agencies, the Conservancy follows Governmental Accounting Standards Board (GASB). The Conservancy has only governmental-type funds and all are major.

**THE NATOMAS BASIN CONSERVANCY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

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**CONSERVANCY-WIDE FINANCIAL STATEMENTS**

The Conservancy-wide financial statements are designed to provide readers with a broad overview of the Conservancy's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the Conservancy's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Conservancy is improving or deteriorating.

The *statement of activities* presents information showing how the Conservancy's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

**FUND FINANCIAL STATEMENTS**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Conservancy uses fund accounting. The Conservancy has six funds, all of which are governmental-type funds.

**NOTES TO THE FINANCIAL STATEMENTS**

The notes provide additional information that is essential to a full understanding of the data provided in the Conservancy-wide and fund financial statements. The notes to the financial statements can be found on pages 13 through 23 of this report.

**THE NATOMAS BASIN CONSERVANCY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

**CONSERVANCY-WIDE FINANCIAL ANALYSIS**

The Natomas Basin Conservancy  
Summary of Net Position  
Conservancy-wide Activities  
As of December 31, 2013 and 2012

	<b>December 31, 2013</b>	<b>December 31, 2012</b>	<b>Increase/Decrease</b>
Current and other assets	\$ 30,954,866	\$ 30,127,498	\$ 827,368
Capital assets	34,180,274	34,478,049	(296,775)
Total assets	<u>65,135,140</u>	<u>64,605,547</u>	<u>529,593</u>
Current liabilities	508,060	487,180	20,880
Non-Current liabilities	54,081	41,082	12,999
Total liabilities	<u>562,141</u>	<u>528,262</u>	<u>33,879</u>
Net position:			
Net investment in capital assets	34,180,274	34,478,049	(297,775)
Restricted for giant garter snakes	204,808	204,808	-
Restricted for SAFCA NLIP	759,890	758,479	1,411
Restricted for endowment – permanent	9,481,280	9,440,047	41,233
Restricted for endowment – temporary	6,043,356	3,834,019	2,209,337
Unrestricted	13,903,391	15,361,883	(1,458,492)
Total net position	<u>\$ 64,572,999</u>	<u>\$ 64,077,285</u>	<u>\$ 495,714</u>

**THE NATOMAS BASIN CONSERVANCY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

The Natomas Basin Conservancy  
Changes in Net Position  
Conservancy-wide Activities  
As of December 31, 2013 and 2012

	<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>Increase/Decrease</u>
<b>Revenues</b>			
Program revenues:			
Mitigation fees	\$ 156,952	\$ 4,187,149	\$ (4,030,197)
Rent revenue	638,591	607,269	31,322
Land Management	240,705	232,610	8,095
Investment income (loss)	2,266,258	1,324,005	942,253
General revenues:			
Mitigation fees contributed to Endowment Fund	41,233	1,113,409	(1,072,176)
Investment income	481,769	434,798	46,971
Other	88,864	252,192	(163,328)
Total revenues	<u>3,914,372</u>	<u>8,151,432</u>	<u>(4,237,060)</u>
<b>Expenses</b>			
Conservancy operations	<u>3,418,658</u>	<u>3,084,111</u>	<u>334,547</u>
Increase (Decrease) in net position	495,714	5,067,321	(4,571,607)
<b>Net Position, beginning of period</b>	<u>64,077,285</u>	<u>59,009,964</u>	<u>5,067,321</u>
<b>Net Position, end of period</b>	<u>\$ 64,572,999</u>	<u>\$ 64,077,285</u>	<u>\$ 495,714</u>

During 2013, the Conservancy received \$516,370 in mitigation fees on 73.64 acres of development. Of that, \$318,185 was owing from a prior period and \$198,185 was for the current period.

The Natomas Basin Habitat Conservation Plan (NBHCP) mitigation fee per acre decreased in 2013 to \$27,419 per disturbed acre (\$18,669 with land dedication) from \$32,861 per disturbed acre (\$21,611 with land dedication) in 2012.

Investment income increased \$989,224, from \$1,758,803 in 2012 to \$2,748,027 in 2013 due to market gains. Rent revenues increased \$31,322, from \$607,269 in 2012 to \$638,591 in 2013 due to strong agricultural markets and higher crop yields. The Conservancy was also reimbursed for certain water costs from tenant farmers.

Conservancy expenses, after adjusting for depreciation, increased \$339,014 from \$2,780,466 in 2012 to \$3,119,480 in 2013 due to higher water costs, BKS North Course Phase 3 channel clearing costs, hiring additional staff, additional legal expenses and purchasing new furniture and equipment for new staff.

Acreage owned by the Conservancy is 4,131 acres. All land purchases and land dedications are recorded at their purchase price. Land assets currently booked are \$32,488,554. However, if the Conservancy's total land assets were booked at the value estimated in the NBHCP Finance Model, they would be booked at \$72,292,500. The NBHCP Finance Model is an economic analysis of the Conservancy's operations and a projection of revenue and expense through the 50-year life of the NBHCP.

**THE NATOMAS BASIN CONSERVANCY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

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**CONSERVANCY BUDGET ANALYSIS**

The Conservancy presented a draft annual 2013 budget to its Board of Directors in October 2012 and a final proposed budget in December 2012, which was approved by the Board. The budget-to-actual schedules for the year are shown on pages 24, 25, and 26.

**FINANCIAL ANALYSIS OF THE CONSERVANCY'S FUNDS**

As of December 31, 2013, the Conservancy's net position totaled \$64,572,999, which is an increase of \$495,714 compared to net position of \$64,077,285 at December 31, 2012. The increase is due to investment income. The Conservancy's major source of revenue is typically from mitigation fees but in 2013, the major sources were investment income and rent revenue. The Conservancy's typical major expenditures are for the acquisition and management of habitat land, including but not limited to property taxes, water and biological monitoring.

**CAPITAL ASSETS**

As of December 31, 2013, the Conservancy's investment in capital assets was \$34,180,274. Capital assets are stated at cost, net of accumulated depreciation. This investment in capital assets includes land and land improvements. Additional information on the Conservancy's capital assets can be found in note 6 on page 21 of this report.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The combined impact of the soft real estate economy and a building moratorium due to federal government flood risk determinations have had significant impacts on the Conservancy's budget. Without at least 100-year flood protection designation by the federal government, urban development in the Natomas Basin has stopped, with only minor exception. With this moratorium, the need to mitigate for NBCHP-covered species impacts has slowed to a virtual halt.

The Sacramento Area Flood Control Agency (SAFCA) has embarked on a construction project, known as the Natomas Levee Improvement Project (NLIP), intended to ultimately provide 200-year flood protection in the Natomas Basin. Mitigation for impacts on species covered in the NBHCP is required for this work. The Conservancy has entered into agreements with SAFCA for this mitigation and related work. These efforts are expected to generate modest revenue for the Conservancy.

The Conservancy's Board of Directors approved a budget for 2014, which projects no mitigation revenue for the year. The 2014 budget also projects expenses for customary channel clearing.

At present, based on reports from flood control authorities and its representatives in Congress, the Conservancy is projecting that NBHCP and Metro Air Park Habitat Conservation Plan (MAPHCP) mitigation fee activity could resume in 2015 or 2016. However, this projection largely depends on the achievement of at least a 100-year flood protection designation for the Natomas Basin by the federal government.

**THE NATOMAS BASIN CONSERVANCY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

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**CONTACTING THE CONSERVANCY'S MANAGEMENT**

This financial report is designed to provide a general overview of the Conservancy's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Executive Director, The Natomas Basin Conservancy, 2150 River Plaza Drive, Suite 460, Sacramento, CA 95833 or call (916) 649-3331.

DRAFT

# THE NATOMAS BASIN CONSERVANCY

## STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET DECEMBER 31, 2013

	Administration	Restoration & Enhancement	SAFCA NLIP	Supplemental Land and Contingency	Land Acquisition
<b>ASSETS:</b>					
Current Assets:					
Cash and investments held by City of Sacramento	\$ 2,528,201	\$ 782,282			\$ 1,566,580
Cash and investments held by fiscal agent	4,849,783	837,358	\$ 829,465	\$ 2,527,671	950,684
Receivables:					
Account	327,299	71,431	16,575	31,665	
Interest	47,264	10,727	6,544		16,317
Prepaid items	15,175				
Due from other funds	9,509				
Non-Current Assets:					
Restricted cash and investments held by fiscal agent					
Land					
Capital assets, net					
Total Assets	\$ 7,777,231	\$ 1,701,798	\$ 852,584	\$ 2,559,336	\$ 2,533,581
<b>LIABILITIES:</b>					
Current Liabilities:					
Accounts payable	\$ 406,170		\$ 3,723	\$ 2,496	
Unearned revenue			79,462		
Deposits payable	1,000				
Due to other funds			9,509		
Non-Current Liabilities:					
Compensated absences					
Total Liabilities	407,170		92,694	2,496	
<b>FUND BALANCE/NET POSITION:</b>					
Fund Balances/Net Position					
Net investment in capital assets					
Nonspendable:					
Prepaid expenses	15,175				
Endowment					
Restricted:					
Giant garter snakes	204,808				
Brookfield property			759,890		
Endowment					
Committed:					
Restoration & enhancement		\$ 1,701,798			
Supplemental land acquisition				2,556,840	
Land acquisition					\$ 2,533,581
Unassigned/Unrestricted	7,150,078				
Total Fund Balances/Net Position	7,370,061	1,701,798	759,890	2,556,840	2,533,581
Total Liabilities, Fund Balances and Net Position	\$ 7,777,231	\$ 1,701,798	\$ 852,584	\$ 2,559,336	\$ 2,533,581

# THE NATOMAS BASIN CONSERVANCY

## STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET (CONTINUED) DECEMBER 31, 2013

<u>Endowment</u>	<u>Total Fund Balance</u>	<u>Adjustments (Notes 4 &amp; 10)</u>	<u>Statement of Net Position</u>	
	\$ 4,877,063		\$ 4,877,063	<b>ASSETS:</b>
	9,994,961		9,994,961	Current Assets:
				Cash and investments held by City of Sacramento
				Cash and investments held by fiscal agent
				Receivables:
\$ 139,916	586,886		586,886	Account
	80,852		80,852	Interest
	15,175		15,175	Prepaid items
	9,509	\$ (9,509)		Due from other funds
15,399,929	15,399,929		15,399,929	Non-Current Assets:
		32,488,554	32,488,554	Restricted cash and investments held by fiscal agent
		1,691,720	1,691,720	Land
				Capital assets, net
<u>\$ 15,539,845</u>	<u>\$ 30,964,375</u>	<u>\$ 34,170,765</u>	<u>\$ 65,135,140</u>	Total Assets
				<b>LIABILITIES:</b>
				Current Liabilities:
\$ 15,209	\$ 427,598		\$ 427,598	Accounts payable
	79,462		79,462	Unearned revenue
	1,000		1,000	Deposits payable
	9,509	\$ (9,509)		Due to other funds
		54,081	54,081	Non-Current Liabilities:
		44,572	562,141	Compensated absences
<u>15,209</u>	<u>517,569</u>	<u>44,572</u>	<u>562,141</u>	Total Liabilities
				<b>FUND BALANCE/NET POSITION:</b>
		34,180,274	34,180,274	Fund Balances/Net Position
				Net investment in capital assets
				Nonspendable:
	15,175	(15,175)		Prepaid expenses
9,481,280	9,481,280	(9,481,280)		Endowment
	204,808		204,808	Restricted:
	759,890		759,890	Giant garter snakes
6,043,356	6,043,356	9,481,280	15,524,636	Brookfield property
				Endowment
	1,701,798	(1,701,798)		Committed:
	2,556,840	(2,556,840)		Restoration & enhancement
	2,533,581	(2,533,581)		Supplemental land acquisition
	7,150,078	6,753,313	13,903,391	Land acquisition
<u>15,524,636</u>	<u>30,446,806</u>	<u>34,126,193</u>	<u>64,572,999</u>	Unassigned/Unrestricted
<u>\$ 15,539,845</u>	<u>\$ 30,964,375</u>	<u>\$ 34,170,765</u>	<u>\$ 65,135,140</u>	Total Fund Balances/Net Position
				Total Liabilities, Fund Balances and Net Position



# THE NATOMAS BASIN CONSERVANCY

## STATEMENTS OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED DECEMBER 31, 2013

	Administration	Restoration & Enhancement	SAFCA NLIP	Supplemental Land and Contingency	Land Acquisition
<b>REVENUES:</b>					
Program revenues:					
Charges for services:					
Mitigation fees	\$ 272,578	\$ 71,482		\$ 31,686	\$ 436
Rent revenue	636,801		\$ 1,790		
Land management			240,705		
Operating grants and contributions:					
Investment income					
Total program revenues	909,379	71,482	242,495	31,686	436
General revenues:					
Endowment contributions - mitigation fees					
Investment income	63,280	14,715	4,245	374,347	25,182
Loss on fixed assets					
Other income	90,568				
Total general revenues	153,848	14,715	4,245	374,347	25,182
Total Revenues	1,063,227	86,197	246,740	406,033	25,618
<b>EXPENDITURES:</b>					
Land mitigation:					
Personnel services	440,911		9,750		
Materials and services	2,353,981		235,579	9,339	
Depreciation					
Capital outlay	3,107				
Total Expenditures	2,797,999		245,329	9,339	
Excess (Deficiency) of revenues over (under) expenditures	(1,734,772)	86,197	1,411	396,694	25,618
<b>OTHER FINANCING SOURCES (USES):</b>					
Transfers in	5,640				
Transfers out					(5,640)
Changes in Fund Balances/Net Position	(1,729,132)	86,197	1,411	396,694	19,978
Fund Balances/Net Position, beginning of period	9,099,193	1,615,601	758,479	2,160,146	2,513,603
Fund Balances/Net Position, end of period	\$ 7,370,061	\$ 1,701,798	\$ 759,890	\$ 2,556,840	\$ 2,533,581

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

# THE NATOMAS BASIN CONSERVANCY

## STATEMENTS OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2013

<u>Endowment</u>	<u>Total Fund Balance</u>	<u>Adjustments (Notes 5 &amp; 10)</u>	<u>Statement of Activities</u>	
				<b>REVENUES:</b>
				Program revenues:
	\$ 376,182	\$ (219,230)	\$ 156,952	Charges for services:
	638,591		638,591	Mitigation fees
	240,705		240,705	Rent revenue
				Land management
				Operating grants and contributions:
				Investment income
<u>\$ 2,266,258</u>	<u>2,266,258</u>	<u>                    </u>	<u>2,266,258</u>	
2,266,258	3,521,736	(219,230)	3,302,506	Total program revenues
				General revenues:
140,188	140,188	(98,955)	41,233	Endowment contributions - mitigation fees
	481,769		481,769	Investment income
		(1,354)	(1,354)	Loss on fixed assets
	<u>90,568</u>	<u>(350)</u>	<u>90,218</u>	Other income
<u>140,188</u>	<u>712,525</u>	<u>(100,659)</u>	<u>611,866</u>	Total general revenues
2,406,446	4,234,261	(319,889)	3,914,372	Total Revenues
				<b>EXPENDITURES:</b>
				Land mitigation:
	450,661	12,999	463,660	Personnel services
56,921	2,655,820		2,655,820	Materials and services
		299,178	299,178	Depreciation
	<u>3,107</u>	<u>(3,107)</u>	<u>                    </u>	Capital outlay
<u>56,921</u>	<u>3,109,588</u>	<u>309,070</u>	<u>3,418,658</u>	Total Expenditures
2,349,525	1,124,673	(628,959)	495,714	Excess (Deficiency) of revenues over (under) expenditures
				<b>OTHER FINANCING SOURCES (USES):</b>
	5,640	(5,640)		Transfers in
	<u>(5,640)</u>	<u>5,640</u>	<u>                    </u>	Transfers out
2,349,525	1,124,673	(628,959)	495,714	Changes in Fund Balances/Net Position
<u>13,175,111</u>	<u>29,322,133</u>	<u>34,755,152</u>	<u>64,077,285</u>	Fund Balances/Net Position, beginning of period
<u>\$ 15,524,636</u>	<u>\$ 30,446,806</u>	<u>\$ 34,126,193</u>	<u>\$ 64,572,999</u>	Fund Balances/Net Position, end of period

# THE NATOMAS BASIN CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

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### 1. ORGANIZATION

The Natomas Basin Conservancy (the Conservancy) is a California non-profit 501(c)(3) public benefit corporation formed in 1994. The Conservancy is responsible for collecting and managing mitigation fees required by the Natomas Basin Habitat Conservation Plan (NBHCP) and the Metro Air Park Habitat Conservation Plan (MAPHCP), together referred to as HCPs, using the fees to establish mitigation lands, and managing the mitigation lands for the benefit of the protected plant and animal species in the Natomas Basin.

The HCPs apply to the 53,341-acre interior of the Natomas Basin, located in the northern portion of Sacramento County and the southern portion of Sutter County. The Natomas Basin contains incorporated and unincorporated areas within the jurisdictions of the City of Sacramento, County of Sacramento and County of Sutter. The HCPs are designed to promote biological conservation while allowing urban development to proceed according to local land-use plans. The United States Fish and Wildlife Service and the California Department of Fish and Wildlife provide oversight and ensure compliance with the terms of the HCPs.

The Conservancy's Board of Directors is comprised of representatives of each of the two land-use agencies which have obtained incidental take permits under the NBHCP, the City of Sacramento and County of Sutter. Each participating local government appoints five members to the Conservancy's Board of Directors.

#### **Funding**

The Conservancy is primarily funded from mitigation fees established by the Conservancy and approved by local government ordinance. The mitigation fees include components for land acquisition, restoration and enhancement, endowment, supplemental endowment, and administration. The fees are to be adjusted each year as necessary to implement the HCPs. As the Conservancy acquires land, other funding sources include agricultural leasing and other sources of revenue.

The supplemental endowment component does not meet the definition of a permanent fund type under generally accepted accounting principles. Therefore it is reported as the Supplemental Land and Contingency Fund in the financial statements.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Conservancy have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental agencies. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the Conservancy are described below.

# THE NATOMAS BASIN CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

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### **Conservancy-wide and fund financial statements**

The Conservancy-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary fund types of the Conservancy.

The accounts of the Conservancy are organized on the basis of funds. A fund is a separate accounting entity with a self-balancing set of accounts. Each fund was established for the purpose of accounting for specific activities in accordance with applicable regulations, restrictions, or limitations. Major individual funds are reported as separate columns in the fund financial statements.

### **Measurement focus, basis of accounting, and financial statement presentation**

The Conservancy-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. It is the Conservancy's policy to eliminate all internal activity in the Conservancy-wide statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Conservancy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized on governmental fund financial statements. Interfund payables and receivables are eliminated at the Conservancy-wide level.

The Conservancy reports the following major governmental funds:

General Fund – This fund is established to account for resources devoted to the administration of the activities of the Conservancy and excludes those resources required to be accounted for in another fund. The Conservancy presents this fund as the Administration Fund.

Special Revenue Funds – These funds are established to account for resources devoted to the restoration and enhancement of mitigation land owned by the Conservancy and Sacramento Area Flood Control Agency (SAFCA). The Conservancy presents these funds as the Restoration and Enhancement Fund, and the SAFCA NLIP Fund.

Capital Projects Funds – These funds are established to account for major capital expenditures of the Conservancy, primarily the acquisition of mitigation land. The Conservancy presents these funds as the Supplemental Land and Contingency Fund and the Land Acquisition Fund.

The Permanent Fund – This fund accounts for resources that are legally restricted, to the extent that only earnings, and not principal, may be used for purposes that support the Conservancy's programs. The Conservancy presents this fund as the Endowment Fund.

# THE NATOMAS BASIN CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

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Amounts reported as program revenues include; 1) mitigation fees and farm rent, 2) contributions, 3) land management and 4) interest income in the endowment fund. Internally dedicated resources are reported as general revenues rather than as program revenue. The HCP's address the timing related to the use of restricted and then other less restricted classifications – committed, assigned and then unassigned fund balances.

### **Permanent Fund**

In accordance with the Implementation Agreement for the HCP's, the Conservancy is required to segregate all endowment fees. The Endowment Fund is accounted for in a permanent fund. Interest earnings will be used to meet long-term operations and maintenance needs of the Conservancy at such time as mitigation fee income and farm rent income are no longer adequate.

### **Capital Assets**

The Conservancy capitalizes all land, land improvements, furniture and fixtures, and equipment purchases with costs in excess of \$2,500 and a useful life of one year or more.

Capital asset acquisitions are recorded at cost. Contributions are recorded at the estimated fair value on the date of contribution. Non-monetary land trades are valued at the historical cost of the land relinquished.

Capital assets are depreciated using the straight-line method, half-year convention, over the following estimated useful lives:

Land improvements	15 years
Furniture and equipment	5 years

### **Compensated Absences**

Accumulated unpaid employee vacation benefits are recognized as liabilities of the Conservancy on the Conservancy-wide financial statements. The Conservancy had a total of \$54,081 in accrued compensated absences as of December 31, 2013.

### **Fund Equity**

The Conservancy-wide financial statements utilize a net position presentation. Net positions are categorized as net investment in capital assets, restricted, and unrestricted.

Net Investment in Capital Assets – This category groups all capital assets into one component of net position. Accumulated depreciation and the outstanding balances of debt, if any, that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.

Restricted Net Position – This category presents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

# THE NATOMAS BASIN CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

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Unrestricted Net Position – This category represents net position of the Conservancy not restricted for any project or other purpose.

The Conservancy's governmental fund statements utilize a fund balance presentation. Fund balances are categorized as nonspendable, restricted, committed, assigned, and unassigned.

Nonspendable Fund Balance – This category presents the portion of fund balance that cannot be spent because it is either not in a spendable form or it is legally or contractually required to be maintained intact. The Conservancy has prepaid expenses that meet the definition of nonspendable because the asset is not in a spendable form. The Conservancy also has the corpus of the Endowment fund that is legally required to remain intact and therefore meets the definition of nonspendable.

Restricted Fund Balance – This category presents the portion of the fund balance that is for specific purposes stipulated by constitution, external resource providers, laws and regulations, or enabling legislation.

Committed Fund Balance – This category presents the portion of the fund balance that is used for specific purposes determined by a formal action (Resolution) of the Conservancy's highest level of decision making authority and remains committed unless removed in the same manner. For the Conservancy, this level of authority lies with the Board of Directors.

Assigned Fund Balance – This category presents the portion of the fund balance that is intended to be used by the Conservancy for specific purposes but does not meet the criteria to be classified as restricted or committed. For the Conservancy, balances can be assigned by management or through the budget process.

Unassigned Fund Balance – This category presents the portion of the fund balance that does not fall into nonspendable, restricted, committed, or assigned categories and is spendable.

### Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

# THE NATOMAS BASIN CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

### 3. CASH AND INVESTMENTS

Cash and investments as of December 31, 2013, are classified in the accompanying financial statements as follows:

Cash and investments held by City of Sacramento	\$ 4,877,063
Cash and investments held by fiscal agent	9,994,961
Restricted cash and investments held by fiscal agent	<u>15,399,929</u>
Total cash and investments	<u>\$ 30,271,953</u>

#### Investments Authorized by the Conservancy's Investment Policies

The Conservancy investment policy for the investments held by fiscal agent in the Endowment and Supplemental Land and Contingency Funds contains the following provisions relating to credit risk, interest rate risk, concentration of credit risk, and foreign currency risk:

No more than 5% shall be invested in any one common stock or debt instrument, and 30% in any diversified mutual fund and 25% in any broad-based index mutual fund. No more than 15% shall be invested in a hedge fund or hedge-like fund. Obligations of the U.S. government agencies are exempted from this allocation. Hedge funds or hedge-like funds may be used to minimize market risk and create a more stable stream of investment returns. Equity holdings shall be readily marketable securities traded on the major stock exchanges. International equity investments of similar quality and marketability will be permitted. Fixed income investments shall be readily marketable securities, including debt instruments of the U.S. Government and its agencies, corporations, and foreign denominated securities, so that the target average portfolio quality is investment grade. High-yield bond mutual funds may also be used when deemed appropriate provided the average portfolio quality remains investment grade or higher.

The Conservancy investment policy for the investments held by fiscal agent in the Administration, Restoration and Enhancement, Land Acquisition, and the SAFCA NLIP Funds contains the following provisions relating to credit risk, interest rate risk, concentration of credit risk, and foreign currency risk:

Allowable securities from approved issuers include money market mutual funds, commercial paper, master notes, funding agreements, certificates of deposit, repurchase agreements, bankers acceptances, obligations issued or guaranteed by United States Government agencies, U.S. treasury obligations, exchange traded funds, federal agency securities, corporate notes and bonds, and mortgage-backed securities.

An acceptable outstanding debt obligation from an approved issuer is one rated at least A-, A3, or A- or better by Standard & Poors, Moody's, or Fitch, respectively, or short term securities rated A-1, P-1 or F-1 or better by Standard & Poors, Moody's, or Fitch, respectively, at the time of purchase.

No more than 20% of the total investments made by the Conservancy should be invested in securities of any one approved issuer. No limit will be applied to securities issued or guaranteed by the United States Government or any of its agencies.

# THE NATOMAS BASIN CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

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Investment Manager is permitted to invest in any of the allowable securities listed above. In addition to those securities, the Investment Manager may invest in a money market mutual fund that invests solely in the allowable securities listed above.

Average maturity of investments may range from one (1) day to twenty-four (24) months, depending on the individual portfolio by each manager. No portion of Conservancy funds will be invested in instruments issued outside of the United States, except in the case of international bonds in U.S. dollar denominations at a credit rating within the guidelines described above.

The Conservancy has adopted the City of Sacramento's investment policy for all fund investments held by the City of Sacramento. The required disclosure information regarding categorization of investments and other deposit and investment risk disclosures can be found in the City of Sacramento's comprehensive annual financial report and may be obtained by contacting the City of Sacramento Department of Finance, Accounting Division, 915 I Street, Sacramento, CA 95814.

### Cash in City of Sacramento Pool

The Conservancy records investments at fair value, which is based on quoted market prices. The Conservancy participates in the City of Sacramento investment pool over which the City Treasurer has oversight. The City Treasurer pools cash with other City funds and investments to maximize income consistent with safe and prudent investment practices within the guidelines of the City's investment pool and reviews its investment policy on a quarterly basis. The fair value of the Conservancy's position in the pool is the same as the value of the pool shares.

### Derivative Investments

The Conservancy did not directly enter into any derivative investments. The City of Sacramento Investment Pool A had no derivatives at December 31, 2013.

### Investment Summary

At December 31, 2013, the Conservancy's investments consist of the following:

Equity mutual funds	\$ 17,927,307
External investment pool	4,877,063
Fixed income securities:	
Government obligations	352,907
Corporate bonds	5,343,968
Fixed income mutual funds	<u>1,000,024</u>
Total	<u>\$ 29,501,269</u>



# THE NATOMAS BASIN CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

### Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair values to changes in market interest rates. One of the ways to manage exposure to interest rate risk is by purchasing a combination of shorter-term and longer-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the Conservancy's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Conservancy's investments by maturity:

	<b>Maturity</b>					<b>Total</b>
	<b>Under 1 Year</b>	<b>5-10 Years</b>	<b>10-15 Years</b>	<b>15-20 Years</b>	<b>Over 20 Years</b>	
Equity mutual funds	\$ 17,927,307					\$ 17,927,307
External investment pool	4,877,063					4,877,063
Government obligations	352,907					352,907
Corporate bonds	2,669,174	\$ 2,674,794				5,343,968
Fixed income mutual funds	1,000,024					1,000,024
Total investments	\$ 26,826,475	\$ 2,674,794	\$	\$	\$	\$ 29,501,269

### Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual Standard & Poor's rating as of year end for each investment type.

	<b>Rating as of End of Year</b>	
City of Sacramento investment pool	Not rated	\$ 4,877,063
Equity mutual funds	Not rated	17,927,307
Fixed income mutual funds	Not rated	1,000,024
Government obligations	AA+	352,907
Corporate bonds	AA+	255,660
Corporate bonds	AA	311,781
Corporate bonds	AA-	410,223
Corporate bonds	A+	1,110,345
Corporate bonds	A	2,196,731
Corporate bonds	A-	1,059,228
Total		\$ 29,501,269

# THE NATOMAS BASIN CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

### Concentration of Credit Risk

There were no investments in any one issuer (equity mutual funds and external investment pools) that represent 5% or more of the total Conservancy investments at December 31, 2013.

### Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, an organization will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, an organization will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Conservancy's investment policies do not contain requirements that limit exposure to custodial credit risk for deposits or investments.

The Conservancy's investments of \$4,877,063 in the City of Sacramento investment pool are supported by the value of the pool's underlying investments. The Conservancy's equity mutual funds of \$17,927,307 are registered in the Conservancy's name, and \$7,177,458 of cash equivalents and investments held by fiscal agents are uninsured and not registered in the name of the Conservancy. Cash balances held in banks are fully insured up to \$250,000 by the Federal Depository Insurance Corporation. The amount of excess deposits was \$42,314 as of December 31, 2013.

#### 4. EXPLANATION OF DIFFERENCES BETWEEN THE BALANCE SHEET AND THE STATEMENT OF NET POSITION

**Fund balances** \$ 30,446,806

Capital assets used in Conservancy activities are not financial resources and therefore are not reported in the governmental funds.

Capital assets	\$ 36,987,537	
Less: accumulated depreciation	<u>(2,807,263)</u>	
		34,180,274

Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.

Accrued compensated absences	<u>(54,081)</u>
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**Net position** \$ 64,572,999

# THE NATOMAS BASIN CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

**5. EXPLANATION OF DIFFERENCES BETWEEN THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES AND THE STATEMENT OF ACTIVITIES**

**Net change in fund balances** \$ 1,124,673

Some revenues reported in the governmental funds relate to amounts that were earned but unavailable in a prior period, and became available in the current period. These amounts are not reported in the current period in the statement of activities because they were recognized as revenue in prior periods. (318,185)

Governmental funds report capital outlays as expenditures. In the statement of activities however, the cost of capital assets is allocated over their estimated useful lives as depreciation expense.

Capital outlay	3,107
Depreciation expense	(299,178)

The net effect of equipment disposals is a decrease in net position. (1,704)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated absences	(12,999)
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**Change in net position** \$ 495,714

**6. CAPITAL ASSETS**

A summary of changes in capital assets for the year ended December 31, 2013, is as follows:

	<u>1/1/13</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/13</u>
<b>Capital assets not being depreciated:</b>				
Land	\$ 32,488,554			\$ 32,488,554
<b>Capital assets being depreciated:</b>				
Land improvements	4,408,404			4,408,404
Office and other equipment	91,448	\$ 3,107	\$ (3,976)	90,579
	4,499,852	3,107	(3,976)	4,498,983
<b>Accumulated depreciation:</b>				
Accum. depreciation, land improvements	(2,440,460)	(290,274)		(2,730,734)
Accum. depreciation, office equipment	(69,897)	(8,904)	2,272	(76,529)
	(2,510,357)	(299,178)	2,272	(2,807,263)
Total capital assets, net	\$ 34,478,049	\$ (296,071)	\$ (1,704)	\$ 34,180,274

# THE NATOMAS BASIN CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

### 7. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2013, the Conservancy paid \$13,005 to the City of Sacramento for investment services.

### 8. OPERATING LEASE

The Conservancy leases office space in Sacramento under a lease expiring November 30, 2015. Total future minimum operating lease payments are presented as follows:

<u>Year Ending December 31,</u>	
2014	\$ 72,613
2015	<u>67,978</u>
	<u>\$ 140,591</u>

Rent expense for the year ended December 31, 2013, was \$58,496.

### 9. LINE OF CREDIT

The Conservancy has a revolving non-interest-bearing line of credit with the City of Sacramento. The maximum amount the Conservancy is permitted to borrow is \$4,000,000. There was no outstanding principal balance at December 31, 2013.

### 10. INTERFUND ACTIVITY

Interfund balances as of December 31, 2013, consisted of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Administration	SAFCA NLIP	<u>\$ 9,509</u>

Transfers in and out of other funds consisted of the following during the year ending December 31, 2013:

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Amount</u>
Land Acquisition Fund	Administration	<u>\$ 5,640</u>

# THE NATOMAS BASIN CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

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### 11. RISK MANAGEMENT

The Conservancy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Conservancy purchases insurance coverage for commercial property, commercial general liability, boiler and machinery, fiduciary liability, directors' and officers' liability, employment practices liability, umbrella coverage, workers' compensation, and employee dishonesty. There have been no significant reductions in insurance coverage from the prior year by major categories of risk and there have been no claims or settlements for each of the past three years.

### 12. RETIREMENT PLAN

The Conservancy offers retirement benefits in the form of a Simplified Employee Pension-Individual Retirement Account defined contribution plan (the Plan) under Internal Revenue Code Section 408(k). The Plan covers all eligible employees who have completed at least one year of service and are at least 21 years of age. Employer contributions to the Plan are discretionary. Plan provisions are established and may be amended by the Internal Revenue Service. Retirement expense incurred for the year ended December 31, 2013, was \$35,324.

### 13. NATOMAS CENTRAL MUTUAL WATER COMPANY STOCK

The Conservancy holds 3,366 shares of Natomas Central Mutual Water Company (NCMWC) stock or approximately 11% of NCMWC's outstanding shares (31,706). The shares are attached to each land parcel owned by the Conservancy within the NCMWC's territory. When land is traded or sold, the stock associated with that land is automatically transferred. Ownership of this stock has costs associated with rights for delivery of water service for which the Conservancy pays NCMWC upon receipt of invoice. In the event the Conservancy wishes to cancel its shares and thereby cancel obligation for future assessments, water tolls, and services, the Conservancy must apply for cancellation, obtain NCMWC's board approval, and pay a cancellation fee of \$3,500 per share. At December 31, 2012, the most recent information available, the par value of the NCMWC stock held was \$10.00 per share or \$33,660. However, NCMWC's share price is not published, shares are not merchantable in and of themselves, since the shares are appurtenant to the land owned and NCMWC remains a non-profit organization. The estimated value and potential liability have not been recorded in these financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION**

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# THE NATOMAS BASIN CONSERVANCY

## BUDGETARY COMPARISON SCHEDULE - ADMINISTRATION FUND FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Mitigation fees	\$ 50,000	\$ 50,000	\$ 272,578	\$ 222,578
Rent revenue	447,679	447,679	636,801	189,122
Investment income	40,000	40,000	63,280	23,280
Other income	<u>50,000</u>	<u>50,000</u>	<u>90,568</u>	<u>40,568</u>
Total Revenues	<u>587,679</u>	<u>587,679</u>	<u>1,063,227</u>	<u>475,548</u>
<b>EXPENDITURES</b>				
Conservancy operations:				
Personnel services	459,031	497,729	440,911	56,818
Materials and services	2,425,774	2,461,740	2,353,981	107,759
Capital outlay			<u>3,107</u>	<u>(3,107)</u>
Total Expenditures	<u>2,884,805</u>	<u>2,959,469</u>	<u>2,797,999</u>	<u>161,470</u>
<b>OTHER SOURCES</b>				
Transfers in			<u>5,640</u>	<u>5,640</u>
Total Other Sources			<u>5,640</u>	<u>5,640</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ (2,297,126)</u>	<u>\$ (2,371,790)</u>	<u>\$ (1,729,132)</u>	<u>\$ 642,658</u>

**THE NATOMAS BASIN CONSERVANCY**

**BUDGETARY COMPARISON SCHEDULE -  
RESTORATION AND ENHANCEMENT SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2013**

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	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Mitigation fees			\$ 71,482	\$ 71,482
Investment income	<u>\$ 10,000</u>	<u>\$ 10,000</u>	<u>14,715</u>	<u>4,715</u>
Total Revenues	<u>10,000</u>	<u>10,000</u>	<u>86,197</u>	<u>76,197</u>
<b>EXPENDITURES</b>				
Total Expenditures	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Excess of Revenues Over Expenditures	<u>\$ 10,000</u>	<u>\$ 10,000</u>	<u>\$ 86,197</u>	<u>\$ 76,197</u>

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**THE NATOMAS BASIN CONSERVANCY**

**BUDGETARY COMPARISON SCHEDULE -  
SAFCA NLIP SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Land management	\$ 250,000	\$ 250,000	\$ 240,705	\$ (9,295)
Investment income	20,000	20,000	4,245	(15,755)
Rent revenue and other income	<u>50,000</u>	<u>50,000</u>	<u>1,790</u>	<u>(48,210)</u>
Total Revenues	<u>320,000</u>	<u>320,000</u>	<u>246,740</u>	<u>(73,260)</u>
<b>EXPENDITURES</b>				
Land mitigation:				
Personnel services			9,750	(9,750)
Materials and services	<u>300,000</u>	<u>300,000</u>	<u>235,579</u>	<u>64,421</u>
Total Expenditures	<u>300,000</u>	<u>300,000</u>	<u>245,329</u>	<u>54,671</u>
Excess of Revenues Over Expenditures	<u>\$ 20,000</u>	<u>\$ 20,000</u>	<u>\$ 1,411</u>	<u>\$ (18,589)</u>

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**ADDITIONAL INFORMATION**

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS***

**Independent Auditor's Report**

**To the Board of Directors  
The Natomas Basin Conservancy  
Sacramento, California**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Natomas Basin Conservancy (the Conservancy), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Conservancy's basic financial statements, and have issued our report thereon dated April 15, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Conservancy's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Conservancy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Conservancy's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Conservancy's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**GILBERT ASSOCIATES, INC.**  
**Sacramento, California**

April █, 2014

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**THE NATOMAS BASIN CONSERVANCY**

**SCHEDULE OF MITIGATION FEES COLLECTED  
FOR THE YEAR ENDED DECEMBER 31, 2013**

<u>Type of Mitigation Fee</u>	<u>General Fund</u>	<u>Special Revenue</u>	<u>Capital Project</u>		<u>Permanent</u>	<u>Total</u>
	<u>Administration</u>	<u>Restoration &amp; Enhancement</u>	<u>Supplemental Land and Contingency</u>	<u>Land Acquisition</u>	<u>Endowment</u>	
Habitat Acquisition Fee				\$ 436		\$ 436
Endowment Fee			\$ 31,686		\$ 140,188	171,874
Habitat Management Fee	\$ 232,934	\$ 71,482				304,416
Administrative Fee	39,644					39,644
Total Fees Collected	<u>\$ 272,578</u>	<u>\$ 71,482</u>	<u>\$ 31,686</u>	<u>\$ 436</u>	<u>\$ 140,188</u>	<u>\$ 516,370</u>