

**THE NATOMAS BASIN
CONSERVANCY**

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

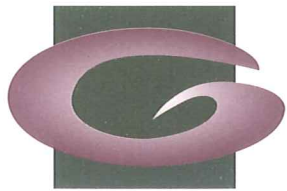
YEAR ENDED DECEMBER 31, 2012

THE NATOMAS BASIN CONSERVANCY

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FINANCIAL SECTION



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, 2012, 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, 2012, 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 25 through 27 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.

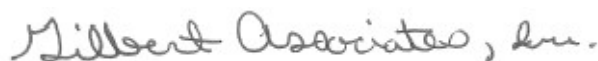
Other Information

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 and Schedule of Land Additions are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Mitigation Fees Collected and Schedule of Land Additions are the responsibility of management and were derived from and relate 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 and Schedule of Land Additions are 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 March 28, 2013 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 Conservancy's internal control over financial reporting and compliance.



GILBERT ASSOCIATES, INC.
Sacramento, California

March 28, 2013

THE NATOMAS BASIN CONSERVANCY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2012

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, 2012. 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 \$64,077,285, an increase of \$5,067,321 from December 31, 2011.
- Of the Conservancy's \$64,077,285 in net position, \$34,478,049 is invested in capital assets and \$13,175,110 is invested in the Conservancy's Endowment fund.
- Unrestricted net position for 2012 totaled \$15,361,883, excluding capital assets, Endowment fund assets, and SAFCA restricted assets as compared to 2011, which was \$13,173,784.
- Cash and investments at December 31, 2012, were \$29,423,299, representing an increase of \$4,107,085 from December 31, 2011.
- The Conservancy had general revenues of \$1,800,399 and program revenues of \$6,351,033, as compared to 2011, which were general revenues of \$215,534 and program revenues of \$566,401.
- Mitigation fee collections in 2012 totaled \$5,300,559, of which \$4,645,359 was cash and \$655,200 was a land dedication, versus 2011 mitigation fee collections, which were zero.
- Investment income in the current year was \$1,758,803 versus (\$21,494) for 2011.

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, 2012

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 24 of this report.

THE NATOMAS BASIN CONSERVANCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012

CONSERVANCY-WIDE FINANCIAL ANALYSIS

The Natomas Basin Conservancy
Summary of Net Position
Conservancy-wide Activities
As of December 31, 2012 and 2011

	<u>December 31, 2012</u>	<u>December 31, 2011</u>	<u>Increase/Decrease</u>
Current and other assets	\$ 30,127,498	\$ 26,126,694	\$ 4,000,804
Capital assets	34,478,049	33,982,714	495,335
Total assets	<u>64,605,547</u>	<u>60,109,408</u>	<u>4,496,139</u>
Current liabilities	487,180	1,064,393	(577,213)
Non-Current liabilities	41,082	35,051	6,031
Total liabilities	<u>528,262</u>	<u>1,099,444</u>	<u>(571,182)</u>
Net position:			
Net investment in capital assets	34,478,049	33,982,714	495,335
Restricted for giant garter snakes	204,808	204,808	-
Restricted for SAFCA NLIP	758,479	762,188	(3,709)
Restricted for endowment – permanent	9,440,047	8,326,638	1,113,409
Restricted for endowment - temporary	3,834,019	2,559,832	1,274,187
Unrestricted	15,361,883	13,173,784	2,188,099
Total net position	<u>\$ 64,007,285</u>	<u>\$ 59,009,964</u>	<u>\$ 5,067,321</u>

Net position represents the difference between the Conservancy's resources and its obligations. At December 31, 2012, approximately 54% of the Conservancy's net position is invested in land and land improvements. These lands are acquired and enhanced to provide habitat for protected plant and animal species.

THE NATOMAS BASIN CONSERVANCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012

The Natomas Basin Conservancy
Changes in Net Position
Conservancy-wide Activities
As of December 31, 2012 and 2011

	<u>December 31, 2012</u>	<u>December 31, 2011</u>	<u>Increase/Decrease</u>
Revenues			
Program revenues:			
Mitigation fees	\$ 4,187,149	\$ -	\$ 4,187,149
Rent revenue	607,269	403,690	203,579
Land Management	232,610	254,842	(22,232)
Investment income (loss)	1,324,005	(92,131)	1,416,136
General revenues:			
Mitigation fees contributed to Endowment Fund	1,113,409	-	1,113,409
Investment income	434,798	70,637	364,161
Other	252,192	144,897	107,295
Total revenues	<u>8,151,432</u>	<u>781,935</u>	<u>7,369,797</u>
Expenses			
Conservancy operations	<u>3,084,111</u>	<u>3,359,572</u>	<u>(275,461)</u>
Other Financing Sources			
Gain on sale of land	<u>-</u>	<u>805,790</u>	<u>(805,790)</u>
Increase (Decrease) in net position	5,067,321	(1,771,847)	6,839,168
Net Position, beginning of period, as restated	<u>59,009,964</u>	<u>60,781,811</u>	<u>(1,771,847)</u>
Net Position, end of period	<u>\$ 64,077,285</u>	<u>\$ 59,009,964</u>	<u>\$ 5,067,321</u>

During 2012, the Conservancy received \$5,300,559 in mitigation fees on 122.12 acres of development. In comparison, there were no mitigation fees collected in 2011. The Natomas Basin Habitat Conservation Plan (NBHCP) mitigation fee per acre decreased in 2012 to \$32,861 per disturbed acre (\$21,611 with land dedication) from \$37,547 per disturbed acre (\$22,547 with land dedication) in 2011.

Investment income increased \$1,780,297, from (\$21,494) in 2011 to \$1,758,800 in 2012 due to market gains. Rent revenues increased \$203,579, from \$403,690 in 2011 to \$607,269 in 2012 due to strong agricultural markets and higher crop yields. The Conservancy was also reimbursed for water costs from tenant farmers, received a property tax refund and was reimbursed by Natomas Mutual Water Company for Conservancy well usage.

The Conservancy expenses decreased \$275,461 from \$3,359,572 in 2011 to \$3,084,111 in 2012 due to savings in land management and property maintenance.

Acreage under Conservancy management increased by 29.12 acres, from 4,102 to 4,131. The new property received was the Silva South tract, associated with the Riego Road and U.S. Highway 99 interchange project mitigation.

THE NATOMAS BASIN CONSERVANCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012

The Conservancy maintains a long-term receivable attributable to the Metro Air Park Property Owners Association (MAPPOA) of \$318,185. This receivable represents the difference between acres where mitigation fees were prepaid and subsequent acres developed for which no mitigation fees have been paid. The Conservancy has met several times with MAPPOA representatives on this receivable, as well as with the federal and state wildlife agencies, in hopes of collecting the amount owed. The Conservancy's determination that this deficiency on MAPPOA's part is due and payable to the Conservancy is disputed by MAPPOA.

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.

CONSERVANCY BUDGET ANALYSIS

The Conservancy presented a draft annual 2012 budget to its Board of Directors in October 2011 and a final proposed budget in December 2011, which was approved by the Board. The budget-to-actual schedules for the year are shown on pages 25, 26, and 27.

FINANCIAL ANALYSIS OF THE CONSERVANCY'S FUNDS

As of December 31, 2012, the Conservancy's fund balances totaled \$64,077,028, which is an increase of \$5,067,321 compared to fund balances of \$59,009,964 at December 31, 2011. The increase is due to mitigation fee income from two freeway interchange projects and two park projects. The Conservancy's major source of revenue is from mitigation fees. 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 ASSET

As of December 31, 2012, the Conservancy's investment in capital assets was \$34,478,049. Capital assets are stated at cost, net of accumulated depreciation. This investment in capital assets includes land and land improvements.

Capital asset changes during the current fiscal year total \$120,114. This includes \$62,060 in purchases for improvements to Conservancy fixed assets, office equipment and other machinery, as well as, donated fencing in the amount of \$58,053. Additional information on the Conservancy's capital assets can be found in note 6 on page 22 of this report.

THE NATOMAS BASIN CONSERVANCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012

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 2013, which projects no mitigation revenue for the year. The 2013 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 will resume in 2015. 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.

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.

THE NATOMAS BASIN CONSERVANCY

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET DECEMBER 31, 2012

	<u>Administration</u>	<u>Restoration & Enhancement</u>	<u>SAFCA NLIP</u>	<u>Supplemental Land and Contingency</u>	<u>Land Acquisition</u>
ASSETS:					
Current Assets:					
Cash and investments held by City of Sacramento	\$ 4,481,174	\$ 774,360		\$ 1,071	\$ 1,520,772
Cash and investments held by fiscal agent	4,561,333	830,049	\$ 962,961	2,161,242	942,012
Receivables:					
Account	150,225		96,475		
Interest	55,139	11,192	9,264		50,819
Prepaid items	12,900				
Due from other funds	29,800				
Non-Current Assets:					
Restricted cash and investments held by fiscal agent					
Long-term receivable	178,082	24,856		16,292	
Land					
Capital assets, net					
Total Assets	<u>\$ 9,468,653</u>	<u>\$ 1,640,457</u>	<u>\$ 1,068,700</u>	<u>\$ 2,178,605</u>	<u>\$ 2,513,603</u>
LIABILITIES:					
Current Liabilities:					
Accounts payable	\$ 191,378		\$ 204,959	\$ 2,167	
Unearned revenue			75,462		
Due to other funds			29,800		
Non-Current Liabilities:					
Compensated absences					
Total Liabilities	<u>191,378</u>	<u></u>	<u>310,221</u>	<u>2,167</u>	<u></u>
DEFERRED INFLOWS OF RESOURCES:					
Unavailable revenue	178,082	\$ 24,856		16,292	
Total Deferred Inflows of Resources	<u>178,082</u>	<u>24,856</u>	<u></u>	<u>16,292</u>	<u></u>
FUND BALANCE/NET POSITION:					
Fund Balances/Net Position					
Net investment in capital assets					
Nonspendable:					
Prepaid expenses	12,900				
Endowment					
Restricted:					
Giant garter snakes	204,808				
Brookfield property			758,479		
Endowment					
Committed:					
Restoration & Enhancement		1,615,601			
Supplemental land acquisition				2,160,146	
Land Acquisition					2,513,603
Unassigned/Unrestricted	8,881,485				
Total Fund Balances/Net Position	<u>9,099,193</u>	<u>1,615,601</u>	<u>758,479</u>	<u>2,160,146</u>	<u>2,513,603</u>
Total Liabilities, Deferred Inflows of Resources, Fund Balances and Net Position	<u>\$ 9,468,653</u>	<u>\$ 1,640,457</u>	<u>\$ 1,068,700</u>	<u>\$ 2,178,605</u>	<u>\$ 2,513,603</u>

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

THE NATOMAS BASIN CONSERVANCY

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET (CONTINUED) DECEMBER 31, 2012

<u>Endowment</u>	<u>Total Fund Balance</u>	<u>Adjustments Note(4)</u>	<u>Statement of Net Position</u>	
\$ 8,542	\$ 6,785,919 9,457,597		\$ 6,785,919 9,457,597	ASSETS:
				Current Assets:
				Cash and investments held by City of Sacramento
				Cash and investments held by fiscal agent
				Receivables:
	246,700		246,700	Account
	126,414		126,414	Interest
	12,900		12,900	Prepaid items
	29,800	\$ (29,800)		Due from other funds
				Non-Current Assets:
13,179,783	13,179,783		13,179,783	Restricted cash and investments held by fiscal agent
98,955	318,185		318,185	Long-term receivable
		32,488,554	32,488,554	Land
		1,989,495	1,989,495	Capital assets, net
<u>\$ 13,287,280</u>	<u>\$ 30,157,298</u>	<u>34,448,249</u>	<u>64,605,547</u>	Total Assets
				LIABILITIES:
				Current Liabilities:
\$ 13,214	\$ 411,718 75,462 29,800		411,718 75,462	Accounts payable
		(29,800)		Unearned revenue
				Due to other funds
		41,082	41,082	Non-Current Liabilities:
		11,282	528,262	Compensated absences
<u>13,214</u>	<u>516,980</u>	<u>11,282</u>	<u>528,262</u>	Total Liabilities
				DEFERRED INFLOWS OF RESOURCES:
98,955	318,185	(318,185)		Unavailable revenue
<u>98,955</u>	<u>318,185</u>	<u>(318,185)</u>		Total Deferred Inflows of Resources
				FUND BALANCE/NET POSITION:
				Fund Balances/Net Position
		34,478,049	34,478,049	Net investment in capital assets
				Nonspendable:
	12,900	(12,900)		Prepaid expenses
9,341,092	9,341,092	(9,341,092)		Endowment
	204,808		204,808	Restricted:
	758,479		758,479	Giant garter snakes
3,834,019	3,834,019	9,440,047	13,274,066	Brookfield property
				Endowment
				Committed:
	1,615,601	(1,615,601)		Restoration & Enhancement
	2,160,146	(2,160,146)		Supplemental land acquisition
	2,513,603	(2,513,603)		Land Acquisition
	8,881,485	6,480,398	15,361,883	Unassigned/Unrestricted
<u>13,175,111</u>	<u>29,322,133</u>	<u>34,755,152</u>	<u>64,077,285</u>	Total Fund Balances/Net Position
<u>\$ 13,287,280</u>	<u>\$ 30,157,298</u>	<u>\$ 34,448,249</u>	<u>\$ 64,605,547</u>	Total Liabilities, Deferred Inflows of Resources, Fund Balances and Net Position

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

THE NATOMAS BASIN CONSERVANCY

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Administration</u>	<u>Restoration & Enhancement</u>	<u>SAFCA NLIP</u>	<u>Supplemental Land and Contingency</u>	<u>Land Acquisition</u>
REVENUES:					
Program revenues:					
Charges for services:					
Mitigation fees	\$ 1,954,520	\$ 189,842		\$ 92,194	\$ 1,295,393
Rent revenue	607,269				
Land management			\$ 232,610		
Operating grants and contributions:					
Investment income					
Total program revenues	<u>2,561,789</u>	<u>189,842</u>	<u>232,610</u>	<u>92,194</u>	<u>1,295,393</u>
General revenues:					
Endowment contributions - mitigation fees					
Investment income	77,409	16,131	5,911	227,060	108,287
Loss on fixed assets					
Other income	<u>195,949</u>				
Total general revenues	<u>273,358</u>	<u>16,131</u>	<u>5,911</u>	<u>227,060</u>	<u>108,287</u>
Total revenues	<u>2,835,147</u>	<u>205,973</u>	<u>238,521</u>	<u>319,254</u>	<u>1,403,680</u>
EXPENDITURES:					
Land mitigation:					
Personnel services	398,800		11,369		
Materials and services	2,075,271		230,861	8,316	
Depreciation					
Capital outlay	<u>62,060</u>				<u>25,477</u>
Total expenditures	<u>2,536,131</u>		<u>242,230</u>	<u>8,316</u>	<u>25,477</u>
Excess (Deficiency) of revenues over (under) expenditures	299,016	205,973	(3,709)	310,938	1,378,203
OTHER FINANCING SOURCES (USES):					
Transfers in	7,000,000	1,000,000			
Transfers out					<u>(8,000,000)</u>
Changes in fund balances/net position	7,299,016	1,205,973	(3,709)	310,938	(6,621,797)
Fund balances/net position, beginning of period	<u>1,800,177</u>	<u>409,628</u>	<u>762,188</u>	<u>1,849,208</u>	<u>9,135,400</u>
Fund balances/net position, end of period	<u>\$ 9,099,193</u>	<u>\$ 1,615,601</u>	<u>\$ 758,479</u>	<u>\$ 2,160,146</u>	<u>\$ 2,513,603</u>

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

THE NATOMAS BASIN CONSERVANCY

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2012

<u>Endowment</u>	<u>Total Fund Balance</u>	<u>Adjustments Note (5 & 11)</u>	<u>Statement of Activities</u>	
	\$ 3,531,949	\$ 655,200	\$ 4,187,149	REVENUES:
	607,269		607,269	Program revenues:
	232,610		232,610	Charges for services:
				Mitigation fees
				Rent revenue
				Land management
				Operating grants and contributions:
				Investment income
<u>\$ 1,324,005</u>	<u>1,324,005</u>	<u> </u>	<u>1,324,005</u>	
<u>1,324,005</u>	<u>5,695,833</u>	<u>655,200</u>	<u>6,351,033</u>	Total program revenues
1,113,409	1,113,409		1,113,409	General revenues:
	434,798		434,798	Endowment contributions - mitigation fees
		(1,811)	(1,811)	Investment income
	<u>195,949</u>	<u>58,054</u>	<u>254,003</u>	Loss on fixed assets
<u>1,113,409</u>	<u>1,744,156</u>	<u>56,243</u>	<u>1,800,399</u>	Other income
				Total general revenues
<u>2,437,414</u>	<u>7,439,989</u>	<u>711,443</u>	<u>8,151,432</u>	Total revenues
				EXPENDITURES:
	410,169	6,031	416,200	Land mitigation:
49,818	2,364,266		2,364,266	Personnel services
		303,645	303,645	Materials and services
	<u>87,537</u>	<u>(87,537)</u>		Depreciation
<u>49,818</u>	<u>2,861,972</u>	<u>222,139</u>	<u>3,084,111</u>	Capital outlay
				Total expenditures
2,387,596	4,578,017	489,304	5,067,321	Excess (Deficiency) of revenues over (under) expenditures
				OTHER FINANCING SOURCES (USES):
	8,000,000	(8,000,000)		Transfers in
	<u>(8,000,000)</u>	<u>8,000,000</u>		Transfers out
2,387,596	4,578,017	489,304	5,067,321	Changes in fund balances/net position
<u>10,787,515</u>	<u>24,744,116</u>	<u>34,265,848</u>	<u>59,009,964</u>	Fund balances/net position, beginning of period
<u>\$ 13,175,111</u>	<u>\$ 29,322,133</u>	<u>\$ 34,755,152</u>	<u>\$ 64,077,285</u>	Fund balances/net position, end of period

THE NATOMAS BASIN CONSERVANCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

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 Game 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, 2012

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 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, 2012

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 \$41,082 in accrued compensated absences as of December 31, 2012.

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 assets. 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 Assets – 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, 2012

Unrestricted Net Assets – This category represents net assets 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 and are 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.

Current Year GASB Implementation

For the year ended December 31, 2012, the Conservancy implemented GASB Statement No. 63 (GASB 63), *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65 (GASB 65), *Items Previously Reported as Assets and Liabilities*. The objective of GASB 63 is to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on the Conservancy's net position. The objective of GASB 65 is to reclassify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or to recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenditures) or inflows of resources (revenues).

THE NATOMAS BASIN CONSERVANCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

3. CASH AND INVESTMENTS

Cash and investments as of December 31, 2012, are classified in the accompanying financial statements as follows:

Cash and investments held by City of Sacramento	\$ 6,785,919
Cash and investments held by fiscal agent	9,457,597
Restricted cash and investments held by fiscal agent	<u>13,179,783</u>
Total cash and investments	<u>\$ 29,423,299</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 20% 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. 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. Hedge fund or hedge-like funds may be used to minimize market risk and create a more stable stream of investment returns.

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, federal agency securities, corporate notes and bonds, and mortgage-backed securities.

An acceptable outstanding debt obligations 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.

THE NATOMAS BASIN CONSERVANCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

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.

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, 2012.

Investment Summary

At December 31, 2012, the Conservancy's investments consist of the following:

Equity mutual funds	\$	15,341,025
External investment pool		6,785,919
Fixed income securities		
Government obligations		959,400
Corporate bonds		5,606,324
Total	\$	<u>28,692,668</u>

THE NATOMAS BASIN CONSERVANCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

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:

	Maturity					Total
	Under 1 Year	5-10 Years	10-15 Years	15-20 Years	Over 20 Years	
Equity mutual funds	\$ 15,341,025					\$ 15,341,025
External investment pool	6,785,919					6,785,919
Government obligations	498,938	\$ 460,462				959,400
Corporate bonds	3,338,035	2,268,289				5,606,324
Total investments	\$ 25,963,917	\$ 2,728,751				\$ 28,692,668

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.

	Rating as of End of Year	
City of Sacramento investment pool	Not rated	\$ 6,785,919
Equity mutual funds	Not rated	15,341,025
Government obligations	AAA	101,160
Government obligations	AA+	858,240
Corporate bonds	AA	20,548
Corporate bonds	AA-	630,701
Corporate bonds	AA+	293,820
Corporate bonds	A	1,736,843
Corporate bonds	A-	1,257,198
Corporate bonds	A+	1,667,214
Total		\$ 28,692,668

THE NATOMAS BASIN CONSERVANCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

Concentration of Credit Risk

There were no investments in any one issuer (equity mutual funds and external investment pools) that represents 5% or more of the total Conservancy investments. The Conservancy has no investments in any one issuer that represents 5% or more of total investments by reporting unit (primary government, governmental activities, major fund, nonmajor funds in the aggregate, etc.) at December 31, 2012.

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 \$6,785,919 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 \$15,341,025 are registered in the Conservancy's name, and \$6,919,929 of cash equivalents and investments held by fiscal agents are uninsured and not registered in the name of the Conservancy. The Conservancy maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Conservancy has not experienced any losses in such accounts. The Conservancy believes it is not exposed to any significant credit risk on its cash balances.

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

Fund balances \$ 29,322,133

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

Capital assets	\$ 36,988,406	
Less: accumulated depreciation	<u>(2,510,357)</u>	
		34,478,049

Long-term receivables are not available to pay for current-period expenditures and therefore, are deferred in the governmental funds. 318,185

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>(41,082)</u>	
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Net position \$ 64,077,285

THE NATOMAS BASIN CONSERVANCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

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	\$ 4,578,017
The net effect of donated land and fencing is to increase net position.	713,254
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	87,537
Depreciation expense	(303,645)
The net effect of equipment disposals is a decrease in net assets.	(1,811)
Some revenues and 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	(6,031)
Change in net position	\$ 5,067,321

6. CAPITAL ASSETS

A summary of changes in capital assets for the year ended December 31, 2012, is as follows:

	<u>1/1/12</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/12</u>
Capital assets not being depreciated:				
Land	\$ 31,807,877	\$ 680,677		\$ 32,488,554
Capital assets being depreciated:				
Land improvements	4,295,369	115,654	\$ (2,619)	4,408,404
Office and other equipment	86,988	4,460		91,448
	4,382,357	120,114	(2,619)	4,499,852
Accumulated depreciation:				
Accum. depreciation, land improvements	(2,154,081)	(287,187)	808	(2,440,460)
Accum. depreciation, office equipment	(53,439)	(16,458)		(69,897)
	(2,207,520)	(303,645)	808	(2,510,357)
Total capital assets, net	\$ 33,982,714	\$ 497,146	\$ (1,811)	\$ 34,478,049

THE NATOMAS BASIN CONSERVANCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

7. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2012, the Conservancy paid \$13,278 to the City of Sacramento for investment services.

8. OPERATING LEASE

The Conservancy leases office space in Sacramento under a lease expiring August 31, 2015. Total future minimum operating lease payments are presented as follows:

<u>Year Ending December 31,</u>	
2013	\$ 57,725
2014	72,613
2015	<u>67,978</u>
	<u>\$ 198,316</u>

Rent expense for the year ended December 31, 2012, was \$75,930.

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, 2012.

10. LONG-TERM RECEIVABLE

As of December 31, 2012, the Conservancy had a long-term receivable of \$318,185 due from the Metro Air Park Property Owners Association (MAPPOA) for land disturbed from 2005 through 2009. The Conservancy determined, based on its review of the amount of land disturbed, fees paid by MAPPOA, and meetings with MAPPOA representatives that it was appropriate that a receivable for unpaid fees be included in the financial statements. It is undeterminable at this time when the Conservancy will receive payment on this receivable; therefore, the revenue associated with this receivable has been deferred in accordance with the Conservancy's availability period in the governmental fund statements.

11. INTERFUND ACTIVITY

Interfund balances as of December 31, 2012, consisted of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Administration	SAFCA NLIP	<u>\$ 29,800</u>

THE NATOMAS BASIN CONSERVANCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

Transfers in and out of other funds consisted of the following during the year ending December 31, 2012:

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Amount</u>
Land Acquisition Fund	Administration Fund	\$ 7,000,000
	Restoration & Enhancement Fund	<u>1,000,000</u>
	Total	\$ 8,000,000

The inter-fund transfer was conducted in order to re-balance the funds. The NBHCP requires that the Conservancy conduct a recalculation of the NBHCP Finance Model each year so that it reflects current and actual costs. Adjusting the funds to more closely reflect actual conditions and circumstances enables the NBHCP Finance Model to be built on the best possible foundation. It is expected that this rebalancing will cause the NBHCP Finance Model to meet the letter of the NBHCP's contemporaneous and accuracy requirements.

12. 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.

13. 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, 2012, was \$38,184.

THE NATOMAS BASIN CONSERVANCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

14. 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 in 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 \$2,650 per share. At December 31, 2011, the most recent information available, the value of the NCMWC stock held was \$16.91 per share or \$56,919. 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

THE NATOMAS BASIN CONSERVANCY

BUDGETARY COMPARISON SCHEDULE - ADMINISTRATION FUND FOR THE YEAR ENDED DECEMBER 31, 2012

	Budget Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Mitigation fees	\$ 567,767	\$ 567,767	\$ 1,954,520	\$ 1,386,753
Rent revenue	370,000	370,000	607,269	237,269
Investment income	37,522	37,522	77,409	39,887
Other income	29,406	29,406	195,949	166,543
Total Revenues	<u>1,004,695</u>	<u>1,004,695</u>	<u>2,835,147</u>	<u>1,830,452</u>
EXPENDITURES				
Conservancy operations:				
Personnel services	475,750	475,750	398,800	76,950
Materials and services	2,364,047	2,364,047	2,075,271	288,776
Capital outlay			62,060	(62,060)
Total Expenditures	<u>2,839,797</u>	<u>2,839,797</u>	<u>2,536,131</u>	<u>303,666</u>
OTHER SOURCES				
Transfers in			7,000,000	7,000,000
Total Other Sources			<u>7,000,000</u>	<u>7,000,000</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	<u>\$ (1,835,102)</u>	<u>\$ (1,835,102)</u>	<u>\$ 7,299,016</u>	<u>\$ 9,134,118</u>

THE NATOMAS BASIN CONSERVANCY

BUDGETARY COMPARISON SCHEDULE - RESTORATION AND ENHANCEMENT SPECIAL REVENUE FUND FOR THE YEAR ENDED DECEMBER 31, 2012

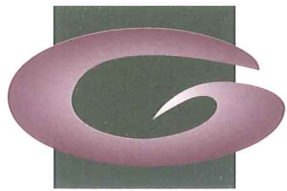
	Budget Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Mitigation fees	\$ 54,341	\$ 54,341	\$ 189,842	\$ 135,501
Investment income	6,888	6,888	16,131	9,243
Total Revenues	<u>61,229</u>	<u>61,229</u>	<u>205,973</u>	<u>144,744</u>
EXPENDITURES				
Total Expenditures	_____	_____	_____	_____
OTHER SOURCES				
Transfers in	_____	_____	1,000,000	1,000,000
Total Other Sources	_____	_____	<u>1,000,000</u>	<u>1,000,000</u>
Excess of Revenues Over Expenditures	<u>\$ 61,229</u>	<u>\$ 61,229</u>	<u>\$ 1,205,973</u>	<u>\$ 1,144,744</u>

THE NATOMAS BASIN CONSERVANCY

BUDGETARY COMPARISON SCHEDULE - SAFCA NLIP SPECIAL REVENUE FUND FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Land management			\$ 232,610	\$ 232,610
Investment income	\$ 14,942	\$ 14,942	5,911	(9,031)
Other income	<u>70,594</u>	<u>70,594</u>		<u>(70,594)</u>
Total Revenues	<u>85,536</u>	<u>85,536</u>	<u>238,521</u>	<u>152,985</u>
EXPENDITURES				
Land mitigation:				
Personnel services	70,594	70,594	11,369	59,225
Materials and services			<u>230,861</u>	<u>(230,861)</u>
Total Expenditures	<u>70,594</u>	<u>70,594</u>	<u>242,230</u>	<u>(171,636)</u>
Excess of Revenues Over Expenditures	<u>\$ 14,942</u>	<u>\$ 14,942</u>	<u>\$ (3,709)</u>	<u>\$ (18,651)</u>

ADDITIONAL INFORMATION



**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, 2012, and the related notes to the financial statements, which collectively comprise the Conservancy's basic financial statements, and have issued our report thereon dated March 28, 2012.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified a certain deficiency in internal control that we consider to be a material weakness.

Audit Adjustment

Condition:

During our audit, we identified misstatements of revenue, deferred revenue, and accounts receivable in the SAFCA NLIP Fund due to errors in recording revenue and related balance sheet accounts in the proper period. The occurrence of adjustments subsequent to management's close of the financial records indicates the existence of a control deficiency in the closing process.

Criteria:

Under generally accepted accounting principles, revenues in governmental fund financial statements should be recorded when measurable and available, providing the Conservancy has earned the revenue.

Cause:

The Conservancy's activity in the SAFCA NLIP Fund involves multiple contracts in which expenditures are paid out of the Fund and those amounts are replenished by SAFCA, including new contracts that were implemented in 2012. Certain contracts provide for an advance cash deposit into the Fund from SAFCA to fund future expenditures. Additionally, 2012 was the first year in which the Fund received revenue from the sale of rice crops planted and harvested on mitigation lands. According to the applicable contract between the Conservancy and SAFCA, which are intended to reduce the amount of expenditures to be reimbursed by SAFCA. Errors in the recognition of revenue relating to the advance cash deposits from SAFCA and the subsequent reimbursement and replenishment amounts requested from SAFCA resulted in an overstatement of revenue and accounts receivable.

Effect:

The errors related to the recording of advance cash deposits and subsequent replenishment requests resulted in an overstatement of revenue of \$70,620, an overstatement of accounts receivable of \$55,106, and an understatement of unearned revenue of \$15,514. Additionally, the rice revenue amount was not netted against the requested expenditure reimbursement amount, resulting in an overstatement of revenues and accounts receivable of \$107,423.

Recommendation:

In order for the Conservancy's management to present financial statements in accordance with generally accepted accounting principles, it is important to ensure that receivables are only recorded when the related revenue has been earned. We recommend that the management of the Conservancy prepare a spreadsheet to track activity for each contract separately to ensure that activity in the general ledger based on billings to SAFCA is adjusted to be consistent with GAAP as part of the Conservancy's year-end closing process.

Conservancy's Response:

Management recognizes that an accounting entry was misplaced, and appreciates that the auditors have called this to management's attention.

Management believes the Conservancy was never subject to loss, as the financial arrangement with the source of the funds in question, the Sacramento Area Flood Control Agency (SAFCA), provides contractual guarantees and assurances to the Conservancy. The Conservancy is confident the error would have been reconciled in the subsequent year as Conservancy and SAFCA personnel worked through various contract changes. Also, no budgetary assumptions were made based on the mistaken accounting entry.

Finally, as recommended by the auditors, Conservancy staff has prepared the recommended spreadsheets for each SAFCA contract, and has subsequently met with SAFCA staff to confirm the accounting in question. SAFCA staff was satisfied with the new accounting presentation and this will be used going forward. Management considers this issue resolved.

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. We consider the deficiency described above to be a material weakness.

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*.

Conservancy's Response to Finding

The Conservancy's response to the finding identified in our audit is described above. The Conservancy's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

March 28, 2013

THE NATOMAS BASIN CONSERVANCY

SCHEDULE OF LAND ADDITIONS FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Silva South #1</u>	<u>Total</u>
Purchase Price	\$ 655,200	\$ 655,200
Title Insurance		
Escrow Fees		
Document, recording and other fees		
Accounting, legal, professional svcs.	<u>25,477</u>	<u>25,477</u>
Total Costs	<u>\$ 680,677</u>	<u>\$ 680,677</u>

THE NATOMAS BASIN CONSERVANCY

**SCHEDULE OF MITIGATION FEES COLLECTED
FOR THE YEAR ENDED DECEMBER 31, 2012**

<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 & Enhancement</u>	<u>Supplemental Land</u>	<u>Land Acquisition</u>	<u>Endowment</u>	
Habitat Acquisition Fee				\$ 1,113,409		\$ 1,113,409
Endowment Fee			\$ 1,295,393		\$ 92,194	1,387,587
Habitat Management Fee	\$ 1,874,188	\$ 189,842				2,064,030
Administrative Fee	80,332					80,332
Total Fees Collected	<u>\$ 1,954,520</u>	<u>\$ 189,842</u>	<u>\$ 1,295,393</u>	<u>\$ 1,113,409</u>	<u>\$ 92,194</u>	<u>\$ 4,645,358</u>