

**THE NATOMAS BASIN  
CONSERVANCY**

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

**YEAR ENDED DECEMBER 31, 2011**

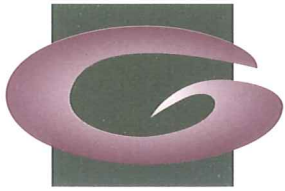
# THE NATOMAS BASIN CONSERVANCY

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## **FINANCIAL SECTION**



## INDEPENDENT AUDITOR'S REPORT

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

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, 2011, which collectively comprise the Conservancy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Conservancy's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 Natomas Basin Conservancy, as of December 31, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2 to the financial statements, effective January 1, 2011, the Conservancy adopted the provisions of Governmental Accounting Standards (GASB) Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2012, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 26 through 28 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.



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

**March 27, 2012**

# THE NATOMAS BASIN CONSERVANCY

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2011

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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, 2011. 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 assets of the Conservancy at the close of the most recent fiscal year were \$59,009,964, a decrease of \$1,771,847 from December 31, 2010.
- Of the Conservancy's \$59,009,964 in net assets, \$33,982,714 is invested in capital assets.
- An additional \$10,787,515 is invested in the Conservancy's Endowment Fund. The principal of the Endowment Fund, \$8,227,683, is permanently restricted to provide income for the future operation of the Conservancy. The Sacramento Area Flood Control Agency (SAFCA) Natomas Levee Improvement Program (NLIP) funds total \$762,188.
- Unrestricted net assets total \$13,173,784, when capital assets, Endowment Fund assets, and SAFCA restricted assets are excluded from total net assets. This amount includes Restoration & Enhancement assets of \$409,628, Land Acquisition assets of \$9,135,400, Administration fund assets of \$1,582,602, Supplemental Land and Contingency assets of \$1,849,208, and other miscellaneous balances totaling \$196,946.
- The Conservancy's cash balance, which includes cash and investments at December 31, 2011, was \$25,316,214, representing a decrease of \$443,281 from December 31, 2010.
- The Conservancy had general revenues of \$215,534 and program revenues of \$566,401. The Conservancy also had other financing sources in the amount of \$805,790 due to the acquisition of Conservancy-owned land by the Sacramento Area Flood Control Agency (SAFCA).
- Conservancy program expenses were \$3,359,572 and capital outlays were \$37,666.
- All financial assets of the Conservancy continue to be devoted to the acquisition, restoration and management of mitigation land for habitat conservation.

### **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. Items in the adjustment column are discussed in notes 4 and 5 to the financial statements.

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, 2011**

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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 assets* presents information on all of the Conservancy's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets 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 to ensure and demonstrate compliance with finance-related contractual requirements. The Conservancy has six funds, all of which are governmental-type funds.

Governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Because the focus of governmental funds is narrower than that of the Conservancy-wide financial statements, it is useful to compare the information presented for the governmental funds with similar information presented for governmental activities. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a column detailing the difference (adjustments) between the governmental funds and governmental activities. These adjustments are discussed in further detail in notes 4 and 5 to the basic financial statements.

**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 25 of this report.

**THE NATOMAS BASIN CONSERVANCY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

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**CONSERVANCY-WIDE FINANCIAL ANALYSIS**

The Natomas Basin Conservancy  
Summary of Net Assets  
Conservancy-wide Activities  
As of December 31, 2011 and 2010

	<u>December 31, 2011</u>	<u>December 31, 2010 as Restated</u>	<u>Increase/Decrease</u>
Current and other assets	\$ 26,126,694	\$ 26,346,147	\$ (219,453)
Capital assets	33,982,714	34,710,477	(727,763)
Total assets	<u>60,109,408</u>	<u>61,056,624</u>	<u>(947,216)</u>
Current liabilities	1,064,393	241,545	822,848
Non-Current liabilities	35,051	33,268	1,783
Total liabilities	<u>1,099,444</u>	<u>274,813</u>	<u>824,631</u>
Net assets:			
Invested in capital assets	33,982,714	34,710,477	(727,763)
Restricted for giant garter snakes	204,808	204,808	
Restricted for Brookfield property	762,188	772,084	(9,896)
Restricted for endowment – permanent	8,227,683	8,218,183	9,500
Restricted for endowment - temporary	2,559,832	2,696,301	(136,469)
Unrestricted	13,173,784	14,081,003	(907,219)
Total net assets	<u>\$ 59,009,964</u>	<u>\$ 60,781,811</u>	<u>\$ (1,771,847)</u>

Net assets represent the difference between the Conservancy's resources and its obligations. At December 31, 2011, approximately 58% of the Conservancy's net assets were 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, 2011**

The Natomas Basin Conservancy  
Changes in Net Assets  
Conservancy-wide Activities  
As of December 31, 2011 and 2010

	<u>December 31, 2011</u>	<u>December 31, 2010 as Restated</u>	<u>Increase/Decrease</u>
<b>Revenues</b>			
Program revenues:			
Mitigation fees		\$ 118,203	\$ (118,203)
Rent revenue	\$ 403,690	556,505	(152,815)
Land Management	254,842	61,612	193,230
Investment income (loss)	(92,131)	1,337,968	(1,430,099)
General revenues:			
Mitigation fees contributed to Endowment Fund	-	42,734	(42,734)
Investment income	70,637	457,418	(386,781)
Other	144,897	163,345	(18,448)
Total revenues	<u>781,935</u>	<u>2,737,785</u>	<u>(1,955,850)</u>
<b>Expenses</b>			
Conservancy operations	<u>3,359,572</u>	<u>2,654,204</u>	<u>705,368</u>
<b>Other Financing Sources</b>			
Gain on sale of land	<u>805,790</u>	<u>805,790</u>	<u>805,790</u>
Increase (Decrease) in net assets	(1,771,847)	83,581	(1,855,428)
<b>Net Assets, beginning of period, as restated</b>	<u>60,781,811</u>	<u>60,698,230</u>	<u>83,581</u>
<b>Net Assets, end of period</b>	<u>\$ 59,009,964</u>	<u>\$ 60,781,811</u>	<u>\$ (1,771,847)</u>

The Conservancy received no mitigation fees during 2011. In comparison, mitigation fees were collected for 5.07 acres in 2010. The Natomas Basin Habitat Conservation Plan (NBHCP) mitigation fee per acre decreased in 2011 to \$37,547 per disturbed acre (\$22,547 with land dedication) from \$44,050 per disturbed acre (\$26,550 with land dedication) in 2010.

The increase in Conservancy expenses of \$705,368 is due to a SAFCA contract for land management (100% of which is reimbursed), a channel clearing project on the Conservancy's Betts-Kismat-Silva tract and increased land management expenses.

There were no land acquisitions in 2011. However, SAFCA acquired 41.18 acres of the Conservancy's Natomas Farms tract for their NLIP.

Rent revenue decreased due to generally poor yields for the 2010 crop, which was marketed in 2011. This made the 2010 crop's second cash rent payments smaller than the previous year. Rice is the dominant farm crop produced on Conservancy land.

# **THE NATOMAS BASIN CONSERVANCY**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2011**

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This year the Conservancy is reporting 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 in 2003 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.

In 2004, the Conservancy was asked by the federal and state wildlife agencies to hold in reserve \$197,050, representing a mitigation settlement agreement between SYSCO and the wildlife agencies. In 2011, the agencies advised the Conservancy that these funds now need to be recognized as NBHCP fees and to apportion the fees accordingly into the Conservancy's funds, based on the year they were paid and the funds required at the time of payment. The allocation of these fees is presented as transfers in and out on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balances. Note that the difference between the total transfers in and out of \$41,400 is the portion of mitigation fees that remained in the Administration Fund.

Acreage owned by the Conservancy is 4,102 acres. All land purchases and land dedications are recorded at their purchase price. Land assets currently booked are \$31,807,866. However, if the Conservancy's total land assets were booked at the value estimated in the NBHCP Finance Model, they would be \$92,295,000. 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 an annual 2011 budget to its Board of Directors in December 2010, which was approved by the Board. The budget-to-actual schedules for the year are shown on pages 26, 27, and 28. These tables represent the Administration Fund, Restoration & Enhancement Fund, and the SAFCA NLIP Fund, respectively.

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

As of December 31, 2011, the Conservancy's governmental fund balances totaled \$24,744,116, which is a decrease of \$1,042,301 compared to fund balances of \$25,786,417 at December 31, 2010. The decrease is due to no mitigation fee income and higher than normal expenditures. 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 assets are not shown on the fund statements since they are not available for near-term financing of the Conservancy's operations.

**THE NATOMAS BASIN CONSERVANCY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

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**CAPITAL ASSET**

***CAPITAL ASSETS***

As of December 31, 2011, the Conservancy's investment in capital assets was \$33,982,714. Capital assets are stated at cost, net of accumulated depreciation. This investment in capital assets includes land and land improvements.

Capital asset purchases during the current fiscal year include \$37,666 for improvements to Conservancy fixed assets, office equipment and other machinery. Additional information on the Conservancy's capital assets can be found in note 6 on page 22 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 2012 which projects 48 acres of mitigation. The 2012 budget assumes mitigation revenue for a freeway interchange anticipated in the Natomas Basin this year. Such public works projects are not impacted by the above-mentioned moratorium.

At present, the Conservancy is projecting that NBHCP and Metro Air Park Habitat Conservation Plan (MAPHCP) mitigation fee activity will resume in 2013. 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 ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET DECEMBER 31, 2011

	<u>Administration</u>	<u>Restoration &amp; Enhancement</u>	<u>SAFCA NLIP</u>	<u>Supplemental Land and Contingency</u>	<u>Land Acquisition</u>
<b>ASSETS:</b>					
Current Assets:					
Cash and investments held by City of Sacramento	\$ 1,936,251	\$ 263,700		\$ 12,653	\$ 4,449,950
Cash and investments held by fiscal agent	80,007	161,833	\$ 771,671	1,851,118	4,864,551
Receivables:					
Account	137,156		214,458		
Interest	21,249	4,483	5,658		96,524
Prepaid items	12,767				
Due from other funds	20,460				
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>\$ 2,385,972</u>	<u>\$ 454,872</u>	<u>\$ 991,787</u>	<u>\$ 1,880,063</u>	<u>\$ 9,411,025</u>
<b>LIABILITIES:</b>					
Current Liabilities:					
Accounts payable	\$ 149,277		\$ 209,139	\$ 1,910	
Due to City of Sacramento	222,583	\$ 20,388		12,653	\$ 275,625
Deposits payable	35,853				
Deferred revenue	178,082	24,856		16,292	
Due to other funds			20,460		
Non-Current Liabilities:					
Compensated absences					
Total Liabilities	<u>585,795</u>	<u>45,244</u>	<u>229,599</u>	<u>30,855</u>	<u>275,625</u>
<b>FUND BALANCE/NET ASSETS:</b>					
Fund Balances/Net Assets					
Invested in capital assets					
Nonspendable:					
Prepaid expenses	12,767				
Endowment					
Restricted:					
Giant garter snakes	204,808				
Brookefield property			762,188		
Endowment					
Committed:					
Restoration & Enhancement		409,628			
Supplemental land acquisition				1,849,208	
Land Acquisition					9,135,400
Assigned for biological monitoring	259,210				
Unassigned/Unrestricted	1,323,392				
Total Fund Balances/Net Assets	<u>1,800,177</u>	<u>409,628</u>	<u>762,188</u>	<u>1,849,208</u>	<u>9,135,400</u>
Total Liabilities, Fund Balances and Net Assets	<u>\$ 2,385,972</u>	<u>\$ 454,872</u>	<u>\$ 991,787</u>	<u>\$ 1,880,063</u>	<u>\$ 9,411,025</u>

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

# THE NATOMAS BASIN CONSERVANCY

## STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET (CONTINUED) DECEMBER 31, 2011

<u>Endowment</u>	<u>Total Fund Balance</u>	<u>Adjustments Note(4)</u>	<u>Statement of Net Assets</u>	
\$ 125,825	\$ 6,788,379 7,729,180		\$ 6,788,379 7,729,180	<b>ASSETS:</b>
	351,614		351,614	Current Assets:
	127,914		127,914	Cash and investments held by City of Sacramento
	12,767		12,767	Cash and investments held by fiscal agent
	20,460	\$ (20,460)		Receivables:
				Account
				Interest
				Prepaid items
				Due from other funds
10,798,655	10,798,655		10,798,655	Non-Current Assets:
98,955	318,185		318,185	Restricted cash and investments held by fiscal agent
		31,807,877	31,807,877	Long-term receivable
		2,174,837	2,174,837	Land
				Capital assets, net
<u>\$ 11,023,435</u>	<u>\$ 26,147,154</u>	<u>33,962,254</u>	<u>60,109,408</u>	Total Assets
\$ 11,140	\$ 371,466		371,466	<b>LIABILITIES:</b>
125,825	657,074		657,074	Current Liabilities:
	35,853		35,853	Accounts payable
98,955	318,185	(318,185)		Due to City of Sacramento
	20,460	(20,460)		Deposits payable
				Deferred revenue
				Due to other funds
		35,051	35,051	Non-Current Liabilities:
				Compensated absences
<u>235,920</u>	<u>1,403,038</u>	<u>(303,594)</u>	<u>1,099,444</u>	Total Liabilities
		33,982,714	33,982,714	<b>FUND BALANCE/NET ASSETS:</b>
	12,767	(12,767)		Fund Balances/Net Assets
8,227,683	8,227,683	(8,227,683)		Invested in capital assets
	204,808		204,808	Nonspendable:
	762,188		762,188	Prepaid expenses
2,559,832	2,559,832	8,326,638	10,886,470	Endowment
	409,628	(409,628)		Restricted:
	1,849,208	(1,849,208)		Giant garter snakes
	9,135,400	(9,135,400)		Brookefield property
	259,210	(259,210)		Endowment
	1,323,392	11,850,392	13,173,784	Committed:
<u>10,787,515</u>	<u>24,744,116</u>	<u>34,265,848</u>	<u>59,009,964</u>	Restoration & Enhancement
				Supplemental land acquisition
				Land Acquisition
				Assigned for biological monitoring
				Unassigned/Unrestricted
<u>\$ 11,023,435</u>	<u>\$ 26,147,154</u>	<u>\$ 33,962,254</u>	<u>\$ 60,109,408</u>	Total Fund Balances/Net Assets
				Total Liabilities, Fund Balances and Net Assets

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, 2011

	<u>Administration</u>	<u>Restoration &amp; Enhancement</u>	<u>SAFCA NLIP</u>	<u>Supplemental Land and Contingency</u>	<u>Land Acquisition</u>
<b>REVENUES:</b>					
Program revenues:					
Charges for services:					
Rent revenue	\$ 403,690				
Land management			\$ 254,842		
Operating grants and contributions:					
Investment income (loss)					
Total program revenues	403,690		254,842		
General revenues:					
Investment income (loss)	5,758	\$ 3,291	4,440	\$ (16,465)	\$ 73,613
Other income	144,897				
Total general revenues	150,655	3,291	4,440	(16,465)	73,613
Total revenues	554,345	3,291	259,282	(16,465)	73,613
<b>EXPENDITURES:</b>					
Land mitigation:					
Personnel services	368,714		6,220		
Materials and services	2,364,883		262,958	7,617	
Depreciation					
Capital outlay	10,666				27,000
Total expenditures	2,744,263		269,178	7,617	27,000
Excess (Deficiency) of revenues over (under) expenditures	(2,189,918)	3,291	(9,896)	(24,082)	46,613
<b>OTHER FINANCING SOURCES (USES):</b>					
Gain on sale of land					1,268,160
Transfers in		21,150			125,000
Transfers out	(155,650)				
Changes in fund balances/net assets	(2,345,568)	24,441	(9,896)	(24,082)	1,439,773
Fund balances/net assets, beginning of period as restated (Note 16)	4,145,745	385,187	772,084	1,873,290	7,695,627
Fund balances/net assets, end of period	\$ 1,800,177	\$ 409,628	\$ 762,188	\$ 1,849,208	\$ 9,135,400

# THE NATOMAS BASIN CONSERVANCY

## STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2011

<u>Endowment</u>	<u>Total Fund Balance</u>	<u>Adjustments Note(5)</u>	<u>Statement of Activities</u>	
	\$ 403,690		\$ 403,690	<b>REVENUES:</b>
	254,842		254,842	Program revenues:
				Charges for services:
				Rent revenue
				Land management
				Operating grants and contributions:
				Investment income (loss)
\$ (92,131)	<u>(92,131)</u>	<u>                    </u>	<u>(92,131)</u>	
<u>(92,131)</u>	<u>566,401</u>	<u>                    </u>	<u>566,401</u>	Total program revenues
	70,637		70,637	General revenues:
	144,897		144,897	Investment income (loss)
	215,534		215,534	Other income
				Total general revenues
<u>(92,131)</u>	<u>781,935</u>	<u>                    </u>	<u>781,935</u>	Total revenues
				<b>EXPENDITURES:</b>
	374,934	\$ 1,783	376,717	Land mitigation:
44,338	2,679,796		2,679,796	Personnel services
		303,059	303,059	Materials and services
	37,666	(37,666)		Depreciation
<u>44,338</u>	<u>3,092,396</u>	<u>267,176</u>	<u>3,359,572</u>	Capital outlay
				Total expenditures
(136,469)	(2,310,461)	(267,176)	(2,577,637)	Excess (Deficiency) of revenues over (under) expenditures
	1,268,160	(462,370)	805,790	<b>OTHER FINANCING SOURCES (USES):</b>
9,500	155,650	(155,650)		Gain on sale of land
	(155,650)	155,650		Transfers in
				Transfers out
<u>(126,969)</u>	<u>(1,042,301)</u>	<u>(729,546)</u>	<u>(1,771,847)</u>	Changes in fund balances/net assets
<u>10,914,484</u>	<u>25,786,417</u>	<u>34,995,394</u>	<u>60,781,811</u>	Fund balances/net assets, beginning of period as restated (Note 16)
<u>\$ 10,787,515</u>	<u>\$ 24,744,116</u>	<u>\$ 34,265,848</u>	<u>\$ 59,009,964</u>	Fund balances/net assets, end of period

# THE NATOMAS BASIN CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

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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 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, 2011

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

The Conservancy-wide financial statements (i.e., the statement of net assets 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, 2011

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Amounts reported as program revenues include; 1) mitigation fees and farm rent, 2) contributions and 3) 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 \$35,051 in accrued compensated absences as of December 31, 2011.

### **Fund Equity**

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

Invested 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, 2011

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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, 2011, the Conservancy implemented GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of GASB 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied amongst governmental entities and to clarify existing governmental fund type definitions. GASB 54 provides for fund balance classifications such as nonspendable, restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent.

# THE NATOMAS BASIN CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

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### 3. CASH AND INVESTMENTS

Cash and investments as of December 31, 2011, are classified in the accompanying financial statements as follows:

Cash and investments held by City of Sacramento	\$ 6,788,379
Cash and investments held by fiscal agent	7,729,180
Restricted cash and investments held by fiscal agent	<u>10,798,655</u>
Total cash and investments	<u>\$ 25,316,214</u>

Cash and investments as of December 31, 2011, consist of the following:

Deposits with financial institutions	\$ 44,901
Cash and investments in external investment pool	6,788,379
Cash held by fiscal agent	390,358
Investments held by fiscal agent	<u>18,092,576</u>
Total cash and investments	<u>\$ 25,316,214</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. 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.

# THE NATOMAS BASIN CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

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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.

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, 2011.

# THE NATOMAS BASIN CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

### Investment Summary

At December 31, 2011, the Conservancy's investments consist of the following:

Equity mutual funds	\$	12,649,774
External investment pool		6,788,379
Fixed income securities		
Government obligations		1,187,700
Corporate bonds		3,779,121
Municipal bonds		<u>475,981</u>
Total	\$	<u>24,880,955</u>

### 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><u>Total</u></b>
	<b><u>Under 1 Year</u></b>	<b><u>5-10 Years</u></b>	<b><u>10-15 Years</u></b>	<b><u>15-20 Years</u></b>	<b><u>Over 20 Years</u></b>	
Equity mutual funds	\$ 12,649,774					\$ 12,649,774
External investment pool	6,788,379					6,788,379
Government obligations	690,354	\$ 497,346				1,187,700
Corporate bonds	1,558,530	2,220,591				3,779,121
Municipal bonds	<u>175,981</u>			<u>\$150,000</u>	<u>\$ 150,000</u>	<u>475,981</u>
Total investments	<u>\$ 21,863,018</u>	<u>\$ 2,717,937</u>	<u>\$</u>	<u>\$150,000</u>	<u>\$ 150,000</u>	<u>\$ 24,880,955</u>

# THE NATOMAS BASIN CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

### 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	\$ 6,788,379
Equity mutual funds	Not rated	12,649,774
Government obligations	AAA	121,219
Government obligations	AA+	1,066,479
Corporate bonds	AAA	257,193
Corporate bonds	AA-	739,216
Corporate bonds	AA+	663,025
Corporate bonds	A	1,019,019
Corporate bonds	A-	743,567
Corporate bonds	A+	357,102
Municipal bonds	A-1+	150,000
Municipal bonds	A-1	150,000
Municipal bonds	Not rated	<u>175,982</u>
Total		<u>\$ 24,880,955</u>

### 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, 2011.

### 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 NATOMAS BASIN CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

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The Conservancy's investments of \$6,788,379 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 \$12,649,774 are registered in the Conservancy's name, and \$5,833,160 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 ASSETS

**Fund balances** \$ 24,744,116

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

Capital assets	\$ 36,190,234	
Less: accumulated depreciation	<u>(2,207,520)</u>	
		33,982,714

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>(35,051)</u>	
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**Net assets** \$ 59,009,964



# THE NATOMAS BASIN CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

**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** \$ (1,042,301)

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	37,666
Depreciation expense	(303,059)

The net effect of land sales is an increase in net assets. (462,370)

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	(1,783)
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**Change in net assets** \$ (1,771,847)

**6. CAPITAL ASSETS**

A summary of changes in capital assets for the year ended December 31, 2011, is as follows:

	<u>1/1/11</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/11</u>
<b>Capital assets not being depreciated:</b>				
Land	\$ 32,270,247		\$ (462,370)	\$ 31,807,877
<b>Capital assets being depreciated:</b>				
Land improvements	4,268,369	\$ 27,000		4,295,369
Office and other equipment	76,322	10,666		86,988
	4,344,691	37,666		4,382,357
<b>Accumulated depreciation:</b>				
Accum. depreciation, land improvements	(1,866,274)	(287,807)		(2,154,081)
Accum. depreciation, office equipment	(38,187)	(15,252)		(53,439)
	(1,904,461)	(303,059)		(2,207,520)
Total capital assets, net	\$ 34,710,477	\$ (265,393)	\$ (462,370)	\$ 33,982,714

**7. RELATED PARTY TRANSACTIONS**

During the year ended December 31, 2011, the Conservancy paid \$12,376 to the City of Sacramento for investment services.

# THE NATOMAS BASIN CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

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### 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>	
2012	\$ 76,405
2013	57,725
2014	72,613
2015	<u>67,978</u>
	<u>\$ 274,721</u>

Rent expense for the year ended December 31, 2011, was \$67,617.

### 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, 2011.

### 10. LONG-TERM RECEIVABLE

As of December 31, 2011, 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. DUE TO CITY OF SACRAMENTO

In December 2011, the City of Sacramento Parks Department prepaid \$657,074 into the Conservancy's City Pool A account mitigation fees for a parks project of 17.5 acres not expected to be developed until 2012. Prior to December 31, 2011 the City notified the Conservancy it would be rescinding these prepaid mitigation fees in January 2012 as the project was not ready to move forward. Therefore, the deposit in the Conservancy's Pool A investment account is due to the City of Sacramento.

# THE NATOMAS BASIN CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

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### 12. INTERFUND ACTIVITY

Interfund balances as of December 31, 2011, consisted of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Administration	SAFCA NLIP	\$ 20,460

Transfers in and out of other funds consisted of the following during the year ending December 31, 2011:

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Amount</u>
Administration Fund	Endowment Fund	\$ 9,500
	Land Acquisition Fund	125,000
	Restoration & Enhancement Fund	21,150
	<b>Total</b>	<u>\$ 155,650</u>

During 2011 the U.S. Department of Fish and Wildlife determined that fees received before establishment of the NBHCP should be recognized as HCP mitigation fees and allocated to the appropriate funds. The transfer in and transfer out above represents the transfer of those fees.

### 13. 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.

### 14. 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, 2011, was \$37,404.

# THE NATOMAS BASIN CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

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### 15. 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 (31,491). 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, 2010, 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.

### 16. RESTATEMENT OF NET ASSETS

As of January 1, 2011 the Conservancy recorded a restatement to increase receivables and its beginning net assets balance to recognize revenue that was earned during 2005 through 2009 (see Note 10). The restatement was a result of research performed by Conservancy staff to determine that MAPPOA under paid mitigation fees beginning in 2005. The effect of this restatement to recognize receivables earned is as follows:

	<u>Conservancy-wide Statements</u>
December 31, 2010 net assets, as previously reported	\$ 60,463,626
Recognition of revenue as a result of recording receivable	<u>318,185</u>
December 31, 2010 net assets, as restated	<u>\$ 60,781,811</u>

**REQUIRED SUPPLEMENTARY INFORMATION**

# THE NATOMAS BASIN CONSERVANCY

## BUDGETARY COMPARISON SCHEDULE - ADMINISTRATION FUND FOR THE YEAR ENDED DECEMBER 31, 2011

	Budget Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Mitigation fees	\$ 837,760	\$ 610,560		\$ (610,560)
Rent revenue	320,000	320,000	\$ 403,690	83,690
Investment income (loss)	80,690	80,690	5,758	(74,932)
Other income	100,000	100,000	144,897	44,897
Total Revenues	<u>1,338,450</u>	<u>1,111,250</u>	<u>554,345</u>	<u>(556,905)</u>
<b>EXPENDITURES</b>				
Conservancy operations:				
Personnel services	467,188	456,987	368,714	88,273
Materials and services	2,198,496	2,190,697	2,364,883	(174,186)
Capital outlay			10,666	(10,666)
Total Expenditures	<u>2,665,684</u>	<u>2,647,684</u>	<u>2,744,263</u>	<u>(96,579)</u>
<b>OTHER SOURCES</b>				
Transfers out			(155,650)	(155,650)
Total Other Sources			<u>(155,650)</u>	<u>(155,650)</u>
Excess of Expenditures Over Revenues	<u>\$ (1,327,234)</u>	<u>\$ (1,536,434)</u>	<u>\$ (2,345,568)</u>	<u>\$ (809,134)</u>

# THE NATOMAS BASIN CONSERVANCY

## BUDGETARY COMPARISON SCHEDULE - RESTORATION AND ENHANCEMENT SPECIAL REVENUE FUND FOR THE YEAR ENDED DECEMBER 31, 2011

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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	\$ 67,512	\$ 55,872		\$ (55,872)
Investment income (loss)	6,448	6,448	\$ 3,291	(3,157)
Total Revenues	<u>73,960</u>	<u>62,320</u>	<u>3,291</u>	<u>(59,029)</u>
<b>EXPENDITURES</b>				
Total Expenditures	_____	_____	_____	_____
<b>OTHER USES</b>				
Transfers in	_____	_____	21,150	21,150
Total Other Uses	_____	_____	<u>21,150</u>	<u>21,150</u>
Excess of Revenues Over Expenditures	<u>\$ 73,960</u>	<u>\$ 62,320</u>	<u>\$ 24,441</u>	<u>\$ (37,879)</u>

# THE NATOMAS BASIN CONSERVANCY

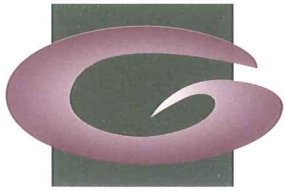
## BUDGETARY COMPARISON SCHEDULE - SAFCA NLIP SPECIAL REVENUE FUND FOR THE YEAR ENDED DECEMBER 31, 2011

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	Budget Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Land management		\$ 70,594	\$ 254,842	\$ 184,248
Investment income (loss)		8,500	4,440	(4,060)
Total Revenues		<u>79,094</u>	<u>259,282</u>	<u>180,188</u>
<b>EXPENDITURES</b>				
Land mitigation:				
Personnel services		8,997	6,220	2,777
Materials and services		<u>61,597</u>	<u>262,958</u>	<u>(201,361)</u>
Total Expenditures		<u>70,594</u>	<u>269,178</u>	<u>(198,584)</u>
Excess of Expenditures Over Revenues	\$	<u>\$ 8,500</u>	<u>\$ (9,896)</u>	<u>\$ (18,396)</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**

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

We have audited 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, 2011, which collectively comprise the Conservancy's basic financial statements and have issued our report thereon dated March 27, 2012. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Conservancy's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Conservancy's internal control over financial reporting.

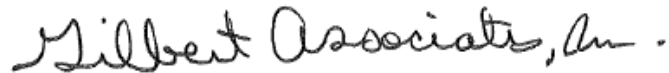
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Conservancy's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Conservancy's financial statements are free of 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 matters of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, Audit Committee, and management of the Conservancy and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Gilbert Associates, Inc." followed by a period.

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

**March 27, 2012**