

**THE NATOMAS BASIN  
CONSERVANCY**

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

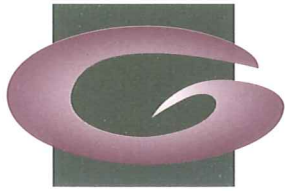
**YEAR ENDED DECEMBER 31, 2006**

**THE NATOMAS BASIN CONSERVANCY**  
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**FOR THE YEAR ENDED DECEMBER 31, 2006**

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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, 2006, 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, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2007, 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.

**To the Board of Directors  
The Natomas Basin Conservancy  
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The Management's Discussion and Analysis on pages 3 through 6 and the budgetary comparison information on pages 20 and 21 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Conservancy's basic financial statements. The accompanying additional financial information is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional financial information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

*Gilbert Associates, Inc.*

**GILBERT ASSOCIATES, INC.**

**April 25, 2007**

**THE NATOMAS BASIN CONSERVANCY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

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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, 2006. We encourage readers to consider the information presented here in conjunction with the Conservancy's financial statements, which begin on page 7.

**FINANCIAL HIGHLIGHTS**

- The net assets of the Conservancy at the close of the most recent fiscal year were \$58,190,729. Of that amount, \$35,958,776 is invested in capital assets (net of related debt) and an additional \$7,324,031 is permanently restricted to provide income for the future operation of the Conservancy. Unrestricted net assets total \$12,090,673, which includes the Supplemental Land and Contingency Fund (referred to in the Natomas Basin Habitat Conservation Plan as the Supplemental Endowment Fund) assets of \$1,648,478. The Supplemental Land Fund does have conditions on its use.
- The Conservancy's balance of cash and investments at December 31, 2006, was \$22,502,500, representing an increase of \$5,334,010 from December 31, 2005.
- The Conservancy had general revenues of \$1,440,809 and program revenues of \$6,375,943. Program expenses were \$2,540,057 and capital outlays were \$360,810 for the year ended December 31, 2006.
- 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) supplementary schedules. The Conservancy-wide and fund financial statements are presented in a combined format on pages 7 and 8. Items in the adjustment column are discussed in notes 4 and 5 to the financial statements.

The Conservancy adopted Governmental Accounting Standards Board (GASB) Statement No. 34 for the year ended December 31, 2001. The intent of GASB Statement No. 34 is to reflect all assets and liabilities of the Conservancy. It also redefines the way various funds are classified into fund types and focuses attention on major funds. The Conservancy has only governmental-type funds and all are major.

**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).

**THE NATOMAS BASIN CONSERVANCY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

**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 legal requirements. The Conservancy has five 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. Such information may be useful in evaluating the Conservancy's near-term financing requirements.

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 9 through 19 of this report.

**CONSERVANCY-WIDE FINANCIAL ANALYSIS**

The Natomas Basin Conservancy  
Summary of Net Assets  
Conservancy-wide Activities  
As of December 31, 2006 and 2005

	December 31, 2006	December 31, 2005	Increase (Decrease)
Current and other assets	\$ 22,580,728	\$ 17,252,474	\$ 5,328,254
Capital assets	35,958,776	35,970,958	(12,182)
Total assets	<u>58,539,504</u>	<u>53,223,432</u>	<u>5,316,072</u>
Long-term liabilities	18,825	16,686	2,139
Other liabilities	329,950	292,712	37,238
Total liabilities	<u>348,775</u>	<u>309,398</u>	<u>39,377</u>
Net assets:			
Invested in capital assets	35,958,776	35,970,958	(12,182)
Restricted for giant garter snakes	214,649		214,649
Restricted for endowment - permanently	7,324,031	6,560,296	763,735
Restricted for endowment - temporarily	2,602,600	1,588,285	1,014,315
Unrestricted	12,090,673	8,794,495	3,296,178
Total net assets	<u>\$ 58,190,729</u>	<u>\$ 52,914,034</u>	<u>\$ 5,276,695</u>

Net assets represent the difference between the Conservancy's resources and its obligations. At December 31, 2006, approximately 62% of the Conservancy's net assets are 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, 2006**

The Natomas Basin Conservancy  
Changes in Net Assets  
Conservancy-wide Activities  
As of December 31, 2006 and 2005

	December 31, 2006	December 31, 2005	Increase (Decrease)
<b>Revenues</b>			
Program revenues:			
Mitigation fees - Cash	\$ 5,049,348	\$ 5,600,713	\$ (551,365)
Mitigation fees - Land		7,195,449	(7,195,449)
Rent revenue	221,388	223,860	(2,472)
Investment income	1,105,207	473,588	631,619
General revenues:			
Investment income	616,746	228,053	388,693
Other	60,328	164,071	(103,743)
Mitigation fees contributed to Endowment Fund	763,735	1,964,462	(1,200,727)
Total revenues	<u>7,816,752</u>	<u>15,850,196</u>	<u>(8,033,444)</u>
<b>Expenses</b>			
Land management	2,540,057	2,289,210	250,847
Increase in net assets	<u>\$ 5,276,695</u>	<u>\$ 13,560,986</u>	<u>\$ (8,284,291)</u>

The Conservancy received \$5,813,083 in mitigation fees during 2006. Of that amount, \$763,735 was contributed to the Endowment Fund. During 2006, mitigation fees were collected for 132.27 acres of development and catch-up fees were paid for 84.01 additional acres. In comparison, mitigation fees were collected for 678.39 acres in 2005. The per acre fee rate was also increased during 2006 to \$41,182 (\$18,682 with land dedication) from \$24,897 (\$12,397 with land dedication) in 2005.

Investment income increased as compared to 2005 due to an investment reallocation and gains on investments at year-end. Rent revenues decreased slightly due to lower cash rents, which reflect the general decline in agricultural markets and certain properties being fallowed. Other income includes reimbursement for water costs from tenant farmers, a property tax refund and reimbursement for legal fees on the Huffman West acquisition.

Land management expenses increased as the acreage under Conservancy management increased. Acreage under Conservancy management increased approximately 8% in 2006, from 3,965 acres to 4,284. The new properties received in land exchanges are Bolen West and Nestor (for Brennan) and Bianchi West, Elsie and Frazer South (for Ayala).

In 2007, pending certain adjudications by the County of Sacramento, the Conservancy will relinquish approximately 95.87 acres between the Bianchi West and Frazer South tracts and anticipates a gain of \$3,152,728 in this transaction.



**THE NATOMAS BASIN CONSERVANCY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

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**CONSERVANCY BUDGET ANALYSIS**

The Conservancy presented one budget to the Board of Directors for approval. There were no subsequent changes made to the budget during the course of the year. The budget-to-actual schedule is shown on page 20. This schedule reflects the Administration Fund only. The decrease in mitigation revenue is due to a decrease in the number of acres mitigated, which is correlated to the general real estate market in the region. The Conservancy budgeted for 300 mitigated acres and 216.28 acres were mitigated in 2006. The increase in expenditures was due to the increased property acres, which translates into increased property taxes and supplemental property taxes, legal expenses related to land acquisition and various expenses for property maintenance.

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

The focus of the Conservancy's funds, all of which are governmental-type funds, is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Conservancy's financing requirements. In particular, fund balance may serve as a useful measure of the Conservancy's net resources available for spending for program purposes at the end of the fiscal year.

As of the end of the current fiscal year, the Conservancy's funds have a total balance of \$22,250,778, most of which is restricted or designated. The Conservancy's major source of revenues is mitigation fees established by City of Sacramento ordinance. The Conservancy's major expenditures are capital outlay for the acquisition and management of habitat land. Capital assets are not shown on the fund statements since they are not available for near-term financing of the Conservancy's operations.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

***CAPITAL ASSETS***

As of December 31, 2006 the Conservancy's investment in capital assets was \$35,958,776. Capital assets are stated at cost, net of accumulated depreciation. This investment in capital assets includes land and land improvements.

Major capital asset purchases during the current fiscal year include the following:

- Capital expenditures of \$139,499 were made to acquire Conservancy land;
- Capital expenditures of \$185,631 were made for land improvements to the Conservancy's land;
- Capital expenditures of \$26,280 were made to improve buildings standing on Conservancy land; and
- Capital expenditures of \$9,400 were made for office equipment

Additional information on the Conservancy's capital assets can be found in note 6 on page 17 of this report.

**CONTACTING THE CONSERVANCY'S FINANCIAL MANAGEMENT**

The financial report is designed to provide a general overview of the Conservancy's finances for all those with an interest. 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, 2006**

	<u>Administration</u>	<u>Restoration &amp; Enhancement</u>	<u>Supplemental Land and Contingency</u>	<u>Land Acquisition</u>	<u>Endowment</u>	<u>Total</u>	<u>Adjustments Note(4)</u>	<u>Statement of Net Assets</u>
<b>ASSETS:</b>								
Current Assets:								
Cash and investments held by City of Sacramento	\$ 1,695,084	\$ 680,505	\$ 873	\$ 2,158,630	\$ 4,717	\$ 4,539,809		\$ 4,539,809
Cash and investments held by fiscal agent	5,613,477		1,647,601	779,718		8,040,796		8,040,796
Receivables								
Account	43,391					43,391		43,391
Interest - City of Sacramento	6,316	2,739	4	9,509	19	18,587		18,587
Prepaid items	16,250					16,250		16,250
Non-Current Assets:								
Restricted cash and investments held by fiscal agent					9,921,895	9,921,895		9,921,895
Land							\$ 33,398,882	33,398,882
Capital assets, net							2,559,894	2,559,894
Total Assets	<u>\$ 7,374,518</u>	<u>\$ 683,244</u>	<u>\$ 1,648,478</u>	<u>\$ 2,947,857</u>	<u>\$ 9,926,631</u>	<u>\$ 22,580,728</u>	<u>35,958,776</u>	<u>58,539,504</u>
<b>LIABILITIES:</b>								
Current Liabilities:								
Accounts payable	\$ 325,644			\$ 4,306		\$ 329,950		329,950
Non-Current Liabilities:								
Compensated absences							18,825	18,825
Total Liabilities	<u>325,644</u>			<u>4,306</u>		<u>329,950</u>	<u>18,825</u>	<u>348,775</u>
<b>FUND BALANCE AND NET ASSETS:</b>								
Fund Balances:								
Reserved								
Reserved for encumbrances	269,206					269,206	(269,206)	
Reserved for prepaid items	16,250					16,250	(16,250)	
Reserved for giant garter snakes	214,649					214,649	(214,649)	
Reserved for endowment - permanently					\$ 7,324,031	7,324,031	(7,324,031)	
Reserved for endowment - temporarily					2,602,600	2,602,600	(2,602,600)	
Unreserved	<u>6,548,769</u>	<u>\$ 683,244</u>	<u>\$ 1,648,478</u>	<u>2,943,551</u>		<u>11,824,042</u>	<u>(11,824,042)</u>	
Total Fund Balances	<u>7,048,874</u>	<u>683,244</u>	<u>1,648,478</u>	<u>2,943,551</u>	<u>9,926,631</u>	<u>22,250,778</u>	<u>(22,250,778)</u>	
Total Liabilities and Fund Balances	<u>\$ 7,374,518</u>	<u>\$ 683,244</u>	<u>\$ 1,648,478</u>	<u>\$ 2,947,857</u>	<u>\$ 9,926,631</u>	<u>\$ 22,580,728</u>		
Net Assets:								
Invested in capital assets							35,958,776	35,958,776
Restricted for giant garter snakes							214,649	214,649
Restricted for endowment - permanently							7,324,031	7,324,031
Restricted for endowment - temporarily							2,602,600	2,602,600
Unrestricted							12,090,673	12,090,673
Total net assets							<u>\$ 58,190,729</u>	<u>\$ 58,190,729</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**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Administration</u>	<u>Restoration &amp; Enhancement</u>	<u>Supplemental Land and Contingency</u>	<u>Land Acquisition</u>	<u>Endowment</u>	<u>Total</u>	<u>Adjustments Note(5)</u>	<u>Statement of Activities</u>
<b>REVENUES:</b>								
Program revenues:								
Charges for services:								
Mitigation fees	\$ 1,599,566	\$ 178,841	\$ 141,638	\$ 3,129,303		\$ 5,049,348		\$ 5,049,348
Rent revenue	221,388					221,388		221,388
Operating grants and contributions:								
Investment income					\$ 1,105,207	1,105,207		1,105,207
Total program revenues	<u>1,820,954</u>	<u>178,841</u>	<u>141,638</u>	<u>3,129,303</u>	<u>1,105,207</u>	<u>6,375,943</u>		<u>6,375,943</u>
General revenues:								
Endowment contributions - mitigation fees					763,735	763,735		763,735
Investment income	293,567	23,272	171,986	127,921		616,746		616,746
Other income	52,362			4,984		57,346	\$ 2,982	60,328
Total general revenues	<u>345,929</u>	<u>23,272</u>	<u>171,986</u>	<u>132,905</u>	<u>763,735</u>	<u>1,437,827</u>	<u>2,982</u>	<u>1,440,809</u>
Total revenues	<u>2,166,883</u>	<u>202,113</u>	<u>313,624</u>	<u>3,262,208</u>	<u>1,868,942</u>	<u>7,813,770</u>	<u>2,982</u>	<u>7,816,752</u>
<b>EXPENDITURES:</b>								
Land mitigation:								
Personnel services	354,110					354,110	2,139	356,249
Materials and services	1,839,064	480	12,781	20,461	90,892	1,963,678		1,963,678
Depreciation							220,130	220,130
Capital outlay	35,664			325,146		360,810	(360,810)	
Total expenditures	<u>2,228,838</u>	<u>480</u>	<u>12,781</u>	<u>345,607</u>	<u>90,892</u>	<u>2,678,598</u>	<u>(138,541)</u>	<u>2,540,057</u>
Excess of revenues over expenditures	(61,955)	201,633	300,843	2,916,601	1,778,050	5,135,172	141,523	5,276,695
<b>OTHER FINANCING SOURCES:</b>								
Proceeds from land trade				155,844		155,844	(155,844)	
Changes in fund balances/net assets	(61,955)	201,633	300,843	3,072,445	1,778,050	5,291,016	(14,321)	5,276,695
Fund balances/net assets, beginning of period	<u>7,110,829</u>	<u>481,611</u>	<u>1,347,635</u>	<u>(128,894)</u>	<u>8,148,581</u>	<u>16,959,762</u>	<u>35,954,272</u>	<u>52,914,034</u>
Fund balances/net assets, end of period	<u>\$ 7,048,874</u>	<u>\$ 683,244</u>	<u>\$ 1,648,478</u>	<u>\$ 2,943,551</u>	<u>\$ 9,926,631</u>	<u>\$ 22,250,778</u>	<u>\$ 35,939,951</u>	<u>\$ 58,190,729</u>

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

**THE NATOMAS BASIN CONSERVANCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

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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 (the NBHCP), 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 NBHCP applies 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 NBHCP is 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 insure compliance with the terms of the NBHCP.

The Conservancy's Board of Directors is comprised of representatives of each of the two land-use agencies ultimately expected to obtain development permits under the NBHCP: the City of Sacramento and County of Sutter. Each participating local government has appointed 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 as necessary to implement the NBHCP. As the Conservancy acquires land, other funding sources may include agricultural leasing, grants 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 in the Supplemental Land 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.

**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 activities 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

**THE NATOMAS BASIN CONSERVANCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

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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.

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.

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 Fund – This fund is established to account for resources devoted to the restoration, enhancement and monitoring of mitigation land owned by the Conservancy. The Conservancy presents this fund as the Restoration and Enhancement 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, 2006**

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Amounts reported as program revenues include; 1) mitigation fees and farm rent, 2) operating grants and contributions and 3) interest income in the endowment fund. Internally dedicated resources are reported as general revenues rather than as program revenue. The NBHCP addresses the timing related to the use of restricted and certain unrestricted resources.

**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

**Permanent Fund**

In accordance with the Implementation Agreement for the Natomas Basin Habitat Conservation Plan, 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.

**Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

**Reclassifications**

Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation.

**Use of Estimates**

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

**THE NATOMAS BASIN CONSERVANCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

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**3. CASH AND INVESTMENTS**

Cash and investments as of December 31, 2006, are classified in the accompanying financial statements as follows:

Cash and investments held by City of Sacramento	\$ 4,539,809
Cash and investments held by fiscal agent	8,040,796
Restricted cash and investments held by fiscal agent	<u>9,921,895</u>
Total cash and investments	\$ <u>22,502,500</u>

Cash and investments as of December 31, 2006, consist of the following:

Deposits with financial institutions	\$ 55,417
Cash and investments in external investment pool	4,539,809
Cash held by fiscal agent	881,425
Investments held by fiscal agent	<u>17,025,849</u>
Total cash and investments	\$ <u>22,502,500</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 Endowment 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, including NASDAQ. International equity investments of similar quality and marketability will be permitted. Fixed income investments shall be readily marketable securities, including debt instruments of the U.S. Government and its agencies, corporations, and foreign denominated securities, so that the target average portfolio quality is investment grade. High-yield bond mutual funds may also be used when deemed appropriate provided the average portfolio quality remains investment grade or higher.

**THE NATOMAS BASIN CONSERVANCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

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The Conservancy investment policy for the investments held by fiscal agent in the Administration, Restoration and Enhancement, and Land Acquisition 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, auction rate securities, federal agency securities, corporate notes and bonds, and mortgage-backed securities.

An acceptable approved issuer is the United States Government or its agencies, a financial institution or corporation with outstanding debt obligations rated at least AA or Aa or better by either Standard & Poors or Moody's, respectively, or short term securities rated A1 and P1 or better by either Standard & Poors or Moody's, respectively, at the time of purchase.

An investment with an approved issuer shall not exceed 2% of the total assets of the approved issuer measured at the most recent quarterly reporting period prior to making the investment. No more than 20% of the total investments made by the Conservancy should be invested in securities of any one approved issuer. An exception to the 20% limitation is permissible when the total amount invested in an approved issuer does not exceed \$1 million. No limit will be applied to securities issued or guaranteed by the United States Government or any of its agencies.

No more than 30% of the Conservancy's total investments will be managed by one independent investment manager (Manager). An independent investment manager can be a bank, investment brokerage firm, mutual fund, or independent money manager. There are no such restrictions on independent investment consultants. The total investments placed with one Manager may not exceed 5% of the total funds managed by that Manager as measured at the most recent quarterly reporting period prior to making the investment.

Average maturity of investments may range from one (1) day to six (6) months, depending on the individual portfolio by each manager, with final maturity not to exceed eighteen (18) months. No portion of Conservancy funds will be invested in instruments issued outside of the United States.

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.



**THE NATOMAS BASIN CONSERVANCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

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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 regulatory 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. Information regarding the amount of dollars invested in derivatives by the City of Sacramento investment pool was not available.

Investment Summary

At December 31, 2006, the Conservancy's investments consist of the following:

Money market mutual funds	\$ 795,501
Equity mutual funds	10,624,954
Commercial paper	997,960
External investment pool	4,539,809
Fixed income securities	
Government obligations	870,778
Corporate bonds	1,381,536
Municipal bonds	805,929
Other fixed income securities	1,549,191
Total	<u>\$ 21,565,658</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.

**THE NATOMAS BASIN CONSERVANCY**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2006**

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:

	<u>Maturity</u>			Total
	Under 1 Year	15-20 Years	Over 20 Years	
Money market mutual funds	\$ 795,501			\$ 795,501
Equity mutual funds	10,624,954			10,624,954
Commercial paper	997,960			997,960
External investment pool	4,539,809			4,539,809
Government obligations	870,778			870,778
Corporate bonds	1,381,536			1,381,536
Municipal bonds		\$ 100,467	\$ 705,462	805,929
Other fixed income securities	1,549,191			1,549,191
Total investments	<u>\$ 20,759,729</u>	<u>\$ 100,467</u>	<u>\$ 705,462</u>	<u>\$ 21,565,658</u>

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 rating as of year end for each investment type.

	<u>Rating as of End of Year</u>	
City of Sacramento investment pool	Not rated	\$ 4,539,809
Money market mutual funds	Not rated	795,501
Equity mutual funds	Not rated	10,624,954
Commercial paper	A1+	997,960
Government obligations	AAA	870,778
Corporate bonds	AAA/AA	1,090,325
Corporate bonds	AA-/A+	291,211
Municipal bonds	A-1+	805,929
Other fixed income securities	AAA/AA-	1,549,191
Total		<u>\$ 21,565,658</u>

**THE NATOMAS BASIN CONSERVANCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

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Concentration of Credit Risk

There were no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of the total Conservancy investments.

Investments in any one issuer that represent 5% or more of total investments by reporting unit (primary government, governmental activities, major fund, nonmajor funds in the aggregate, etc.) are government obligations issued by the Federal National Mortgage Association and by the Federal Home Loan Bank and represent approximately 6.5% and 6.5%, respectively, of the administration fund's portfolio.

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 legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments.

All of the Conservancy's deposits with financial institutions were covered by federal depository insurance. The investments in the City of Sacramento investment pool are supported by the value of the underlying investments, \$10,687,970 of the equity mutual funds and money market mutual funds are registered in the Conservancy's name, the remaining \$7,219,304 cash and investments held by fiscal agents are uninsured and not registered in the name of the Conservancy.

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

**Fund balances** \$ 22,250,778

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

Capital assets	\$ 36,767,013	
Less: accumulated depreciation	(808,237)	
		35,958,776

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

Accrued compensated absences		(18,825)
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**Net assets** \$ 58,190,729

**THE NATOMAS BASIN CONSERVANCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

**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** \$ 5,291,016

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	360,810
Depreciation expense	(220,130)

The net effect of land trade is to decrease net assets. (152,862)

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	<u>(2,139)</u>
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**Change in net assets** \$ 5,276,695

**6. CAPITAL ASSETS**

A summary of changes in capital assets for the year ended December 31, 2006, is as follows:

	December 31, 2005	Additions	(Deletions)	December 31, 2006
<b>Capital assets not being depreciated:</b>				
Land	\$ 33,392,546	\$ 4,622,294	\$ (4,615,958)	\$ 33,398,882
<b>Capital assets being depreciated:</b>				
Land improvements - habitat	3,015,241	185,631	-	3,200,872
Land improvements - buildings	150,227	26,280	(27,084)	149,423
Office equipment	8,436	9,400	-	17,836
	<u>3,173,904</u>	<u>221,311</u>	<u>(27,084)</u>	<u>3,368,131</u>
<b>Accumulated depreciation:</b>				
Accum. depreciation, habitat	(571,912)	(206,611)	-	(772,070)
Accum. depreciation, buildings	(21,594)	(10,891)	7,385	(31,553)
Accum. depreciation, equipment	(1,986)	(2,628)	-	(4,614)
	<u>(595,492)</u>	<u>(220,130)</u>	<u>7,385</u>	<u>(808,237)</u>
Total capital assets, net	<u>\$ 35,970,958</u>	<u>\$ 4,623,475</u>	<u>\$ (4,635,657)</u>	<u>\$ 35,958,776</u>

**THE NATOMAS BASIN CONSERVANCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

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**7. RELATED PARTY TRANSACTIONS**

During the year ended December 31, 2006, the Conservancy paid \$13,915 to the City of Sacramento for investment services.

**8. OPERATING LEASE**

The Conservancy leases office space in Sacramento under a lease expiring January 31, 2010. Total future minimum operating lease payments are presented as follows:

<u>Year Ending December 31,</u>	
2007	\$ 61,440
2008	63,575
2009	65,711
2010	5,491
	<u>\$ 196,217</u>

Rent expense for the year ended December 31, 2006, was \$59,633.

**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, 2006.

**10. 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, 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 settlements for each of the past three years.

**11. 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. Pension expense incurred for the year ended December 31, 2006, was \$27,172.

**THE NATOMAS BASIN CONSERVANCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

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**12. NATOMAS CENTRAL MUTUAL WATER COMPANY STOCK**

The Conservancy holds 3,505 shares of Natomas Central Mutual Water Company (NCMWC) stock. 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, 2005, the most recent information available, the value of the NCMWC stock held was \$16.89 per share or \$59,199. 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, 2006**

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Mitigation fees	\$ 1,135,365	\$ 1,135,365	\$ 1,599,566	\$ 464,201
Rent revenue	216,430	216,430	221,388	4,958
Investment income	225,000	225,000	293,567	68,567
Other income	12,500	12,500	52,362	39,862
	<u>1,589,295</u>	<u>1,589,295</u>	<u>2,166,883</u>	<u>577,588</u>
<b>EXPENDITURES</b>				
Land mitigation:				
Personnel services	341,696	341,696	354,110	(12,414)
Materials and services	1,663,778	1,663,778	1,839,064	(175,286)
Capital outlay			35,664	(35,664)
	<u>2,005,474</u>	<u>2,005,474</u>	<u>2,228,838</u>	<u>(223,364)</u>
Excess of Expenditures Over Revenues	\$ <u>(416,179)</u>	\$ <u>(416,179)</u>	\$ <u>(61,955)</u>	\$ <u>354,224</u>



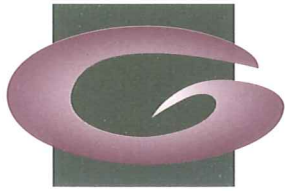
**THE NATOMAS BASIN CONSERVANCY**

**BUDGETARY COMPARISON SCHEDULE - RESTORATION AND ENHANCEMENT FUND**

**FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budget Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Mitigation fees	\$ 529,837	\$ 529,837	\$ 178,841	\$ (350,996)
Investment income			23,272	23,272
Total Revenues	<u>529,837</u>	<u>529,837</u>	<u>202,113</u>	<u>(327,724)</u>
<b>EXPENDITURES</b>				
Land mitigation:				
Materials and services	<u>426,500</u>	<u>426,500</u>	<u>480</u>	<u>426,020</u>
Total Expenditures	<u>426,500</u>	<u>426,500</u>	<u>480</u>	<u>426,020</u>
Excess of Revenues				
Over (Under) Expenditures	<u>\$ 103,337</u>	<u>\$ 103,337</u>	<u>\$ 201,633</u>	<u>\$ 98,296</u>

## **ADDITIONAL FINANCIAL 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 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, 2006, which collectively comprise the Conservancy's basic financial statements, and have issued our report thereon dated April 25, 2007. 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 opinion 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 control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Conservancy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Conservancy's financial statements that is more than inconsequential will not be prevented or detected by the Conservancy's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Conservancy's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

**To the Board of Directors  
The Natomas Basin Conservancy  
Page Two**

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 instances 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 and is not intended to be and should not be used by anyone other than these specified parties.

*Gilbert Associates, Inc.*

**GILBERT ASSOCIATES, INC.**

**April 25, 2007**

**THE NATOMAS BASIN CONSERVANCY  
SCHEDULE OF LAND ADDITIONS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Nestor</u>	<u>Bolen West</u>	<u>Bianchi West</u>	<u>Elsie</u>	<u>Frazer South</u>	<u>Souza</u>	<u>Total</u>
Purchase Price	\$ 562,126	\$ 374,030	\$ 1,193,975	\$ 1,175,243	\$ 1,181,288		\$ 4,486,662
Title Insurance	4,317	2,872	4,803	4,727	4,752		21,471
Escrow Fees	435	290	244	240	241		1,450
Document, recording, and other fees	5,426	3,610	111	109	110		9,366
Accounting, legal, and professional svcs.	16,041	10,674	7,246	10,394	7,260	\$ 51,730	103,345
Total Costs	<u>\$ 588,345</u>	<u>\$ 391,476</u>	<u>\$ 1,206,379</u>	<u>\$ 1,190,713</u>	<u>\$ 1,193,651</u>	<u>\$ 51,730</u>	<u>\$ 4,622,294</u>

**THE NATOMAS BASIN CONSERVANCY  
SCHEDULE OF MITIGATION FEES COLLECTED  
FOR THE YEAR ENDED DECEMBER 31, 2006**

<u>Type of Mitigation Fee</u>	<u>General Fund</u>	<u>Special Revenue</u>	<u>Capital Project</u>		<u>Permanent</u>	<u>Total</u>
	<u>Administration</u>	<u>Restoration &amp; Enhancement</u>	<u>Supplemental Land Endowment</u>	<u>Land Acquisition</u>	<u>Endowment</u>	
GGs Mitigation (Non-HCP)	\$ 215,078					\$ 215,078
Habitat Acquisition Fee				\$ 3,129,303		3,129,303
Endowment Fee			\$ 141,638		\$ 763,735	905,373
Habitat Management Fee	1,356,798	\$ 178,841				1,535,639
Administrative Fee	27,690					27,690
Total Fees Collected	<u>\$ 1,599,566</u>	<u>\$ 178,841</u>	<u>\$ 141,638</u>	<u>\$ 3,129,303</u>	<u>\$ 763,735</u>	<u>\$ 5,813,083</u>