



FINANCIAL STATEMENTS WITH INDEPENDENT AUDITOR'S  
REPORT

Year ended December 31, 2016

**The Natomas Basin Conservancy**



# THE NATOMAS BASIN CONSERVANCY

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## **INTRODUCTORY SECTION**

# THE NATOMAS BASIN CONSERVANCY

## BOARD OF DIRECTORS



Davin Norene, *Board Chair*  
Steve Willey, *Vice Chair*  
David Christophel, *Secretary*  
Bill Edgar, *Treasurer*  
Kay Backer, *Board Member*  
Chandra Chilmakuri, *Board Member*  
Jill Leal, *Board Member*  
Kevin McRae, *Board Member*  
Jeff Norton, *Board Member*  
Charee Thurman, *Board Member*

## STAFF



John Roberts, *Executive Director*  
Kimberli Burns, *Business & Accounting Manager*  
Jennifer Skupic, *Contract & Compliance Manager*  
Valerie Huezo, *Administrative Assistant*  
Jeremy Lor, *Field Services Assistant*

*the*  
**NATOMAS**  
**BASIN**  
*conservancy*

*The Natomas Basin Conservancy is a California  
Non-profit Public Benefit Corporation*

**916.649.3331**

2150 River Plaza Drive  
Suite 460  
Sacramento, CA 95833

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*Thank you for visiting our site today, please come back soon.*

# THE NATOMAS BASIN CONSERVANCY

## *A letter from the Board Chair and Executive Director*

We are pleased to share with you this 2016 annual financial report of the Natomas Basin Conservancy. We create and manage habitat for 22 Covered Species, oversee the investment of approximately \$20,000,000 in endowment funds, and manage contractors who help us accomplish our mission.

Below are highlights from 2016:

- Mitigation fees. The Conservancy received mitigation fees for development in Metro Air Park. In recent years, any mitigation fees that had been received were largely from public works projects.
- Property tax reassessments. After years of effort and appeal, the Conservancy was successful in obtaining property tax reassessments for certain of its properties. This will save the Conservancy and consequently HCP fee payers money.
- Water. The Conservancy received a full allotment of water in 2016. After a long drought, this was welcome news for the HCP's Covered Species and farm tenants.

The Conservancy's Board and management present this year-end 2016 audited financial report. We are thankful to all who continue to help implement the Natomas Basin Habitat Conservation Plan and Metro Air Park Habitat Conservation Plan and we look forward to continuing this work in 2017.



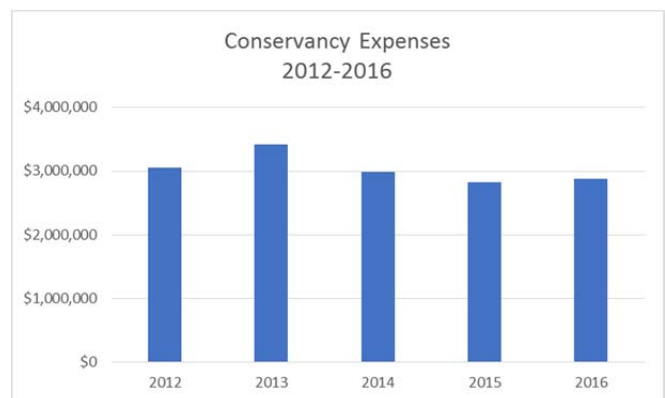
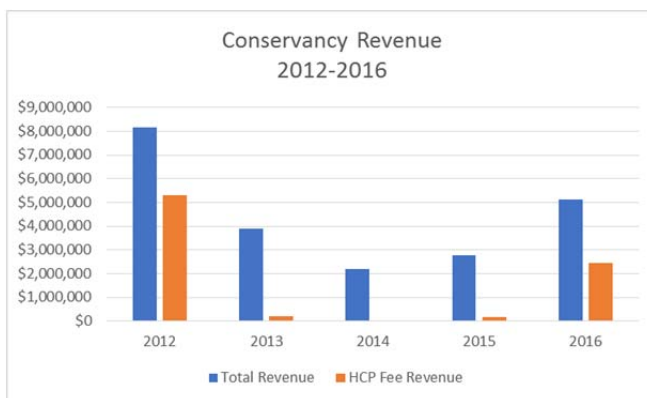
Davin Norene

2016 Board Chair



John Roberts

Executive Director & Chief Executive Officer



## **FINANCIAL SECTION**

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## **INDEPENDENT AUDITOR'S REPORT**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of the Natomas Basin Conservancy (the Conservancy), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Conservancy's basic financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Conservancy, as of December 31, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 6 through 10 and the budgetary comparison information on pages 27 through 29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Conservancy's basic financial statements. The introductory section, as listed in the table of contents, and the Schedule of Mitigation Fees Collected (Schedule) are presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2017, 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

To the Board of Directors  
The Natomas Basin Conservancy  
Page three

reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Conservancy's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Gilbert Associates, Inc.".

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

**March 24, 2017**

# THE NATOMAS BASIN CONSERVANCY

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2016

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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, 2016. We encourage readers to consider the information presented here in conjunction with the Conservancy's financial statements, which begin on page 11.

### **FINANCIAL HIGHLIGHTS**

- The Conservancy's net position for 2016 is \$66,076,216, of which \$33,414,613 is invested in capital assets, \$18,102,027 is invested in the Conservancy's Endowment Fund and the balance of \$14,559,576 is invested in the Conservancy's non-endowment funds.
- Total cash and investments at December 31, 2016, were \$32,978,305.
- Mitigation fee revenue in 2016 was \$2,446,683, which was an increase of \$2,268,064 over 2015 of \$178,619.
- Investment income from all funds in 2016 was \$1,507,292, an increase of \$1,292,926 over 2015 of \$214,366.
- Conservancy expenses totaled \$2,872,638 in 2016, which was a slight increase of \$49,512 over 2015 of \$2,823,126.

### **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 11 through 14.

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.

### **CONSERVANCY-WIDE FINANCIAL STATEMENTS**

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

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

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

# THE NATOMAS BASIN CONSERVANCY

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2016

### FUND FINANCIAL STATEMENTS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Conservancy uses fund accounting. The Conservancy has six funds (Land Acquisition, Restoration & Enhancement, Endowment, Supplemental Land & Contingency, Administration, and SAFCA), all of which are governmental-type funds.

### NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the Conservancy-wide and fund financial statements. The notes to the financial statements can be found on pages 15 through 26 of this report.

### CONSERVANCY-WIDE FINANCIAL ANALYSIS

The Natomas Basin Conservancy  
Summary of Net Position  
Conservancy-wide Activities  
As of December 31, 2016 and 2015

	<u>December 31, 2016</u>	<u>December 31, 2015</u>	<u>Increase/Decrease</u>
Current and other assets	\$ 33,241,386	\$ 30,550,841	\$ 2,690,545
Capital assets	<u>33,414,613</u>	<u>33,627,289</u>	<u>(212,676)</u>
Total assets	<u>66,655,999</u>	<u>64,178,130</u>	<u>2,477,869</u>
Current liabilities	519,464	300,948	218,516
Non-Current liabilities	<u>60,319</u>	<u>56,982</u>	<u>3,337</u>
Total liabilities	<u>579,783</u>	<u>357,930</u>	<u>221,853</u>
Net position:			
Net investment in capital assets	33,414,613	33,627,289	(212,676)
Restricted for giant garter snakes	204,808	204,808	-
Restricted for SAFCA NLIP	881,374	875,497	5,877
Restricted for endowment – permanent	10,024,965	9,518,971	505,994
Restricted for endowment – temporary	8,077,062	6,918,090	1,158,972
Unrestricted	<u>13,473,394</u>	<u>12,675,546</u>	<u>797,848</u>
Total net position	<u>\$ 66,076,216</u>	<u>\$ 63,820,200</u>	<u>\$ 2,256,016</u>

Net position represents the difference between the Conservancy's resources and its obligations. At December 31, 2016, approximately 50% of the Conservancy's net position is invested in land and land improvements. These lands are acquired and enhanced to provide habitat for protected plant and animal species. At present the Conservancy has no outstanding debt obligations.

The Conservancy presently holds 4,131 acres in the Natomas Basin, of which 4,104 acres are owned in fee simple title and 27 acres are held in easements. All land purchases and land dedications are recorded

# THE NATOMAS BASIN CONSERVANCY

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2016

at their acquisition cost. Land assets currently booked are \$32,488,554. However, if the Conservancy's total land assets were booked at the value published in the Natomas Basin Habitat Conservation Plan (NBHCP) Finance Model, they would be booked at \$92,947,500 ("fair value" basis). The NBHCP Finance Model is a required annual economic analysis of the Conservancy's operations and a projection of revenue and expense through the 50-year life of the NBHCP.

The two graphs below (Figure 1, Total Conservancy Assets, and Figure 2, Restricted Net Position) are for December 31, 2016.

Figure 1

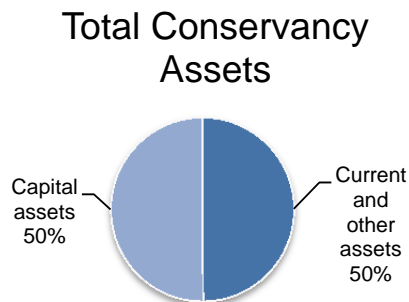
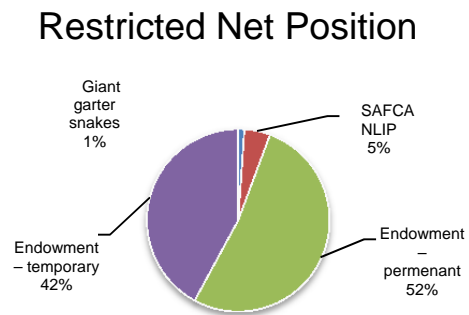


Figure 2



The Natomas Basin Conservancy  
Changes in Net Position  
Conservancy-wide Activities  
For the year ended December 31, 2016 and 2015

	<u>December 31, 2016</u>	<u>December 31, 2015</u>	<u>Increase/Decrease</u>
<b>Revenues</b>			
Program revenues:			
Mitigation fees	\$ 1,940,689	\$ 140,928	\$ 1,799,761
Rent revenue	787,647	803,328	(15,681)
Land Management	65,261	135,782	(70,521)
Groundwater Exchange Program	-	1,113,995	(1,113,995)
Investment income	1,226,222	152,493	1,073,729
General revenues:			
Mitigation fees contributed to			
Endowment Fund	505,994	37,691	468,303
Investment income	281,070	61,873	219,197
Other	321,771	330,609	(8,838)
Total revenues	<u>5,128,654</u>	<u>2,776,699</u>	<u>2,351,955</u>
<b>Expenses</b>			
Conservancy operations	<u>2,872,638</u>	<u>2,823,126</u>	<u>49,512</u>
Increase (Decrease) in net position	2,256,016	(46,427)	2,302,443
<b>Net Position, beginning of period</b>	<u>63,820,200</u>	<u>63,866,627</u>	<u>(46,427)</u>
<b>Net Position, end of period</b>	<u>\$ 66,076,216</u>	<u>\$ 63,820,200</u>	<u>\$ 2,256,016</u>

# THE NATOMAS BASIN CONSERVANCY

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2016

The NBHCP mitigation fee per acre in 2016 was \$32,259 per disturbed acre (\$21,009 with land dedication), which was the same in 2015. The Conservancy received \$2,446,683 in mitigation fees in 2016.

Investment income increased \$1,292,926 from \$214,366 in 2015 to \$1,507,292 in 2016 due to market fluctuations. The Conservancy was reimbursed for certain water costs from tenant farmers. In addition, the Conservancy received \$104,860 from Sutter County for reassessment of properties. This amount represents a refund of four years' worth of reassessed property taxes.

Conservancy expenses in 2016 were \$2,872,638, compared to 2015 expenses of \$2,823,126. The small increase was largely due to a full allotment of surface water and no groundwater exchange program offsets.

The two graphs below present year-over-year revenue comparisons for 2016 and 2015.

Figure 3

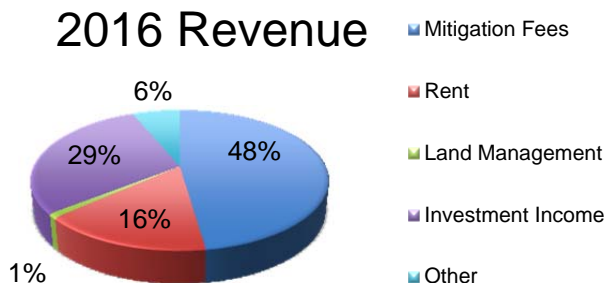
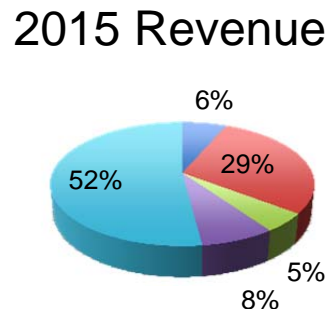


Figure 4



### CONSERVANCY BUDGET ANALYSIS

Conservancy management presented a draft annual 2016 budget to the Conservancy's Board of Directors in October 2015 and a final proposed budget in December 2015, which was approved by the Board. The Board of Directors approved a mid-year budget revision in May 2016. In the budget revision, revenue was decreased largely due to no groundwater exchange program for 2016. The budget-to-actual schedules for the year are shown on pages 27 - 29.

### FINANCIAL ANALYSIS OF THE CONSERVANCY'S FUNDS

As of December 31, 2016, the Conservancy's fund balances totaled \$32,721,922, an increase of \$2,472,029 compared to fund balances of \$30,249,893 at December 31, 2015. The increase is mostly due to mitigation fee revenue. The Conservancy's major source of revenue is typically from mitigation fees but in 2015 the major sources of revenue were groundwater exchange program and rent revenue. The Conservancy's typical major expenditures are for the acquisition and management of habitat land, including but not limited to property taxes, water, land management and maintenance and biological effectiveness monitoring.

# **THE NATOMAS BASIN CONSERVANCY**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2016**

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### **CAPITAL ASSETS**

As of December 31, 2016, the Conservancy's investment in capital assets was \$33,414,613. Capital assets are stated at cost, net of accumulated depreciation. This investment in capital assets includes land and land improvements. Additional information on the Conservancy's capital assets can be found in note 6 on page 24 of this report.

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

The combined impact of the soft real estate economy and a de-facto building moratorium due to federal government flood risk determinations have had significant impacts on the Conservancy's budget. As of June 16, 2015, the Federal Emergency Management Agency issued new flood insurance rate maps that provided Natomas Basin with an A99 flood zone designation, which now allows construction in Natomas. As a result, the Conservancy anticipates that construction will resume slowly over the next several years.

The Sacramento Area Flood Control Agency (SAFCA) embarked on a flood levee construction project in 2009, 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 has been required for such work. The Conservancy has entered into agreements with SAFCA to conduct mitigation and related activity. These efforts generate modest revenue for the Conservancy.

The Conservancy's Board of Directors approved a budget for 2017 which projects a modest amount of mitigation revenue for the year. The 2017 budget also projects expenses for completion of the updates to the NBHCP's Site-Specific Management Plans for all Conservancy properties.

### **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.



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# THE NATOMAS BASIN CONSERVANCY

## STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET DECEMBER 31, 2016

	<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	\$ 130,829	\$ 7,683			\$ 71,634
Cash and investments held by fiscal agents	5,373,737	1,838,639	\$ 1,082,869	\$ 2,936,018	3,417,305
Receivables:					
Account	202,848		13,256		
Interest	6,576	10,922	7,510		10,187
Prepaid items	11,782				
Due from other funds	30,658				
Non-Current Assets:					
Restricted cash and investments held by fiscal agent					
Land					
Capital assets, net					
Total Assets	<u>\$ 5,756,430</u>	<u>\$ 1,857,244</u>	<u>\$ 1,103,635</u>	<u>\$ 2,936,018</u>	<u>\$ 3,499,126</u>
<b>LIABILITIES:</b>					
Current Liabilities:					
Accounts payable	\$ 305,701		\$ 985	\$ 2,846	
Unearned revenue			190,618		
Deposits payable	1,750				
Due to other funds			30,658		
Non-Current Liabilities:					
Compensated absences					
Total Liabilities	<u>307,451</u>	<u></u>	<u>222,261</u>	<u>2,846</u>	<u></u>
<b>FUND BALANCE/NET POSITION:</b>					
Net investment in capital assets					
Nonspendable:					
Prepaid expenses	11,782				
Endowment					
Restricted:					
Giant garter snakes	204,808				
Brookfield property			881,374		
Endowment:					
Expendable					
Nonexpendable					
Committed:					
Restoration & enhancement		\$ 1,857,244			
Supplemental land acquisition				2,933,172	
Land acquisition					\$ 3,499,126
Unassigned/Unrestricted	5,232,389				
Total Fund Balances/Net Position	<u>5,448,979</u>	<u>1,857,244</u>	<u>881,374</u>	<u>2,933,172</u>	<u>3,499,126</u>
Total Liabilities, Fund Balances and Net Position	<u>\$ 5,756,430</u>	<u>\$ 1,857,244</u>	<u>\$ 1,103,635</u>	<u>\$ 2,936,018</u>	<u>\$ 3,499,126</u>

# THE NATOMAS BASIN CONSERVANCY

## STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET (CONTINUED) DECEMBER 31, 2016

<u>Endowment</u>	<u>Total Fund Balance</u>	<u>Adjustments (Notes 4 &amp; 10)</u>	<u>Statement of Net Position</u>	
	\$ 210,146		\$ 210,146	<b>ASSETS:</b>
	14,648,568		14,648,568	Current Assets:
	216,104		216,104	Cash and investments held by City of Sacramento
	35,195		35,195	Cash and investments held by fiscal agent
	11,782		11,782	Receivables:
	30,658	\$ (30,658)		Account
				Interest
				Prepaid items
				Due from other funds
				Non-Current Assets:
\$ 18,119,591	18,119,591		18,119,591	Restricted cash and investments held by fiscal agent
		32,488,554	32,488,554	Land
		926,059	926,059	Capital assets, net
\$ 18,119,591	\$ 33,272,044	\$ 33,383,955	\$ 66,655,999	Total Assets
				<b>LIABILITIES:</b>
\$ 17,564	\$ 327,096		\$ 327,096	Current Liabilities:
	190,618		190,618	Accounts payable
	1,750		1,750	Unearned revenue
	30,658	\$ (30,658)		Deposits payable
				Due to other funds
				Non-Current Liabilities:
		60,319	60,319	Compensated absences
17,564	550,122	29,661	579,783	Total Liabilities
				<b>FUND BALANCE/NET POSITION:</b>
		33,414,613	33,414,613	Net investment in capital assets
	11,782	(11,782)		Nonspendable:
10,024,965	10,024,965	(10,024,965)		Prepaid expenses
				Endowment
	204,808		204,808	Restricted:
	881,374		881,374	Giant garter snakes
				Brookfield property
				Endowment:
8,077,062	8,077,062		8,077,062	Expendable
		10,024,965	10,024,965	Nonexpendable
				Committed:
	1,857,244	(1,857,244)		Restoration & enhancement
	2,933,172	(2,933,172)		Supplemental land acquisition
	3,499,126	(3,499,126)		Land acquisition
	5,232,389	8,241,005	13,473,394	Unassigned/Unrestricted
18,102,027	32,721,922	33,354,294	66,076,216	Total Fund Balances/Net Position
\$ 18,119,591	\$ 33,272,044	\$ 33,383,955	\$ 66,655,999	Total Liabilities, Fund Balances and Net Position

# THE NATOMAS BASIN CONSERVANCY

## STATEMENTS OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED DECEMBER 31, 2016

	<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:					
Mitigation fees	\$ 891,151	\$ 97,620		\$ 41,718	\$ 910,200
Rent revenue	787,647				
Land management			\$ 65,261		
Operating grants and contributions:					
Investment income					
Total program revenues	<u>1,678,798</u>	<u>97,620</u>	<u>65,261</u>	<u>41,718</u>	<u>910,200</u>
General revenues:					
Endowment contributions - mitigation fees					
Investment income	32,532	16,832	9,350	199,965	22,391
Other income	<u>321,771</u>				
Total general revenues	<u>354,303</u>	<u>16,832</u>	<u>9,350</u>	<u>199,965</u>	<u>22,391</u>
Total Revenues	<u>2,033,101</u>	<u>114,452</u>	<u>74,611</u>	<u>241,683</u>	<u>932,591</u>
<b>EXPENDITURES:</b>					
Land mitigation:					
Personnel services	526,027		14,795		
Materials and services	1,925,670		53,939	10,972	
Depreciation					
Loss on equipment disposal					
Capital outlay	<u>33,137</u>				<u>24,835</u>
Total Expenditures	<u>2,484,834</u>		<u>68,734</u>	<u>10,972</u>	<u>24,835</u>
Changes in Fund Balances/Net Position	(451,733)	114,452	5,877	230,711	907,756
Fund Balances/Net Position, beginning of period	<u>5,900,712</u>	<u>1,742,792</u>	<u>875,497</u>	<u>2,702,461</u>	<u>2,591,370</u>
Fund Balances/Net Position, end of period	<u>\$ 5,448,979</u>	<u>\$ 1,857,244</u>	<u>\$ 881,374</u>	<u>\$ 2,933,172</u>	<u>\$ 3,499,126</u>

# THE NATOMAS BASIN CONSERVANCY

## STATEMENTS OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2016

<u>Endowment</u>	<u>Total Fund Balance</u>	<u>Adjustments (Note 5)</u>	<u>Statement of Activities</u>	
	\$ 1,940,689		\$ 1,940,689	<b>REVENUES:</b>
	787,647		787,647	Program revenues:
	65,261		65,261	Charges for services:
				Mitigation fees
				Rent revenue
				Land management
				Operating grants and contributions:
				Investment income
\$ 1,226,222	1,226,222		1,226,222	
1,226,222	4,019,819		4,019,819	Total program revenues
				General revenues:
505,994	505,994		505,994	Endowment contributions - mitigation fees
	281,070		281,070	Investment income
	321,771		321,771	Other income
505,994	1,108,835		1,108,835	Total general revenues
1,732,216	5,128,654		5,128,654	Total Revenues
				<b>EXPENDITURES:</b>
	540,822	\$ 3,337	544,159	Land mitigation:
67,250	2,057,831		2,057,831	Personnel services
		269,546	269,546	Materials and services
		1,102	1,102	Depreciation
	57,972	(57,972)		Loss on equipment disposal
67,250	2,656,625	216,013	2,872,638	Capital outlay
				Total Expenditures
1,664,966	2,472,029	(216,013)	2,256,016	Changes in Fund Balances/Net Position
16,437,061	30,249,893	33,570,307	63,820,200	Fund Balances/Net Position, beginning of period
\$ 18,102,027	\$ 32,721,922	\$ 33,354,294	\$ 66,076,216	Fund Balances/Net Position, end of period

# THE NATOMAS BASIN CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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### 1. ORGANIZATION

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

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

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

#### **Funding**

The Conservancy is primarily funded from mitigation fees established by the Conservancy and approved by local government ordinance. The mitigation fees include components for land acquisition, restoration and enhancement, endowment, supplemental endowment, and administration. The fees are to be adjusted each year as necessary to implement the HCPs. The Conservancy's acquisition of land has led to funding sources such as agricultural leasing which are consistent with the HCPs. Additionally, the Conservancy generates land management revenue through agreements with the Sacramento Area Flood Control Agency (SAFCA).

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, 2016

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

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

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

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

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

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

The Conservancy reports the following major governmental funds:

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

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

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

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

# THE NATOMAS BASIN CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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Amounts reported as program revenues include; 1) mitigation fees and farm rent, 2) contributions, 3) land management, and 4) interest income in the endowment fund. Internally dedicated resources are reported as general revenues rather than as program revenue. The HCPs 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 HCPs, 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 \$60,319 in accrued compensated absences as of December 31, 2016.

### **Fund Equity**

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

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

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



# THE NATOMAS BASIN CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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

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

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

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

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

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

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

### **Use of Estimates**

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

### **Current Year GASB Implementation**

For the year ended December 31, 2016, the Conservancy implemented GASB Statement No. 72 (GASB 72), *Fair Value Measurement and Application*. The primary objective of GASB 72 is to provide guidance for applying fair value to certain investments and disclosures related to fair value measurements. The implementation of GASB 72 did not have a material effect on the financial statements. The additional disclosure requirements implemented with GASB 72 are included in note 3.

# THE NATOMAS BASIN CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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### 3. CASH AND INVESTMENTS

Cash and investments as of December 31, 2016, are classified in the accompanying financial statements as follows:

Cash and investments held by City of Sacramento	\$ 210,146
Cash and investments held by fiscal agent	14,648,568
Restricted cash and investments held by fiscal agent	<u>18,119,591</u>
Total cash and investments	<u>\$ 32,978,305</u>

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

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

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

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

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

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

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

# THE NATOMAS BASIN CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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The 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 sixty (60) months. 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, 2016.

### Cash and Investment Summary

At December 31, 2016, the Conservancy's cash and investments consist of the following:

Deposits with financial institutions	\$ 746,832
Cash and cash equivalents held by fiscal agents	<u>1,280,907</u>
Cash and cash equivalents	<u>2,027,739</u>
Fixed income mutual funds	13,445,534
Equity mutual funds	12,916,409
External investment pool	210,145
Fixed income securities:	
Government obligations	484,694
Corporate bonds	<u>3,893,784</u>
Investments	<u>30,950,566</u>
Total cash and investments	<u>\$ 32,978,305</u>

# THE NATOMAS BASIN CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

### Disclosures Relating to Interest Rate Risk

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

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

	<b>Maturity</b>					<b>Total</b>
	<b>Under 1 Year</b>	<b>1-5 Years</b>	<b>5-10 Years</b>	<b>10-15 Years</b>	<b>Over 15 Years</b>	
Fixed income mutual funds	\$ 13,445,534					\$ 13,445,534
Equity mutual funds	12,130,233	\$ 786,176				12,916,409
External investment pool	210,145					210,145
Government obligations	352,384	132,310				484,694
Corporate bonds	2,655,540	1,238,244				3,893,784
Total investments	<u>\$ 28,793,836</u>	<u>\$ 2,156,730</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 30,950,566</u>

# THE NATOMAS BASIN CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

### 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.

	<u>Rating as of End of Year</u>	
City of Sacramento investment pool	Not rated	\$ 210,145
Fixed income mutual funds	Not rated	13,445,533
Equity mutual funds	Not rated	12,916,409
Government obligations	Not rated	55,560
Government obligations	AAA	429,134
Corporate bonds	AAA	23,985
Corporate bonds	AA	171,360
Corporate bonds	AA-	663,604
Corporate bonds	A+	971,496
Corporate bonds	A	1,293,755
Corporate bonds	A-	674,677
Corporate bonds	BBB+	124,908
Total		<u>\$ 30,950,566</u>

### Concentration of Credit Risk

There were no investments in any one issuer (excluding mutual funds and external investment pools) that represent 5% or more of the total Conservancy investments at December 31, 2016.

### Custodial Credit Risk

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

The Conservancy's cash equivalents with fiscal agents, investments in the City of Sacramento investment pool, fixed income mutual funds, and equity mutual funds, are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. The Conservancy's fixed income securities of \$4,378,478 are held by fiscal agents, uninsured, and not registered in the name of the Conservancy. Cash balances held in banks are fully insured up to \$250,000 by the Federal Depository Insurance Corporation. The amount of excess deposits was \$509,257 as of December 31, 2016.

# THE NATOMAS BASIN CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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### Fair Value Measurement

GASB 72 requires the Conservancy to use valuation techniques which are appropriate under the circumstances and are either a market approach, a cost approach or an income approach. Statement No. 72 establishes a hierarchy of inputs used to measure fair value consisting of three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs other than quoted prices included within Level 1, which are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs.

The City of Sacramento Pool is subject to fair value measurement; however, it is not subject to the fair value measurement hierarchy. The fixed income mutual funds of \$13,445,534 and equity mutual funds of \$12,916,409 are classified as Level 1 of the fair value hierarchy because they are valued using quoted market prices or net asset value. The corporate bonds of \$3,893,784 and government obligations of \$484,694 are classified as Level 2 of the hierarchy because they are valued using a matrix pricing model.

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

**Fund balances** \$ 32,721,922

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

Capital assets	\$ 37,035,263	
Less: accumulated depreciation	<u>(3,620,650)</u>	
		33,414,613

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>(60,319)</u>
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**Net position** \$ 66,076,216

# THE NATOMAS BASIN CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

**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** \$ 2,472,029

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	57,972
Depreciation expense	(269,546)

The net effect of equipment disposals is a decrease in net position. (1,102)

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

Compensated absences	(3,337)
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**Change in net position** \$ 2,256,016

**6. CAPITAL ASSETS**

A summary of changes in capital assets for the year ended December 31, 2016, is as follows:

	<u>1/1/16</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/16</u>
<b>Capital assets not being depreciated:</b>				
Land	\$ 32,488,554			\$ 32,488,554
<b>Capital assets being depreciated:</b>				
Land improvements	4,437,302	\$ 26,367	\$ (1,554)	4,462,115
Office and other equipment	55,685	31,605	(2,696)	84,594
	4,492,987	57,972	(4,250)	4,546,709
<b>Accumulated depreciation:</b>				
Accum. depreciation, land improvements	(3,306,325)	(264,143)	1,253	(3,569,215)
Accum. depreciation, office equipment	(47,927)	(5,403)	1,895	(51,435)
	(3,354,252)	(269,546)	3,148	(3,620,650)
Total capital assets, net	\$ 33,627,289	\$ (211,574)	\$ (1,102)	\$ 33,414,613

# THE NATOMAS BASIN CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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### 7. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2016, the Conservancy paid \$411 to the City of Sacramento for investment services.

### 8. OPERATING LEASE

The Conservancy leases office space in Sacramento under a lease expiring March 31, 2021. Total future minimum operating lease payments are presented as follows:

<u>Year Ending December 31,</u>	
2017	\$ 65,309
2018	66,995
2019	68,680
2020	70,365
2021	<u>17,697</u>
	<u>\$ 289,046</u>

Rent expense for the year ended December 31, 2016, was \$47,471, which included three months free rent.

### 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. The Conservancy did not draw upon the line of credit for the year ended December 31, 2016 and there was no outstanding principal balance at December 31, 2016.

### 10. INTERFUND ACTIVITY

Interfund balances as of December 31, 2016, consisted of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Administration	SAFCA NLIP	<u>\$ 30,658</u>



# THE NATOMAS BASIN CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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### 11. RISK MANAGEMENT

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

### 12. RETIREMENT PLAN

The Conservancy offers retirement benefits in the form of a Simplified Employee Pension-Individual Retirement Account defined contribution plan (the Plan) under Internal Revenue Code Section 408(k). The Plan covers all eligible employees who have completed at least six months 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, 2016, was \$51,659.

### 13. NATOMAS CENTRAL MUTUAL WATER COMPANY STOCK

The Conservancy holds 3,366 shares of Natomas Central Mutual Water Company (NCMWC) stock or approximately 11% of NCMWC's outstanding shares (31,706). The shares are attached to each land parcel owned by the Conservancy within the NCMWC's territory. When land is traded or sold, the stock associated with that land is automatically transferred. Ownership of this stock has costs associated with rights for delivery of water service for which the Conservancy pays NCMWC upon receipt of invoice. In the event the Conservancy wishes to cancel its shares and thereby cancel obligation for future assessments, water tolls, and services, the Conservancy must apply for cancellation, obtain NCMWC's board approval, and pay a cancellation fee of \$3,500 per share. At December 31, 2015, the most recent information available, the par value of the NCMWC stock held was \$10.00 per share or \$33,660. However, NCMWC's share price is not published, shares are not merchantable in and of themselves, since the shares are appurtenant to the land owned and NCMWC remains a non-profit organization. The estimated value and potential liability have not been recorded in these financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION**

# THE NATOMAS BASIN CONSERVANCY

## BUDGETARY COMPARISON SCHEDULE - ADMINISTRATION FUND FOR THE YEAR ENDED DECEMBER 31, 2016

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	Budget Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Mitigation fees	\$ 717,080	\$ 717,080	\$ 891,151	\$ 174,071
Rent revenue	452,839	452,839	787,647	334,808
Investment income	90,000	90,000	32,532	(57,468)
Other income	890,000	90,000	321,771	231,771
Total Revenues	<u>2,149,919</u>	<u>1,349,919</u>	<u>2,033,101</u>	<u>683,182</u>
<b>EXPENDITURES</b>				
Conservancy operations:				
Personnel services	546,015	546,015	526,027	19,988
Materials and services	2,551,653	2,551,653	1,925,670	625,983
Capital outlay			33,137	(33,137)
Total Expenditures	<u>3,097,668</u>	<u>3,097,668</u>	<u>2,484,834</u>	<u>612,834</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ (947,749)</u>	<u>\$ (1,747,749)</u>	<u>\$ (451,733)</u>	<u>\$ 1,296,016</u>

**THE NATOMAS BASIN CONSERVANCY**  
**BUDGETARY COMPARISON SCHEDULE -**  
**RESTORATION AND ENHANCEMENT SPECIAL REVENUE FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

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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	\$ 77,220	\$ 77,220	\$ 97,620	\$ 20,400
Investment income	<u>30,000</u>	<u>30,000</u>	<u>16,832</u>	<u>(13,168)</u>
Total Revenues	<u>107,220</u>	<u>107,220</u>	<u>114,452</u>	<u>7,232</u>
<b>EXPENDITURES</b>				
Total Expenditures	_____	_____	_____	_____
Excess of Revenues Over Expenditures	<u>\$ 107,220</u>	<u>\$ 107,220</u>	<u>\$ 114,452</u>	<u>\$ 7,232</u>

# THE NATOMAS BASIN CONSERVANCY

## BUDGETARY COMPARISON SCHEDULE - SAFCA NLIP SPECIAL REVENUE FUND FOR THE YEAR ENDED DECEMBER 31, 2016

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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>				
Land management	\$ 69,160	\$ 69,160	\$ 65,261	\$ (3,899)
Investment income	<u>20,000</u>	<u>20,000</u>	<u>9,350</u>	<u>(10,650)</u>
Total Revenues	<u>89,160</u>	<u>89,160</u>	<u>74,611</u>	<u>(14,549)</u>
<b>EXPENDITURES</b>				
Land mitigation:				
Personnel services			14,795	(14,795)
Materials and services	<u>53,000</u>	<u>53,000</u>	<u>53,939</u>	<u>(939)</u>
Total Expenditures	<u>53,000</u>	<u>53,000</u>	<u>68,734</u>	<u>(15,734)</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	<u>\$ 36,160</u>	<u>\$ 36,160</u>	<u>\$ 5,877</u>	<u>\$ (30,283)</u>

## **ADDITIONAL INFORMATION**

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

**Independent Auditor's Report**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Natomas Basin Conservancy (the Conservancy), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Conservancy's basic financial statements, and have issued our report thereon dated March 24, 2017.

**Internal Control Over Financial Reporting**

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

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


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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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



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

**March 24, 2017**



**THE NATOMAS BASIN CONSERVANCY**

**SCHEDULE OF MITIGATION FEES COLLECTED  
FOR THE YEAR ENDED DECEMBER 31, 2016**

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<u>Type of Mitigation Fee</u>	<u>General Fund</u>	<u>Special Revenue</u>	<u>Capital Project</u>		<u>Permanent</u>	<u>Total</u>
	<u>Administration</u>	<u>Restoration &amp; Enhancement</u>	<u>Supplemental Land and Contingency</u>	<u>Land Acquisition</u>	<u>Endowment</u>	
Habitat Acquisition Fee					\$ 505,994	\$ 505,994
Endowment Fee			\$ 41,718	\$ 910,200		951,918
Habitat Management Fee	\$ 891,151	\$ 97,620				988,771
Total Fees Collected	<u>\$ 891,151</u>	<u>\$ 97,620</u>	<u>\$ 41,718</u>	<u>\$ 910,200</u>	<u>\$ 505,994</u>	<u>\$ 2,446,683</u>

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