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**THE NATOMAS BASIN
CONSERVANCY
A COMPONENT UNIT
OF THE CITY OF SACRAMENTO**

Independent Auditor's Report,
General-Purpose Financial Statements and
Additional Information

For the Six Months Ended December 31, 1999

OFFICE LOCATIONS

Sacramento • Los Angeles • San Francisco Bay Area

**THE NATOMAS BASIN CONSERVANCY
A COMPONENT UNIT OF THE CITY OF SACRAMENTO
FOR THE SIX MONTHS ENDED DECEMBER 31, 1999**

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Board of Directors
The Natomas Basin Conservancy
Sacramento, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying general-purpose financial statements of the Natomas Basin Conservancy (Conservancy), a component unit of the City of Sacramento, as of and for the six months ended December 31, 1999. These general-purpose financial statements are the responsibility of the Conservancy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. 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 opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Natomas Basin Conservancy as of December 31, 1999, and the results of its operations and the cash flows of its nonexpendable trust fund for the six months then ended in conformity with generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The accompanying additional financial information is presented for purposes of additional analysis and is not a required part of the general-purpose financial statements. This additional financial information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general-purpose financial statements taken as a whole.

Macias, Gini & Company LLP

Certified Public Accountants

Sacramento, California
March 3, 2000

THE NATOMAS BASIN CONSERVANCY
A COMPONENT UNIT OF THE CITY OF SACRAMENTO
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUP
DECEMBER 31, 1999

	Governmental Fund Types			Fiduciary	Account Group	Total (Memorandum Only)
	General Fund	Special Revenue	Capital Projects	Nonexpendable Trust	General Fixed Assets	
	Administration	Restoration & Enhancement	Land Acquisition	Endowment		
ASSETS						
Cash and investments held by City	\$ 1,297,130	\$ 610,965	\$ 782,426	\$ 319,035	--	\$ 3,009,556
Cash held by fiscal agent	31,078	--	--	--	--	31,078
Receivables						
Accounts	1,725	--	--	--	--	1,725
Interest	20,291	9,270	11,743	4,811	--	46,115
Prepaid items	2,113	--	--	--	--	2,113
Fixed assets	--	--	--	--	\$ 4,833,376	4,833,376
Total assets	<u>\$ 1,352,337</u>	<u>\$ 620,235</u>	<u>\$ 794,169</u>	<u>\$ 323,846</u>	<u>\$ 4,833,376</u>	<u>\$ 7,923,963</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable and accrued expenses	\$ 30,872	--	--	--	--	\$ 30,872
Deposits payable	1,600	--	--	--	--	1,600
Total liabilities	<u>32,472</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>32,472</u>
Equity and other credits						
Investment in general fixed assets	--	--	--	--	\$ 4,833,376	4,833,376
Fund balances:						
Reserved for endowment	--	--	--	\$ 306,280	--	306,280
Unreserved:						
Undesignated	1,319,865	\$ 620,235	\$ 794,169	17,566	--	2,751,835
Total fund balances	<u>1,319,865</u>	<u>620,235</u>	<u>794,169</u>	<u>323,846</u>	<u>4,833,376</u>	<u>7,891,491</u>
Total liabilities and fund balances	<u>\$ 1,352,337</u>	<u>\$ 620,235</u>	<u>\$ 794,169</u>	<u>\$ 323,846</u>	<u>\$ 4,833,376</u>	<u>\$ 7,923,963</u>

The notes are an integral part of these general-purpose financial statements.

THE NATOMAS BASIN CONSERVANCY
A COMPONENT UNIT OF THE CITY OF SACRAMENTO
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUND TYPES
FOR THE SIX MONTHS ENDED DECEMBER 31, 1999

	<u>Governmental Fund Types</u>			Total (Memorandum Only)
	<u>General Fund</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
	<u>Administration</u>	<u>Restoration & Enhancement</u>	<u>Land Acquisition</u>	
Revenues:				
Mitigation Fees	\$ 548,853	\$ 199,448	\$ 1,845,274	\$ 2,593,575
Rent income	4,250	--	--	4,250
Investment income	36,144	14,511	17,791	68,446
Total revenues	<u>589,247</u>	<u>213,959</u>	<u>1,863,065</u>	<u>2,666,271</u>
Expenditures:				
Current:				
Administration				
Personnel	84,108	--	--	84,108
Miscellaneous office	21,770	--	--	21,770
Utilities	15,780	--	--	15,780
Board expense	2,475	--	--	2,475
Legal services	44,411	--	--	44,411
Other professional services	23,215	--	--	23,215
Insurance	7,860	--	--	7,860
Property tax	53,796	--	--	53,796
Consultant	3,534	--	--	3,534
Contract work	7,234	--	--	7,234
Rent	5,864	--	--	5,864
Property maintenance	8,686	--	--	8,686
Machinery and equipment	12,915	--	--	12,915
Total current expenditures	<u>291,648</u>	<u>--</u>	<u>--</u>	<u>291,648</u>
Excess of revenues over expenditures	<u>297,599</u>	<u>213,959</u>	<u>1,863,065</u>	<u>2,374,623</u>
Fund balances (deficits), beginning of period	<u>1,022,266</u>	<u>406,276</u>	<u>(1,068,896)</u>	<u>359,646</u>
Fund balances, end of period	<u>\$ 1,319,865</u>	<u>\$ 620,235</u>	<u>\$ 794,169</u>	<u>\$ 2,734,269</u>

The notes are an integral part of these general-purpose financial statements.

THE NATOMAS BASIN CONSERVANCY
A COMPONENT UNIT OF THE CITY OF SACRAMENTO
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE
NONEXPENDABLE TRUST FUND
FOR THE SIX MONTHS ENDED DECEMBER 31, 1999

	<u>Endowment Fund</u>
Operating revenues	
Mitigation fees	\$ 106,903
Investment income	9,323
Total operating revenues	<u>116,226</u>
Operating expenses	<u>--</u>
Operating income	<u>116,226</u>
Net income	116,226
Fund balance, beginning of period	<u>207,620</u>
Fund balance, end of period	<u><u>\$ 323,846</u></u>

The notes are an integral part of these general-purpose financial statements.

THE NATOMAS BASIN CONSERVANCY
A COMPONENT UNIT OF THE CITY OF SACRAMENTO
STATEMENT OF CASH FLOWS
NONEXPENDABLE TRUST FUND
FOR THE SIX MONTHS ENDED DECEMBER 31, 1999

	Endowment Fund
Cash flows from operating activities:	
Operating income	\$ 116,226
Adjustment to reconcile operating income to net cash provided by operating activities:	
Investment income	(9,323)
Net cash provided by operating activities	106,903
Cash flows from investing activities:	
Interest received	4,512
Net cash provided by investing activities	4,512
Net increase in cash	111,415
Cash, beginning of period	207,620
Cash, end of period	\$ 319,035

The notes are an integral part of these general-purpose financial statements.

**THE NATOMAS BASIN CONSERVANCY
A COMPONENT UNIT OF THE CITY OF SACRAMENTO
NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999**

NOTE 1 - ORGANIZATION

The Natomas Basin Conservancy (the Conservancy) is a California non-profit 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), for using the fees to establish mitigation lands, and for managing the mitigation lands for the benefit of the protected plant and animal species living 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, Sacramento County and Sutter County. 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 will be comprised of representatives of each of the three land use agencies expected to obtain development permits under the NBHCP: the City of Sacramento, Sacramento County and Sutter County. During the period covered by these financial statements, the City of Sacramento is the only agency implementing the NBHCP and appointed all members of the Conservancy's Board of Directors. There are currently five members on the Board of Directors. In accordance with Government Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*, the City of Sacramento has financial accountability for the Conservancy and the Conservancy therefore is a component unit of the City of Sacramento for financial reporting purposes.

The Conservancy adopted a calendar year-end for financial and income tax reporting purposes since its last audited financial statements dated June 30, 1999. These financial statements are prepared as of and for the six-month period ended December 31, 1999.

Funding

The Conservancy is primarily funded from mitigation fees. The mitigation fees include components for land acquisition, management, endowment and administration. The fees are adjusted as is necessary to maintain the requirements of the NBHCP. As the Conservancy acquires land, other funding sources may include income from rice cultivation, agricultural leasing, grants and other sources of revenue.

THE NATOMAS BASIN CONSERVANCY
A COMPONENT UNIT OF THE CITY OF SACRAMENTO
NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 1999

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - Fund Accounting

The accounts of the Conservancy are organized on the basis of funds and account group, each of which is considered a separate accounting entity. The Conservancy has created several types of funds and a number of discrete funds within each fund type. Each fund is accounted for by a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures/expenses. The individual funds account for the resources allocated to them for the purpose of carrying on specific activities in accordance with laws, regulations or other restrictions.

The funds are grouped into two fund types and four generic funds described below:

Governmental fund types - These are the funds used to account for all financial resources except those required to be accounted for in another fund.

General fund: this fund is established to account for resources devoted to administration of the activities of the Conservancy. 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 Fund: this fund is established to account for major capital expenditures of the Conservancy, primarily the acquisition of mitigation land. The Conservancy presents this fund as the Land Acquisition Fund.

Fiduciary fund type - This fund is established to account for assets held by the Conservancy as a trustee. The nonexpendable trust fund is used to account for the endowment component of the mitigation fee. The investment income from the endowment fund is available to meet long-term miscellaneous management and maintenance needs relating to Conservancy lands. The Conservancy presents this fund as the Endowment Fund.

Account group - In addition to the fund types, the Conservancy also maintains a General Fixed Asset Account Group. This is not a fund but rather an account group that is used to account for fixed assets acquired for the general purposes of the Conservancy.

**THE NATOMAS BASIN CONSERVANCY
A COMPONENT UNIT OF THE CITY OF SACRAMENTO
NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 1999**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation - Fund Accounting (Continued)

The column captioned “Total (Memorandum Only)” on the accompanying financial statements is not necessary for a fair presentation of the financial statements, but is presented as additional analytical data. This column does not present consolidated financial information.

Basis of Accounting

All governmental funds are accounted for using the current financial resources measurement focus and are maintained on the modified accrual basis of accounting. Operating statements of these funds present increases (i.e. revenues and other financing sources) and decreases (i.e. expenditures and other financing uses) as changes in fund balances. Under the modified accrual basis of accounting revenues are recognized in the accounting period that they become measurable and available. Expenditures are recognized in the accounting period in which the related fund liability is incurred, if measurable.

The nonexpendable trust fund is accounted for on the flow of economic resources measurement focus and uses the accrual basis of accounting. Under this measurement focus, all assets and liabilities associated with the operation of this fund are included on the balance sheet. Operating statements present increases (i.e. revenues) and decreases (i.e. expenses) as changes in net total assets. Revenues for this fund are recognized in the period earned and expenses are recognized in the period incurred.

**THE NATOMAS BASIN CONSERVANCY
A COMPONENT UNIT OF THE CITY OF SACRAMENTO
NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 1999**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation - Fund Accounting (Continued)

Cash

The Conservancy participates in the City of Sacramento investment pool. The City Treasurer pools cash with other City funds and invests 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. Investments are reported at fair value in accordance with Governmental Accounting Standards Board Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." The fair value of investments in the pool are based on quoted market prices. The value of the pool shares that may be withdrawn is determined on an amortized cost basis, which is different than the fair value of the Conservancy's position in the pool.

Cash held by fiscal agent represents the payroll cash account deposited with a bank, which is entirely insured.

For purposes of the Statement of Cash Flows, the Conservancy considers its pooled investment in the City of Sacramento investment pool and cash held by fiscal agent as cash and cash equivalents because they are essentially demand deposit accounts.

Fixed Assets

The Conservancy capitalizes equipment, furniture and fixtures expenditures in excess of \$5,000. Fixed asset acquisitions are recorded at cost. Donated assets are recorded at their estimated fair value on the date of contribution. Depreciation is not recorded in the general fixed assets account group.

Endowment Fund

In accordance with the City of Sacramento Implementation Agreement for the Natomas Basin Habitat Conservation Plan, the Conservancy is required to reserve all endowment fees collected in a separate dedicated account. Interest earnings will be used to meet long-term miscellaneous management and maintenance needs relating to Conservancy lands.

Fund Equity

Reservations of fund balance represent those portions of fund equity not available for appropriation or legally segregated for a specific future use.

**THE NATOMAS BASIN CONSERVANCY
A COMPONENT UNIT OF THE CITY OF SACRAMENTO
NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 1999**

NOTE 3 – GENERAL FIXED ASSETS

A summary of changes in general fixed assets for the six months ended December 31, 1999, is as follows:

	July 1, <u>1999</u>	Additions (Deletions)	December 31, <u>1999</u>
Land	<u>\$4,833,376</u>	<u>\$ --</u>	<u>\$4,833,376</u>

NOTE 4 - CONTINGENCIES

Certain environmental groups have joined to file lawsuits in the Superior Court of the County of Sacramento and in United States District Court challenging, under the California Endangered Species Act and the Federal Endangered Species Act, the adequacy and the manner of implementation of the Natomas Basin Habitat Conservation Plan. The lawsuits seek to halt further development in the Natomas Basin until the alleged defects in the NBHCP are remedied. The Conservancy is not named in the lawsuits but the outcome could affect its ability to collect mitigation fees to support its operations.

The lawsuit filed in the Superior Court of the County of Sacramento was heard and a decision in favor of the implementation of the Natomas Basin Habitat Conservation Plan was issued on February 2, 2000. The plaintiffs have filed a notice of appeal in the case.

Hearings were held in the United States District Court lawsuit on February 25 and March 3, 2000. The judge's decision in this case has not been issued.

The Conservancy believes that development will continue to occur in the Natomas Basin. However, there are no assurances that the California Department of Fish and Game and the United States Fish and Wildlife Service will not impose additional conditions or requirements with respect to the implementation of the NBHCP.

NOTE 5 – RELATED PARTY TRANSACTIONS

In July 1999, the Conservancy entered into a fiscal services agreement with the City of Sacramento. Under the terms of the agreement, the City will provide bookkeeping, accounting and investment services to the Conservancy. At December 31, 1999, the Conservancy owed \$6,000 to the City under this agreement.

ADDITIONAL FINANCIAL INFORMATION

**THE NATOMAS BASIN CONSERVANCY
A COMPONENT UNIT OF THE CITY OF SACRAMENTO
SCHEDULE OF MITIGATION FEES COLLECTED
FOR THE SIX MONTHS ENDED DECEMBER 31, 1999**

	Governmental Fund Types			Fiduciary Fund Type	Total
	General Fund	Special Revenue Restoration & Enhancement	Capital Project Land Acquisition	Nonexpendable Trust Endowment	
Mitigation fees:					
Habitat acquisition	-	-	\$ 1,845,274	-	\$ 1,845,274
Habitat management	\$ 497,326	\$ 199,448	-	-	696,774
Endowment	-	-	-	\$ 106,903	106,903
Administrative	51,527	-	-	-	51,527
Total	<u>\$ 548,853</u>	<u>\$ 199,448</u>	<u>\$ 1,845,274</u>	<u>\$ 106,903</u>	<u>\$ 2,700,478</u>