

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

Independent Auditor's Report
Financial Statements and
Additional Information

For the Year Ended December 31, 2001

**THE NATOMAS BASIN CONSERVANCY
A COMPONENT UNIT OF THE CITY OF SACRAMENTO
FOR THE YEAR ENDED DECEMBER 31, 2001**

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Board of Directors
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 Sacramento, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of the Natomas Basin Conservancy (Conservancy), a component unit of the City of Sacramento, as of and for the year ended December 31, 2001. These basic financial statements are the responsibility of the Conservancy's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 basic financial statements referred to above present fairly, in all material respects, the financial position of the Natomas Basin Conservancy as of December 31, 2001, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, the Conservancy adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments*; GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, as of January 1, 2001.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic 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 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.

Macias, Gini & Company LLP
 Certified Public Accountants

Sacramento, California
 March 1, 2002

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Natomas Basin Conservancy (the Conservancy), a component unit of the City of Sacramento, 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, 2001. We encourage readers to consider the information presented here in conjunction with the Conservancy's financial statements, which begin on page 5.

FINANCIAL HIGHLIGHTS

- The net assets of the Conservancy at the close of the most recent fiscal year were \$13,413,196. Of that amount, \$8,766,437 is invested in capital assets and an additional \$923,185 is permanently restricted to provide income for the future operation of the Conservancy.
- The Conservancy's cash balance at December 31, 2001 was \$4,810,783, representing an increase of \$1,581,639 from December 31, 2000. Of that amount, approximately \$3,400,000 was spent in February 2002, to acquire additional mitigation land.
- The Conservancy had general revenues of \$775,090 and program revenues of \$3,924,986. Program expenses were \$755,114 and capital outlays were \$2,488,651 for the year ended December 31, 2001.
- 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, and 3) notes to the financial statements. The Conservancy-wide and fund financial statements are presented in a combined format on pages 5 and 6. Items in the adjustment column are discussed in notes 3 and 4.

The Conservancy adopted Governmental Accounting Standards Board (GASB) Statement Nos. 34, 37 and 38 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).

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 four 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.

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 7 through 11 of this report.

CONSERVANCY-WIDE FINANCIAL ANALYSIS

2001 is the first year of implementation of GASB Statement No. 34; accordingly, a comparative analysis of current and prior year balances is not included. However, a comparative analysis will be presented in future years.

As noted earlier, net assets may serve over time as a useful indicator of the Conservancy's financial position. At December 31, 2001, Conservancy assets exceeded its liabilities by \$13,413,196.

Sixty-six (66) percent of the Conservancy's net assets reflect its investment in land acquisition and habitat restoration and enhancement projects. Six (6) percent of the Conservancy's net assets are permanently restricted in the endowment fund. Earnings from this fund may be used to finance Conservancy operations. The unrestricted net assets of the Conservancy are available for future creation and maintenance of habitat land.

The Conservancy received \$3,996,589 in mitigation fees during 2001. Of that amount \$246,041 was contributed to the endowment fund.

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 reported ending fund balances of \$4,651,283. 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 restoration of habitat land. The fund balances primarily represent the accumulation of mitigation fees and interest income in excess of expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

As of December 31, 2001 the Conservancy's investment in capital assets was \$8,766,437 (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 \$1,535,905 were made to purchase Conservancy land
- Capital expenditures of \$952,746 were made for land improvements to the Conservancy's land

Additional information on the Conservancy's capital assets can be found in note 5 on page 11 of this report.

LONG-TERM LIABILITIES

The Conservancy does not have any long-term liabilities at this time.

FUTURE EVENTS THAT WILL FINANCIALLY AFFECT THE CONSERVANCY

During 2001, the Conservancy entered into an agreement to purchase 317 acres of mitigation land for \$3,491,041 in February 2002. This will significantly reduce the Conservancy's December 31, 2001 cash balance and reduce unrestricted net assets.

In October 2002, the existing settlement agreement between the City of Sacramento, developers and environmental groups, will expire. At that time, the per-acre mitigation fee charged to developers may be revised.

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, 1819 K Street, Suite 200, Sacramento, CA 95814 or call (916) 264-8245.

THE NATOMAS BASIN CONSERVANCY
A Component Unit of the City of Sacramento
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET
DECEMBER 31, 2001

	Administration Fund	Restoration and Enhancement Fund	Land Acquisition Fund	Endowment Fund	Total	Adjustments (Note 3)	Statement of Net Assets
ASSETS							
Cash and investments held by City	\$ 1,246,589	\$ 317,343	\$ 2,213,223	\$ 999,568	\$ 4,776,723	\$ -	\$ 4,776,723
Cash held by fiscal agent	34,060	-	-	-	34,060	-	34,060
Interest receivable	5,576	1,003	7,831	3,498	17,908	-	17,908
Prepaid items	4,320	-	8,835	-	13,155	-	13,155
Land	-	-	-	-	-	7,845,449	7,845,449
Land improvements, net	-	-	-	-	-	920,988	920,988
Total assets	<u>\$ 1,290,545</u>	<u>\$ 318,346</u>	<u>\$ 2,229,889</u>	<u>\$ 1,003,066</u>	<u>\$ 4,841,846</u>	<u>8,766,437</u>	<u>13,608,283</u>
LIABILITIES							
Accounts payable and accrued expenses	\$ 134,286	\$ 50,066	\$ 4,611	\$ -	\$ 188,963	-	188,963
Conditional deposit	1,600	-	-	-	1,600	-	1,600
Compensated absences	-	-	-	-	-	4,524	4,524
Total liabilities	<u>135,886</u>	<u>50,066</u>	<u>4,611</u>	<u>-</u>	<u>190,563</u>	<u>4,524</u>	<u>195,087</u>
FUND BALANCES/NET ASSETS							
Fund balances:							
Reserved for endowment	-	-	-	923,185	923,185	(923,185)	-
Unreserved, undesignated	1,154,659	268,280	2,225,278	79,881	3,728,098	(3,728,098)	-
Total fund balances	<u>1,154,659</u>	<u>268,280</u>	<u>2,225,278</u>	<u>1,003,066</u>	<u>4,651,283</u>	<u>(4,651,283)</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 1,290,545</u>	<u>\$ 318,346</u>	<u>\$ 2,229,889</u>	<u>\$ 1,003,066</u>	<u>\$ 4,841,846</u>		
Net assets:							
Invested in capital assets						8,766,437	8,766,437
Restricted for endowment						923,185	923,185
Unrestricted						3,723,575	3,723,575
Total net assets						<u>\$ 13,413,197</u>	<u>\$ 13,413,197</u>

See accompanying notes to financial statements.

THE NATOMAS BASIN CONSERVANCY
A Component Unit of the City of Sacramento
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2001

	Administration Fund	Restoration and Enhancement Fund	Land Acquisition Fund	Endowment Fund	Total	Adjustments (Note 4)	Statement of Activities
Revenues:							
Program revenues:							
Mitigation fees	\$ 502,013	\$ 117,416	\$ 3,131,119	\$ -	\$ 3,750,548	\$ -	\$ 3,750,548
Rent revenue	174,438	-	-	-	174,438	-	174,438
Total program revenues	<u>676,451</u>	<u>117,416</u>	<u>3,131,119</u>	<u>-</u>	<u>3,924,986</u>	<u>-</u>	<u>3,924,986</u>
General revenues:							
Investment income	95,374	29,228	66,952	35,825	227,379	-	227,379
Other	44,451	-	-	257,219	301,670	-	301,670
Mitigation fees contributed to permanent fund	-	-	-	246,041	246,041	-	246,041
Total general revenues	<u>139,825</u>	<u>29,228</u>	<u>66,952</u>	<u>539,085</u>	<u>775,090</u>	<u>-</u>	<u>775,090</u>
Total revenues	<u>816,276</u>	<u>146,644</u>	<u>3,198,071</u>	<u>539,085</u>	<u>4,700,076</u>	<u>-</u>	<u>4,700,076</u>
Expenditures:							
Land Mitigation:							
Current:							
Consultant services	185,365	-	-	-	185,365	4,524	189,889
Materials and services	425,791	107,676	-	-	533,467	-	533,467
Depreciation	-	-	-	-	-	31,758	31,758
Capital outlay	-	952,746	1,535,906	-	2,488,652	(2,488,652)	-
Total expenditures	<u>611,156</u>	<u>1,060,422</u>	<u>1,535,906</u>	<u>-</u>	<u>3,207,484</u>	<u>(2,452,370)</u>	<u>755,114</u>
Excess (deficiency) of revenues over (under) expenditures	205,120	(913,778)	1,662,165	539,085	1,492,592	2,452,370	3,944,962
Other financing sources/uses:							
Interfund transfers	(600,000)	600,000	-	-	-	-	-
Excess (deficiency) of revenues and transfers in over expenditures and transfers out	(394,880)	(313,778)	1,662,165	539,085	1,492,592	2,452,370	3,944,962
Fund balances/net assets, beginning of period	1,549,539	582,058	563,113	463,981	3,158,691	6,309,544	9,468,235
Fund balances/net assets, end of period	<u>\$ 1,154,659</u>	<u>\$ 268,280</u>	<u>\$ 2,225,278</u>	<u>\$ 1,003,066</u>	<u>\$ 4,651,283</u>	<u>\$ 8,761,914</u>	<u>\$ 13,413,197</u>

See accompanying notes to financial statements.

**THE NATOMAS BASIN CONSERVANCY
A COMPONENT UNIT OF THE CITY OF SACRAMENTO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001**

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 has appointed all members of the Conservancy's Board of Directors. In accordance with Governmental Accounting Standards Board (GASB) 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.

Funding

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

NOTE 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 Conservancy adopted Governmental Accounting Standard Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*; GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments: Omnibus*; and GASB Statement No. 38, *Certain Financial Statement Note Disclosures* 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 and focuses attention on major funds. The Conservancy has only governmental funds and all are major.

**THE NATOMAS BASIN CONSERVANCY
A COMPONENT UNIT OF THE CITY OF SACRAMENTO
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2001**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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 generally are recorded when a liability is incurred, as under accrual accounting.

Interest associated with the current fiscal period is considered to be susceptible to accrual and so has been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Conservancy.

The Conservancy reports the following major governmental funds:

General fund - this fund is established to account for resources devoted to 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 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.

**THE NATOMAS BASIN CONSERVANCY
A COMPONENT UNIT OF THE CITY OF SACRAMENTO
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2001**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Permanent 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.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided (e.g. mitigation fees), 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenue.

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. The estimated fair value of investments in the pool is based on quoted market price. The fair value of the Conservancy's position in the pool is the same as the value of the pool shares.

Cash held by fiscal agent represents the payroll cash account deposited with a bank.

Capital Assets

The Conservancy capitalizes all land, land improvements and equipment, furniture and fixtures expenditures in excess of \$5,000.

Capital Asset acquisitions are recorded at cost. Contributions are recorded at the estimated fair value on the date of contribution.

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 City of Sacramento 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 miscellaneous management and maintenance needs relating to Conservancy lands.

**THE NATOMAS BASIN CONSERVANCY
A COMPONENT UNIT OF THE CITY OF SACRAMENTO
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2001**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 3 - EXPLANATION OF DIFFERENCES BETWEEN THE BALANCE SHEET AND THE STATEMENT OF NET ASSETS

Fund balances	\$ 4,651,283
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Capital assets used in Conservancy activities are not financial resources and therefore are not reported in the governmental funds.

Capital assets	\$ 8,798,195	
Less: accumulated depreciation	<u>(31,758)</u>	
		8,766,437

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

Accrued compensated absences	<u>(4,524)</u>
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Net assets	<u>\$13,413,196</u>
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**THE NATOMAS BASIN CONSERVANCY
A COMPONENT UNIT OF THE CITY OF SACRAMENTO
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2001**

**NOTE 4 – EXPLANATION OF DIFFERENCES BETWEEN STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES AND THE STATEMENT
OF ACTIVITIES**

Net change in fund balances \$ 1,492,592

Governmental funds report capital outlay 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	\$ 2,488,652	
Depreciation expense	<u>(31,758)</u>	
		2,456,894

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		<u>(4,524)</u>
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Change in net assets \$ 3,944,962

NOTE 5 – CAPITAL ASSETS

A summary of changes in capital assets for the year ended December 31, 2001, is as follows:

	<u>December 31, 2000</u>	<u>Additions (Deletions)</u>	<u>December 31, 2001</u>
Capital assets not being depreciated:			
Land	\$ 6,309,544	\$ 1,535,905	\$ 7,845,449
Capital assets being depreciated:			
Land improvements		952,746	952,746
Accum. depreciation, land improvements	-	<u>(31,758)</u>	<u>(31,758)</u>
Total	<u>\$ 6,309,544</u>	<u>\$ 2,456,893</u>	<u>\$ 8,766,437</u>

NOTE 6 – INTERFUND TRANSFER

The mitigation fee program of the NBHCP is structured to allow transfers of funds between the Land Acquisition, Restoration and Enhancement and Administration funds based on any surpluses or deficits that might exist in those funds. The Administration fund built surpluses through operating and administrative efficiencies. Restoration and Enhancement obligations have accelerated over the projections of the initial fee program because of concentrated development activity in the Natomas Basin and higher than projected restoration and enhancement costs. The Conservancy's Board of Directors authorized a transfer of \$600,000 from the Administration fund to the Restoration and Enhancement provide funding for current and future years' restoration and enhancement projects.

THE NATOMAS BASIN CONSERVANCY
A COMPONENT UNIT OF THE CITY OF SACRAMENTO
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2001

NOTE 7 - 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.

All proceedings in the lawsuit filed in the Superior Court of the County of Sacramento have been stayed pending resolution of the case filed in the United States District Court.

In the lawsuit filed in the United States District Court, the judge ruled that the Habitat Conservation Plan was valid but would need to be revised in several aspects to support a valid incidental take permit. A valid incidental take permit is required in order for development to continue in the Natomas Basin. The City, the plaintiffs, and other parties to the lawsuit have negotiated a short-term settlement that allowed grading activities to proceed. The agreement provides for limited development of approximately 1,668 acres, with the provision of mitigation land in specific areas of the Natomas Basin, pursuant to a settlement agreement executed on May 8, 2001.

NOTE 8 - RELATED PARTY TRANSACTIONS

During the year ended December 31, 2001, the Conservancy paid \$12,300 to the City of Sacramento for fiscal services.

ADDITIONAL FINANCIAL INFORMATION

THE NATOMAS BASIN CONSERVANCY
A Component Unit of the City of Sacramento
SCHEDULE OF LAND ACQUISITION EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2001

	<u>Total</u>
Land	\$ 1,495,000
Taxes/assessments	621
Title insurance	1,189
Escrow fees	1,929
Document, recording and other fees	1,683
Consulting	24,906
Accounting and legal	9,770
Miscellaneous	<u>807</u>
Total	<u><u>\$ 1,535,905</u></u>

THE NATOMAS BASIN CONSERVANCY
A Component Unit of the City of Sacramento
SCHEDULE OF MITIGATION FEES COLLECTED
FOR THE YEAR ENDED DECEMBER 31, 2001

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Capital Project</u>	<u>Permanent Fund</u>	<u>Total</u>
	<u>Administration</u>	<u>Restoration & Enhancement</u>	<u>Land Acquisition</u>	<u>Endowment</u>	
<u>Type of Mitigation Fee</u>					
Habitat Acquisition Fee	\$ -	\$ -	\$ 3,131,119	\$ -	\$ 3,131,119
Endowment Fee	-	-	-	246,041	246,041
Habitat Management Fee	381,700	117,416	-	-	499,116
Administrative Fee	120,313	-	-	-	120,313
Total Fees Collected	<u>\$ 502,013</u>	<u>\$ 117,416</u>	<u>\$ 3,131,119</u>	<u>\$ 246,041</u>	<u>\$ 3,996,589</u>