

THE NATOMAS BASIN CONSERVANCY

Independent Auditor's Report, Required Supplementary
Information, Financial Statements and
Additional Information

For the Year Ended December 31, 2003

**THE NATOMAS BASIN CONSERVANCY
FOR THE YEAR ENDED DECEMBER 31, 2003**

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Board of Directors
The Natomas Basin Conservancy
Sacramento, California

INDEPENDENT AUDITOR'S REPORT

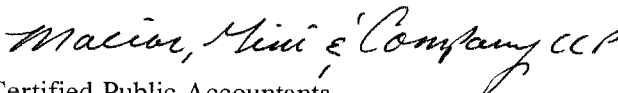
We have audited the accompanying financial statements of the governmental activities and each major fund of the Natomas Basin Conservancy (Conservancy), as of and for the year ended December 31, 2003, which collectively comprise the Conservancy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Conservancy's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Natomas Basin Conservancy as of December 31, 2003 and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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 required supplementary information. However, we did not audit the information and express no opinion on it.

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


Certified Public Accountants

Sacramento, California
February 27, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2003. We encourage readers to consider the information presented here in conjunction with the Conservancy's financial statements, which begin on page 6.

FINANCIAL HIGHLIGHTS

- The net assets of the Conservancy at the close of the most recent fiscal year were \$33,637,349. Of that amount, \$25,116,724 is invested in capital assets (net of related debt) and an additional \$4,376,018 is permanently restricted to provide income for the future operation of the Conservancy. Unrestricted net assets total \$4,144,607.
- The Conservancy's cash and investments balance at December 31, 2003 was \$8,920,579, representing an increase of \$6,770,113 from December 31, 2002.
- The Conservancy had general revenues of \$2,790,369 and program revenues of \$14,607,354. Program expenses were \$1,473,607 and capital outlays were \$7,292,003 for the year ended December 31, 2003.
- 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

The 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 6 and 7. Items in the adjustment column are discussed in notes 3 and 4 .

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

CONSERVANCY-WIDE FINANCIAL STATEMENTS

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

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

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

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.

Because the focus of governmental funds is narrower than that of the Conservancy-wide financial statements, it is useful to compare the information presented for the governmental funds with similar information presented for governmental activities. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a column detailing the differences (adjustments) between the governmental funds and governmental activities. These adjustments are discussed in further detail in notes 3 and 4 to the basic financial statements.

NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the Conservancy-wide and fund financial statements. The notes to the financial statements can be found on pages 8 through 13 of this report.

CONSERVANCY-WIDE FINANCIAL ANALYSIS

The Natomas Basin Conservancy
Summary of Net Assets
Governmental Activities
December 31, 2003 and 2002

| | December 31, 2003 | December 31, 2002 | Increase/Decrease |
|--|----------------------|----------------------|----------------------|
| Current and other assets | \$ 9,033,067 | \$ 2,214,738 | \$ 6,818,329 |
| Capital assets | 25,116,724 | 17,932,653 | 7,184,071 |
| Total assets | <u>34,149,791</u> | <u>20,147,391</u> | <u>14,002,400</u> |
| Long-term liabilities | 12,813 | 2,121,665 | (2,108,852) |
| Other liabilities | 499,629 | 202,454 | 297,175 |
| Total liabilities | <u>512,442</u> | <u>2,324,119</u> | <u>(1,811,677)</u> |
| Net assets: | | | |
| Invested in capital assets, net of related debt | 25,116,724 | 15,820,694 | 9,296,030 |
| Restricted for endowment | 4,376,018 | 1,758,695 | 2,617,323 |
| Unrestricted | 4,144,607 | 243,883 | 3,900,724 |
| Total net assets | <u>\$ 33,637,349</u> | <u>\$ 17,823,272</u> | <u>\$ 15,814,077</u> |

Net assets represent the difference between the Conservancy's resources and its obligations. At December 31, 2003, approximately 75% of the Conservancy's net assets are invested in land and land improvements. These lands are acquired and enhanced to provide habitat for protected plant and animal species.

During 2003, the Conservancy repaid a \$2.1 million advance from the City of Sacramento that was outstanding at December 31, 2002, thus significantly decreasing long term liabilities.

The Natomas Basin Conservancy
Changes in Net Assets
Governmental Activities
For the Year Ended December 31, 2003 and 2002

| | December 31, 2003 | December 31, 2002 | Increase/Decrease |
|---|----------------------|----------------------|----------------------|
| Revenues | | | |
| Program revenues: | | | |
| Mitigation fees | \$ 13,765,513 | \$ 4,286,730 | \$ 9,478,783 |
| Rent revenue | 207,682 | 232,305 | (24,623) |
| Investment income | 634,159 | 75,858 | 558,301 |
| General revenues: | | | |
| Investment income | 36,326 | 24,702 | 11,624 |
| Other | 136,720 | 16,889 | 119,831 |
| Mitigation fees contributed to endowment fund | 2,617,323 | 831,382 | 1,785,941 |
| Total revenues | 17,397,723 | 5,467,866 | 11,929,857 |
| Expenses | | | |
| Land management | 1,583,648 | 1,057,791 | 525,857 |
| Increase in net assets | \$ 15,814,075 | \$ 4,410,075 | \$ 11,404,000 |

The Conservancy received \$16,382,836 in mitigation fees during 2003. Of that amount \$2,617,323 was contributed to the endowment fund. During 2003, mitigation fees were collected for more than 1,240 acres, although land donations were accepted in lieu of fees for some of the acreage. In comparison, full mitigation fees were collected for 772 acres in 2002. The per acre fee rate was also increased during 2003.

Investment income increased from 2002 due to higher increased cash on hand from mitigation fees and the growing balance in the endowment fund. In addition, during 2003, the Conservancy placed the endowment fund, previously invested with the City of Sacramento, with a commercial investment manager, Wells Fargo Investments. Rent revenues declined as more of the Conservancy's acreage was converted to managed marsh and was taken out of income production during 2003. Other revenues increased because the Conservancy made one-time water sales to the California Department of Water Resources.

Land management expenses increase as the acreage under Conservancy management increases. Acreage under Conservancy management increased approximately 22% in 2003, from 2,782 acres to 3,396.

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 a fund balance of \$8,530,838. 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. Capital assets are not shown on the fund statements since they are not available for near-term financing of the Conservancy's operations.

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS

As of December 31, 2003 the Conservancy's investment in capital assets was \$25,116,724 (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 \$6,362,501 were made to purchase Conservancy land
- Capital expenditures of \$824,782 were made for land improvements to the Conservancy's land
- Capital expenditures of \$104,720 were made for building improvements to the Conservancy's land

Additional information on the Conservancy's capital assets can be found in note 5 on page 12 of this report.

LONG-TERM LIABILITIES

The Conservancy has entered into a \$4,000,000 line of credit agreement with the City of Sacramento. As of December 31, 2002, the balance due to the City was \$2,111,959. An additional draw of \$700,000 was made in May 2003. The entire loan was paid off in June 2003. No additional draws have been made, leaving no balance due at December 31, 2003.

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, 1750 Creekside Oaks Dr., Suite 290, Sacramento, CA, 95833 or call (916) 649-3331.

THE NATOMAS BASIN CONSERVANCY
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET
DECEMBER 31, 2003

| | Administration Fund | Restoration and Enhancement Fund | Land Acquisition Fund | Endowment Fund | Total | Adjustments (Note 3) | Statement of Net Assets |
|--|--------------------------------|---|--------------------------------------|---------------------------|----------------------|---------------------------------|------------------------------------|
| <u>ASSETS</u> | | | | | | | |
| Cash and investments held by City | \$ 3,096,887 | \$ 567,860 | \$ 88,176 | \$ 61,723 | \$ 3,814,646 | \$ - | \$ 3,814,646 |
| Cash held by fiscal agent | 26,498 | - | - | 5,079,435 | 5,105,933 | - | 5,105,933 |
| Accounts receivable | 92,086 | - | - | - | 92,086 | - | 92,086 |
| Interest receivable | 4,741 | 800 | 143 | 87 | 5,771 | - | 5,771 |
| Prepaid items | 14,631 | - | - | - | 14,631 | - | 14,631 |
| Due from other funds | 1,479,520 | - | - | - | 1,479,520 | (1,479,520) | - |
| Land | - | - | - | - | - | 23,052,840 | 23,052,840 |
| Land improvements, net | - | - | - | - | - | 1,962,655 | 1,962,655 |
| Building, net | - | - | - | - | - | 101,229 | 101,229 |
| Total assets | <u>\$ 4,714,363</u> | <u>\$ 568,660</u> | <u>\$ 88,319</u> | <u>\$ 5,141,245</u> | <u>\$ 10,512,587</u> | <u>23,637,204</u> | <u>34,149,791</u> |
| <u>LIABILITIES AND FUND BALANCES/NET ASSETS</u> | | | | | | | |
| Liabilities: | | | | | | | |
| Accounts payable and accrued expenses | \$ 307,850 | \$ 184,115 | \$ 7,664 | \$ - | \$ 499,629 | - | 499,629 |
| Conditional deposit | 2,600 | - | - | - | 2,600 | - | 2,600 |
| Due to other funds | - | - | 1,479,520 | - | 1,479,520 | (1,479,520) | - |
| Compensated absences | - | - | - | - | - | 10,213 | 10,213 |
| Total liabilities | <u>310,450</u> | <u>184,115</u> | <u>1,487,184</u> | <u>-</u> | <u>1,981,749</u> | <u>(1,469,307)</u> | <u>512,442</u> |
| Fund balances: | | | | | | | |
| Reserved for endowment | - | - | - | 4,376,018 | 4,376,018 | (4,376,018) | - |
| Unreserved | 4,403,913 | 384,545 | (1,398,865) | 765,227 | 4,154,820 | (4,154,820) | - |
| Total fund balances | <u>4,403,913</u> | <u>384,545</u> | <u>(1,398,865)</u> | <u>5,141,245</u> | <u>8,530,838</u> | <u>(8,530,838)</u> | <u>-</u> |
| Total liabilities and fund balances | <u>\$ 4,714,363</u> | <u>\$ 568,660</u> | <u>\$ 88,319</u> | <u>\$ 5,141,245</u> | <u>\$ 10,512,587</u> | | |
| Net assets | | | | | | | |
| Investment in capital assets, net of related debt | | | | | | 25,116,724 | 25,116,724 |
| Restricted for endowment | | | | | | 4,376,018 | 4,376,018 |
| Unrestricted | | | | | | 4,144,607 | 4,144,607 |
| Total net assets | | | | | | <u>\$ 33,637,349</u> | <u>\$ 33,637,349</u> |

See accompanying notes to financial statements

**THE NATOMAS BASIN CONSERVANCY
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2003**

| | Administration Fund | Restoration and Enhancement Fund | Land Acquisition Fund | Endowment Fund | Total | Adjustments (Note 4) | Statement of Activities |
|---|--------------------------------|---|--------------------------------------|---------------------------|---------------------|---------------------------------|------------------------------------|
| Revenues | | | | | | | |
| Program revenues: | | | | | | | |
| Charges for services: | | | | | | | |
| Mitigation fees | \$ 3,640,781 | \$ 1,111,045 | \$ 9,013,687 | \$ - | \$ 13,765,513 | \$ - | \$ 13,765,513 |
| Rent revenue | 207,682 | - | - | - | 207,682 | - | 207,682 |
| Operating grants and contributions: | | | | | | | |
| Investment income | - | - | - | 634,159 | 634,159 | - | 634,159 |
| Total program revenues | <u>3,848,463</u> | <u>1,111,045</u> | <u>9,013,687</u> | <u>634,159</u> | <u>14,607,354</u> | <u>-</u> | <u>14,607,354</u> |
| General revenues: | | | | | | | |
| Investment income | 27,815 | 7,052 | 1,459 | - | 36,326 | - | 36,326 |
| Other | 73,646 | 5,374 | 57,700 | 2,617,323 | 2,754,043 | - | 2,754,043 |
| Total general revenues | <u>101,461</u> | <u>12,426</u> | <u>59,159</u> | <u>2,617,323</u> | <u>2,790,369</u> | <u>-</u> | <u>2,790,369</u> |
| Total revenues | <u>3,949,924</u> | <u>1,123,471</u> | <u>9,072,846</u> | <u>3,251,482</u> | <u>17,397,723</u> | <u>-</u> | <u>17,397,723</u> |
| Expenditures: | | | | | | | |
| Land mitigation: | | | | | | | |
| Current: | | | | | | | |
| Personnel services | 185,866 | - | - | - | 185,866 | 2,108 | 187,974 |
| Materials and services | 1,158,205 | 55,400 | 49,465 | 24,671 | 1,287,741 | - | 1,287,741 |
| Depreciation | - | - | - | - | - | 107,933 | 107,933 |
| Capital outlay | 104,720 | 824,782 | 6,362,501 | - | 7,292,003 | (7,292,003) | - |
| Total expenditures | <u>1,448,791</u> | <u>880,182</u> | <u>6,411,966</u> | <u>24,671</u> | <u>8,765,610</u> | <u>(7,181,962)</u> | <u>1,583,648</u> |
| Excess of revenues over expenditures | 2,501,133 | 243,289 | 2,660,880 | 3,226,811 | 8,632,113 | 7,181,962 | 15,814,075 |
| Fund balances/net assets, beginning of period | 1,902,780 | 141,256 | (4,059,745) | 1,914,434 | (101,275) | 17,924,549 | 17,823,274 |
| Fund balances/net assets, end of period | <u>\$ 4,403,913</u> | <u>\$ 384,545</u> | <u>\$ (1,398,865)</u> | <u>\$ 5,141,245</u> | <u>\$ 8,530,838</u> | <u>\$ 25,106,511</u> | <u>\$ 33,637,349</u> |

See accompanying notes to financial statements

**THE NATOMAS BASIN CONSERVANCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003**

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 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 ultimately 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 and Sutter County are the only agencies implementing the NBHCP. Each participating local government has appointed five members of the Conservancy's Board of Directors.

Funding

The Conservancy is primarily funded from mitigation fees established by the Conservancy and approved by the City of Sacramento and County of Sutter 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 NATOMAS BASIN CONSERVANCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government-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
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2003**

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 over which the City Treasurer has regulatory oversight. 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 in the Administration Fund represents the payroll cash account deposited with a bank, which is fully insured.

Cash with fiscal agent in the Endowment Fund is managed by Wells Fargo Investments.

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 |

**THE NATOMAS BASIN CONSERVANCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2003**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 certain reported amounts and disclosures. Actual results could differ from those estimates.

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

| | |
|----------------------|---------------------|
| Fund balances | \$ 8,530,838 |
|----------------------|---------------------|

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

| | | |
|--------------------------------|------------------|------------|
| Capital assets | \$ 25,332,608 | |
| Less: accumulated depreciation | <u>(215,884)</u> | |
| | | 25,116,724 |

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

| | |
|------------------------------|-----------------|
| Accrued compensated absences | <u>(10,213)</u> |
|------------------------------|-----------------|

| | |
|-------------------|----------------------------|
| Net assets | <u>\$33,637,349</u> |
|-------------------|----------------------------|

**THE NATOMAS BASIN CONSERVANCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2003**

**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 \$ 8,632,113

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 | \$ 7,292,003 | |
| Depreciation expense | <u>(107,933)</u> | 7,184,070 |

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>(2,108)</u> |
|----------------------|--|----------------|

Change in net assets \$ 15,814,075

NOTE 5 – CAPITAL ASSETS

A summary of changes in capital assets for the year ended December 31, 2003, is as follows:

| | December 31, 2002 | Additions | (Deletions) | December 31, 2003 |
|--|----------------------|---------------------|--------------------|----------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 16,690,338 | \$ 6,362,501 | \$ - | \$ 23,052,840 |
| Land improvements in progress | 17,186 | - | (10,677) | 6,509 |
| Capital assets being depreciated: | | | | |
| Land improvements | 1,333,081 | 835,459 | - | 2,168,539 |
| Land improvements - Buildings | - | 104,720 | - | 104,720 |
| Accum. depreciation, land improvements | (107,952) | (104,441) | - | (212,393) |
| Accum. depreciation, land improvements - buildings | - | (3,491) | - | (3,491) |
| | <u>\$ 17,932,653</u> | <u>\$ 7,194,748</u> | <u>\$ (10,677)</u> | <u>\$ 25,116,724</u> |
| Total | <u>\$ 17,932,653</u> | <u>\$ 7,194,748</u> | <u>\$ (10,677)</u> | <u>\$ 25,116,724</u> |

**THE NATOMAS BASIN CONSERVANCY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2003**

NOTE 6 - INTERFUND LOANS

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 Land Acquisition fund purchased land aggressively during 2003 to take advantage of existing opportunities. The land purchases were financed in part by loans from the Administration and Restoration and Enhancement funds and in part by drawing on a line of credit the Conservancy has with the City of Sacramento. \$1.479 million in loans remain outstanding at December 31, 2003, between the Land Acquisition and the Administration Fund. (See Note 7, below, for additional information on the line of credit from the City of Sacramento.) It is anticipated that the interfund loans will be paid back through future mitigation fee revenue.

NOTE 7 - RELATED PARTY TRANSACTIONS

During the year ended December 31, 2003, the Conservancy paid \$13,179 to the City of Sacramento for fiscal services.

At December 31, 2002, The Conservancy had a balance due on a line of credit to the City of Sacramento of \$2,111,959. One additional draw of \$700,000 was made in May 2003. The entire loan was paid off from mitigation fee revenue in June 2003, and no additional draws have been made.

NOTE 8 - DEFICIT FUND BALANCE

The capital project fund for land acquisition had a deficit fund balance at December 31, 2002 of \$4,059,745. The deficit arose from an aggressive land acquisition program that required the fund to borrow money to purchase mitigation acreage during 2002. During 2003 the deficit was reduced to \$1,398,865. It is expected the deficit will be recovered upon receipt of future mitigation fee revenue.

ADDITIONAL FINANCIAL INFORMATION

**THE NATOMAS BASIN CONSERVANCY
SCHEDULE OF LAND ACQUISITION EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2003**

| | <u>Ruby Ranch</u> | <u>Atkinson</u> | <u>Huffman East</u> | <u>Huffman West</u> | <u>RD 1000 Easement</u> | <u>Total</u> |
|------------------------------------|---------------------|---------------------|---------------------|---------------------|-------------------------|---------------------|
| Purchase price | \$ 1,092,960 | \$ 1,853,694 | \$ 1,085,968 | \$ 2,190,420 | \$ 57,700 | \$ 6,280,742 |
| Taxes/assessments | - | 2,029 | - | - | - | 2,029 |
| Title insurance | 680 | 4,981 | 3,573 | 6,010 | 750 | 15,994 |
| Escrow fees | 650 | 450 | 100 | 250 | 185 | 1,635 |
| Document, recording and other fees | 621 | 20 | 612 | 1,244 | 45 | 2,542 |
| Consulting | 9,859 | 9,394 | 4,659 | 4,663 | - | 28,575 |
| Accounting and legal | 3,054 | 4,433 | 10,035 | 13,380 | - | 30,902 |
| Miscellaneous | 57 | - | - | - | 25 | 82 |
| Total | <u>\$ 1,107,881</u> | <u>\$ 1,875,001</u> | <u>\$ 1,104,947</u> | <u>\$ 2,215,967</u> | <u>\$ 58,705</u> | <u>\$ 6,362,501</u> |

**THE NATOMAS BASIN CONSERVANCY
SCHEDULE OF MITIGATION FEES COLLECTED
FOR THE YEAR ENDED DECEMBER 31, 2003**

| | <u>General Fund</u> | <u>Special Revenue</u> | <u>Capital Project</u> | <u>Permanent</u> | <u>Total</u> |
|--------------------------------------|-----------------------|--------------------------------------|-------------------------|---------------------|----------------------|
| | <u>Administration</u> | <u>Restoration & Enhancement</u> | <u>Land Acquisition</u> | <u>Endowment</u> | |
| <u>Type of Mitigation Fee</u> | | | | | |
| Tree Replacement | \$ - | \$ 34,565 | \$ 34,565 | \$ - | \$ 69,130 |
| Habitat Acquisition Fee | - | - | 8,979,122 | - | 8,979,122 |
| Endowment Fee | - | - | - | 2,617,323 | 2,617,323 |
| Habitat Management Fee | 3,296,741 | 1,076,480 | - | - | 4,373,221 |
| Administrative Fee | 344,040 | - | - | - | 344,040 |
| Total Fees Collected | <u>\$ 3,640,781</u> | <u>\$ 1,111,045</u> | <u>\$ 9,013,687</u> | <u>\$ 2,617,323</u> | <u>\$ 16,382,836</u> |