

**THE NATOMAS BASIN  
CONSERVANCY**

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

**YEAR ENDED DECEMBER 31, 2007**

**THE NATOMAS BASIN CONSERVANCY**  
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**FOR THE YEAR ENDED DECEMBER 31, 2007**

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## **FINANCIAL SECTION**



## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities and each major fund of the Natomas Basin Conservancy (the Conservancy), as of and for the year ended December 31, 2007, which collectively comprise the Conservancy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Conservancy's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Natomas Basin Conservancy as of December 31, 2007, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2008, on our consideration of the Conservancy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

**To the Board of Directors  
The Natomas Basin Conservancy  
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The Management's Discussion and Analysis on pages 3 through 7 and the budgetary comparison information on pages 21 and 22 is not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

*Gilbert Associates, Inc.*

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

**March 27, 2008**

**THE NATOMAS BASIN CONSERVANCY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

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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, 2007. We encourage readers to consider the information presented here in conjunction with the Conservancy's financial statements, which begin on page 8.

**FINANCIAL HIGHLIGHTS**

- The net assets of the Conservancy at the close of the most recent fiscal year were \$63,713,531. Of that amount, \$36,445,455 is invested in capital assets and an additional \$7,908,734 is permanently restricted to provide income for the future operation of the Conservancy. Unrestricted net assets total \$16,093,895 which includes the Supplemental Land and Contingency Fund (referred to in the Natomas Basin Habitat Conservation Plan as the Supplemental Endowment Fund) assets of \$1,836,502. The Supplemental Land Fund is not a permanent fund but does have conditions on its use.
- The Conservancy's balance of cash and investments at December 31, 2007, was \$27,056,059, representing an increase of \$4,553,559 from December 31, 2006.
- The Conservancy had general revenues of \$4,675,828 and program revenues of \$4,300,879. Program expenses were \$3,561,379 and capital outlays were \$713,606 for the year ended December 31, 2007.
- All financial assets of the Conservancy continue to be devoted to the acquisition, restoration and management of mitigation land for habitat conservation.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the Conservancy's basic financial statements which have the following components, in addition to management's discussion and analysis: 1) Conservancy-wide financial statements, 2) fund financial statements, 3) notes to the financial statements, and 4) supplementary schedule. The Conservancy-wide and fund financial statements are presented in a combined format on pages 8 and 9. Items in the adjustment column are discussed in notes 4 and 5 to the financial statements.

As the Conservancy's Board of Directors is appointed by governmental agencies the Conservancy adopted 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 assets* presents information on all of the Conservancy's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Conservancy is improving or deteriorating.

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

**THE NATOMAS BASIN CONSERVANCY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

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**FUND FINANCIAL STATEMENTS**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Conservancy uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Conservancy has five funds, all of which are governmental-type funds.

Governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Conservancy's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the Conservancy-wide financial statements, it is useful to compare the information presented for the governmental funds with similar information presented for governmental activities. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a column detailing the difference (adjustments) between the governmental funds and governmental activities. These adjustments are discussed in further detail in notes 4 and 5 to the basic financial statements.

**NOTES TO THE FINANCIAL STATEMENTS**

The notes provide additional information that is essential to a full understanding of the data provided in the Conservancy-wide and fund financial statements. The notes to the financial statements can be found on pages 10 through 20 of this report.

**CONSERVANCY-WIDE FINANCIAL ANALYSIS**

The Natomas Basin Conservancy  
Summary of Net Assets  
Conservancy-wide Activities  
As of December 31, 2007 and 2006

	December 31, 2007	December 31, 2006	Increase (Decrease)
Current and other assets	\$ 27,481,793	\$ 22,580,728	\$ 4,901,065
Capital assets	<u>36,445,455</u>	<u>35,958,776</u>	486,679
Total assets	<u>63,927,248</u>	<u>58,539,504</u>	5,387,744
Current liabilities	191,889	222,476	(30,587)
Long-term liabilities	<u>21,828</u>	<u>18,825</u>	3,003
Total liabilities	<u>213,717</u>	<u>241,301</u>	(27,584)
Net assets:			
Invested in capital assets	36,445,455	35,958,776	486,679
Restricted for giant garter snakes	214,649	214,649	-
Restricted for endowment - permanently	7,908,734	7,324,031	584,703
Restricted for endowment - temporarily	3,050,798	2,602,600	448,198
Unrestricted	<u>16,093,895</u>	<u>12,198,147</u>	3,895,748
Total net assets	<u>\$ 63,713,531</u>	<u>\$ 58,298,203</u>	<u>\$ 5,415,328</u>

**THE NATOMAS BASIN CONSERVANCY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

Net assets represent the difference between the Conservancy's resources and its obligations. At December 31, 2007, approximately 57% of the Conservancy's net assets were invested in land and land improvements. These lands are acquired and enhanced to provide habitat for protected plant and animal species.

The Natomas Basin Conservancy  
Changes in Net Assets  
Conservancy-wide Activities  
As of December 31, 2007 and 2006

	December 31, 2007	December 31, 2006	Increase (Decrease)
<b>Revenues</b>			
Program revenues:			
Mitigation fees - Cash	\$ 3,486,801	\$ 5,049,348	\$ (1,562,547)
Rent revenue	312,085	221,388	90,697
Investment income	501,993	1,105,207	(603,214)
General revenues:			
Mitigation fees contributed to			
Endowment Fund	584,703	763,735	(179,032)
Investment income	646,890	616,746	30,144
Land exchange proceeds	3,152,768		3,152,768
Other	291,467	60,328	231,139
Total revenues	<u>8,976,707</u>	<u>7,816,752</u>	<u>1,159,955</u>
<b>Expenses</b>			
Land management	3,561,379	2,432,583	1,128,796
Increase in net assets	<u>\$ 5,415,328</u>	<u>\$ 5,384,169</u>	<u>\$ 31,159</u>

The Conservancy received \$4,071,504 in mitigation fees during 2007. Of that amount, \$584,703 was contributed to the Endowment Fund. During 2007, mitigation fees were collected for 103.15 acres of development. In comparison, mitigation fees were collected for 132.27 acres of development and catch-up fees were paid for 84.01 additional acres in 2006. The per acre fee rate decreased during 2007 to \$38,445 (\$18,445 with land dedication) from \$41,182 (\$18,682 with land dedication) in 2006. There were no land acquisitions in 2007.

Investment income decreased overall as compared to 2006 due to a downturn in the economy. Rent revenues increased due to the 2006 property trades that created more available Conservancy acreage to be farmed in 2007. Other income includes reimbursement for water costs from tenant farmers, a property tax refund and reimbursement for restoration and enhancement costs from Wildlands, Inc. for the County of Sacramento Sanitation Department's Lower Northwest Interceptor project.

Land management expenses increased as additional mitigation land was brought under management. Acreage under Conservancy management is nearly 4,200 acres.



**THE NATOMAS BASIN CONSERVANCY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

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In 2007, in accordance with obligations under certain land exchange agreements and following adjudications by the County of Sacramento, the Conservancy relinquished approximately 94.2 acres between the Bianchi West and Frazer South tracts and received a consideration of \$3,152,768.

**CONSERVANCY BUDGET ANALYSIS**

The Conservancy presented two budgets to the Board of Directors for approval, a 2007 Budget in December 2006 and a Mid-Year Budget Revision in August 2007. The budget-to-actual schedules are shown on pages 21 and 22. These tables reflect the Administration Fund and the Restoration and Enhancement Fund in accordance with GASB-34 requirements. The decrease in mitigation revenue is due to a decrease in the number of acres mitigated, which is correlated to the general real estate market in the region. The Conservancy budgeted for 300 acres to be mitigated in 2007, while 103.15 acres were actually mitigated.

The increase in expenditures at mid-year was due to extensive channel clearing projects on four managed marsh complexes: the Bennett South tract, the Frazer North tract, the Lucich North tract and the Lucich South tract. These expenses were not capitalized, as the Conservancy considers this to be maintenance. The Conservancy estimates these channels will need to be cleared again in approximately 8-10 years.

The Conservancy also completed the expansion of the Bennett North managed marsh complex. This preserve area was originally 8 acres and was expanded to 75.8 acres. The total restoration and enhancement cost of this expansion was \$595,693.

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

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

As of the end of the current fiscal year, the Conservancy's funds have a total balance of \$27,289,904, of which \$7,908,734 is restricted Endowment funds. The Conservancy's major source of revenue is mitigation fees established by City of Sacramento ordinance. The Conservancy's major expenditures are capital outlay for the acquisition and management of habitat land. Capital assets are not shown on the fund statements since they are not available for near-term financing of the Conservancy's operations.

**THE NATOMAS BASIN CONSERVANCY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

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**CAPITAL ASSETS AND DEBT ADMINISTRATION**

***CAPITAL ASSETS***

As of December 31, 2007 the Conservancy's investment in capital assets was \$36,445,455. Capital assets are stated at cost, net of accumulated depreciation. This investment in capital assets includes land and land improvements.

Capital asset purchases during the current fiscal year include the following:

- Capital expenditures of \$666,706 were made for land improvements to the Conservancy's land;
- Capital expenditures of \$27,227 were made to improve buildings standing on Conservancy land; and
- Capital expenditures of \$19,673 were made for office equipment

Additional information on the Conservancy's capital assets can be found in note 6 on page 18 of this report.

**CONTACTING THE CONSERVANCY'S FINANCIAL MANAGEMENT**

The 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.

**THE NATOMAS BASIN CONSERVANCY**  
**STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET**  
**DECEMBER 31, 2007**

	<u>Administration</u>	<u>Restoration &amp; Enhancement</u>	<u>Supplemental Land and Contingency</u>	<u>Land Acquisition</u>	<u>Endowment</u>	<u>Total</u>	<u>Adjustments Note(4)</u>	<u>Statement of Net Assets</u>
<b>ASSETS:</b>								
Current Assets:								
Cash and investments held by City of Sacramento	\$ 1,448,150	\$ 135,886	\$ 6,383	\$ 3,152,774	\$ 35,076	\$ 4,778,269		\$ 4,778,269
Cash and investments held by fiscal agent	7,309,125	128,224	1,829,972	2,086,798		11,354,119		11,354,119
Receivables								
Account	100,191	88,289				188,480		188,480
Interest	97,671	14,047	147	102,972	785	215,622		215,622
Prepaid items	21,632					21,632		21,632
Due from other funds				21,732		21,732	(21,732)	
Non-Current Assets:								
Restricted cash and investments held by fiscal agent					10,923,671	10,923,671		10,923,671
Land							33,398,882	33,398,882
Capital assets, net							3,046,573	3,046,573
Total Assets	<u>\$ 8,976,769</u>	<u>\$ 366,446</u>	<u>\$ 1,836,502</u>	<u>\$ 5,364,276</u>	<u>\$ 10,959,532</u>	<u>\$ 27,503,525</u>	<u>36,423,723</u>	<u>63,927,248</u>
<b>LIABILITIES:</b>								
Current Liabilities:								
Accounts payable	\$ 175,679	\$ 15,210				\$ 190,889		190,889
Conditional deposits	1,000					1,000		1,000
Due to other funds	21,732					21,732	(21,732)	
Non-Current Liabilities:								
Compensated absences							21,828	21,828
Total Liabilities	<u>198,411</u>	<u>15,210</u>				<u>213,621</u>	<u>96</u>	<u>213,717</u>
<b>FUND BALANCE AND NET ASSETS:</b>								
Fund Balances:								
Reserved								
Reserved for encumbrances	883,092					883,092	(883,092)	
Reserved for prepaid items	21,632					21,632	(21,632)	
Reserved for giant garter snakes	214,649					214,649	(214,649)	
Reserved for endowment - permanently					\$ 7,908,734	7,908,734	(7,908,734)	
Reserved for endowment - temporarily					3,050,798	3,050,798	(3,050,798)	
Unreserved	<u>7,658,985</u>	<u>351,236</u>	<u>\$ 1,836,502</u>	<u>\$ 5,364,276</u>		<u>15,210,999</u>	<u>(15,210,999)</u>	
Total Fund Balances	<u>8,778,358</u>	<u>351,236</u>	<u>1,836,502</u>	<u>5,364,276</u>	<u>10,959,532</u>	<u>27,289,904</u>	<u>(27,289,904)</u>	
Total Liabilities and Fund Balances	<u>\$ 8,976,769</u>	<u>\$ 366,446</u>	<u>\$ 1,836,502</u>	<u>\$ 5,364,276</u>	<u>\$ 10,959,532</u>	<u>\$ 27,503,525</u>		
Net Assets:								
Invested in capital assets							36,445,455	36,445,455
Restricted for giant garter snakes							214,649	214,649
Restricted for endowment - permanently							7,908,734	7,908,734
Restricted for endowment - temporarily							3,050,798	3,050,798
Unrestricted							16,093,895	16,093,895
Total net assets							<u>\$ 63,713,531</u>	<u>\$ 63,713,531</u>

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

**THE NATOMAS BASIN CONSERVANCY**  
**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Administration</u>	<u>Restoration &amp; Enhancement</u>	<u>Supplemental Land and Contingency</u>	<u>Land Acquisition</u>	<u>Endowment</u>	<u>Total</u>	<u>Adjustments Note(5)</u>	<u>Statement of Activities</u>
<b>REVENUES:</b>								
Program revenues:								
Charges for services:								
Mitigation fees	\$ 1,055,354	\$ 146,005	\$ 96,517	\$ 2,188,925		\$ 3,486,801		\$ 3,486,801
Rent revenue	312,085					312,085		312,085
Operating grants and contributions:								
Investment income					\$ 501,993	501,993		501,993
Total program revenues	<u>1,367,439</u>	<u>146,005</u>	<u>96,517</u>	<u>2,188,925</u>	<u>501,993</u>	<u>4,300,879</u>		<u>4,300,879</u>
General revenues:								
Endowment contributions - mitigation fees					584,703	584,703		584,703
Investment income	332,128	31,310	95,797	187,655		646,890		646,890
Land exchange proceeds	3,152,768					3,152,768		3,152,768
Other income	141,110	88,290		62,067		291,467		291,467
Total general revenues	<u>3,626,006</u>	<u>119,600</u>	<u>95,797</u>	<u>249,722</u>	<u>584,703</u>	<u>4,675,828</u>		<u>4,675,828</u>
Total revenues	<u>4,993,445</u>	<u>265,605</u>	<u>192,314</u>	<u>2,438,647</u>	<u>1,086,696</u>	<u>8,976,707</u>		<u>8,976,707</u>
<b>EXPENDITURES:</b>								
Land mitigation:								
Personnel services	348,451					348,451	\$ 3,003	351,454
Materials and services	2,905,071	1,920	4,290	17,922	53,795	2,982,998		2,982,998
Depreciation							226,927	226,927
Capital outlay	117,913	595,693				713,606	(713,606)	
Total expenditures	<u>3,371,435</u>	<u>597,613</u>	<u>4,290</u>	<u>17,922</u>	<u>53,795</u>	<u>4,045,055</u>	<u>(483,676)</u>	<u>3,561,379</u>
Changes in fund balances/net assets	1,622,010	(332,008)	188,024	2,420,725	1,032,901	4,931,652	483,676	5,415,328
Fund balances/net assets, beginning of period, as restated	<u>7,156,348</u>	<u>683,244</u>	<u>1,648,478</u>	<u>2,943,551</u>	<u>9,926,631</u>	<u>22,358,252</u>	<u>35,939,951</u>	<u>58,298,203</u>
Fund balances/net assets, end of period	<u>\$ 8,778,358</u>	<u>\$ 351,236</u>	<u>\$ 1,836,502</u>	<u>\$ 5,364,276</u>	<u>\$ 10,959,532</u>	<u>\$ 27,289,904</u>	<u>\$ 36,423,627</u>	<u>\$ 63,713,531</u>

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

**THE NATOMAS BASIN CONSERVANCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

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**1. ORGANIZATION**

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

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

The Conservancy's Board of Directors is comprised of representatives of each of the two land-use agencies ultimately expected to obtain development permits under the NBHCP, the City of Sacramento and County of Sutter. Each participating local government has appointed five members to the Conservancy's Board of Directors.

**Funding**

The Conservancy is primarily funded from mitigation fees established by the Conservancy and approved by local government ordinance. The mitigation fees include components for land acquisition, restoration and enhancement, endowment, supplemental endowment, and administration. The fees are to be adjusted each year as necessary to implement the NBHCP. As the Conservancy acquires land, other funding sources include agricultural leasing and other sources of revenue.

The supplemental endowment component does not meet the definition of a permanent fund type under generally accepted accounting principles. Therefore it is reported in the Supplemental Land Fund in the financial statements.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Conservancy have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental agencies. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the Conservancy are described below.

**Conservancy-wide and fund financial statements**

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

**THE NATOMAS BASIN CONSERVANCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

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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 are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized on governmental fund financial statements.

The Conservancy reports the following major governmental funds:

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

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

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

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

**THE NATOMAS BASIN CONSERVANCY**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2007**

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

**Permanent Fund**

In accordance with the Implementation Agreement for the Natomas Basin Habitat Conservation Plan, the Conservancy is required to segregate all endowment fees. The Endowment Fund is accounted for in a permanent fund. Interest earnings will be used to meet long-term operations and maintenance needs of the Conservancy at such time as mitigation fee income and farm rent income are no longer adequate.

**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

**Interfund Transactions**

Interfund transactions are reflected as either loans, reimbursements, or transfers. Loans between funds have been reported as receivables and payables as appropriate, are subject to elimination upon consolidation, and are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) and are paid and cleared in the subsequent period.

These interfund balances result from the time lag between the dates that (1) interfund reimbursable expenditures occur, and (2) payments between funds are made.

**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.

**Land Exchange Proceeds**

In 2007, in accordance with obligations under certain land exchange agreements and following adjudications by the County of Sacramento, the Conservancy relinquished approximately 94.2 acres between the Bianchi West and Frazer South tracts and received a consideration of \$3,152,768.

**THE NATOMAS BASIN CONSERVANCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

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**Reclassifications**

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

**Use of Estimates**

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

**3. CASH AND INVESTMENTS**

Cash and investments as of December 31, 2007, are classified in the accompanying financial statements as follows:

Cash and investments held by City of Sacramento	\$ 4,778,269
Cash and investments held by fiscal agent	11,354,119
Restricted cash and investments held by fiscal agent	<u>10,923,671</u>
Total cash and investments	<u>\$ 27,056,059</u>

Cash and investments as of December 31, 2007, consist of the following:

Deposits with financial institutions	\$ 148,469
Cash and investments in external investment pool	4,778,269
Cash held by fiscal agent	2,325,875
Investments held by fiscal agent	<u>19,803,446</u>
Total cash and investments	<u>\$ 27,056,059</u>

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

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

No more than 5% shall be invested in any one common stock or debt instrument, and 20% in any diversified mutual fund and 25% in any broad-based index mutual fund. No more than 15% shall be invested in a hedge fund. Obligations of the U.S. government agencies are exempted from this allocation. Equity holdings shall be readily marketable securities traded on the major stock exchanges, including NASDAQ. International equity investments of similar quality and marketability will be permitted. Fixed income investments shall be readily marketable securities, including debt instruments of the U.S. Government and its agencies, corporations, and foreign denominated securities, so that the target average portfolio quality is investment grade. High-yield bond mutual funds may also be used



**THE NATOMAS BASIN CONSERVANCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

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when deemed appropriate provided the average portfolio quality remains investment grade or higher. Hedge fund managers will use investment techniques to minimize market risk and create a more stable stream of investment returns.

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

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

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

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

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

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

The Conservancy has adopted the City of Sacramento's investment policy for all fund investments held by the City of Sacramento. The required disclosure information regarding categorization of investments and other deposit and investment risk disclosures can be found in the City of Sacramento's comprehensive annual financial report and may be obtained by contacting the City of Sacramento Department of Finance, Accounting Division, 915 I Street, Sacramento, CA 95814.

**THE NATOMAS BASIN CONSERVANCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

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Cash in City of Sacramento Pool

The Conservancy records investments at fair value, which is based on quoted market prices. The Conservancy participates in the City of Sacramento investment pool over which the City Treasurer has regulatory oversight. The City Treasurer pools cash with other City funds and investments to maximize income consistent with safe and prudent investment practices within the guidelines of the City's investment pool and reviews its investment policy on a quarterly basis. The fair value of the Conservancy's position in the pool is the same as the value of the pool shares.

Derivative Investments

The Conservancy did not directly enter into any derivative investments. The City of Sacramento investment pool A had no derivatives at December 31, 2007.

Investment Summary

At December 31, 2007, the Conservancy's investments consist of the following:

Equity mutual funds	\$ 11,795,137
External investment pool	4,778,269
Fixed income securities	
Government obligations	450,157
Corporate bonds	3,418,197
Municipal bonds	3,840,000
Other fixed income securities	299,955
Total	<u>\$ 24,581,715</u>

Disclosures Relating to Interest Rate Risk

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

**THE NATOMAS BASIN CONSERVANCY**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2007**

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>
	Under 1 Year	10-15 Years	15-20 Years	Over 20 Years	
Equity mutual funds	\$ 11,795,137				\$ 11,795,137
External investment pool	4,778,269				4,778,269
Government obligations	450,157				450,157
Corporate bonds	3,418,197				3,418,197
Municipal bonds		\$ 470,000	\$ 1,050,000	\$ 2,320,000	3,840,000
Other fixed income securities	299,955				299,955
<b>Total investments</b>	<b>\$ 20,741,715</b>	<b>\$ 470,000</b>	<b>\$ 1,050,000</b>	<b>\$ 2,320,000</b>	<b>\$ 24,581,715</b>

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	\$ 4,778,269
Equity mutual funds	Not rated	11,795,137
Government obligations	AAA	450,157
Corporate bonds	AAA	830,603
Corporate bonds	AA+	502,141
Corporate bonds	AA	499,433
Corporate bonds	AA-	1,147,544
Corporate bonds	A+	438,476
Municipal bonds	A-1+	3,340,000
Municipal bonds	AA-	250,000
Municipal bonds	Not rated	250,000
Other fixed income securities	AAA	299,955
<b>Total</b>		<b>\$ 24,581,715</b>

**THE NATOMAS BASIN CONSERVANCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

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Concentration of Credit Risk

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

The Conservancy has no investments in any one issuer that represent 5% or more of total investments by reporting unit (primary government, governmental activities, major fund, nonmajor funds in the aggregate, etc.) at December 31, 2007.

Custodial Credit Risk

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

Of the Conservancy's deposits with financial institutions, \$113,914 was in excess of federal depository insurance. The investments in the City of Sacramento investment pool are supported by the value of the underlying investments, \$20,212,309 of the equity mutual funds are registered in the Conservancy's name, the remaining \$1,917,012 cash and investments held by fiscal agents are uninsured and not registered in the name of the Conservancy.

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

**Fund balances** \$ 27,289,904

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

Capital assets	\$ 37,480,619	
Less: accumulated depreciation	(1,035,164)	
		36,445,455

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

Accrued compensated absences		(21,828)
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**Net assets** \$ 63,713,531

**THE NATOMAS BASIN CONSERVANCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

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**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** \$ 4,931,652

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	713,606
Depreciation expense	(226,927)

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

Compensated absences	<u>(3,003)</u>
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**Change in net assets** \$ 5,415,328

**6. CAPITAL ASSETS**

A summary of changes in capital assets for the year ended December 31, 2007, is as follows:

	December 31, 2006	Additions	(Deletions)	December 31, 2007
<b>Capital assets not being depreciated:</b>				
Land	\$ 33,398,882	_____	\$ _____	\$ 33,398,882
<b>Capital assets being depreciated:</b>				
Land improvements	3,350,295	\$ 693,933		4,044,228
Office equipment	17,836	19,673		37,509
	<u>3,368,131</u>	<u>713,606</u>		<u>4,081,737</u>
<b>Accumulated depreciation:</b>				
Accum. depreciation, land improvements	(803,623)	(223,359)		(1,026,982)
Accum. depreciation, office equipment	(4,614)	(3,568)		(8,182)
	<u>(808,237)</u>	<u>(226,927)</u>		<u>(1,035,164)</u>
Total capital assets, net	<u>\$ 35,958,776</u>	<u>\$ 486,679</u>	<u>\$ _____</u>	<u>\$ 36,445,455</u>

**THE NATOMAS BASIN CONSERVANCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

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**7. RELATED PARTY TRANSACTIONS**

During the year ended December 31, 2007, the Conservancy paid \$9,343 to the City of Sacramento for investment services.

**8. OPERATING LEASE**

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

Year Ending December 31,	
2008	\$ 63,220
2009	65,355
2010	<u>16,472</u>
	<u>\$ 145,047</u>

Rent expense for the year ended December 31, 2007, was \$61,084.

**9. LINE OF CREDIT**

The Conservancy has a revolving non-interest-bearing line of credit with the City of Sacramento. The maximum amount the Conservancy is permitted to borrow is \$4,000,000. There was no outstanding principal balance at December 31, 2007.

**10. RISK MANAGEMENT**

The Conservancy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Conservancy purchases insurance coverage for commercial property, commercial general liability, 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 settlements for each of the past three years.

**11. RETIREMENT PLAN**

The Conservancy offers retirement benefits in the form of a Simplified Employee Pension-Individual Retirement Account defined contribution plan (the Plan) under Internal Revenue Code Section 408(k). The Plan covers all eligible employees who have completed at least one year of service and are at least 21 years of age. Employer contributions to the Plan are discretionary. Plan provisions are established and may be amended by the Internal Revenue Service. Retirement expense incurred for the year ended December 31, 2007, was \$27,894.

**THE NATOMAS BASIN CONSERVANCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

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

The Conservancy holds 3,407 shares of Natomas Central Mutual Water Company (NCMWC) stock. The shares are attached to each land parcel owned by the Conservancy within the NCMWC's territory. When land is traded or sold, the stock associated with that land is automatically transferred. Ownership in this stock has costs associated with rights for delivery of water service for which the Conservancy pays NCMWC upon receipt of invoice. In the event the Conservancy wishes to cancel its shares and thereby cancel obligation for future assessments, water tolls, and services, the Conservancy must apply for cancellation, obtain NCMWC's board approval, and pay a cancellation fee of \$2,650 per share. At December 31, 2007, the value of the NCMWC stock held was \$16.91 per share or \$57,606. The estimated value and potential liability have not been recorded in these financial statements.

**13. RESTATEMENT OF FUND BALANCE/NET ASSETS**

Beginning net assets for governmental activities and the Administration Fund increased by \$107,474 due to a correction for 2007 property tax expense that was recognized in 2006 in error. As a result, accounts payable and materials and service expense were decreased by \$107,474 for the year ended December 31, 2006, and materials and service expense was increased by \$107,474 for the year ended December 31, 2007.

**REQUIRED SUPPLEMENTARY INFORMATION**



**THE NATOMAS BASIN CONSERVANCY**

**BUDGETARY COMPARISON SCHEDULE - ADMINISTRATION FUND**

**FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Mitigation fees	\$ 3,113,650	\$ 1,303,662	\$ 1,055,354	\$ (248,308)
Rent revenue	268,494	268,494	312,085	43,591
Investment income	350,000	175,000	332,128	157,128
Land exchange proceeds			3,152,768	3,152,768
Other income	<u>12,500</u>	<u>120,000</u>	<u>141,110</u>	<u>21,110</u>
Total Revenues	<u>3,744,644</u>	<u>1,867,156</u>	<u>4,993,445</u>	<u>3,126,289</u>
<b>EXPENDITURES</b>				
Land mitigation:				
Personnel services	405,536	373,615	348,451	25,164
Materials and services	2,280,913	3,324,913	2,905,071	419,842
Capital outlay			<u>117,913</u>	<u>(117,913)</u>
Total Expenditures	<u>2,686,449</u>	<u>3,698,528</u>	<u>3,371,435</u>	<u>327,093</u>
Excess of Expenditures Over Revenues	<u>\$ 1,058,195</u>	<u>\$ (1,831,372)</u>	<u>\$ 1,622,010</u>	<u>\$ 3,453,382</u>

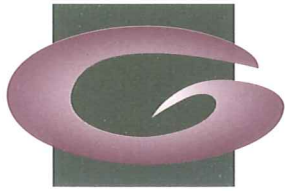
**THE NATOMAS BASIN CONSERVANCY**

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

**FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Mitigation fees	\$ 373,638	\$ 166,515	\$ 146,005	\$ (20,510)
Investment income			31,310	31,310
Other income			88,290	88,290
Total Revenues	<u>373,638</u>	<u>166,515</u>	<u>265,605</u>	<u>99,090</u>
<b>EXPENDITURES</b>				
Land mitigation:				
Materials and services	517,500	620,000	1,920	618,080
Capital outlay			595,693	(595,693)
Total Expenditures	<u>517,500</u>	<u>620,000</u>	<u>597,613</u>	<u>22,387</u>
Excess of Revenues				
Over (Under) Expenditures	\$ <u>(143,862)</u>	\$ <u>(453,485)</u>	\$ <u>(332,008)</u>	\$ <u>121,477</u>

## **ADDITIONAL FINANCIAL INFORMATION**



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

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

We have audited the financial statements of the governmental activities and each major fund of the Natomas Basin Conservancy (the Conservancy) as of and for the year ended December 31, 2007, which collectively comprise the Conservancy's basic financial statements, and have issued our report thereon dated March 27, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Conservancy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Conservancy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Conservancy's internal control over financial reporting.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Conservancy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Conservancy's financial statements that is more than inconsequential will not be prevented or detected by the Conservancy's internal control.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Directors, Audit Committee, and management and is not intended to be and should not be used by anyone other than these specified parties.

*Gilbert Associates, Inc.*

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

**March 27, 2008**

**NATOMAS BASIN CONSERVANCY  
SCHEDULE OF MITIGATION FEES COLLECTED  
FOR THE YEAR ENDED DECEMBER 31, 2007**

<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</u>	<u>Land Acquisition</u>	<u>Endowment</u>	
Habitat Acquisition Fee				\$ 2,188,925		\$ 2,188,925
Endowment Fee			\$ 96,517		\$ 584,703	681,220
Habitat Management Fee	\$ 1,034,247	\$ 146,005				1,180,252
Administrative Fee	21,107					21,107
Total Fees Collected	<u>\$ 1,055,354</u>	<u>\$ 146,005</u>	<u>\$ 96,517</u>	<u>\$ 2,188,925</u>	<u>\$ 584,703</u>	<u>\$ 4,071,504</u>