



Financial Statements with Independent
Auditor's Report
Year ended December 31, 2018

THE NATOMAS BASIN CONSERVANCY

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INTRODUCTORY SECTION



Board of Directors

- John F. Shirey, *Chair*
Jeff Helm, *Vice Chair*
Chandra Chilmakuri, *Secretary*
David Christophel, *Treasurer*
Steven Cohn, *Board Member*
Michael Johnston, *Board Member*
Jill Leal, *Board Member*
Kevin McRae, *Board Member*
Jeff Norton, *Board Member*
Anthony Van Ruiten, *Board Member*



Staff

- John Roberts, *Executive Director*
Kimberli Burns, *Chief Financial Officer*
Jennifer Skupic, *Contracts & Compliance Manager*
Valerie Huevo, *Administrative Assistant*
Jeremy Lor, *Field Services Assistant*



The Natomas Basin Conservancy, a California Non-Profit Public
Benefit Corporation

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Sacramento, CA 95833
916.649.3331



Letter from the Board Chair and Executive Director



We are pleased to share with you the Conservancy's December 31, 2018 financial report. In it, you will see much of the financial workings that facilitate implementation of the Natomas Basin Habitat Conservation Plan (NBHCP) and the Metro Air Park Habitat Conservation Plan (MAPHCP). As the "Plan Operator" of those HCPs, the Conservancy oversees and administers just over 4,100 acres of land used to provide mitigation for all 22 of the HCPs' covered species.

Here are some of the highlights for 2018:

--Endowment funds. The Conservancy continues its management of both the NBHCP Endowment Fund and NBHCP Supplemental Endowment Fund, combined having a valuation at December 31, 2018 of \$23,983,178.

--Mitigation. The Conservancy had a small amount of mitigation activity during 2018, totaling 36.83 acres. However, it engaged in programs and projects with PG&E and the Sacramento Area Flood Control Agency (SAFCA), securing certain funds for work with the two entities, including setting the stage for further work in future years.

--Biological monitoring effectiveness. Once again, the Conservancy completed its extensive biological effectiveness monitoring report. The in-field and on-reserve monitoring efforts conducted by independent experts continues to demonstrate the worth of the HCPs and success of the Conservancy's implementation efforts.

The Conservancy presents this December 31, 2018 audited financial report for your review. We appreciate your interest and hope you'll agree the NBHCP and the MAPHCP are a valuable part of the Natomas community.

Handwritten signature of John F. Shirey in black ink.

John F. Shirey
2018 Board Chair

Handwritten signature of John Roberts in blue ink.

John Roberts
Executive Director

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Natomas Basin Conservancy (the Conservancy), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Conservancy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Conservancy, as of December 31, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 6 through 11 and the budgetary comparison information on pages 27 through 29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2019, on our consideration of the Conservancy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial

To the Board of Directors
The Natomas Basin Conservancy
Page three

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

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

March 21, 2019

THE NATOMAS BASIN CONSERVANCY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2018

Management of The Natomas Basin Conservancy (the Conservancy), offers 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, 2018. We encourage readers to consider the information presented here in conjunction with the Conservancy's financial statements, which begin on page 12.

FINANCIAL HIGHLIGHTS

- The Conservancy's net position for 2018 is \$67,296,448, of which \$33,056,105 is invested in capital assets, \$20,685,410 is invested in the Conservancy's Endowment Fund and the balance of \$13,554,933 is invested in the Conservancy's non-endowment funds.
- Cash and investments at December 31, 2018 totaled \$34,752,251.
- Mitigation fee revenue in 2018 was \$861,758.
- Conservancy expenses totaled \$2,971,068 in 2018, compared to \$2,844,883 in 2017.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Conservancy's basic financial statements which have the following components in addition to management's discussion and analysis: 1) Conservancy-wide financial statements, 2) fund financial statements, 3) notes to the financial statements, and 4) required supplementary schedules. The Conservancy-wide and fund financial statements are presented in a combined format on pages 12 through 15.

As the Conservancy's sitting Board of Directors is appointed by governmental agencies, the Conservancy follows Governmental Accounting Standards Board (GASB). The Conservancy has only governmental-type funds and all are major.

CONSERVANCY-WIDE FINANCIAL STATEMENTS

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

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

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

THE NATOMAS BASIN CONSERVANCY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2018

FUND FINANCIAL STATEMENTS

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

CONSERVANCY-WIDE FINANCIAL ANALYSIS

The Natomas Basin Conservancy
Summary of Net Position
Conservancy-wide Activities
As of December 31, 2018 and 2017

	<u>December 31, 2018</u>	<u>December 31, 2017</u>	<u>Increase/Decrease</u>
Current and other assets	\$ 34,981,732	\$ 36,430,185	\$ (1,448,453)
Capital assets	<u>33,056,105</u>	<u>33,236,466</u>	<u>(180,361)</u>
Total assets	<u>68,037,837</u>	<u>69,666,651</u>	<u>(1,628,814)</u>
Current liabilities	675,345	506,457	168,888
Non-Current liabilities	<u>66,044</u>	<u>66,427</u>	<u>(383)</u>
Total liabilities	<u>741,389</u>	<u>572,884</u>	<u>168,505</u>
Net position:			
Net investment in capital assets	33,056,105	33,236,466	(180,361)
Restricted for giant garter snakes	194,809	194,809	-
PG&E – tree contract	79,445	-	79,445
Restricted for SAFCA NLIP	893,802	883,435	10,367
Restricted for endowment – permanent	10,642,714	10,385,214	257,500
Restricted for endowment – temporary	10,042,696	10,799,373	(756,677)
Unrestricted	<u>12,386,877</u>	<u>13,594,470</u>	<u>(1,207,593)</u>
Total net position	<u>\$ 67,296,448</u>	<u>\$ 69,093,767</u>	<u>\$ (1,797,319)</u>

Net position represents the difference between the Conservancy's resources and its obligations. At December 31, 2018, approximately 49% of the Conservancy's net position is invested in land and land improvements. These lands are acquired and enhanced to provide habitat for protected plant and animal species.

At present the Conservancy has no outstanding debt obligations.

THE NATOMAS BASIN CONSERVANCY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2018

The Conservancy presently holds 4,131 acres in the Natomas Basin, of which 4,104 acres are owned in fee simple title and 27 acres are held in easements. All land purchases and land dedications are recorded at their acquisition cost. Land assets are currently recorded at \$32,488,284. However, if the Conservancy's total land assets were recorded at the annually-adjusted land valuation in the Natomas Basin Habitat Conservation Plan (NBHCP) Finance Model, they would total approximately \$93 million. The NBHCP Finance Model is an economic analysis of the Conservancy's operations and a projection of revenue and expense through the 50-year life of the NBHCP and is required to be recalculated annually by the NBHCP.

The two graphs below (Figure 1, Total Conservancy Assets, and Figure 2, Conservancy Cash & Investments)

Figure 1

**Total Conservancy Assets
12/31/18**

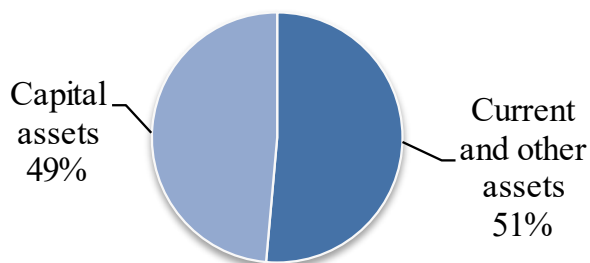
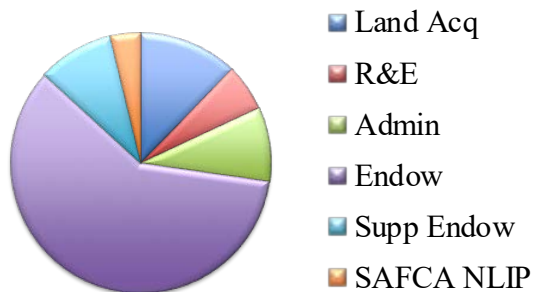


Figure 2

**Conservancy Cash & Investments
12/31/18**



THE NATOMAS BASIN CONSERVANCY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2018

The Natomas Basin Conservancy
Changes in Net Position
Conservancy-wide Activities
As of December 31, 2018 and 2017

	December 31, 2018	December 31, 2017	Increase/Decrease
Revenues			
Program revenues:			
Mitigation fees – cash portion	\$ 604,258	\$ 1,409,352	\$ (805,094)
Rent revenue	676,652	495,231	181,421
Land Management – SAFCA	206,500	154,901	51,599
Investment income	72,483	2,799,040	(2,726,557)
General revenues:			
Mitigation fees contributed to			
Endowment Fund	257,500	360,248	(102,749)
Investment income	(675,424)	575,117	(1,250,539)
Other	244,727	231,415	13,312
Total revenues	1,386,696	6,025,302	(4,638,606)
Expenses			
Conservancy operations	2,971,068	2,844,883	126,185
SAFCA contract obligation	212,947	162,868	50,079
	3,184,015	3,007,751	176,624
Increase (Decrease) in net position	(1,797,319)	3,017,551	(4,814,870)
Net Position, beginning of period	69,093,767	66,076,216	3,017,551
Net Position, end of period	\$ 67,296,448	\$ 69,093,767	\$ (1,797,319)

The NBHCP mitigation fee per acre in 2018 was \$33,091 per disturbed acre (\$21,841 with land dedication), an increase from the 2017 fee, which was \$31,600 per disturbed acre (\$20,350 with land dedication). The Conservancy received \$861,758 in mitigation fees in 2018.

Investment income decreased \$3,977,096 from \$3,374,155 in 2017 to (\$602,941) in 2018 due to a downturn in the market. Farm rent revenues increased by \$181,421, from \$495,231 in 2017 to \$676,652 in 2018. This increase was largely due to a return to a more normal rotation of planted / fallow acres, as well as favorable rice prices. The Conservancy was reimbursed for certain water costs from tenant farmers.

Conservancy expenses in 2018 were \$2,971,068. Due to aggressive cost control the Conservancy has been able to maintain expenses within approximately \$3 million each year for more than ten years. Expenses related to Sacramento Area Flood Control Agency (SAFCA) contracts were \$212,947 in 2018, an increase of \$50,079 over 2017 expenses of \$162,868. The increase was largely due to a full year of managing certain SAFCA marsh properties.

THE NATOMAS BASIN CONSERVANCY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2018

The two graphs below present year-over-year revenue comparisons for 2018 and 2017.

Figure 3

2018 Revenue

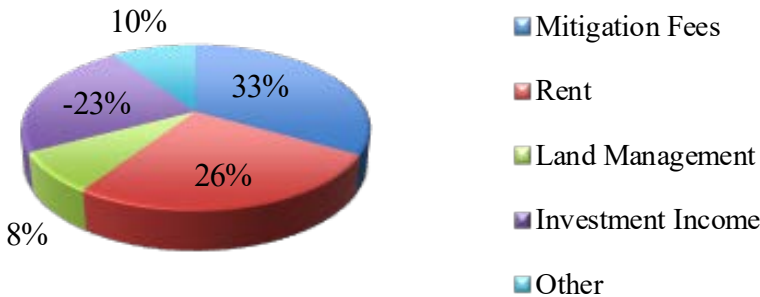
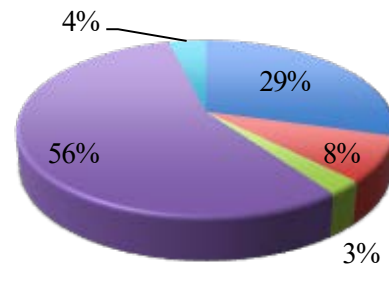


Figure 4

2017 Revenue



FINANCIAL ANALYSIS OF THE CONSERVANCY'S FUNDS

As of December 31, 2018, the Conservancy's fund balances totaled \$34,306,387, a decrease of \$1,617,341 compared to fund balances of \$35,923,728 at December 31, 2017. The decrease is largely due to less than expected mitigation fee revenue and the aforementioned investment income impacts. The Conservancy's major source of revenue is typically from mitigation fees. Historically, the Conservancy's typical major expenditures are for the acquisition and management of habitat land, including but not limited to property taxes, water, land management and maintenance and biological effectiveness monitoring.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The combined impact of the soft real estate economy and the remnants of a de-facto building moratorium due to federal government flood risk determinations have had significant impacts on the Conservancy's financial performance. As of June 16, 2015, the Federal Emergency Management Agency issued new flood insurance rate maps that provide Natomas with an A99 flood zone designation, which allowed construction in Natomas. Due to certain restrictions on new development by the City of Sacramento, resumption of development requiring NBHCP mitigation has restarted slowly and nearly entirely on land on which grading permits were issued (and HCP fees paid) many years ago.

The Sacramento Area Flood Control Agency (SAFCA) embarked on a construction project in 2009, known as the Natomas Levee Improvement Project (NLIP), intended to ultimately provide 200-year flood protection in the Natomas Basin. Mitigation for impacts on species covered in the NBHCP has been required for such work. The Conservancy has entered into agreements with SAFCA to conduct mitigation and related activity. These efforts generate modest revenue for the Conservancy.

The Conservancy's Board of Directors approved a budget for 2019 which projects a modest amount of mitigation revenue for the year. The 2019 budget also projects expenses for completion of the updates to the NBHCP's required Site-Specific Management Plans for all Conservancy properties.

THE NATOMAS BASIN CONSERVANCY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2018

CONTACTING THE CONSERVANCY'S MANAGEMENT

This financial report is designed to provide a general overview of the Conservancy's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Executive Director, The Natomas Basin Conservancy, 2150 River Plaza Drive, Suite 460, Sacramento, CA 95833 or call (916) 649-3331.

THE NATOMAS BASIN CONSERVANCY

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET DECEMBER 31, 2018

	<u>Administration</u>	<u>Restoration & Enhancement</u>	<u>SAFCA NLIP</u>	<u>Supplemental Land and Contingency</u>	<u>Land Acquisition</u>
ASSETS:					
Current Assets:					
Cash and investments held by City of Sacramento	\$ 172,777	\$ 12,179		\$ 1,583	\$ 112,828
Cash and investments held by fiscal agents	2,976,768	2,020,740	\$ 1,275,781	3,299,333	4,175,195
Restricted cash and investments held by City of Sacramento					
Receivables:					
Account	153,287		31,241		
Interest	7,577	12,070	3,922		4,477
Prepaid items	16,907				
Due from other funds	78,643				
Non-Current Assets:					
Restricted cash and investments held by fiscal agent					
Land					
Capital assets, net					
Total Assets	<u>\$ 3,405,959</u>	<u>\$ 2,044,989</u>	<u>\$ 1,310,944</u>	<u>\$ 3,300,916</u>	<u>\$ 4,292,500</u>
LIABILITIES:					
Current Liabilities:					
Accounts payable	\$ 313,791		\$ 5,036	\$ 3,148	
Unearned revenue			333,463		
Deposits payable	250				
Due to other funds			78,643		
Non-Current Liabilities:					
Compensated absences					
Total Liabilities	<u>314,041</u>	<u>2,044,989</u>	<u>417,142</u>	<u>3,148</u>	<u>4,292,500</u>
FUND BALANCE/NET POSITION:					
Net investment in capital assets					
Nonspendable:					
Prepaid expenses	16,907				
Endowment					
Restricted:					
Giant garter snakes	194,809				
Brookfield property			893,802		
PG&E trees contract	79,445				
Endowment:					
Expendable					
Nonexpendable					
Committed:					
Restoration & enhancement		\$ 2,044,989			
Supplemental land acquisition				3,297,768	
Land acquisition					\$ 4,292,500
Unassigned/Unrestricted	2,800,757				
Total Fund Balances/Net Position	<u>3,091,918</u>	<u>2,044,989</u>	<u>893,802</u>	<u>3,297,768</u>	<u>4,292,500</u>
Total Liabilities, Fund Balances and Net Position	<u>\$ 3,405,959</u>	<u>\$ 2,044,989</u>	<u>\$ 1,310,944</u>	<u>\$ 3,300,916</u>	<u>\$ 4,292,500</u>

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

THE NATOMAS BASIN CONSERVANCY

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET (CONTINUED) DECEMBER 31, 2018

<u>Endowment</u>	<u>Total Fund Balance</u>	<u>Adjustments (Notes 4 & 10)</u>	<u>Statement of Net Position</u>	
	\$ 299,367		\$ 299,367	ASSETS:
	13,747,817		13,747,817	Current Assets:
				Cash and investments held by City of Sacramento
				Cash and investments held by fiscal agent
				Restricted cash and investments held by City
\$ 22,672	22,672		22,672	of Sacramento
				Receivables:
	184,528		184,528	Account
	28,046		28,046	Interest
	16,907		16,907	Prepaid items
	78,643	\$ (78,643)		Due from other funds
				Non-Current Assets:
20,682,395	20,682,395		20,682,395	Restricted cash and investments held by fiscal agent
		32,488,284	32,488,284	Land
		567,821	567,821	Capital assets, net
<u>\$ 20,705,067</u>	<u>\$ 35,060,375</u>	<u>\$ 32,977,462</u>	<u>\$ 68,037,837</u>	Total Assets
				LIABILITIES:
				Current Liabilities:
\$ 19,657	\$ 341,632		\$ 341,632	Accounts payable
	333,463		333,463	Unearned revenue
	250		250	Deposits payable
	78,643	\$ (78,643)		Due to other funds
				Non-Current Liabilities:
		66,044	66,044	Compensated absences
		(12,599)	741,389	Total Liabilities
<u>19,657</u>	<u>753,988</u>	<u>(12,599)</u>	<u>741,389</u>	
				FUND BALANCE/NET POSITION:
		33,056,105	33,056,105	Net investment in capital assets
				Nonspendable:
	16,907	(16,907)		Prepaid expenses
10,642,714	10,642,714	(10,642,714)		Endowment
				Restricted:
	194,809		194,809	Giant garter snakes
	893,802		893,802	Brookfield property
	79,445		79,445	PG&E trees contract
				Endowment:
10,042,696	10,042,696		10,042,696	Expendable
		10,642,714	10,642,714	Nonexpendable
				Committed:
	2,044,989	(2,044,989)		Restoration & enhancement
	3,297,768	(3,297,768)		Supplemental land acquisition
	4,292,500	(4,292,500)		Land acquisition
	2,800,757	9,586,120	12,386,877	Unassigned/Unrestricted
<u>20,685,410</u>	<u>34,306,387</u>	<u>32,990,061</u>	<u>67,296,448</u>	Total Fund Balances/Net Position
<u>\$ 20,705,067</u>	<u>\$ 35,060,375</u>	<u>\$ 32,977,462</u>	<u>\$ 68,037,837</u>	Total Liabilities, Fund Balances and Net Position

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

THE NATOMAS BASIN CONSERVANCY

STATEMENTS OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Administration</u>	<u>Restoration & Enhancement</u>	<u>SAFCA NLIP</u>	<u>Supplemental Land and Contingency</u>	<u>Land Acquisition</u>
REVENUES:					
Program revenues:					
Charges for services:					
Mitigation fees	\$ 450,937	\$ 48,288		\$ 17,975	\$ 87,058
Rent revenue	676,652				
Land management			\$ 206,500		
Operating grants and contributions:					
Investment income (loss)					
Total program revenues	<u>1,127,589</u>	<u>48,288</u>	<u>206,500</u>	<u>17,975</u>	<u>87,058</u>
General revenues:					
Endowment contributions - mitigation fees					
Investment income (loss)	50,189	43,370	16,814	(108,145)	70,255
Other income	<u>244,727</u>				
Total general revenues	<u>294,916</u>	<u>43,370</u>	<u>16,814</u>	<u>(108,145)</u>	<u>70,255</u>
Total Revenues	<u>1,422,505</u>	<u>91,658</u>	<u>223,314</u>	<u>(90,170)</u>	<u>157,313</u>
EXPENDITURES:					
Land mitigation:					
Personnel services	558,172		16,839		
Materials and services	2,074,374		196,108	13,035	
Depreciation					
Loss on equipment disposal					
Capital outlay	<u>16,429</u>				<u>47,828</u>
Total Expenditures	<u>2,648,975</u>		<u>212,947</u>	<u>13,035</u>	<u>47,828</u>
Changes in Fund Balances/Net Position	(1,226,470)	91,658	10,367	(103,205)	109,485
Fund Balances/Net Position, beginning of period	<u>4,318,388</u>	<u>1,953,331</u>	<u>883,435</u>	<u>3,400,973</u>	<u>4,183,015</u>
Fund Balances/Net Position, end of period	<u>\$ 3,091,918</u>	<u>\$ 2,044,989</u>	<u>\$ 893,802</u>	<u>\$ 3,297,768</u>	<u>\$ 4,292,500</u>

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

THE NATOMAS BASIN CONSERVANCY

STATEMENTS OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2018

Endowment	Total Fund Balance	Adjustments (Note 5)	Statement of Activities	
	\$ 604,258		\$ 604,258	REVENUES:
	676,652		676,652	Program revenues:
	206,500		206,500	Charges for services:
				Mitigation fees
				Rent revenue
				Land management
				Operating grants and contributions:
				Investment income (loss)
\$ (675,424)	(675,424)		(675,424)	Total program revenues
(675,424)	811,986		811,986	General revenues:
257,500	257,500		257,500	Endowment contributions - mitigation fees
	72,483		72,483	Investment income (loss)
	244,727		244,727	Other income
257,500	574,710		574,710	Total general revenues
(417,924)	1,386,696		1,386,696	Total Revenues
				EXPENDITURES:
	575,011	\$ (383)	574,628	Land mitigation:
81,252	2,364,769		2,364,769	Personnel services
		231,774	231,774	Materials and services
		12,844	12,844	Depreciation
		(64,257)		Loss on equipment disposal
	64,257			Capital outlay
81,252	3,004,037	179,978	3,184,015	Total Expenditures
(499,176)	(1,617,341)	(179,978)	(1,797,319)	Changes in Fund Balances/Net Position
21,184,586	35,923,728	33,170,039	69,093,767	Fund Balances/Net Position, beginning of period
\$ 20,685,410	\$ 34,306,387	\$ 32,990,061	\$ 67,296,448	Fund Balances/Net Position, end of period

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, 2018

1. ORGANIZATION

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

The HCPs apply to the 53,537-acre interior of the Natomas Basin, located in the northern portion of Sacramento County and the southern portion of Sutter County. The Natomas Basin contains incorporated and unincorporated areas within the jurisdictions of the City of Sacramento, County of Sacramento and County of Sutter. The HCPs are designed to promote biological conservation while allowing urban development to proceed according to local land-use plans. The United States Fish and Wildlife Service and the California Department of Fish and Wildlife provide oversight and ensure compliance with the terms of the HCPs.

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

Funding

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Conservancy-wide and fund financial statements

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

THE NATOMAS BASIN CONSERVANCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

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

Measurement focus, basis of accounting, and financial statement presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Conservancy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

The Conservancy reports the following major governmental funds:

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

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

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

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

Amounts reported as program revenues include; 1) mitigation fees, 2) farm rent, 3) land management, and 4) investment income in the endowment fund. Internally dedicated resources are reported as general revenues rather than as program revenue. The HCPs address the timing related to the use of restricted and then other less restricted classifications: committed, assigned and then unassigned fund balances.

THE NATOMAS BASIN CONSERVANCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

Permanent Fund

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

Capital Assets

The Conservancy capitalizes all land, land improvements, furniture and fixtures, and equipment purchases with costs in excess of \$2,500 and a useful life of one year or more.

Capital asset acquisitions are recorded at cost. Contributions are recorded at the estimated fair value on the date of contribution. Non-monetary land trades are valued at the historical cost of the land relinquished.

Capital assets are depreciated using the straight-line method, half-year convention, over the following estimated useful lives:

Land improvements	15 years
Furniture and equipment	5 years

Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as liabilities of the Conservancy on the Conservancy-wide financial statements. The Conservancy had a total of \$66,044 in accrued compensated absences as of December 31, 2018 .

Fund Equity

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

The Conservancy's governmental fund statements utilize a fund balance presentation. Fund balances are categorized as nonspendable, restricted, committed, and unassigned. The committed portion of fund balance is used for specific purposes determined by a formal action (Resolution) of the Conservancy's highest level of decision making authority and remains committed unless removed in the same manner. For the Conservancy, this level of authority lies with the Board of Directors.

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.

THE NATOMAS BASIN CONSERVANCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

3. CASH AND INVESTMENTS

Cash and investments as of December 31, 2018, are classified in the accompanying financial statements as follows:

Cash and investments held by City of Sacramento	\$ 322,039
Cash and investments held by fiscal agent	13,747,817
Restricted cash and investments held by fiscal agent	<u>20,682,395</u>
Total cash and investments	<u>\$ 34,752,251</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 authorizes the following types of investments:

Authorized Investment Type

Common stock or debt instrument
Diversified mutual funds
Broad-based index mutual funds
Hedge funds or hedge-like funds
U.S. government agencies

The Conservancy investment policy for the investments held by fiscal agent in the Administration, Restoration and Enhancement, Land Acquisition, and the SAFCA NLIP Funds contains the following authorized investment types:

Authorized Investment Type

Money market mutual funds	Obligations issued or guaranteed by
Commercial paper	United States Government agencies
Master notes	U.S. Treasury obligations
Funding agreements	Exchange traded funds
Certificates of deposit	Federal agency securities
Repurchase agreements	Corporate notes and bonds
Bankers acceptances	Mortgage-backed securities

Additional provisions relating to credit risk, interest rate risk, concentration of credit risk and foreign currency for the policies described above are contained within the Conservancy's investment policies. Copies of the investment policies can be obtained by contacting the Conservancy at 2150 River Plaza Drive, Suite 460, Sacramento CA 95833.

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, 2018

Cash in City of Sacramento Pool

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

Derivative Investments

The Conservancy did not directly enter into any derivative investments in 2018. The City of Sacramento Investment Pool A had no derivatives at December 31, 2018.

Cash and Investment Summary

At December 31, 2018, the Conservancy's cash and investments consist of the following:

Deposits with financial institutions	\$ 756,523
Cash and cash equivalents held by fiscal agents	<u>1,503,837</u>
Cash and cash equivalents	<u>2,260,360</u>
Fixed income mutual funds	15,128,854
Equity mutual funds	13,228,154
External investment pool	322,038
Fixed income securities:	
Government obligations	545,398
Corporate bonds	<u>3,267,447</u>
Investments	<u>32,491,891</u>
Total cash and investments	<u>\$ 34,752,251</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, 2018

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:

	Maturity					Total
	Under 1 Year	1-5 Years	5-10 Years	10-15 Years	Over 15 Years	
Fixed income mutual funds	\$ 15,128,854					\$ 15,128,854
Equity mutual funds	13,228,154					13,228,154
External investment pool	322,038					322,038
Government obligations	377,812	\$ 167,586				545,398
Corporate bonds	2,891,023	376,424				3,267,447
Total investments	\$ 31,947,881	\$ 544,010	\$	\$	\$	\$ 32,491,891

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.

	Rating as of End of Year	
City of Sacramento investment pool	Not rated	\$ 322,038
Fixed income mutual funds	Not rated	15,128,854
Equity mutual funds	Not rated	13,228,154
Government obligations	Not rated	545,398
Corporate bonds	AAA	99,737
Corporate bonds	AA+	199,633
Corporate bonds	AA	348,765
Corporate bonds	AA-	525,139
Corporate bonds	A+	1,000,247
Corporate bonds	A	770,779
Corporate bonds	A-	223,714
Corporate bonds	BBB+	99,433
Total		\$ 32,491,891

THE NATOMAS BASIN CONSERVANCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

Concentration of Credit Risk

There were no investments in any one issuer (excluding mutual funds and external investment pools) that represent 5% or more of the total Conservancy investments at December 31, 2018.

Custodial Credit Risk

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

The Conservancy's cash equivalents with fiscal agents, investments in the City of Sacramento investment pool, fixed income mutual funds, and equity mutual funds, are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. The Conservancy's fixed income securities of \$15,128,854 are held by fiscal agents, uninsured, and not registered in the name of the Conservancy. Cash balances held in banks are fully insured up to \$250,000 by the Federal Depository Insurance Corporation. The amount of deposits in excess of the FDIC limit was \$522,277 as of December 31, 2018.

Fair Value Measurement

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

The following table sets forth the fair value hierarchy level for the Conservancy's investments as of December 31, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Fixed income mutual funds	\$ 15,128,854		
Equity mutual funds	13,228,154		
Corporate bonds		\$ 3,267,447	
Government obligations		545,398	
Total	<u>\$ 28,357,008</u>	<u>\$ 3,812,845</u>	<u>\$</u>

THE NATOMAS BASIN CONSERVANCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

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

Fund balances \$ 34,306,387

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

Capital assets	\$ 37,045,451	
Less: accumulated depreciation	<u>(3,989,346)</u>	
		33,056,105

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

Accrued compensated absences	<u>(66,044)</u>
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Net position \$ 67,296,448

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 \$ (1,617,341)

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	64,257
Depreciation expense	(231,774)
Equipment disposal, net of loss	(12,844)

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>383</u>
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Change in net position \$ (1,797,319)

THE NATOMAS BASIN CONSERVANCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

6. CAPITAL ASSETS

A summary of changes in capital assets for the year ended December 31, 2018, is as follows:

	<u>01/01/2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/2018</u>
Capital assets not being depreciated:				
Land	\$ 32,488,284	_____	_____	\$ 32,488,284
Capital assets being depreciated:				
Land improvements	4,502,639	\$ 64,257	\$ (93,066)	4,473,830
Office and other equipment	83,337			83,337
	4,585,976	64,257	(93,066)	4,557,167
Accumulated depreciation:				
Accum. depreciation, land improvements	(3,796,196)	(224,326)	80,222	(3,940,300)
Accum. depreciation, office equipment	(41,598)	(7,448)		(49,046)
	(3,837,794)	(231,774)	80,222	(3,989,346)
Total capital assets, net	\$ 33,236,466	\$ (167,517)	\$ (12,844)	\$ 33,056,105

7. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2018, the Conservancy paid \$458 to the City of Sacramento for investment services.

8. OPERATING LEASE

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

<u>Year Ending December 31,</u>	
2019	\$ 68,680
2020	70,365
2021	17,697
	\$ 156,742

Rent expense for the year ended December 31, 2018, was \$71,383.

9. LINE OF CREDIT

The Conservancy has a revolving non-interest-bearing line of credit with the City of Sacramento. The maximum amount the Conservancy is permitted to borrow is \$4,000,000. The Conservancy did not draw upon the line of credit for the year ended December 31, 2018 and there was no outstanding principal balance at December 31, 2018.

THE NATOMAS BASIN CONSERVANCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

10. INTERFUND BALANCES

Interfund balances as of December 31, 2018, consisted of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Administration	SAFCA NLIP	\$ 78,643

11. RISK MANAGEMENT

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

12. RETIREMENT PLAN

The Conservancy offers retirement benefits in the form of a Simplified Employee Pension-Individual Retirement Account defined contribution plan (the Plan) under Internal Revenue Code Section 408(k). The Plan covers all eligible employees who have completed at least six months of service and are at least 21 years of age. Employer contributions to the Plan are discretionary. Plan provisions are established and may be amended by the Internal Revenue Service. Retirement expense incurred for the year ended December 31, 2018 was \$54,198.

13. NATOMAS CENTRAL MUTUAL WATER COMPANY STOCK

The Conservancy holds 3,396 shares of Natomas Central Mutual Water Company (NCMWC) stock or approximately 11% of NCMWC's outstanding shares (31,262). The shares are attached to each land parcel owned by the Conservancy within the NCMWC's territory. When land is traded or sold, the stock associated with that land is automatically transferred. Ownership of this stock has costs associated with rights for delivery of water service for which the Conservancy pays NCMWC upon receipt of invoice. In the event the Conservancy wishes to cancel its shares and thereby cancel obligation for future assessments, water tolls, and services, the Conservancy must apply for cancellation, obtain NCMWC's board approval, and pay a cancellation fee of \$3,500 per share. At December 31, 2017, the most recent information available, the par value of the NCMWC stock held was \$10.00 per share or \$33,960. However, NCMWC's share price is not published, shares are not merchantable in and of themselves, since the shares are appurtenant to the land owned and NCMWC remains a non-profit organization. The estimated value and potential liability have not been recorded in these financial statements.

THE NATOMAS BASIN CONSERVANCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

14. MITIGATION AGREEMENT IN PROCESS

The Conservancy entered into an agreement with a private party, on September 12, 2018 to accept 16 acres of land in lieu of being paid the Land Acquisition Fund portion of the NBHCP fee. This agreement was in progress at December 31, 2018 and the Conservancy will accept title to the property once remaining property divisions and arrangements are settled, but not later than 18 months after execution of this agreement. The Conservancy secured the transaction with a conservation easement and once all arrangements for full fee simple title are complete, the property rights to the 16 acres will be transferred to the Conservancy.

REQUIRED SUPPLEMENTARY INFORMATION

THE NATOMAS BASIN CONSERVANCY

BUDGETARY COMPARISON SCHEDULE - ADMINISTRATION FUND FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Mitigation fees	\$ 688,856	\$ 688,856	\$ 450,937	\$ (237,919)
Rent revenue	652,465	652,465	676,652	24,187
Investment income	50,000	50,000	50,189	189
Other income	<u>150,000</u>	<u>150,000</u>	<u>244,727</u>	<u>94,727</u>
Total Revenues	<u>1,541,321</u>	<u>1,541,321</u>	<u>1,422,505</u>	<u>(118,816)</u>
EXPENDITURES				
Conservancy operations:				
Personnel services	578,900	578,900	558,172	20,728
Materials and services	2,447,057	2,447,057	2,074,374	372,683
Capital outlay	<u> </u>	<u> </u>	<u>16,429</u>	<u>(16,429)</u>
Total Expenditures	<u>3,025,957</u>	<u>3,025,957</u>	<u>2,648,975</u>	<u>376,982</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	<u>\$ (1,484,636)</u>	<u>\$ (1,484,636)</u>	<u>\$ (1,226,470)</u>	<u>\$ 258,166</u>

THE NATOMAS BASIN CONSERVANCY
BUDGETARY COMPARISON SCHEDULE -
RESTORATION AND ENHANCEMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Mitigation fees	\$ 73,416	\$ 73,416	\$ 48,288	\$ (25,128)
Investment income	<u>20,000</u>	<u>20,000</u>	<u>43,370</u>	<u>23,370</u>
Total Revenues	<u>93,416</u>	<u>93,416</u>	<u>91,658</u>	<u>(1,758)</u>
EXPENDITURES				
Total Expenditures	_____	_____	_____	_____
Excess of Revenues Over Expenditures	<u>\$ 93,416</u>	<u>\$ 93,416</u>	<u>\$ 91,658</u>	<u>\$ (1,758)</u>

THE NATOMAS BASIN CONSERVANCY

BUDGETARY COMPARISON SCHEDULE - SAFCA NLIP SPECIAL REVENUE FUND FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Land management	\$ 296,100	\$ 296,100	\$ 206,500	\$ (89,600)
Rent	19,800	19,800		(19,800)
Investment income	<u>20,000</u>	<u>20,000</u>	<u>16,814</u>	<u>(3,186)</u>
Total Revenues	<u>335,900</u>	<u>335,900</u>	<u>223,314</u>	<u>(112,586)</u>
EXPENDITURES				
Land mitigation:				
Personnel services			16,839	(16,839)
Materials and services	<u>279,863</u>	<u>279,863</u>	<u>196,108</u>	<u>83,755</u>
Total Expenditures	<u>279,863</u>	<u>279,863</u>	<u>212,947</u>	<u>66,916</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ 56,037</u>	<u>\$ 56,037</u>	<u>\$ 10,367</u>	<u>\$ (45,670)</u>

ADDITIONAL INFORMATION

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

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Natomas Basin Conservancy (the Conservancy), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Conservancy's basic financial statements, and have issued our report thereon dated March 21, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



GILBERT ASSOCIATES, INC.
Sacramento, California

March 21, 2019

THE NATOMAS BASIN CONSERVANCY

**SCHEDULE OF MITIGATION FEES COLLECTED
FOR THE YEAR ENDED DECEMBER 31, 2018**

<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 & Enhancement</u>	<u>Supplemental Land and Contingency</u>	<u>Land Acquisition</u>	<u>Endowment</u>	
Habitat Acquisition Fee			\$ 17,975	\$ 87,058		\$ 105,033
Endowment Fee					\$ 257,500	257,500
Habitat Management Fee	\$ 450,937	\$ 48,288				499,225
Total Fees Collected	<u>\$ 450,937</u>	<u>\$ 48,288</u>	<u>\$ 17,975</u>	<u>\$ 87,058</u>	<u>\$ 257,500</u>	<u>\$ 861,758</u>

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