

# Financial Statements with Independent Auditor's Report

Year ending December 31, 2020



*t h e*  
**NATOMAS**  
**BASIN**  
*c o n s e r v a n c y*

2150 RIVER PLAZA DRIVE  
SUITE 460  
SACRAMENTO, CA 95833  
*phone: 916.649.3331*  
*fax: 916.649.3332*



# THE NATOMAS BASIN CONSERVANCY

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## **INTRODUCTORY SECTION**



## Board of Directors

JOHN F. SHIREY,  
*Chair*

MICHAEL JOHNSTON,  
*Vice Chair*

CHANDRA CHILMAKURI,  
*Secretary*

DAVID CHRISTOPHEL,  
*Treasurer*

MELINDA BRADBURY,  
*Board Member*

STEVEN COHN,  
*Board Member*

NANCY JOHNSTON,  
*Board Member*

CHRIS NOREM,  
*Board Member*

PAUL SQUIRES,  
*Board Member*

GABRIELLE STADEM,  
*Board Member*

## Staff

JOHN ROBERTS,  
*Executive Director*

KIMBERLI BURNS,  
*Chief Financial Officer*

JENNIER SKUPIC,  
*Contracts &  
Compliance Manager*

JEREMY LOR,  
*Field Services Assistant*

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

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SUITE 460

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fax: 916.649.3332





## Letter from the Board Chair and Executive Director

We are pleased to share with you the Conservancy's December 31, 2020 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 over 4,600 acres of land used to provide mitigation for 22 of the HCPs' covered species.

Here are some of the highlights for 2020:

**Mitigation** - In 2020 the Conservancy expanded the number of acres it holds for mitigation purposes to 4,660.25, an 11 percent increase over the prior year. During the year, the Conservancy transacted five mitigation land acquisitions, which were a combination of direct purchase, land dedication by fee payers as well as financed acquisitions. In terms of the dollar value of the transactions, the numbers of acres involved, and the total number of transactions, this represents a modern-day record in land acquisition activity for the Conservancy.

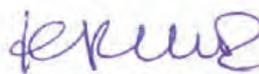
**Biological monitoring effectiveness** - Once again, the Conservancy completed its extensive biological effectiveness monitoring report. The biological monitoring efforts conducted by independent experts continues to demonstrate the worth of the Conservancy's implementation of the HCPs to benefit the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

**Endowment funds** - The Conservancy added substantially to both the NBHCP Endowment Fund and NBHCP Supplemental Endowment Fund, both from the contribution of a portion of the HCP fees as well as from investment growth. Combined, the endowment funds ended the year with a valuation of \$34,058,974, an approximate 13.7 percent increase over the prior year.

The Conservancy presents this December 31, 2020 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.



JOHN F. SHIREY,  
*2020 Board Chair*



JOHN ROBERTS,  
*Executive Director and Chief Executive Officer*

## **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, 2020, 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, 2020, 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 28 through 30 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 26, 2021, 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 solely 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 internal control

To the Board of Directors  
The Natomas Basin Conservancy  
Page three

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 CPAs*

**GILBERT CPAs**  
**Sacramento, California**

**March 26, 2021**

**THE NATOMAS BASIN CONSERVANCY**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

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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, 2020. 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 total assets at the close of the fiscal year were \$89,931,845, an increase of \$13,800,984 from prior year of \$76,130,861.
- Mitigation fee revenue was up 150% in 2020 at \$5,502,795, compared with \$2,197,418 in 2019, not including land dedications.
- At the end of the current fiscal year, the Endowment Fund increased \$5,583,258 in 2020, totaling \$30,956,080.
- The Conservancy increased its mitigation land holdings by 513.19 acres in 2020 to 4,660.25 acres, up from 4,147.06 acres on December 31, 2019.
- Conservancy expenses were \$3,037,163. The Conservancy has maintained an approximate \$3,000,000 expense budget for more than 10 years.
- The Conservancy participated in the Natomas Central Mutual Water Company’s groundwater exchange program, which generated additional income of \$551,795.

**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 members of the Conservancy’s Board of Directors are 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, 2020

### 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 (R&E), 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, 2020 and 2019

	<u>2020</u>	<u>2019</u>	<u>Increase/Decrease</u>
Current and other assets	\$ 44,296,515	\$ 43,136,815	\$ 1,159,700
Capital assets	45,635,330	32,994,046	12,641,284
Total assets	<u>89,931,845</u>	<u>76,130,861</u>	<u>13,800,984</u>
Current liabilities	1,351,101	1,585,755	(234,654)
Non-Current liabilities	2,106,663	68,484	2,038,179
Total liabilities	<u>3,457,764</u>	<u>1,654,239</u>	<u>1,803,525</u>
Net position:			
Net investment in capital assets	45,635,330	32,994,046	12,641,284
Giant garter snakes	155,809	175,309	(19,500)
PG&E - tree contract	42,805	57,407	(14,602)
SAFCA NLIP	934,018	927,438	6,580
Endowment – permanent	13,092,282	11,344,456	1,747,826
Endowment – temporary	17,863,797	14,028,366	3,835,431
Unrestricted	8,750,039	14,949,600	(6,199,561)
Total net position	<u>\$ 86,474,081</u>	<u>\$ 74,476,622</u>	<u>\$ 11,997,459</u>

Net position represents the difference between the Conservancy's resources and its obligations. At December 31, 2020, approximately 52.8% of the Conservancy's net position is invested in mitigation land and land improvements. These real properties are acquired and enhanced to provide habitat for protected plant and animal species under the Natomas Basin Habitat Conservation Plan (NBHCP) and the Metro Air Park Habitat Conservation Plan (MAPHCP).

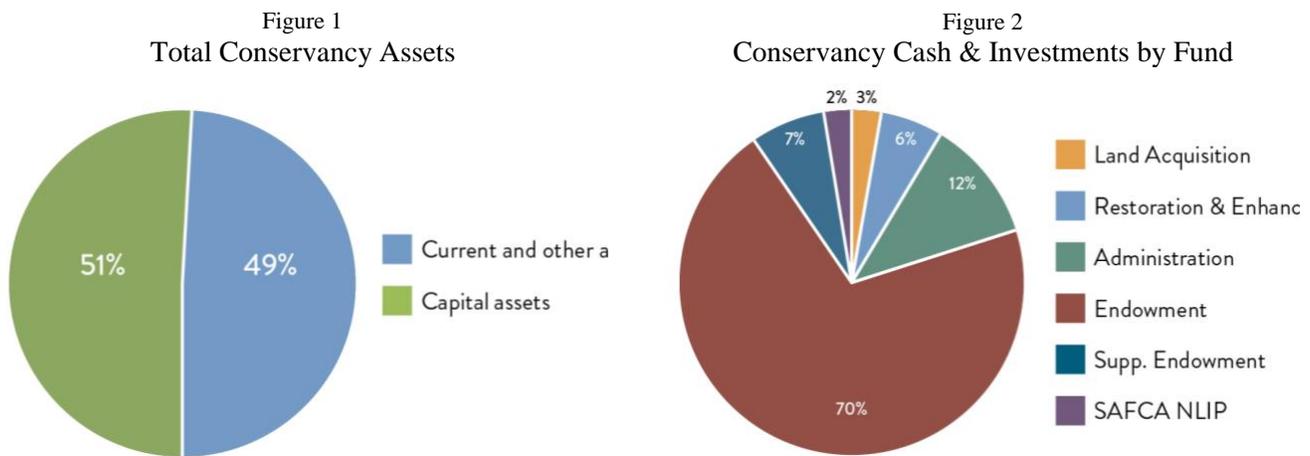
In 2020, the Conservancy purchased two properties and received three properties in land dedication. In order to facilitate the two purchased properties, the Conservancy used approximately \$3,370,000 of its Land Acquisition Funds, borrowed \$2,000,000 against its \$4,000,000 line of credit with the City of Sacramento and borrowed \$1,400,000 (interfund loan) from the Conservancy's Supplemental Endowment Fund. The Conservancy plans to repay the City of Sacramento line of credit and interfund loan with future mitigation fees.

# THE NATOMAS BASIN CONSERVANCY

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2020

The Conservancy presently holds 4,660.25 acres of mitigation land in the Natomas Basin, of which 4,517.12 acres are owned in fee simple title and 143.13 acres are held in conservation easements. All land purchases and land dedications are recorded at their acquisition cost. Land assets are currently recorded at \$45,192,855. However, on a "fair value" accounting basis, the value of Conservancy land holdings totals approximately \$136 million. This calculation uses the annually adjusted per acre land valuation posted in the NBHCP Finance Model. 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 by the NBHCP to be recalculated annually.

Figure 1 below represents the Conservancy's current vs. capital assets, and Figure 2 below represents the Conservancy cash and investment assets by fund.



**THE NATOMAS BASIN CONSERVANCY**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

The Natomas Basin Conservancy  
Changes in Net Position  
Conservancy-wide Activities  
As of December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>	<u>Increase/Decrease</u>
<b>Revenues</b>			
<i>Program revenues:</i>			
Mitigation fees – cash portion	\$ 3,754,969	\$ 1,495,675	\$ 2,259,294
Mitigation – land portion	3,322,439	1,498,500	1,823,939
Rent revenue	889,699	1,109,399	(219,700)
Groundwater exchange program (GWEP)	551,795	-	551,795
Land Management - SAFCA	204,440	308,877	(104,437)
Investment income	3,933,536	4,075,121	(141,585)
<i>General revenues:</i>			
Mitigation fees contributed to Endowment Fund	1,747,826	701,743	1,046,083
Investment income	491,920	944,142	(452,222)
Other	137,998	64,108	73,890
<b>Total revenues</b>	<u>15,034,622</u>	<u>10,197,565</u>	<u>4,837,057</u>
<b>Expenses</b>			
Conservancy operations	2,828,217	2,717,050	111,167
SAFCA contract obligations	208,946	300,341	(91,395)
<b>Total expenses</b>	<u>3,037,163</u>	<u>3,017,391</u>	<u>19,772</u>
Increase in net position	11,997,459	7,180,174	4,817,285
<b>Net Position, beginning of period</b>	<u>74,476,622</u>	<u>67,296,448</u>	<u>7,180,174</u>
<b>Net Position, end of period</b>	<u>\$ 86,474,081</u>	<u>\$ 74,476,622</u>	<u>\$ 11,997,459</u>

The NBHCP mitigation fee in 2020 remained the same as in 2019. The full fee was \$33,091 per disturbed acre, while the fee with land dedication was \$21,841 per disturbed acre. The Conservancy received \$5,502,795 in mitigation fees in 2020 (not including land dedications), up \$3,305,377 from the \$2,197,418 in mitigation fees received in 2019.

Investment income decreased \$593,807 from \$5,019,263 in 2019 to \$4,425,456 in 2020 largely due to the use of the Supplemental Endowment interfund loan for land acquisition. Farm rent revenues decreased by \$219,700, from \$1,109,399 in 2019 to \$889,699 in 2020. This decrease was due to new farm leases that require only a flat rate rent, that is, there was no longer a “2<sup>nd</sup> rent payment” paid in the subsequent year as in prior years.

The Conservancy participated in the Natomas Central Mutual Water Company’s groundwater exchange program in 2020. This program required the Conservancy pump groundwater, which generated higher electricity bills totaling \$113,210. However, this was substantially more than offset by program revenue of \$551,795.

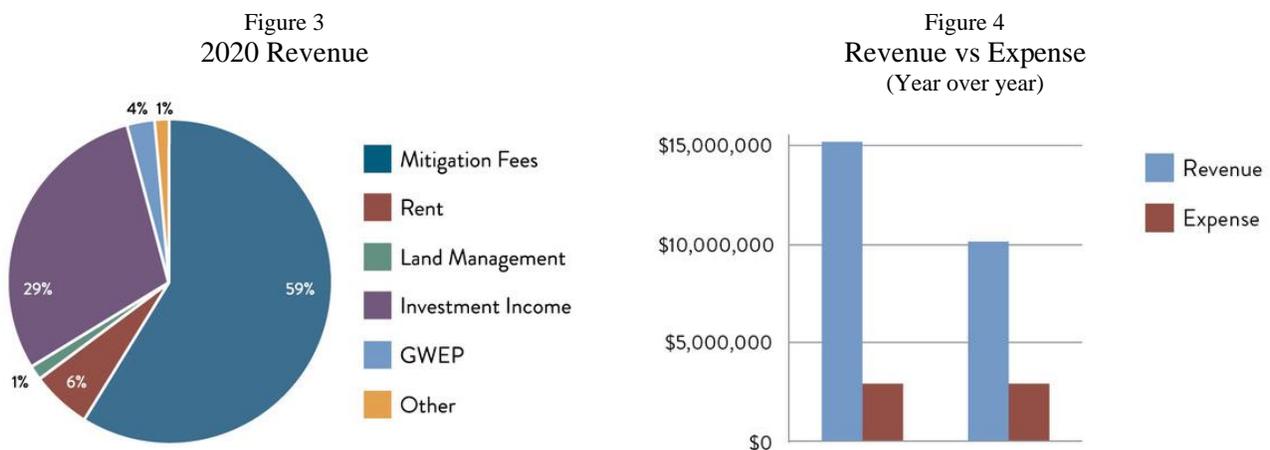
# THE NATOMAS BASIN CONSERVANCY

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2020

Conservancy expenses in 2020 were \$2,828,217, excluding SAFCA contract obligations. Due to aggressive cost control, the Conservancy has been able to maintain expenses at approximately \$3 million each year for more than 10 years despite substantial growth.

Expenses related to Sacramento Area Flood Control Agency (SAFCA) contracts were \$208,946 in 2020, a decrease of \$91,395 over 2019 expenses of \$300,341. The decrease was largely due to expiring contracts.

Figure 3 below shows 2020 revenue by type and Figure 4 below presents revenue vs. expenses year-over-year:



### FINANCIAL ANALYSIS OF THE CONSERVANCY'S FUNDS

As of December 31, 2020, the Conservancy's fund balances totaled \$42,945,414, an increase of \$1,394,355 compared to fund balances of \$41,551,060 at December 31, 2019. The two Conservancy endowment funds experienced a combined \$6,070,166 increase, largely due to the addition of mitigation fees and investment returns. The Conservancy's major source of revenue is typically from mitigation fees. Historically, the Conservancy's 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

After more than a decade of the combined impact of a soft real estate economy and remnants of a de-facto building moratorium due to federal government flood risk determinations, in 2020, the Conservancy saw the resumption of development and thus the need for mitigation in the Natomas Basin.

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 entered into agreements with SAFCA to conduct mitigation and related activity. These efforts generate modest revenue for the Conservancy.

**THE NATOMAS BASIN CONSERVANCY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

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The Conservancy's Board of Directors approved a budget for 2021 which projects a modest amount of mitigation revenue for the year. The 2021 budget also projects expenses for completion of the updates to the NBHCP's required Site-Specific Management Plans for all Conservancy properties.

**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, 2020

	<u>Administration</u>	<u>Restoration &amp; Enhancement</u>	<u>SAFCA NLIP</u>	<u>Supplemental Land and Contingency</u>	<u>Land Acquisition</u>
<b>ASSETS:</b>					
Current Assets:					
Cash and investments held by City of Sacramento	\$ 259,809	\$ 21,105			\$ 124,953
Cash and investments held by fiscal agents	4,855,755	2,548,556	\$ 1,133,257	\$ 3,073,919	1,073,175
Receivables:					
Account	16,056		147,000		
Interest	8,044	3,522	5,182		2,758
Prepaid items	38,369				
Due from other funds	86,096		1,200	1,400,000	
Non-Current Assets:					
Restricted cash and investments held by fiscal agent					
Land					
Capital assets, net					
Total Assets	<u>\$ 5,264,129</u>	<u>\$ 2,573,183</u>	<u>\$ 1,286,639</u>	<u>\$ 4,473,919</u>	<u>\$ 1,200,886</u>
<b>LIABILITIES:</b>					
Current Liabilities:					
Accounts payable	\$ 89,394		\$ 12,020	\$ 2,875	
Unearned revenue			254,505		
Deposits payable	3,366				
Due to other funds	1,200		86,096		\$ 1,400,000
Unearned mitigation land credits					959,966
Non-Current Liabilities:					
Line of credit					
PPP loan					
Compensated absences					
Total Liabilities	<u>93,960</u>	<u></u>	<u>352,621</u>	<u>2,875</u>	<u>2,359,966</u>
<b>FUND BALANCE/NET POSITION:</b>					
Net investment in capital assets					
Nonspendable:					
Prepaid expenses	38,369				
Endowment					
Restricted:					
Giant garter snakes	155,809				
Brookfield property			934,018		
PG&E trees contract	42,805				
Endowment:					
Expendable					
Nonexpendable					
Committed:					
Restoration & enhancement		\$ 2,573,183			
Supplemental land acquisition				4,471,044	
Land acquisition					(1,159,080)
Unassigned/Unrestricted	4,933,186				
Total Fund Balances/Net Position	<u>5,170,169</u>	<u>2,573,183</u>	<u>934,018</u>	<u>4,471,044</u>	<u>(1,159,080)</u>
Total Liabilities, Fund Balances and Net Position	<u>\$ 5,264,129</u>	<u>\$ 2,573,183</u>	<u>\$ 1,286,639</u>	<u>\$ 4,473,919</u>	<u>\$ 1,200,886</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, 2020

<u>Endowment</u>	<u>Total Fund Balance</u>	<u>Adjustments (Notes 4 &amp; 11)</u>	<u>Statement of Net Position</u>	
	\$ 405,867		\$ 405,867	<b>ASSETS:</b>
	12,684,662		12,684,662	Current Assets:
	163,056		163,056	Cash and investments held by City of Sacramento
	19,506		19,506	Cash and investments held by fiscal agent
	38,369		38,369	Receivables:
	1,487,296	\$ (1,487,296)		Account
				Interest
				Prepaid items
				Due from other funds
				Non-Current Assets:
\$ 30,985,055	30,985,055		30,985,055	Restricted cash and investments held by fiscal agent
		45,192,855	45,192,855	Land
		442,475	442,475	Capital assets, net
\$ 30,985,055	\$ 45,783,811	\$ 44,148,034	\$ 89,931,845	Total Assets
				<b>LIABILITIES:</b>
				Current Liabilities:
\$ 28,975	\$ 133,264		\$ 133,264	Accounts payable
	254,505		254,505	Unearned revenue
	3,366		3,366	Deposits payable
	1,487,296	\$ (1,487,296)		Due to other funds
	959,966		959,966	Unearned mitigation land credits
				Non-Current Liabilities:
		1,930,544	1,930,544	Line of credit
		88,450	88,450	PPP Loan
		87,669	87,669	Compensated absences
28,975	2,838,397	619,367	3,457,764	Total Liabilities
				<b>FUND BALANCE/NET POSITION:</b>
		45,635,330	45,635,330	Net investment in capital assets
				Nonspendable:
	38,369	(38,369)		Prepaid expenses
13,092,283	13,092,283	(13,092,283)		Endowment
				Restricted:
	155,809		155,809	Giant garter snakes
	934,018		934,018	Brookfield property
	42,805		42,805	PG&E trees contract
				Endowment:
				Expendable
17,863,797	17,863,797		17,863,797	Nonexpendable
		13,092,283	13,092,283	Committed:
	2,573,183	(2,573,183)		Restoration & enhancement
	4,471,044	(4,471,044)		Supplemental land acquisition
	(1,159,080)	1,159,080		Land acquisition
	4,933,186	3,816,853	8,750,039	Unassigned/Unrestricted
30,956,080	42,945,414	43,528,667	86,474,081	Total Fund Balances/Net Position
\$ 30,985,055	\$ 45,783,811	\$ 44,148,034	\$ 89,931,845	Total Liabilities, Fund Balances and Net Position

# THE NATOMAS BASIN CONSERVANCY

## STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED DECEMBER 31, 2020

	Administration	Restoration & Enhancement	SAFCA NLIP	Supplemental Land and Contingency	Land Acquisition
<b>REVENUES:</b>					
Program revenues:					
Charges for services:					
Mitigation fees	\$ 3,079,722	\$ 307,188		\$ 139,354	\$ 3,551,144
Rent revenue	889,699				
Groundwater exchange	551,795				
Land management			\$ 204,440		
Operating grants and contributions:					
Investment income					
Total program revenues	4,521,216	307,188	204,440	139,354	3,551,144
General revenues:					
Endowment contributions - mitigation fees					
Investment income	27,795	37,610	11,086	359,669	55,760
Other income	27,181				110,817
Total general revenues	54,976	37,610	11,086	359,669	166,577
Total Revenues	4,576,192	344,798	215,526	499,023	3,717,721
<b>EXPENDITURES:</b>					
Land mitigation:					
Personnel services	618,677		18,242		
Materials and services	1,962,697		190,704	12,115	1,672
Depreciation					
Loss on equipment disposal					
Capital outlay	52,482				12,704,569
Total Expenditures	2,633,856		208,946	12,115	12,706,241
Excess (Deficiency) of revenues over (under) expenditures	1,942,336	344,798	6,580	486,908	(8,988,520)
<b>OTHER FINANCING SOURCES:</b>					
Proceeds from debt	88,450				1,930,544
Changes in Fund Balances/Net Position	2,030,786	344,798	6,580	486,908	(7,057,976)
Fund Balances/Net Position, beginning of period	3,139,383	2,228,385	927,438	3,984,136	5,898,896
Fund Balances/Net Position, end of period	\$ 5,170,169	\$ 2,573,183	\$ 934,018	\$ 4,471,044	\$ (1,159,080)

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 (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2020

<u>Endowment</u>	<u>Total Fund Balance</u>	<u>Adjustments (Note 5)</u>	<u>Statement of Activities</u>	
	\$ 7,077,408		\$ 7,077,408	<b>REVENUES:</b>
	889,699		889,699	Program revenues:
	551,795		551,795	Charges for services:
	204,440		204,440	Mitigation fees
				Rent revenue
				Groundwater exchange
				Land management
				Operating grants and contributions:
				Investment income
<u>\$ 3,933,536</u>	<u>3,933,536</u>	<u>                    </u>	<u>3,933,536</u>	
<u>3,933,536</u>	<u>12,656,878</u>	<u>                    </u>	<u>12,656,878</u>	Total program revenues
				General revenues:
1,747,826	1,747,826		1,747,826	Endowment contributions - mitigation fees
	491,920		491,920	Investment income
	137,998		137,998	Other income
<u>1,747,826</u>	<u>2,377,744</u>	<u>                    </u>	<u>2,377,744</u>	Total general revenues
<u>5,681,362</u>	<u>15,034,622</u>	<u>                    </u>	<u>15,034,622</u>	Total Revenues
				<b>EXPENDITURES:</b>
	636,919	\$ 19,185	656,104	Land mitigation:
98,104	2,265,292		2,265,292	Personnel services
		113,698	113,698	Materials and services
		2,069	2,069	Depreciation
	12,757,051	(12,757,051)		Loss on equipment disposal
				Capital outlay
<u>98,104</u>	<u>15,659,262</u>	<u>(12,622,099)</u>	<u>3,037,163</u>	Total Expenditures
5,583,258	(624,640)	12,622,099	11,997,459	Excess (Deficiency) of revenues over (under) expenditures
	2,018,994	(2,018,994)		<b>OTHER FINANCING SOURCES (USES):</b>
				Proceeds from debt
5,583,258	1,394,354	10,603,105	11,997,459	Changes in Fund Balances/Net Position
<u>25,372,822</u>	<u>41,551,060</u>	<u>32,925,562</u>	<u>74,476,622</u>	Fund Balances/Net Position, beginning of period
<u>\$ 30,956,080</u>	<u>\$ 42,945,414</u>	<u>\$ 43,528,667</u>	<u>\$ 86,474,081</u>	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, 2020

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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 (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 HCPs' 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 supplemental funding sources such as agricultural leasing and periodic groundwater exchange program revenue 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, 2020

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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. 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, 2020

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### **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. Earnings from investments will be used to meet long-term operations and maintenance needs of the Conservancy at such time as mitigation fee income and other revenue 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 \$87,669 in accrued compensated absences as of December 31, 2020.

### **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.

### **Unearned Mitigation Land Credits**

The HCPs require land dedication, in addition to mitigation fees, for developments of over 50 acres provided sufficient approved mitigation land inventory exists. When the Conservancy receives dedicated land in excess of the required land mitigation, the excess is held by the Conservancy as a

# THE NATOMAS BASIN CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020

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credit to satisfy future mitigation requirements needed by an HCP fee payer. The Conservancy records these credits as unearned mitigation land credits and will recognize land mitigation fees in subsequent accounting periods as the excess land credits are depleted. On December 31, 2020, the Conservancy had a total of \$959,966 in unearned mitigation land credits.

### **Future Accounting Pronouncements**

In June 2017, the GASB issued Statement No. 87, *Leases*, amended by Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* with required implementation for the Conservancy extended to December 31, 2022. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. Management is in the process of evaluating the impact this new statement will have on the Conservancy's future financial statements.

### **3. CASH AND INVESTMENTS**

Cash and investments as of December 31, 2020, are classified in the accompanying financial statements as follows:

Cash and investments held by City of Sacramento	\$ 405,867
Cash and investments held by fiscal agent	12,684,662
Restricted cash and investments held by fiscal agent	<u>30,985,055</u>
Total cash and investments	<u>\$ 44,075,584</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 NATOMAS BASIN CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020

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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 L Street, Sacramento, CA 95814.

### 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 2020. The City of Sacramento Investment Pool A had no derivatives at December 31, 2020.

# THE NATOMAS BASIN CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020

### Cash and Investment Summary

At December 31, 2020, the Conservancy's cash and investments consist of the following:

Deposits with financial institutions	\$ 382,050
Cash and cash equivalents held by fiscal agents	<u>2,087,938</u>
Cash and cash equivalents	<u>2,469,988</u>
Fixed income mutual funds	14,521,513
Equity mutual funds	20,237,209
External investment pool	405,867
Fixed income securities:	
Government obligations	3,707,368
Corporate bonds	2,583,639
Municipal bonds	<u>150,000</u>
Investments	<u>41,605,596</u>
Total cash and investments	<u>\$ 44,075,584</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.

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>
	<b>Under 1 Year</b>	<b>1-5 Years</b>	<b>5-10 Years</b>	<b>10-15 Years</b>	<b>Over 15 Years</b>	
Fixed income mutual funds	\$ 14,521,513					\$ 14,521,513
Equity mutual funds	20,237,209					20,237,209
External investment pool	405,867					405,867
Government obligations	3,500,859	\$ 206,509				3,707,368
Corporate bonds	780,590	1,803,049				2,583,639
Municipal Bonds			\$ 150,000			150,000
Total investments	<u>\$ 39,446,038</u>	<u>\$ 2,009,558</u>	<u>\$ 150,000</u>	<u>\$</u>	<u>\$</u>	<u>\$ 41,605,596</u>

# THE NATOMAS BASIN CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020

### 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.

	<b>Rating as of End of Year</b>	
City of Sacramento investment pool	Not rated	\$ 405,867
Fixed income mutual funds	Not rated	14,521,513
Equity mutual funds	Not rated	20,237,209
Government obligations	Not rated	3,350,700
Government obligations	AA+	356,668
Corporate bonds	AA+	154,640
Corporate bonds	A+	333,475
Corporate bonds	A	998,719
Corporate bonds	A-	895,360
Corporate bonds	BBB+	100,466
Corporate bonds	BBB	100,979
Municipal bonds	AAA	<u>150,000</u>
Total		<u>\$ 41,605,596</u>

### 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, 2020.

### 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 \$14,521,513 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 \$173,027 as of December 31, 2020.

# THE NATOMAS BASIN CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020

### 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, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Fixed income mutual funds	\$ 14,521,513		
Equity mutual funds	20,237,209		
Corporate bonds		\$ 2,583,639	
Government obligations		3,707,368	
Municipal bonds		150,000	
	\$ 34,758,722	\$ 6,441,007	\$
Total	\$ 34,758,722	\$ 6,441,007	\$

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

**Fund balances** \$ 42,945,414

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

Capital assets	\$ 49,852,010	
Less: accumulated depreciation	(4,216,680)	45,635,330

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

PPP loan		(88,450)
Line of credit		(1,930,544)
Accrued compensated absences		(87,669)

**Net position** \$ 86,474,801

# THE NATOMAS BASIN CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020

**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** \$ 1,394,354

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	12,757,051
Loss on disposal of assets	(2,069)
Depreciation expense	(113,698)

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	(19,185)
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Proceeds from debt are recognized as Other Financing Sources in governmental funds. However, debt increases long-term liabilities in the statement of net position.

Line of credit liability	(1,930,544)
PPP loan	<u>(88,450)</u>

**Change in net position** \$ 11,997,459

**6. CAPITAL ASSETS**

A summary of changes in capital assets for the year ended December 31, 2020, is as follows:

	<u>01/01/2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/2020</u>
<b>Capital assets not being depreciated:</b>				
Land	\$ 32,488,284	\$ 12,704,571	_____	\$ 45,192,855
<b>Capital assets being depreciated:</b>				
Land improvements	4,552,003	45,458		4,597,461
Office and other equipment	<u>86,034</u>	<u>7,022</u>	\$ (31,362)	<u>61,694</u>
	<u>4,638,037</u>	<u>52,480</u>	<u>(31,362)</u>	<u>4,659,155</u>
<b>Accumulated depreciation:</b>				
Accum. depreciation, land improvements	(4,074,581)	(102,451)		(4,177,032)
Accum. depreciation, office equipment	<u>(57,694)</u>	<u>(11,247)</u>	29,293	<u>(39,648)</u>
	<u>(4,132,275)</u>	<u>(113,698)</u>	<u>29,293</u>	<u>(4,216,680)</u>
Total capital assets, net	<u>\$ 32,994,046</u>	<u>\$ 12,643,353</u>	<u>\$ (2,069)</u>	<u>\$ 45,635,330</u>

# THE NATOMAS BASIN CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020

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### 7. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2020, the Conservancy paid \$813 to the City of Sacramento for investment services.

### 8. OPERATING LEASE

The Conservancy leases office space in Sacramento under a lease expiring March 31, 2023. Total future minimum operating lease payments are presented as follows:

<u>Year Ending December 31,</u>	
2021	\$ 72,051
2022	73,736
2023	<u>18,539</u>
	<u>\$ 164,326</u>

Rent expense for the year ended December 31, 2020, was \$75,345.

### 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 drew down \$2,000,000 of the line of credit during the year ended December 31, 2020. The line of credit draw down agreement with the City of Sacramento is long-term with no maturity schedule or interest. The Conservancy will make payments on the line of credit from all revenue collected from the land acquisition component of the HCP fee over time. During the year, \$69,456 in mitigation fees from the Land Acquisition portion of the fee were collected from City of Sacramento projects and applied to the line of credit. The outstanding principal balance at December 31, 2020 was \$1,930,544.

### 10. PAYCHECK PROTECTION PROGRAM LOAN

In May 2020 the Conservancy received a Paycheck Protection Program (PPP) loan under the Federal Coronavirus Aid, Relief, and Economic Security (CARES) Act totaling \$88,450. The terms and repayment conditions of PPP loans were modified through the subsequent Paycheck Protection Program Flexibility Act (PPFPA) signed into law in June 2020. Under the CARES Act, as modified by PPFPA, a portion or all of the loan and accrued interest may be forgiven provided the funds are spent on qualifying payroll and other expenditures in the 24-week period following the loan and provided certain other criteria regarding full-time equivalent employee and payroll levels are maintained.

The Conservancy plans to apply for forgiveness of the loan based on the outlined PPP requirements. Additionally, principal payments were deferred 10 months after the period covered by the original loan. The amount of actual repayment amounts will be dependent on the approval process and results.

# THE NATOMAS BASIN CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020

If the Conservancy is required or chooses to repay the loan in full, future minimum principal payments on the loan payable are as follows:

### Year Ending December 30,

2021	\$ 14,681
2022	44,114
2023	<u>29,655</u>
Total	<u>\$ 88,450</u>

Management believes the Conservancy has incurred the necessary qualifying expenses to substantially meet the conditions of forgiveness.

### 11. INTERFUND BALANCES

Interfund balances as of December 31, 2020, consisted of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Administration	SAFCA NLIP	\$ 86,096
Supplemental Land and Contingency	Land Acquisition	1,400,000
SAFCA NLIP	Administration	<u>1,200</u>
		<u>\$ 1,487,296</u>

### 12. 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, commercial inland marine, commercial auto, director's and officer's liability, employment practices liability, pollution, flood, cyber liability, workers' compensation, and umbrella. 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 four years.

### 13. 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, 2020 was \$55,737.

# THE NATOMAS BASIN CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020

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### 14. NATOMAS CENTRAL MUTUAL WATER COMPANY STOCK

The Conservancy holds 3,641 shares of Natomas Central Mutual Water Company (NCMWC) stock or approximately 12% of NCMWC's outstanding shares (30,985) as of December 31, 2020. 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 \$36,410. 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.

**REQUIRED SUPPLEMENTARY INFORMATION**

# THE NATOMAS BASIN CONSERVANCY

## BUDGETARY COMPARISON SCHEDULE - ADMINISTRATION FUND FOR THE YEAR ENDED DECEMBER 31, 2020

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	Budget Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Mitigation fees	\$ 794,472	\$ 794,472	\$ 3,079,722	\$ 2,285,250
Rent revenue	815,154	815,154	889,699	74,545
Investment income	30,000	30,000	27,795	(2,205)
Other income	<u>203,578</u>	<u>203,578</u>	<u>578,976</u>	<u>375,398</u>
Total Revenues	<u>1,843,204</u>	<u>1,843,204</u>	<u>4,576,192</u>	<u>2,732,988</u>
<b>EXPENDITURES</b>				
Conservancy operations:				
Personnel services	603,400	603,400	618,677	(15,277)
Materials and services	2,511,872	2,618,474	1,962,697	655,777
Capital outlay			<u>52,482</u>	<u>(52,482)</u>
Total Expenditures	<u>3,115,272</u>	<u>3,221,874</u>	<u>2,633,856</u>	<u>588,018</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ (1,272,068)</u>	<u>\$ (1,378,670)</u>	<u>\$ 1,942,336</u>	<u>\$ 3,321,006</u>

**THE NATOMAS BASIN CONSERVANCY**  
**BUDGETARY COMPARISON SCHEDULE -**  
**RESTORATION AND ENHANCEMENT SPECIAL REVENUE FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

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	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Mitigation fees	\$ 79,016	\$ 79,016	\$ 307,188	\$ 228,172
Investment income	<u>20,000</u>	<u>20,000</u>	<u>37,610</u>	<u>17,610</u>
Total Revenues	<u>99,016</u>	<u>99,016</u>	<u>344,798</u>	<u>245,782</u>
<b>EXPENDITURES</b>				
Total Expenditures	_____	_____	_____	_____
Excess of Revenues Over Expenditures	<u>\$ 99,016</u>	<u>\$ 99,016</u>	<u>\$ 344,798</u>	<u>\$ 245,782</u>

# THE NATOMAS BASIN CONSERVANCY

## BUDGETARY COMPARISON SCHEDULE - SAFCA NLIP SPECIAL REVENUE FUND FOR THE YEAR ENDED DECEMBER 31, 2020

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	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Land management	\$ 213,007	\$ 213,007	\$ 204,440	\$ (8,567)
Rent	14,838	14,838		(14,838)
Investment income	<u>20,000</u>	<u>20,000</u>	<u>11,086</u>	<u>(8,914)</u>
Total Revenues	<u>247,845</u>	<u>247,845</u>	<u>215,526</u>	<u>(32,319)</u>
<b>EXPENDITURES</b>				
Land mitigation:				
Personnel services			18,242	(18,242)
Materials and services	<u>229,069</u>	<u>229,069</u>	<u>190,704</u>	<u>38,365</u>
Total Expenditures	<u>229,069</u>	<u>229,069</u>	<u>208,946</u>	<u>20,123</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ 18,776</u>	<u>\$ 18,776</u>	<u>\$ 6,580</u>	<u>\$ (12,196)</u>

## **ADDITIONAL 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***

**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, 2020, 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 26, 2021.

**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) as a basis for designing 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 financial statements. 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 CPAs*

**GILBERT CPAs**  
**Sacramento, California**

**March 26, 2021**

**THE NATOMAS BASIN CONSERVANCY**

**SCHEDULE OF MITIGATION FEES COLLECTED  
FOR THE YEAR ENDED DECEMBER 31, 2020**

<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 and Contingency</u>	<u>Land Acquisition</u>	<u>Endowment</u>	
Habitat Acquisition Fee			\$ 139,354	\$ 3,551,144		\$ 3,690,498
Endowment Fee					\$ 1,747,826	1,747,826
Habitat Management Fee	\$ 3,075,965	\$ 307,188				3,383,153
Administrative Fee	<u>3,757</u>					
Total Fees Collected	<u>\$ 3,079,722</u>	<u>\$ 307,188</u>	<u>\$ 139,354</u>	<u>\$ 3,551,144</u>	<u>\$ 1,747,826</u>	<u>\$ 8,825,234</u>

3,757

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