

Annual Financial Report

Year ending December 31, 2021



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

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THE NATOMAS BASIN CONSERVANCY

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INTRODUCTORY SECTION

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Board of Directors

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Chair

MICHAEL JOHNSTON,
Vice Chair

CHANDRA CHILMAKURI,
Secretary

GABRIELLE STADEM,
Treasurer

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Board Member

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Board Member

STEVE COHN,
Board Member

CHRIS NOREM,
Board Member

PAUL SQUIRES,
Board Member

Staff

JOHN ROBERTS,
Executive Director

KIMBERLI BURNS,
Chief Financial Officer

JENNIER SKUPIC,
Contracts & Compliance Manager

YVONNE MELKONIAN,
Accounting Specialist

JEREMY LOR,
Field Services Assistant

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

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

2150 RIVER PLAZA DRIVE
SUITE 460
SACRAMENTO, CA 95833
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Letter from the Board Chair and Executive Director

We are pleased to share with you the Conservancy's December 31, 2021 Annual 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 nearly 5,000 acres of land used to provide mitigation for 22 of the HCPs' Covered Species.

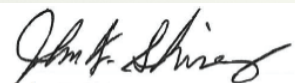
Here are some of the highlights for 2021:

Mitigation. In 2021 the Conservancy expanded the number of acres it holds for mitigation purposes to 4,948.51, a three percent increase. During the year, the Conservancy transacted one mitigation land acquisition, which was a land dedication by fee payers. Subsequent to year-end, the Conservancy, in partnership with a future fee payor, purchased another 185.42 acres of mitigation land.

Biological monitoring effectiveness. Once again, the Conservancy completed its extensive biological effectiveness monitoring report. The biological monitoring efforts conducted by independent experts continue to demonstrate the worth of the Conservancy's implementation of the HCPs in mitigating for the benefit of the HCPs' 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 \$39,536,234, an approximate 10 percent increase over the prior year.

The Conservancy presents this December 31, 2021 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,
2021 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 Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities and each major fund of the Natomas Basin Conservancy (the Conservancy), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Conservancy's basic financial statements as listed in the table of contents.

In our opinion, the accompanying 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, 2021, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Conservancy and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Conservancy's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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 Conservancy's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Conservancy's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 is the responsibility of management and, 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.

Supplementary 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 Schedule of Mitigation Fees Collected is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information 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. The 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 of Mitigation Fees Collected is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual financial report. The other information comprises the introductory section but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated **Month XX, 2022**, 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 the effectiveness of the Conservancy's 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 CPAs
Sacramento, California

Month XX, 2022

THE NATOMAS BASIN CONSERVANCY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2021

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, 2021. 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 \$103,936,114, an increase of \$14,004,269 from prior year of \$89,931,845.
- The Conservancy increased its mitigation land holdings by 288.26 acres in 2021 to 4,948.51 acres.
- The cash portion of mitigation fee revenue totaled \$1,731,731 in 2021.
- At the end of the current fiscal year, the Endowment Fund increased \$3,755,973 in 2021, to \$34,712,053, up from \$30,956,080 in 2020.
- Conservancy expenses were \$3,445,703. 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 gross income of \$976,575.

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, 2021

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, 2021 and 2020

	<u>2021</u>	<u>2020</u>	<u>Increase/Decrease</u>
Current and other assets	\$ 49,309,947	\$ 44,296,515	\$ 5,013,432
Capital assets	54,626,167	45,635,330	8,990,837
Total assets	<u>103,936,114</u>	<u>89,931,845</u>	<u>14,004,269</u>
Current liabilities	10,255,120	1,351,101	8,904,019
Non-Current liabilities	1,972,211	2,106,663	(134,452)
Total liabilities	<u>12,227,331</u>	<u>3,457,764</u>	<u>8,769,567</u>
Net position:			
Net investment in capital assets	54,626,167	45,635,330	8,990,838
Giant garter snakes projects	146,809	155,809	(9,000)
PG&E - tree contract	35,605	42,805	(7,200)
SAFCA NLIP	929,819	934,018	(4,199)
Endowment – permanent	13,545,700	13,092,282	453,418
Endowment – temporary	21,166,353	17,863,797	3,302,556
Unrestricted	1,258,330	8,750,039	(7,491,711)
Total net position	<u>\$ 91,708,783</u>	<u>\$ 86,474,081</u>	<u>\$ 5,234,701</u>

Net position represents the difference between the Conservancy's resources and its obligations. At December 31, 2021, approximately 59.6% of the Conservancy's net position was 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 2021, the Conservancy received a land dedication of 287.71 acres. The Conservancy presently holds 4,948.51 acres of mitigation land in the Natomas Basin, of which 4,804.83 acres are owned in fee simple title and 143.68 acres are held in conservation easements. All land purchases and land dedications are recorded at their acquisition cost. Land assets are currently recorded at cost totaling \$53,874,582. However, on a "fair value" accounting basis, the value of Conservancy land holdings is approximately \$156 million, combined with all other assets are approximately \$206 million. This calculation uses the annually adjusted

THE NATOMAS BASIN CONSERVANCY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2021

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.

Figure 1
Total Conservancy Assets

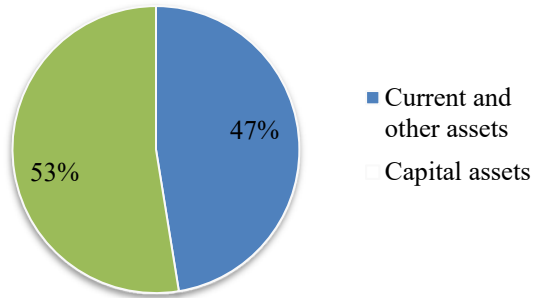
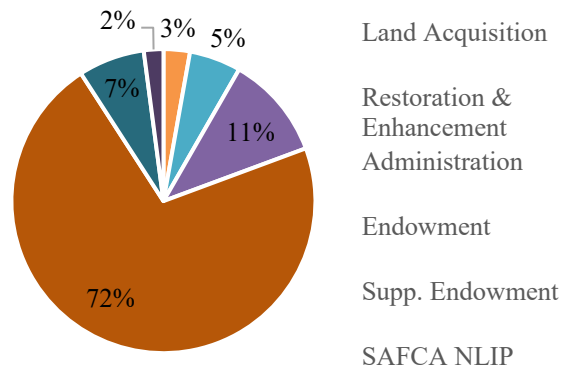


Figure 2
Conservancy Cash & Investments by Fund



THE NATOMAS BASIN CONSERVANCY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2021

The Natomas Basin Conservancy
Changes in Net Position
Conservancy-wide Activities
As of December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>	<u>Increase/Decrease</u>
Revenues			
<i>Program revenues:</i>			
Mitigation fees – cash portion	\$ 1,278,314	\$ 3,754,969	\$ (2,476,655)
Mitigation – land portion	543,896	3,322,439	(2,778,543)
Rent revenue	971,200	889,699	81,501
Groundwater exchange program (GWEP)	976,575	551,795	424,780
Land Management - SAFCA	255,685	204,440	51,245
Investment income	3,425,282	3,933,536	(508,254)
Capital donation	279,010	0	279,010
<i>General revenues:</i>			
Mitigation fees contributed to Endowment Fund	453,418	1,747,826	(1,294,408)
Investment income	334,705	491,920	(157,215)
Other	162,320	137,998	24,322
Total revenues	<u>8,680,405</u>	<u>15,034,622</u>	<u>(6,354,218)</u>
Expenses			
Conservancy operations	3,187,232	2,828,217	359,015
SAFCA contract obligations	258,471	208,946	49,525
Total expenses	<u>3,445,703</u>	<u>3,037,163</u>	<u>408,540</u>
Increase in net position	5,234,702	11,997,459	(6,762,758)
Net Position, beginning of period	<u>86,474,081</u>	<u>74,476,622</u>	<u>11,997,459</u>
Net Position, end of period	<u>\$ 91,708,783</u>	<u>\$ 86,474,081</u>	<u>\$ 5,234,702</u>

The NBHCP mitigation fee in 2021 increased over 2020. The full fee was \$40,032 per disturbed acre, while the fee with land dedication was \$25,032 per disturbed acre. The Conservancy received \$1,731,732 cash for mitigation fees in 2021, down \$3,771,063 from the \$5,502,795 in mitigation fees received in 2020.

Investment income was \$3,759,987 in 2021. Farm rent revenues increased by \$81,501, from \$889,699 in 2020 to \$971,200 in 2021 due to added acres farmed.

The Conservancy participated in the Natomas Central Mutual Water Company's groundwater exchange program in 2021. This program required the Conservancy pump groundwater, which generated higher electricity bills totaling \$154,944. However, this was counterbalanced by program revenue of \$976,575 in 2021, compared to \$551,795 in 2020.

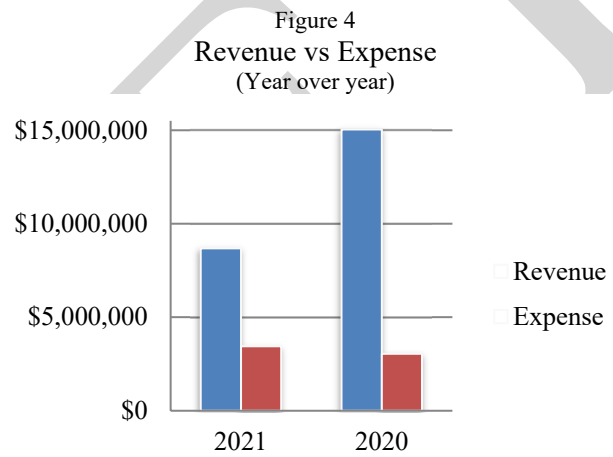
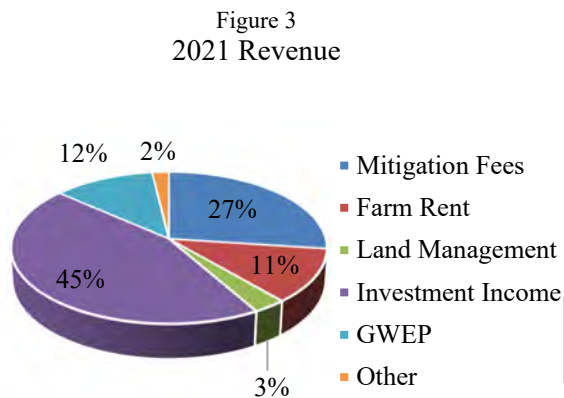
Conservancy expenses in 2021 were \$3,187,232, excluding SAFCA contract obligations. Due to aggressive cost control, the Conservancy has been able to maintain expenses at approximately \$3 million each year for more than 10 years despite substantial growth.

THE NATOMAS BASIN CONSERVANCY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2021

Expenses related to Sacramento Area Flood Control Agency (SAFCA) contracts were \$258,471 in 2021, an increase of \$49,525 over 2020 expenses of \$208,946. The increase was largely due to some properties transitioning from farmed acres to native grass acres.

Figure 3 below shows 2021 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, 2021, the Conservancy's fund balances totaled \$39,054,827, a decrease of \$3,890,587 compared to fund balances of \$42,945,414 at December 31, 2020. The two Conservancy endowment funds experienced a combined \$4,109,110 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

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. At year-end, the Conservancy began transferring projects related to the NLIP back to SAFCA.

The Conservancy's Board of Directors approved a budget for 2022 which projects a modest amount of mitigation revenue for the year. However, the demand for mitigation land is dynamic and not well predicted. The 2022 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, 2021

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.

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THE NATOMAS BASIN CONSERVANCY

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET DECEMBER 31, 2021

	<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	\$ 343,298	\$ 26,484			\$ 126,510
Cash and investments held by fiscal agents	5,051,084	2,652,516	\$ 1,018,846	\$ 3,443,433	1,253,287
Receivables:					
Account	67,896		307,168		
Interest	15,701	10,648	1		7,834
Prepaid items	17,384				
Due from other funds	198,313		4,500	1,400,000	
Deposit receivable					22,622
Non-Current Assets:					
Restricted cash and investments held by fiscal agent					
Land					
Capital assets, net					
Total Assets	<u>\$ 5,693,676</u>	<u>\$ 2,689,648</u>	<u>\$ 1,330,515</u>	<u>\$ 4,843,433</u>	<u>\$ 1,410,253</u>
LIABILITIES:					
Current Liabilities:					
Accounts payable	\$ 329,056		\$ 24,829	\$ 3,177	\$ 14,677
Unearned revenue			177,554		
Deposits payable	500				
Due to other funds	4,500		198,313		1,400,000
Unearned mitigation land credits					9,047,370
Unearned mitigation fees	354,675	\$ 35,275		16,075	18,750
Non-Current Liabilities:					
Line of credit					
Compensated absences					
Total Liabilities	<u>688,731</u>	<u>35,275</u>	<u>400,696</u>	<u>19,252</u>	<u>10,480,797</u>
FUND BALANCE/NET POSITION:					
Net investment in capital assets					
Nonspendable:					
Prepaid expenses	17,384				
Endowment					
Restricted:					
Giant garter snakes	146,809				
Brookfield property			929,819		
PG&E trees contract	35,605				
Endowment:					
Expendable					
Nonexpendable					
Committed:					
Restoration & enhancement		\$ 2,654,373			
Supplemental land acquisition				4,824,181	
Land acquisition					(9,070,544)
Unassigned/Unrestricted	4,805,147				
Total Fund Balances/Net Position	<u>5,004,945</u>	<u>2,654,373</u>	<u>929,819</u>	<u>4,824,181</u>	<u>(9,070,544)</u>
Total Liabilities, Fund Balances and Net Position	<u>\$ 5,693,676</u>	<u>\$ 2,689,648</u>	<u>\$ 1,330,515</u>	<u>\$ 4,843,433</u>	<u>\$ 1,410,253</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, 2021

<u>Endowment</u>	<u>Total Fund Balance</u>	<u>Adjustments (Notes 4 & 11)</u>	<u>Statement of Net Position</u>
	\$ 496,292		\$ 496,292
	13,419,166		13,419,166
	375,064		375,064
	34,184		34,184
	17,384		17,384
	1,602,813	\$ (1,602,813)	
	22,622		22,622
\$ 34,945,235	34,945,235		34,945,235
		53,874,582	53,874,582
		751,585	751,585
<u>\$ 34,945,235</u>	<u>\$ 50,912,760</u>	<u>\$ 53,023,354</u>	<u>\$ 103,936,114</u>
\$ 32,157	\$ 403,896		\$ 403,896
	177,554		177,554
	500		500
	1,602,813	\$ (1,602,813)	
	9,047,370		9,047,370
201,025	625,800		625,800
		1,873,434	1,873,434
		98,777	98,777
<u>233,182</u>	<u>11,857,933</u>	<u>369,398</u>	<u>12,227,331</u>
		54,626,167	54,626,167
	17,384	(17,384)	
13,545,700	13,545,700	(13,545,700)	
	146,809		146,809
	929,819		929,819
	35,605		35,605
21,166,353	21,166,353		21,166,353
		13,545,700	13,545,700
	2,654,373	(2,654,373)	
	4,824,181	(4,824,181)	
	(9,070,544)	9,070,544	
	4,805,147	(3,546,817)	1,258,330
<u>34,712,053</u>	<u>39,054,827</u>	<u>52,653,956</u>	<u>91,708,783</u>
<u>\$ 34,945,235</u>	<u>\$ 50,912,760</u>	<u>\$ 53,023,354</u>	<u>\$ 103,936,114</u>

ASSETS:

Current Assets:

Cash and investments held by City of Sacramento

Cash and investments held by fiscal agent

Receivables:

Account

Interest

Prepaid items

Due from other funds

Deposit receivable

Non-Current Assets:

Restricted cash and investments held by fiscal agent

Land

Capital assets, net

Total Assets

LIABILITIES:

Current Liabilities:

Accounts payable

Unearned revenue

Deposits payable

Due to other funds

Unearned mitigation land credits

Unearned mitigation fees

Non-Current Liabilities:

Line of credit

Compensated absences

Total Liabilities

FUND BALANCE/NET POSITION:

Net investment in capital assets

Nonspendable:

Prepaid expenses

Endowment

Restricted:

Giant garter snakes

Brookfield property

PG&E trees contract

Endowment:

Expendable

Nonexpendable

Committed:

Restoration & enhancement

Supplemental land acquisition

Land acquisition

Unassigned/Unrestricted

Total Fund Balances/Net Position

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, 2021

	<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	\$ 799,979	\$ 79,563		\$ 36,258	\$ 906,410
Rent revenue	971,200				
Groundwater exchange	976,575				
Land management			\$ 255,685		
Operating grants and contributions:					
Investment income					
Capital grants and contributions:					
Capital donation					279,010
Total program revenues	<u>2,747,754</u>	<u>79,563</u>	<u>255,685</u>	<u>36,258</u>	<u>1,185,420</u>
General revenues:					
Endowment contributions - mitigation fees					
Investment income (loss)	2,604	1,627	(1,413)	329,050	2,837
Other income (loss)	73,870				
Total general revenues	<u>76,474</u>	<u>1,627</u>	<u>(1,413)</u>	<u>329,050</u>	<u>2,837</u>
Total Revenues	<u>2,824,228</u>	<u>81,190</u>	<u>254,272</u>	<u>365,308</u>	<u>1,188,257</u>
EXPENDITURES:					
Land mitigation:					
Personnel services	683,493		20,518		
Materials and services	2,242,609		237,953	12,171	57,110
Depreciation					
Capital outlay	63,350				9,042,611
Total Expenditures	<u>2,989,452</u>		<u>258,471</u>	<u>12,171</u>	<u>9,099,721</u>
Changes in Fund Balances/Net Position	(165,224)	81,190	(4,199)	353,137	(7,911,464)
Fund Balances/Net Position, beginning of period	5,170,169	2,573,183	934,018	4,471,044	(1,159,080)
Fund Balances/Net Position, end of period	<u>\$ 5,004,945</u>	<u>\$ 2,654,373</u>	<u>\$ 929,819</u>	<u>\$ 4,824,181</u>	<u>\$ (9,070,544)</u>

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

THE NATOMAS BASIN CONSERVANCY

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2021

<u>Endowment</u>	<u>Total Fund Balance</u>	<u>Adjustments (Note 5)</u>	<u>Statement of Activities</u>	
	\$ 1,822,210		\$ 1,822,210	REVENUES:
	971,200		971,200	Program revenues:
	976,575		976,575	Charges for services:
	255,685		255,685	Mitigation fees
				Rent revenue
				Groundwater exchange
				Land management
				Operating grants and contributions:
\$ 3,425,282	3,425,282		3,425,282	Investment income
	279,010		279,010	Capital grants and contributions:
				Capital donation
<u>3,425,282</u>	<u>7,729,962</u>		<u>7,729,962</u>	Total program revenues
				General revenues:
				Endowment contributions - mitigation fees
453,418	453,418		453,418	Investment income (loss)
	334,705		334,705	Other income
	73,870	\$ 88,450	162,320	Total general revenues
<u>453,418</u>	<u>861,993</u>	<u>88,450</u>	<u>950,443</u>	Total Revenues
<u>3,878,700</u>	<u>8,591,955</u>	<u>88,450</u>	<u>8,680,405</u>	
				EXPENDITURES:
	704,011	11,108	715,119	Land mitigation:
122,727	2,672,570	(57,110)	2,615,460	Personnel services
		115,124	115,124	Materials and services
	9,105,961	(9,105,961)		Depreciation
				Capital outlay
<u>122,727</u>	<u>12,482,542</u>	<u>(9,036,839)</u>	<u>3,445,703</u>	Total Expenditures
3,755,973	(3,890,587)	9,125,289	5,234,702	Changes in Fund Balances/Net Position
<u>30,956,080</u>	<u>42,945,414</u>	<u>43,528,667</u>	<u>86,474,081</u>	Fund Balances/Net Position, beginning of period
<u>\$ 34,712,053</u>	<u>\$ 39,054,827</u>	<u>\$ 52,653,956</u>	<u>\$ 91,708,783</u>	Fund Balances/Net Position, end of period

THE NATOMAS BASIN CONSERVANCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021

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, 2021

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) groundwater exchange, 4) land management, and 5) investment income in the Endowment Fund and Capital donations in the Land Acquisition 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.

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.

THE NATOMAS BASIN CONSERVANCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021

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 \$98,777 in accrued compensated absences as of December 31, 2021.

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 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, 2021, the Conservancy had a total of \$9,047,370 in unearned mitigation land credits.

THE NATOMAS BASIN CONSERVANCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021

Unearned Mitigation Fees

Unearned mitigation fees are mitigation fees paid to the Conservancy for future land development projects. The Conservancy will recognize the mitigation fees in subsequent accounting periods as future land development projects are completed. On December 31, 2021, the Conservancy had a total of \$625,800 in unearned mitigation fees.

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, 2021, are classified in the accompanying financial statements as follows:

Cash and investments held by City of Sacramento	\$ 496,292
Cash and investments held by fiscal agent	13,419,166
Restricted cash and investments held by fiscal agent	<u>34,945,235</u>
Total cash and investments	<u>\$ 48,860,693</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, 2021

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 2021. The City of Sacramento Investment Pool A had no derivatives at December 31, 2021.

THE NATOMAS BASIN CONSERVANCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021

Cash and Investment Summary

At December 31, 2021, the Conservancy's cash and investments consist of the following:

Deposits with financial institutions	\$ 1,276,475
Cash and cash equivalents held by fiscal agents	<u>5,934,078</u>
Cash and cash equivalents	<u>7,210,553</u>
Fixed income mutual funds	15,935,725
Equity mutual funds	20,604,139
External investment pool	496,292
Fixed income securities:	
Corporate bonds	4,463,984
Municipal bonds	<u>150,000</u>
Investments	<u>41,650,140</u>
Total cash and investments	<u>\$ 48,860,693</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:

	Maturity					Total
	Under 1 Year	1-5 Years	5-10 Years	10-15 Years	Over 15 Years	
Fixed income mutual funds	\$ 15,935,725					\$ 15,935,725
Equity mutual funds	20,604,139					20,604,139
External investment pool	496,292					496,292
Corporate bonds	1,919,915	\$ 2,544,069				4,463,984
Municipal Bonds			<u>\$ 150,000</u>			<u>150,000</u>
Total investments	<u>\$ 38,956,071</u>	<u>\$ 2,544,069</u>	<u>\$ 150,000</u>	<u>\$</u>	<u>\$</u>	<u>\$ 41,650,140</u>

THE NATOMAS BASIN CONSERVANCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual Standard & Poor's rating as of year end for each investment type.

	<u>Rating as of End of Year</u>	
City of Sacramento investment pool	Not rated	\$ 496,292
Fixed income mutual funds	Not rated	15,935,725
Equity mutual funds	Not rated	20,604,139
Corporate bonds	AA+	126,440
Corporate bonds	AA	203,579
Corporate bonds	AA-	230,252
Corporate bonds	A+	610,951
Corporate bonds	A	1,232,596
Corporate bonds	A-	1,934,651
Corporate bonds	BBB+	125,515
Municipal bonds	AAA	<u>150,000</u>
Total		<u>\$ 41,650,140</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, 2021.

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 \$15,935,725 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 \$1,054,003 as of December 31, 2021.

THE NATOMAS BASIN CONSERVANCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021

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, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Fixed income mutual funds	\$ 15,935,725		
Equity mutual funds	20,604,139		
Corporate bonds		\$ 4,463,984	
Municipal bonds		150,000	
Total	<u>\$ 36,539,864</u>	<u>\$ 4,613,984</u>	<u>\$</u>

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

Fund balances \$ 39,054,827

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

Capital assets	\$ 58,957,971	
Less: accumulated depreciation	<u>(4,331,804)</u>	54,626,167

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

Line of credit		(1,873,434)
Accrued compensated absences		<u>(98,777)</u>

Net position \$ 91,708,783

THE NATOMAS BASIN CONSERVANCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021

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 \$ (3,890,587)

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	9,105,961
Depreciation expense	(115,124)

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	(11,108)
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Debt payments or forgiveness decrease long-term liabilities in the statement of net position.

Line of credit liability	57,110
PPP loan forgiveness	<u>88,450</u>

Change in net position \$ 5,234,702

6. CAPITAL ASSETS

A summary of changes in capital assets for the year ended December 31, 2021, is as follows:

	<u>01/01/2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/2021</u>
Capital assets not being depreciated:				
Land	\$ 45,192,855	\$ 8,681,727		\$ 53,874,582
Capital assets being depreciated:				
Land improvements	4,597,461	424,234		5,021,695
Office and other equipment	<u>61,694</u>	<u> </u>		<u>61,694</u>
	4,659,155	<u>424,234</u>		<u>5,083,389</u>
Accumulated depreciation:				
Accum. depreciation, land improvements	(4,177,032)	(107,633)		(4,284,665)
Accum. depreciation, office equipment	<u>(39,648)</u>	<u>(7,491)</u>		<u>(47,139)</u>
	<u>(4,216,680)</u>	<u>(115,124)</u>		<u>(4,331,804)</u>
Total capital assets, net	<u>\$ 45,635,330</u>	<u>\$ 8,990,837</u>	<u>\$</u>	<u>\$ 54,626,167</u>

THE NATOMAS BASIN CONSERVANCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021

7. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2021, the Conservancy paid \$876 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>	
2022	\$ 73,736
2023	<u>18,539</u>
	<u>\$ 92,275</u>

Rent expense for the year ended December 31, 2021, was \$76,698.

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, 2021. 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, \$57,110 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, 2021 was \$1,873,434.

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 received notification in June 2021 that the PPP loan was forgiven in full.

THE NATOMAS BASIN CONSERVANCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021

11. INTERFUND BALANCES

Interfund balances as of December 31, 2021, consisted of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Administration	SAFCA NLIP	\$ 198,313
Supplemental Land and Contingency	Land Acquisition	1,400,000
SAFCA NLIP	Administration	4,500
		<u>\$ 1,602,813</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, 2021 was \$58,870.

14. NATOMAS CENTRAL MUTUAL WATER COMPANY STOCK

The Conservancy holds 3,925 shares of Natomas Central Mutual Water Company (NCMWC) stock or approximately 13% of NCMWC's outstanding shares (30,720) as of December 31, 2021. 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.

THE NATOMAS BASIN CONSERVANCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021

15. SUBSEQUENT EVENT

In February 2022, the Conservancy closed out the SAFCA NLIP Fund after ending their contract with SAFCA and transferring the administration of this activity back to SAFCA.

In January 2022, the Conservancy, in partnership with a future fee payer, purchased 185.42 acres of mitigation land in the amount of \$6,033,528.

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REQUIRED SUPPLEMENTARY INFORMATION

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THE NATOMAS BASIN CONSERVANCY

**BUDGETARY COMPARISON SCHEDULE - ADMINISTRATION FUND
FOR THE YEAR ENDED DECEMBER 31, 2021**

	Budget Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Mitigation fees	\$ 1,418,700	\$ 354,675	\$ 799,979	\$ 445,304
Rent revenue	954,695	954,695	971,200	16,505
Investment income	30,000	30,000	2,604	(27,396)
Other income (loss)	<u>203,578</u>	<u>1,303,578</u>	<u>1,050,445</u>	<u>(253,133)</u>
Total Revenues	<u>2,606,973</u>	<u>2,642,948</u>	<u>2,824,228</u>	<u>181,280</u>
EXPENDITURES				
Conservancy operations:				
Personnel services	722,620	722,620	683,493	39,127
Materials and services	2,850,483	2,944,818	2,242,609	702,209
Capital outlay			<u>63,350</u>	<u>(63,350)</u>
Total Expenditures	<u>3,573,103</u>	<u>3,667,438</u>	<u>2,989,452</u>	<u>677,986</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ (966,130)</u>	<u>\$ (1,024,490)</u>	<u>\$ (165,224)</u>	<u>\$ 859,266</u>

THE NATOMAS BASIN CONSERVANCY

**BUDGETARY COMPARISON SCHEDULE -
RESTORATION AND ENHANCEMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2021**

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Mitigation fees	\$ 141,100	\$ 35,275	\$ 79,563	\$ 44,288
Investment income	<u>20,000</u>	<u>20,000</u>	<u>1,627</u>	<u>(18,373)</u>
Total Revenues	<u>161,100</u>	<u>55,275</u>	<u>81,190</u>	<u>25,915</u>
EXPENDITURES				
Total Expenditures	<u>25,000</u>	<u>15,000</u>		<u>15,000</u>
Excess of Revenues Over Expenditures	<u>\$ 136,100</u>	<u>\$ 40,275</u>	<u>\$ 81,190</u>	<u>\$ 40,915</u>

THE NATOMAS BASIN CONSERVANCY

**BUDGETARY COMPARISON SCHEDULE -
SAFCA NLIP SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2021**

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Land management	\$ 213,007	\$ 213,007	\$ 255,685	\$ 42,678
Rent	14,838	14,838		(14,838)
Investment income	<u>30,000</u>	<u>30,000</u>	<u>(1,413)</u>	<u>(31,413)</u>
Total Revenues	<u>257,845</u>	<u>257,845</u>	<u>254,272</u>	<u>(3,573)</u>
EXPENDITURES				
Land mitigation:				
Personnel services			20,518	(20,518)
Materials and services	<u>229,069</u>	<u>229,069</u>	<u>237,953</u>	<u>(8,884)</u>
Total Expenditures	<u>229,069</u>	<u>229,069</u>	<u>258,471</u>	<u>(29,402)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ 28,776</u>	<u>\$ 28,776</u>	<u>\$ (4,199)</u>	<u>\$ (32,975)</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, 2021, 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 XX, 2022**.

Report 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.

Report on 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
Sacramento, California

March XX, 2022

THE NATOMAS BASIN CONSERVANCY

**SCHEDULE OF MITIGATION FEES COLLECTED
FOR THE YEAR ENDED DECEMBER 31, 2021**

<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			\$ 36,258	\$ 906,410		\$ 942,668
Endowment Fee					\$ 453,418	453,418
Habitat Management Fee	\$ 797,133	\$ 79,563				876,696
Administrative Fee	<u>2,846</u>					
Total Fees Collected	<u>\$ 799,979</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
					2,846	
	79,563	36,258	906,410	453,418	2,275,628	

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