

Annual Financial Report

Year ending December 31, 2022



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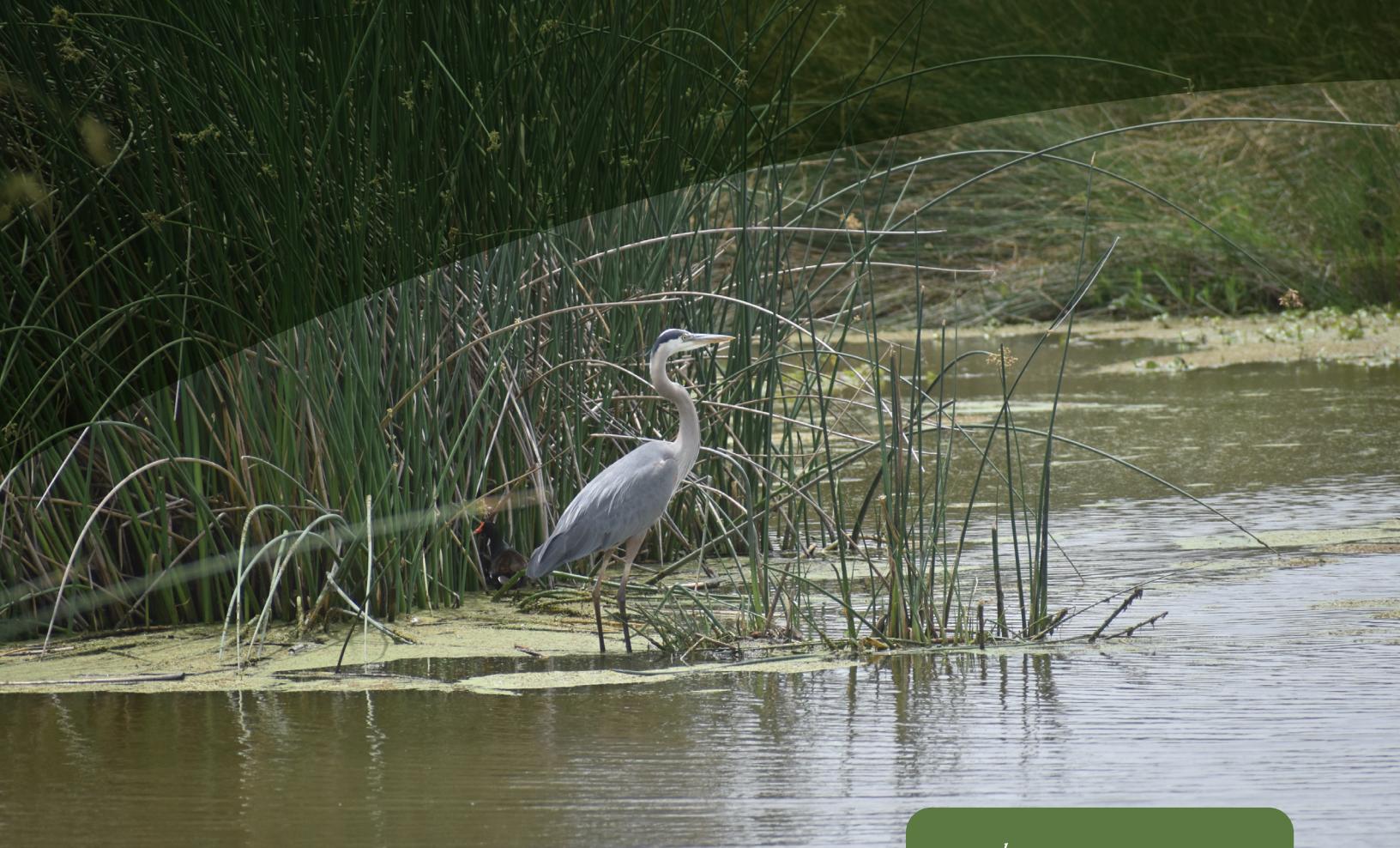


THE NATOMAS BASIN CONSERVANCY

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INTRODUCTORY SECTION



Board of Directors

JOHN F. SHIREY,
Chair

MICHAEL JOHNSTON, *Vice
Chair*

CHANDRA CHILMAKURI,
Secretary

GABRIELLE STADEM,
Treasurer

MELINDA BRADBURY,
Board Member

DAVID CHRISTOPHEL,
Board Member

STEVE COHN,
Board Member

CHRIS NOREM,
Board Member

Staff

JOHN ROBERTS,
Executive Director

KIMBERLI BURNS,
Chief Financial Officer

JENNIER SKUPIC,
*Contracts & Compliance
Manager*

YVONNE MELKONIAN,
Accounting Specialist

BARBARA BARROWS, *Executive
Assistant*

JEREMY LOR,
Field Services Assistant



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

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Letter from the Board Chair and Executive Director

We are pleased to share with you the Conservancy's December 31, 2022 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 5,200 acres of land used to provide mitigation for 22 of the HCPs' Covered Species.

Here are some of the highlights for 2022:

Mitigation land. In 2022 the Conservancy expanded the number of acres it holds for mitigation purposes to 5,182.64, a nearly five percent increase over the prior year. During the year, the Conservancy transacted two mitigation land acquisitions, one of which was a land dedication of 48.70 acres by a fee payer and the other was a land acquisition in partnership with a future fee payer of 185.42 acres.

Mitigation revenue. The Conservancy received \$18,662,536 for the cash portion of mitigation fees in 2022. This was the highest mitigation revenue year in the Conservancy's history.

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

The Conservancy presents this December 31, 2022 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,
2022 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, 2022, 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 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, 2022, 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.

To the Board of Directors
The Natomas Basin Conservancy
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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 29 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.

To the Board of Directors
The Natomas Basin Conservancy
Page three

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 March 23, 2023, 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

GILBERT CPAs
Sacramento, California

March 23, 2023

THE NATOMAS BASIN CONSERVANCY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2022

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, 2022. We encourage readers to consider the information presented here in conjunction with the Conservancy's financial statements, which begin on page 12.

FINANCIAL HIGHLIGHTS

- Total assets at the close of the fiscal year were \$115,320,606, an increase of \$11,384,492 from prior year of \$103,936,114.
- In 2022, the Conservancy increased its mitigation land holdings by 234.12 acres to 5,182.64 acres.
- The cash portion of mitigation fee revenue in 2022 totaled \$18,662,536. This was the highest mitigation revenue year in Conservancy history. It was an increase of \$16,930,805 from prior year of \$1,731,731.
- At the end of the 2022, the Endowment Fund added mitigation fees of \$5,758,625, but due to market declines, total balances were reduced by \$1,343,836.
- Expenses were \$3,977,888, which was an increase of \$532,185 over the prior year of \$3,445,703.
- The Conservancy concluded its contractual obligations with Sacramento Area Flood Control Agency (SAFCA) in 2022.
- Due to California's continued drought, the Conservancy received reduced water deliveries, which impacted farming on Conservancy properties. As a result, farm rent revenue declined by \$405,120.

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, 2022

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, 2022 and 2021 (as restated)

	2022	2021	Increase/Decrease
Current and other assets	\$ 52,886,534	\$ 49,309,947	\$ 3,576,587
Capital assets	<u>62,434,072</u>	<u>54,626,167</u>	<u>7,807,905</u>
Total assets	<u>115,320,606</u>	<u>103,936,114</u>	<u>11,384,492</u>
Current liabilities	7,981,969	11,451,928	(3,469,959)
Non-Current liabilities	<u>1,916,572</u>	<u>1,972,211</u>	<u>(55,639)</u>
Total liabilities	<u>9,898,541</u>	<u>13,424,139</u>	<u>(3,525,598)</u>
Net position:			
Net investment in capital assets	62,434,072	54,731,774	7,702,298
Giant garter snake projects	102,569	146,809	(44,240)
PG&E – tree contract	0	35,605	(35,605)
SAFCA NLIP	0	929,819	(929,819)
Endowment – permanent	19,304,325	13,545,700	5,758,625
Endowment – temporary	13,903,997	21,006,458	(7,102,461)
Unrestricted	<u>9,677,102</u>	<u>115,810</u>	<u>9,561,292</u>
Total net position	<u>\$ 105,422,065</u>	<u>\$ 90,511,975</u>	<u>\$ 14,910,090</u>

Net position represents the difference between the Conservancy's resources and its obligations. At December 31, 2022, approximately 59.2% of the Conservancy's net position was invested in mitigation land and land improvements. Land is 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 2022, the Conservancy received one land dedication of 48.70 acres and purchased 185.42 acres. The Conservancy presently holds 5,182.64 acres of mitigation land in the Natomas Basin, of which 5,038.95 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 currently total \$61,518,740. However, on a "fair value" accounting basis, the value of Conservancy land holdings is approximately \$164 million. When combined with all other assets, total Conservancy assets are approximately \$217 million on a "fair value" basis. This calculation uses the annually adjusted per acre land valuation posted in the NBHCP

THE NATOMAS BASIN CONSERVANCY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2022

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.

Current liabilities were reduced by \$3,469,959 to \$7,981,969 in 2022 over the previous year of \$11,451,928.

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

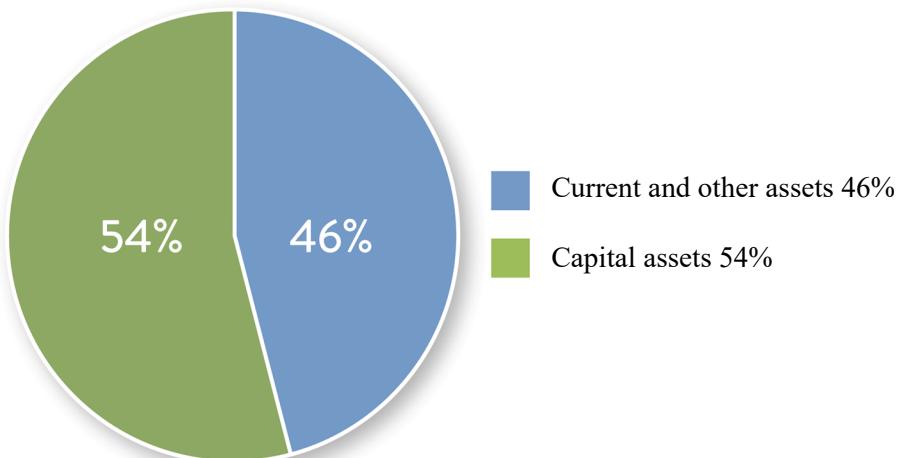
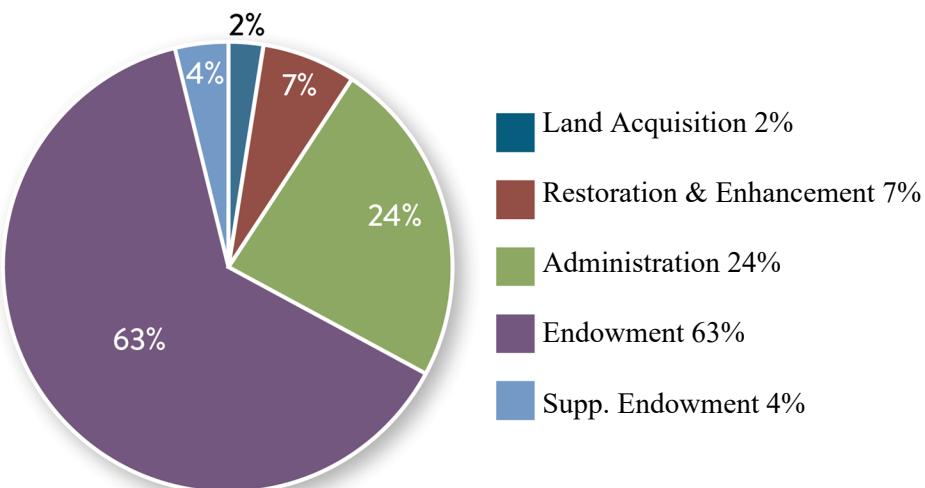


Figure 2
Conservancy Cash & Investments by Fund



THE NATOMAS BASIN CONSERVANCY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2022

The Natomas Basin Conservancy

Changes in Net Position

Conservancy-wide Activities

As of December 31, 2022 and 2021 (as restated)

	<u>2022</u>	<u>2021</u>	<u>Increase/Decrease</u>
Revenues			
<i>Program revenues:</i>			
Mitigation fees – cash portion	\$ 12,903,911	\$ 1,278,314	\$ 11,625,597
Mitigation – land portion	7,391,333	543,896	6,847,437
Rent revenue	566,080	971,200	(405,120)
Groundwater exchange program (GWEP)	0	976,575	(976,575)
Land Management – SAFCA	0	255,685	(255,685)
Investment income	(6,987,292)	3,425,282	(10,412,574)
Capital donation	8,742	279,010	(270,268)
<i>General revenues:</i>			
Mitigation fees contributed to Endowment Fund	5,758,625	453,418	5,305,207
Investment income	(13,870)	334,705	(348,575)
Other	190,272	162,320	27,952
Total revenues	<u>19,817,801</u>	<u>8,680,405</u>	<u>11,137,396</u>
Expenses			
Conservancy operations	3,977,888	3,187,232	790,656
SAFCA	0	258,471	(258,471)
Total expenses	<u>3,977,888</u>	<u>3,445,703</u>	<u>532,185</u>
Other Financing Sources			
Transfer to SAFCA	(929,823)	0	(929,823)
Total other financing sources	<u>(929,823)</u>	<u>0</u>	<u>(929,823)</u>
Increase in net position	14,910,090	5,234,702	9,675,388
Net Position, beginning of period	<u>90,511,975</u>	<u>85,277,273</u>	<u>5,234,702</u>
Net Position, end of period	\$ 105,422,065	\$ 90,511,975	\$ 14,910,090

The NBHCP mitigation fee in 2022 increased over 2021. The full fee was \$43,968 per disturbed acre, while the fee with land dedication was \$27,718 per disturbed acre.

The Conservancy received \$18,662,536 for the cash portion of mitigation fees in 2022, which was the highest mitigation revenue year in the Conservancy's history. Investment loss was \$6,987,291 in 2022 due to a downturn in the market. Farm rent revenues decreased by \$405,120, from \$971,200 in 2021 to \$566,080 in 2022 due to a drought-caused decrease in water deliveries.

THE NATOMAS BASIN CONSERVANCY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2022

Conservancy expenses in 2022 were \$3,977,888, which was an increase over last year's expenses of \$532,185. In 2022, the Conservancy concluded its contractual obligations with SAFCA of \$929,823, as well as with PG&E for tree mitigation of \$15,106. Due to aggressive cost control, the Conservancy has been able to maintain Administration Fund expenses between \$3 to 4 million each year for more than 10 years despite inflation and substantial growth.

Figure 3 below shows 2022 revenue by type and Figure 4 below presents revenue vs. expenses year-over-year:

Figure 3
2022 Revenue

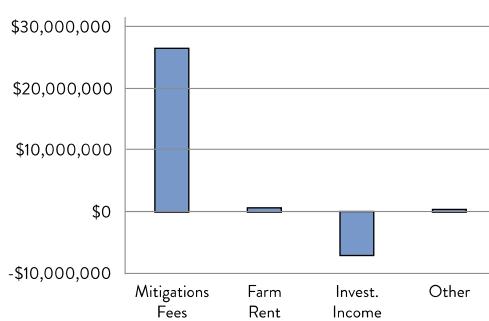
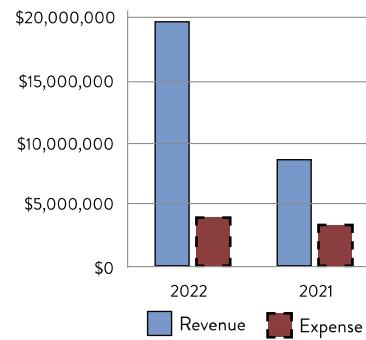


Figure 4
Revenue vs Expense
(Year over year)



FINANCIAL ANALYSIS OF THE CONSERVANCY'S FUNDS

As of December 31, 2022, the Conservancy's fund balances totaled \$44,955,772, an increase of \$7,097,752 compared to fund balances of \$37,858,020 at December 31, 2021. Funds in the Conservancy's endowment accounts experienced a combined \$3,030,399 decrease, due to a downturn in the market. 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 Conservancy's Board of Directors approved a budget for 2023 which projects modest mitigation revenue for the year. However, the demand for mitigation land is dynamic and not well predicted. The 2023 budget also projects expenses for completion of the updates to the NBHCP's required Site-Specific Management Plans for all Conservancy properties, as well as planning and permitting for future managed marsh slated for construction as early as 2024.

THE NATOMAS BASIN CONSERVANCY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2022

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, 2022

	<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	\$ 402,998	\$ 32,342		\$ 2,731	\$ 127,749
Cash and investments held by fiscal agents	12,038,495	3,557,067		1,989,111	1,214,094
Restricted cash and investments held by City of Sacramento					
Receivables:					
Account	57,376	1			
Interest	40,899	244			16
Prepaid items	18,980				
Due from other funds				3,253,017	
Non-Current Assets:					
Restricted cash and investments held by fiscal agent					
Land					
Capital assets, net					
Total Assets	<u>\$ 12,558,748</u>	<u>\$ 3,589,654</u>	<u>\$ _____</u>	<u>\$ 5,244,875</u>	<u>\$ 1,347,287</u>
LIABILITIES:					
Current Liabilities:					
Accounts payable	\$ 438,003	\$ 7,115		\$ 1,718	\$ 3,888
Lease liability					
Deposits payable	500				
Due to other funds					3,253,017
Unearned mitigation land credits					6,894,978
Unearned mitigation fees	287,426	60,041		30,374	16,054
Non-Current Liabilities:					
Line of credit					
Compensated absences					
Total Liabilities	<u>725,929</u>	<u>67,156</u>	<u>_____</u>	<u>32,092</u>	<u>10,167,937</u>
FUND BALANCE/NET POSITION:					
Net investment in capital assets					
Prepaid expenses	18,980				
Endowment					
Giant garter snakes	102,569				
Endowment:					
Expendable					
Nonexpendable					
Committed:					
Restoration & enhancement	3,522,498				
Supplemental land acquisition				5,212,783	
Land acquisition					(8,820,650)
Unassigned/Unrestricted	<u>11,711,270</u>	<u>3,522,498</u>	<u>_____</u>	<u>5,212,783</u>	<u>(8,820,650)</u>
Total Fund Balances/Net Position	<u>\$ 11,832,819</u>	<u>\$ 3,589,654</u>	<u>\$ _____</u>	<u>\$ 5,244,875</u>	<u>\$ 1,347,287</u>
Total Liabilities, Fund Balances and Net Position	<u>\$ 12,558,748</u>	<u>\$ 3,589,654</u>	<u>\$ _____</u>	<u>\$ 5,244,875</u>	<u>\$ 1,347,287</u>

THE NATOMAS BASIN CONSERVANCY

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET (CONTINUED) DECEMBER 31, 2022

<u>Endowment</u>	<u>Total Fund Balance</u>	<u>Adjustments (Notes 4 & 10)</u>	<u>Statement of Net Position</u>
ASSETS:			
	\$ 565,820		\$ 565,820
	18,798,767		18,798,767
\$ 29,653	29,653		29,653
	57,377		57,377
176	46,779		46,779
	18,980		18,980
	3,253,017	\$ (3,253,017)	
33,369,158	33,369,158		33,369,158
	61,518,740		61,518,740
	915,332		915,332
<u>\$ 33,398,987</u>	<u>\$ 56,139,551</u>	<u>\$ 59,181,055</u>	<u>\$ 115,320,606</u>
Total Assets			
LIABILITIES:			
\$ 30,770	\$ 481,494		\$ 481,494
	\$ 51,207		\$ 51,207
	500		500
	3,253,017	(3,253,017)	
	6,894,978		6,894,978
159,895	553,790		553,790
	1,811,895		1,811,895
	104,677		104,677
<u>190,665</u>	<u>11,183,779</u>	<u>(1,285,238)</u>	<u>9,898,541</u>
	62,434,072		62,434,072
19,304,325	18,980	(18,980)	
	19,304,325	(19,304,325)	
	102,569		102,569
13,903,997	13,903,997		13,903,997
	19,304,325		19,304,325
	3,522,498	(3,522,498)	
	5,212,783	(5,212,783)	
	(8,820,650)	8,820,650	
	11,711,270	(2,034,168)	9,677,102
<u>33,208,322</u>	<u>44,955,772</u>	<u>60,466,293</u>	<u>105,422,065</u>
<u>\$ 33,398,987</u>	<u>\$ 56,139,551</u>	<u>\$ 59,181,055</u>	<u>\$ 115,320,606</u>
FUND BALANCE/NET POSITION:			
			Net investment in capital assets
			Nonspendable:
			Prepaid expenses
			Endowment
			Restricted:
			Giant garter snakes
			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, 2022

	<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	\$ 10,155,323	\$ 1,001,907		\$ 525,082	\$ 8,612,932
Rent revenue	566,080				
Operating grants and contributions:					
Investment income (loss)					
Capital grants and contributions:					
Capital donation					8,742
Total program revenues	<u>10,721,403</u>	<u>1,001,907</u>	<u> </u>	<u>525,082</u>	<u>8,621,674</u>
General revenues:					
Endowment contributions - mitigation fees					
Investment income (loss)	91,468	(5,517)	\$ 4	(102,511)	2,686
Sale of capital asset/Gain on disposal					
Other income	122,838				
Total general revenues	<u>214,306</u>	<u>(5,517)</u>	<u> 4</u>	<u>(102,511)</u>	<u>2,686</u>
Total Revenues	<u>10,935,709</u>	<u>996,390</u>	<u> 4</u>	<u>422,571</u>	<u>8,624,360</u>
EXPENDITURES:					
Land mitigation:					
Personnel services	763,486				
Materials and services	2,859,099	23,984		3,595	62,494
Depreciation					
Amortization					
Capital outlay	304,226	44,240			7,652,900
Debt service:					
Principal	54,400				
Interest	19,336				
Total Expenditures	<u>4,000,547</u>	<u>68,224</u>	<u> </u>	<u>3,595</u>	<u>7,715,394</u>
Excess (Deficiency) of revenues over (under) expenditures	6,935,162	928,166	4	418,976	908,966
OTHER FINANCING SOURCES (USES):					
Proceeds from sale of asset	74,530				
Lease asset	105,607				
Transfer to SAFCA			(929,823)		
Total other financing sources (uses)	180,137		(929,823)		
Changes in Fund Balances/Net Position	7,115,299	928,166	(929,819)	418,976	908,966
Fund Balances/Net Position, beginning of period, as restated	4,717,520	2,594,332	929,819	4,793,807	(9,729,616)
Fund Balances/Net Position, end of period	<u>\$ 11,832,819</u>	<u>\$ 3,522,498</u>	<u>\$ </u>	<u>\$ 5,212,783</u>	<u>\$ (8,820,650)</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, 2022

<u>Endowment</u>	<u>Total Fund Balance</u>	<u>Adjustments (Note 5)</u>	<u>Statement of Activities</u>
	\$ 20,295,244		\$ 20,295,244
	566,080		566,080
\$ (6,987,292)	(6,987,292)		(6,987,292)
	<u>8,742</u>		<u>8,742</u>
<u>(6,987,292)</u>	<u>13,882,774</u>		<u>13,882,774</u>
5,758,625	5,758,625		5,758,625
	(13,870)		(13,870)
	\$ 67,434		67,434
	<u>122,838</u>		<u>122,838</u>
<u>5,758,625</u>	<u>5,867,593</u>	<u>67,434</u>	<u>5,935,027</u>
<u>(1,228,667)</u>	<u>19,750,367</u>	<u>67,434</u>	<u>19,817,801</u>
115,169	763,486	5,900	769,386
	3,064,341	3,932,624	3,002,801
		131,784	131,784
		54,581	54,581
	8,001,366	(8,001,366)	
	54,400	(54,400)	
	<u>19,336</u>		<u>19,336</u>
<u>115,169</u>	<u>11,902,929</u>	<u>(3,930,877)</u>	<u>3,977,888</u>
(1,343,836)	7,847,438	3,998,311	15,839,913
	74,530	(74,530)	
	105,607	(105,607)	
	<u>(929,823)</u>		<u>(929,823)</u>
	(749,686)	(180,137)	(929,823)
(1,343,836)	7,097,752	3,818,174	14,910,090
<u>34,552,158</u>	<u>37,858,020</u>	<u>52,653,955</u>	<u>90,511,975</u>
<u>\$ 33,208,322</u>	<u>\$ 44,955,772</u>	<u>\$ 56,472,129</u>	<u>\$ 105,422,065</u>

REVENUES:

Program revenues:

Charges for services:

Mitigation fees

Rent revenue

Operating grants and contributions:

Investment income (loss)

Capital grants and contributions:

Capital donation

Total program revenues

General revenues:

Endowment contributions - mitigation fees

Investment income (loss)

Sale of capital asset/Gain on disposal

Other income

Total general revenues

Total Revenues

EXPENDITURES:

Land mitigation:

Personnel services

Materials and services

Depreciation

Amortization

Capital outlay

Debt service:

Principal

Interest

Total Expenditures

Excess (Deficiency) of revenues over (under) expenditures

OTHER FINANCING SOURCES (USES):

Proceeds from sale of asset

Lease asset

Transfer to SAFC

Total other financing sources (uses)

Changes in Fund Balances/Net Position

Fund Balances/Net Position, beginning of period, as restated

Fund Balances/Net Position, end of period

THE NATOMAS BASIN CONSERVANCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022

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 action. 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.

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, 2022

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. The SAFECA NLIP Fund was closed during 2022.

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, and 3) 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, 2022

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

Leases

The Conservancy recognizes leases with a noncancelable period of more than one year.

The Conservancy recognizes a lease liability and an intangible right-to-use lease asset (lease asset) at the commencement of a lease and initially measures them at the present value of payments expected to be made during the lease term. The lease liability is reduced by the principal portion of lease payments made and the lease asset is amortized on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset.

The Conservancy estimates its incremental borrowing rate as the discount rate for expected lease payments and the noncancelable period for its leases. Additionally, the Conservancy monitors changes in circumstances that would require a remeasurement of its leases and will remeasure the lease liability if certain changes occur that are expected to significantly affect their lease liability.

Lease assets are reported with depreciable capital assets and lease liabilities are reported with long-term debt on the statement of net position.

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 \$104,677 in accrued compensated absences as of December 31, 2022.

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.

THE NATOMAS BASIN CONSERVANCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022

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. When the Conservancy receives dedicated land in excess of the required land mitigation, the excess is most often 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, 2022, the Conservancy held a total of \$6,894,978 in unearned mitigation land credits.

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, 2022, the Conservancy held a total of \$553,790 in unearned mitigation fees, based on mitigation fees paid in 2004.

Prior period Adjustment

A prior period adjustment of \$1,196,808 was made to increase balances of unearned mitigation fees by \$553,790 and unearned mitigation land credit by \$643,018 for a land property deal that occurred in 2004. These transactions decreased fund balances and net position by \$1,196,808 and had no impact on current year changes in fund balances and net position.

Change in accounting principle

For the year ended December 31, 2022, the Conservancy implemented GASB Statement No. 87, Leases. GASB Statement No. 87 enhances the relevance and consistency of information of the Conservancy's leasing activities. It establishes requirements for lease accounting based on the principle that leases are financings of the right to use an underlying asset. 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. These changes were incorporated in the Conservancy's 2022 financial statements, with lease liabilities and depreciable capital assets being restated as of January 1, 2022 by \$105,607, which represents the net present value of the right-to-use lease assets and related lease liability.

THE NATOMAS BASIN CONSERVANCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022

3. CASH AND INVESTMENTS

Cash and investments as of December 31, 2022, are classified in the accompanying financial statements as follows:

Cash and investments held by City of Sacramento	\$ 565,820
Restricted cash and investments held by City of Sacramento	29,653
Cash and investments held by fiscal agent	18,798,767
Restricted cash and investments held by fiscal agent	<u>33,369,158</u>
Total cash and investments	<u>\$ 52,763,398</u>

Investments Authorized by the Conservancy's Investment Policies

The Conservancy investment policy for the investments held by fiscal agent in the Endowment and Supplemental Endowment Funds authorizes the following types of investments:

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

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

Authorized Investment Type
Money market mutual funds
Commercial paper
Master notes
Funding agreements
Certificates of deposit
Repurchase agreements
Bankers acceptances
Obligations issued or guaranteed by United States Government agencies
U.S. Treasury obligations
Exchange traded funds
Federal agency securities
Corporate notes and bonds
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 annual comprehensive financial report and may be obtained by contacting the City of Sacramento Department of Finance, Accounting Division, 915 L Street, Sacramento, CA 95814.

THE NATOMAS BASIN CONSERVANCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022

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 2022. The City of Sacramento Investment Pool A had no derivatives at December 31, 2022.

Cash and Investment Summary

At December 31, 2022, the Conservancy's cash and investments consist of the following:

Deposits with financial institutions	\$ 293,399
Cash and cash equivalents held by fiscal agents	<u>3,609,712</u>
 Cash and cash equivalents	 <u>3,903,111</u>
 Fixed income mutual funds	 16,320,657
Equity mutual funds	20,445,051
External investment pool	595,473
Fixed income securities:	
Government obligations	7,358,129
Corporate bonds	3,990,977
Municipal bonds	<u>150,000</u>
 Investments	 <u>48,860,287</u>
 Total cash and investments	 <u>\$ 52,763,398</u>

Disclosures Relating to Interest Rate Risk

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

THE NATOMAS BASIN CONSERVANCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022

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					
	Under 1 Year	1-5 Years	5-10 Years	10-15 Years	Over 15 Years	Total
Fixed income mutual funds	\$ 15,570,657	\$ 750,000				\$ 16,320,657
Equity mutual funds	20,445,051					20,445,051
External investment pool	595,473					595,473
Government obligations	6,878,509	479,620				7,358,129
Corporate bonds	3,359,692	631,285				3,990,977
Municipal Bonds	_____ Total investments	_____ \$ 46,849,382	\$ 150,000 \$ 1,860,905	\$ 150,000 \$ _____	\$ _____ \$ _____	\$ 150,000 \$ 48,860,287

Disclosures Relating to Credit Risk

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

	Rating as of End of Year
City of Sacramento investment pool	Not rated
Fixed income mutual funds	Not rated
Equity mutual funds	Not rated
Government obligations	Not rated
Government obligations	AA+
Corporate bonds	AA
Corporate bonds	AA-
Corporate bonds	A+
Corporate bonds	A
Corporate bonds	A-
Municipal bonds	AAA
Total	<u>\$ 48,860,287</u>

THE NATOMAS BASIN CONSERVANCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022

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, 2022.

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 \$16,320,657 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, with the amount of deposits in excess of the FDIC limit of \$46,794 as of December 31, 2022.

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, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Fixed income mutual funds	\$ 16,320,657		
Equity mutual funds	20,445,051		
Government obligations		\$ 7,358,129	
Corporate bonds		3,990,977	
Municipal bonds		150,000	
 Total	 <u>\$ 36,765,708</u>	 <u>\$ 11,499,106</u>	 <u>\$</u>

THE NATOMAS BASIN CONSERVANCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022

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

Fund balances \$ 44,955,772

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

Capital assets	\$ 66,835,740
Lease assets	105,607
Accumulated depreciation	(4,452,694)
Accumulated amortization	<u>(54,581)</u>
	62,434,072

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

Line of credit	(1,811,895)
Lease liability	(51,207)
Accrued compensated absences	<u>(104,677)</u>

Net position \$ 105,422,065

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 \$ 7,097,752

Governmental funds report capital outlays as expenditures. In the statement of activities however, the cost of capital assets and right to use assets are allocated over their estimated useful lives as depreciation and amortization expense.

Capital outlay	8,001,366
Disposal of capital assets	(7,096)
Depreciation expense	(131,784)
Amortization expense	<u>(54,581)</u>

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	(5,900)
----------------------	---------

Proceeds from leases are recognized as Other Financing Sources in governmental funds. However, leases increase lease liabilities in the statement of net position. (105,607)

Debt payments decrease long-term liabilities in the statement of net activities.

Line of credit liability	61,540
Lease liability	<u>54,400</u>

Change in net position \$ 14,910,090

THE NATOMAS BASIN CONSERVANCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022

6. CAPITAL ASSETS

A summary of changes in capital assets for the year ended December 31, 2022, is as follows:

	<u>01/01/2022</u> <u>(as restated)</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/2022</u>
Capital assets not being depreciated:				
Land	<u>\$ 53,874,582</u>	<u>\$ 7,644,158</u>	<u> </u>	<u>\$ 61,518,740</u>
Capital assets being depreciated:				
Land improvements	5,021,695	211,869	\$ (17,990)	5,215,574
Office and other equipment	61,694	39,732		101,426
Right-to-use asset	<u>105,607</u>	<u> </u>	<u> </u>	<u>105,607</u>
	<u>5,188,996</u>	<u>251,601</u>	<u>(17,990)</u>	<u>5,422,607</u>
Accumulated depreciation and amortization:				
Accum. depreciation, land improvements	(4,284,665)	(123,680)	10,894	(4,397,451)
Accum. depreciation, office equipment	(47,139)	(8,104)		(55,243)
Accum. amortization, right-to-use asset	<u>(4,331,804)</u>	<u>(54,581)</u>	<u> </u>	<u>(54,581)</u>
	<u> </u>	<u>(186,365)</u>	<u> </u>	<u>(4,507,275)</u>
Total capital assets, net	<u>\$ 54,731,774</u>	<u>\$ 7,726,053</u>	<u>\$ (7,096)</u>	<u>\$ 62,434,072</u>

7. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2022, the Conservancy paid \$1,048 to the City of Sacramento for investment services.

8. LEASES

During previous fiscal years, the Conservancy entered into a lease agreement for the right to use office space in Sacramento. An initial lease liability was recorded in the amount of \$105,607 at the beginning of the fiscal year ended December 31, 2022. The Conservancy is a lessee under this agreement. The lease term ends September 2023 with \$6,180 monthly payments. For purposes of discounting future payments on the lease, the Conservancy used a discount rate of 2.13%. The right-to-use asset as of the year ended December 31, 2022 was \$51,026 and is being amortized over the remaining term of the lease. The remaining lease liability is \$51,207 and the remaining interest payment is \$4,411 as of December 31, 2022.

	<u>01/01/2022</u> <u>(as restated)</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/2022</u>	<u>Due Within One Year</u>
Lease Liability	\$ 105,607	\$	\$ (54,400)	\$ 51,207	\$ 51,207

THE NATOMAS BASIN CONSERVANCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022

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, \$61,540 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, 2022 was \$1,811,895.

10. INTERFUND BALANCES

Interfund balances as of December 31, 2022, consisted of the following:

Receivable Fund	Payable Fund	Amount
Supplemental Land and Contingency	Land Acquisition	\$ 3,253,017

11. RISK MANAGEMENT

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

12. RETIREMENT PLAN

The Conservancy offers retirement benefits in the form of a Simplified Employee Pension-Individual Retirement Account defined contribution plan (the Plan) under Internal Revenue Code Section 408(k). The Plan covers all eligible employees who have completed at least six months of service and are at least 21 years of age. Employer contributions to the Plan are discretionary. Plan provisions are established and may be amended by the Internal Revenue Service. Retirement expense incurred for the year ended December 31, 2022 was \$105,851.

13. NATOMAS CENTRAL MUTUAL WATER COMPANY STOCK

The Conservancy holds 3,973 shares of Natomas Central Mutual Water Company (NCMWC) stock or approximately 13% of NCMWC's outstanding shares (31,262) as of December 31, 2022. 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

THE NATOMAS BASIN CONSERVANCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022

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 \$39,730. 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, 2022

	Budget Amounts			Variance with Final Budget
	Original	Final	Actual	
REVENUES				
Mitigation fees	\$ 7,346,966	\$ 7,346,966	\$ 10,155,323	\$ 2,808,357
Rent revenue	1,054,737	1,054,737	566,080	(488,657)
Investment income	50,000	50,000	91,468	41,468
Other income	623,123	623,123	122,838	(500,285)
Total Revenues	<u>9,074,826</u>	<u>9,074,826</u>	<u>10,935,709</u>	<u>1,860,883</u>
EXPENDITURES				
Conservancy operations:				
Personnel services	817,492	817,492	763,486	54,006
Materials and services	3,093,718	3,093,718	2,859,099	234,619
Capital outlay			304,226	(304,226)
Debt service:				
Principal			54,400	(54,400)
Interest			19,336	(19,336)
Total Expenditures	<u>3,911,210</u>	<u>3,911,210</u>	<u>4,000,547</u>	<u>(89,337)</u>
OTHER SOURCES				
Proceeds from sale of asset			74,530	74,530
Lease assets			105,607	105,607
Total Other Sources	<u> </u>	<u> </u>	<u>180,137</u>	<u>180,137</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ 5,163,616</u>	<u>\$ 5,163,616</u>	<u>\$ 7,115,299</u>	<u>\$ 1,951,683</u>

THE NATOMAS BASIN CONSERVANCY

BUDGETARY COMPARISON SCHEDULE - RESTORATION AND ENHANCEMENT SPECIAL REVENUE FUND FOR THE YEAR ENDED DECEMBER 31, 2022

	Budget Amounts			Variance with Final Budget
	Original	Final	Actual	
REVENUES				
Mitigation fees	\$ 724,777	\$ 724,777	\$ 1,001,907	\$ 277,130
Investment income	<u>30,000</u>	<u>30,000</u>	<u>(5,517)</u>	<u>(35,517)</u>
Total Revenues	<u>754,777</u>	<u>754,777</u>	<u>996,390</u>	<u>241,613</u>
EXPENDITURES				
Total Expenditures	<u>135,000</u>	<u>135,000</u>	<u>68,224</u>	<u>66,776</u>
Excess of Revenues Over Expenditures	<u>\$ 619,777</u>	<u>\$ 619,777</u>	<u>\$ 928,166</u>	<u>\$ 308,389</u>

ADDITIONAL INFORMATION

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

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

We have audited, 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, 2022, 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 23, 2023.

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.

To the Board of Directors
The Natomas Basin Conservancy
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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

GILBERT CPAs
Sacramento, California

March 23, 2023

THE NATOMAS BASIN CONSERVANCY

SCHEDULE OF MITIGATION FEES COLLECTED FOR THE YEAR ENDED DECEMBER 31, 2022

Type of Mitigation Fee	General Fund	Special Revenue	Capital Project		Permanent	Total
	Administration	Restoration & Enhancement	Supplemental Land and Contingency	Land Acquisition	Endowment	
Habitat Acquisition Fee			\$ 525,082	\$ 8,612,932		\$ 9,138,014
Endowment Fee					\$ 5,758,625	5,758,625
Habitat Management Fee	\$ 9,798,912	\$ 1,001,907				10,800,819
Administrative Fee	<u>356,411</u>					<u>356,411</u>
Total Fees Collected	<u>\$ 10,155,323</u>	<u>\$ 1,001,907</u>	<u>\$ 525,082</u>	<u>\$ 8,612,932</u>	<u>\$ 5,758,625</u>	<u>\$ 26,053,869</u>

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