

**THE NATOMAS BASIN CONSERVANCY**

Independent Auditor's Report, Required Supplementary  
Information, Financial Statements and  
Additional Information

For the Year Ended December 31, 2004

**THE NATOMAS BASIN CONSERVANCY  
FOR THE YEAR ENDED DECEMBER 31, 2004**

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## MACIAS GINI & COMPANY<sub>LLP</sub>

3000 S Street, Ste. 300  
Sacramento, California 95816

916.928.4600 PHONE  
916.928.2755 FAX

### INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities and each major fund of the Natomas Basin Conservancy (Conservancy), as of and for the year ended December 31, 2004, which collectively comprise the Conservancy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Conservancy's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Natomas Basin Conservancy as of December 31, 2004 and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

*Macias, Gini & Company LLP*

Certified Public Accountants

Sacramento, California  
March 4, 2005

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of The Natomas Basin Conservancy (the Conservancy), we offer readers of the Conservancy's financial statements this narrative overview and analysis of the financial activities of the Conservancy for the year ended December 31, 2004. We encourage readers to consider the information presented here in conjunction with the Conservancy's financial statements, which begin on page 6.

### FINANCIAL HIGHLIGHTS

- The net assets of the Conservancy at the close of the most recent fiscal year were \$39,353,048. Of that amount, \$28,798,877 is invested in capital assets (net of related debt) and an additional \$4,595,834 is permanently restricted to provide income for the future operation of the Conservancy. Unrestricted net assets total \$5,958,337.
- The Conservancy's cash and investments balance at December 31, 2004 was \$10,945,222, representing an increase of \$2,024,643 from December 31, 2003.
- The Conservancy had general revenues of \$1,228,013 and program revenues of \$6,417,434. Program expenses were \$1,929,748 and capital outlays were \$804,759 for the year ended December 31, 2004.
- All financial assets of the Conservancy continue to be devoted to the acquisition, restoration and management of mitigation land for habitat conservation.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The 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, and 3) notes to the financial statements. The Conservancy-wide and fund financial statements are presented in a combined format on pages 6 and 7. Items in the adjustment column are discussed in notes 3 and 4.

The Conservancy adopted Governmental Accounting Standards Board (GASB) Statement No. 34 for the year ended December 31, 2001. The intent of GASB Statement No. 34 is to reflect all assets and liabilities of the Conservancy. It also redefines the way various funds are classified into fund types and focuses attention on major funds. The Conservancy has only governmental-type funds and all are major.

### CONSERVANCY-WIDE FINANCIAL STATEMENTS

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

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

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

## FUND FINANCIAL STATEMENTS

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

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

Because the focus of governmental funds is narrower than that of the Conservancy-wide financial statements, it is useful to compare the information presented for the governmental funds with similar information presented for governmental activities. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a column detailing the differences (adjustments) between the governmental funds and governmental activities. These adjustments are discussed in further detail in notes 3 and 4 to the basic financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the Conservancy-wide and fund financial statements. The notes to the financial statements can be found on pages 8 through 13 of this report.

## CONSERVANCY-WIDE FINANCIAL ANALYSIS

The Natomas Basin Conservancy  
Summary of Net Assets  
Governmental Activities  
December 31, 2004 and 2003

	December 31, 2004	December 31, 2003	Increase/Decrease
Current and other assets	\$ 10,958,168	\$ 9,033,067	\$ 1,925,101
Capital assets	28,798,877	25,116,724	3,682,153
Total assets	<u>39,757,045</u>	<u>34,149,791</u>	<u>5,607,254</u>
Other liabilities	391,063	499,629	(108,566)
Long-term liabilities	12,934	12,813	121
Total liabilities	<u>403,997</u>	<u>512,442</u>	<u>(108,445)</u>
Net assets:			
Invested in capital assets, net of related debt	28,798,877	25,116,724	3,682,153
Restricted for endowment	4,595,834	4,376,018	219,816
Unrestricted	5,958,337	4,144,607	1,813,730
Total net assets	<u>\$ 39,353,048</u>	<u>\$ 33,637,349</u>	<u>\$ 5,715,699</u>

Net assets represent the difference between the Conservancy's resources and its obligations. At December 31, 2004, approximately 73% of the Conservancy's net assets are invested in land and land improvements. These lands are acquired and enhanced to provide habitat for protected plant and animal species.

The Natomas Basin Conservancy  
Changes in Net Assets  
Governmental Activities  
For the Year Ended December 31, 2004 and 2003

	December 31, 2004	December 31, 2003	Increase/Decrease
<b>Revenues</b>			
Program revenues:			
Mitigation fees	\$ 5,564,209	\$ 13,765,513	\$ (8,201,304)
Rent revenue	335,319	207,682	127,637
Investment income	517,906	634,159	(116,253)
General revenues:			
Investment income	107,862	36,326	71,536
Other	259,491	136,720	122,771
Mitigation fees contributed to endowment fund	860,660	2,617,323	(1,756,663)
Total revenues	7,645,447	17,397,723	(9,752,276)
<b>Expenses</b>			
Land management	1,929,748	1,583,647	346,101
Increase in net assets	\$ 5,715,699	\$ 15,814,076	\$ (10,098,377)

The Conservancy received \$6,424,869 in mitigation fees during 2004. Of that amount \$860,660 was contributed to the endowment fund and \$3,052,241 was received in the form of land contributions. During 2004, mitigation fees were collected for more than 340 acres, although land donations were accepted in lieu of fees for some of the acreage. In comparison, full mitigation fees were collected for 1,240 acres in 2003. The per acre fee rate was also increased during 2004.

Program investment income declined slightly as compared to 2003 due to the decrease in unrealized gains on investments at year-end. Rent revenues increased as the Conservancy became the lessor for additional lands acquired in 2002 and 2003. Other revenues increased due to a one-time payment from Sutter County for Non-Habitat Conservation Plan species mitigation.

Land management expenses increase as the acreage under Conservancy management increases. Acreage under Conservancy management increased approximately 8% in 2004, from 3,396 acres to 3,569.

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

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

As of the end of the current fiscal year, the Conservancy's funds reported a fund balance of \$10,564,505. The Conservancy's major source of revenues is mitigation fees established by City of Sacramento ordinance. The Conservancy's major expenditures are materials and services and capital outlay for the acquisition and restoration of habitat land. Capital assets are not shown on the fund statements since they are not available for near-term financing of the Conservancy's operations.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### ***CAPITAL ASSETS***

As of December 31, 2004 the Conservancy's investment in capital assets was \$28,798,877 (net of accumulated depreciation). This investment in capital assets includes land and land improvements.

Major capital asset purchases during the current fiscal year include the following:

- Capital expenditures of \$739,778 were made for land improvements to the Conservancy's land
- Capital expenditures of \$37,301 were made for building improvements to the Conservancy's land
- Capital expenditures of \$5,464 were made to purchase office equipment

Additional information on the Conservancy's capital assets can be found in note 5 on page 12 of this report.

## **CONTACTING THE CONSERVANCY'S FINANCIAL MANAGEMENT**

The financial report is designed to provide a general overview of the Conservancy's finances for all those with an interest. 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, 1750 Creekside Oaks Dr., Suite 290, Sacramento, CA, 95833 or call (916) 649-3331.

**THE NATOMAS BASIN CONSERVANCY**  
**STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET**  
**DECEMBER 31, 2004**

	Administration Fund	Restoration and Enhancement Fund	Supplemental Land Fund	Land Acquisition Fund	Endowment Fund	Total	Adjustments (Note 3)	Statement of Net Assets
<b>ASSETS</b>								
Cash and investments held by City	\$ 3,444,397	\$ 254,277	\$ 2,887	\$ 434,108	\$ 19,280	\$ 4,154,949	\$ -	\$ 4,154,949
Cash and investments held by fiscal agent	89,912	-	916,593	-	5,783,768	6,790,273	-	6,790,273
Interest receivable	5,712	331	-	720	17	6,780	-	6,780
Prepaid items	6,166	-	-	-	-	6,166	-	6,166
Advances to other funds	1,429,520	-	-	-	-	1,429,520	(1,429,520)	-
Land	-	-	-	-	-	-	26,127,297	26,127,297
Land improvements, net	-	-	-	-	-	-	2,536,356	2,536,356
Building, net	-	-	-	-	-	-	130,306	130,306
Office equipment, net	-	-	-	-	-	-	4,918	4,918
Total assets	<u>\$ 4,975,707</u>	<u>\$ 254,608</u>	<u>\$ 919,480</u>	<u>\$ 434,828</u>	<u>\$ 5,803,065</u>	<u>\$ 12,387,688</u>	<u>27,369,357</u>	<u>39,757,045</u>
<b>LIABILITIES AND FUND BALANCES/NET ASSETS</b>								
Liabilities:								
Accounts payable and accrued expenses	\$ 99,774	\$ 275,449	\$ -	\$ 15,840	\$ -	\$ 391,063	-	391,063
Conditional deposit	2,600	-	-	-	-	2,600	-	2,600
Advances from other funds	-	-	-	1,429,520	-	1,429,520	(1,429,520)	-
Compensated absences	-	-	-	-	-	-	10,334	10,334
Total liabilities	<u>102,374</u>	<u>275,449</u>	<u>-</u>	<u>1,445,360</u>	<u>-</u>	<u>1,823,183</u>	<u>(1,419,186)</u>	<u>403,997</u>
Fund balances:								
Reserved for endowment	-	-	-	-	4,595,834	4,595,834	(4,595,834)	-
Unreserved:								
Designated - Non-HCP donations	200	10,485	-	-	-	10,685	(10,685)	-
Designated - Non-HCP	222,221	-	-	-	-	222,221	(222,221)	-
Designated - Land	-	-	919,480	-	-	919,480	(919,480)	-
Undesignated	4,650,912	(31,326)	-	(1,010,532)	1,207,231	4,816,285	(4,816,285)	-
Total fund balances	<u>4,873,333</u>	<u>(20,841)</u>	<u>919,480</u>	<u>(1,010,532)</u>	<u>5,803,065</u>	<u>10,564,505</u>	<u>(10,564,505)</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 4,975,707</u>	<u>\$ 254,608</u>	<u>\$ 919,480</u>	<u>\$ 434,828</u>	<u>\$ 5,803,065</u>	<u>\$ 12,387,688</u>		
Net assets:								
Investment in capital assets, net of related debt							28,798,877	28,798,877
Restricted for endowment							4,595,834	4,595,834
Unrestricted							5,958,337	5,958,337
Total net assets							<u>\$ 39,353,048</u>	<u>\$ 39,353,048</u>

See accompanying notes to financial statements

**THE NATOMAS BASIN CONSERVANCY  
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Administration Fund	Restoration and Enhancement Fund	Supplemental Land Fund	Land Acquisition Fund	Endowment Fund	Total	Adjustments (Note 4)	Statement of Activities
Revenues:								
Program revenues:								
Charges for services:								
Mitigation fees	\$ 1,555,230	\$ 326,875	\$ 164,314	\$ 465,549	\$ -	\$ 2,511,968	\$ -	\$ 2,511,968
Rent revenue	335,319	-	-	-	-	335,319	-	335,319
Operating grants and contributions:								
Investment income	-	-	-	-	517,906	517,906	-	517,906
Land contributions	-	-	-	-	-	-	3,052,241	3,052,241
Total program revenues	<u>1,890,549</u>	<u>326,875</u>	<u>164,314</u>	<u>465,549</u>	<u>517,906</u>	<u>3,365,193</u>	<u>3,052,241</u>	<u>6,417,434</u>
General revenues:								
Investment income	57,902	7,525	38,420	4,015	-	107,862	-	107,862
Other	259,491	-	-	-	860,660	1,120,151	-	1,120,151
Total general revenues	<u>317,393</u>	<u>7,525</u>	<u>38,420</u>	<u>4,015</u>	<u>860,660</u>	<u>1,228,013</u>	<u>-</u>	<u>1,228,013</u>
Total revenues	<u>2,207,942</u>	<u>334,400</u>	<u>202,734</u>	<u>469,564</u>	<u>1,378,566</u>	<u>4,593,206</u>	<u>3,052,241</u>	<u>7,645,447</u>
Expenditures:								
Land mitigation:								
Current:								
Personnel services	218,156	-	-	-	-	218,156	121	218,277
Materials and services	1,417,266	8	8,648	59,015	51,687	1,536,624	-	1,536,624
Depreciation	-	-	-	-	-	-	174,847	174,847
Capital outlay	42,765	739,778	-	22,216	-	804,759	(804,759)	-
Total expenditures	<u>1,678,187</u>	<u>739,786</u>	<u>8,648</u>	<u>81,231</u>	<u>51,687</u>	<u>2,559,539</u>	<u>(629,791)</u>	<u>1,929,748</u>
Excess (deficiency) of revenues over (under) expenditures	529,755	(405,386)	194,086	388,333	1,326,879	2,033,667	3,682,032	5,715,699
Other financing sources/uses:								
Transfers (out) in	(60,335)	-	8,648	-	51,687	-	-	-
Changes in fund balances/net assets	<u>469,420</u>	<u>(405,386)</u>	<u>202,734</u>	<u>388,333</u>	<u>1,378,566</u>	<u>2,033,667</u>	<u>3,682,032</u>	<u>5,715,699</u>
Fund balances/net assets, beginning of period	4,403,913	384,545	-	(1,398,865)	5,141,245	8,530,838	25,106,511	33,637,349
Prior period adjustments	-	-	716,746	-	(716,746)	-	-	-
Fund balances/net assets, beginning of period, restated	<u>4,403,913</u>	<u>384,545</u>	<u>716,746</u>	<u>(1,398,865)</u>	<u>4,424,499</u>	<u>8,530,838</u>	<u>25,106,511</u>	<u>33,637,349</u>
Fund balances/net assets, end of period	<u>\$ 4,873,333</u>	<u>\$ (20,841)</u>	<u>\$ 919,480</u>	<u>\$ (1,010,532)</u>	<u>\$ 5,803,065</u>	<u>\$ 10,564,505</u>	<u>\$ 28,788,543</u>	<u>\$ 39,353,048</u>

See accompanying notes to financial statements

**THE NATOMAS BASIN CONSERVANCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE 1 - ORGANIZATION**

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

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

The Conservancy's Board of Directors will be comprised of representatives of each of the three land use agencies ultimately expected to obtain development permits under the NBHCP: the City of Sacramento, Sacramento County and Sutter County. During the period covered by these financial statements, the City of Sacramento and Sutter County are the only agencies implementing the NBHCP. Each participating local government has appointed five members to the Conservancy's Board of Directors.

**Funding**

The Conservancy is primarily funded from mitigation fees established by the Conservancy and approved by City of Sacramento and County of Sutter ordinance. The mitigation fees include components for land acquisition, management, endowment, supplemental endowment and administration. The fees are to be adjusted as necessary to maintain the requirements of the NBHCP. As the Conservancy acquires land, other funding sources may include rice cultivation, agricultural leasing, grants and other sources of revenue. The supplemental endowment component does not meet the definition of a permanent fund type under generally accepted accounting principles, therefore it is reported in the Supplemental Land Fund in the financial statements.

**NOTE 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.

**THE NATOMAS BASIN CONSERVANCY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Government-wide and fund financial statements**

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

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

**Measurement focus, basis of accounting, and financial statement presentation**

The Conservancy-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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

Interest associated with the current fiscal period is considered to be susceptible to accrual and so has been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Conservancy.

The Conservancy reports the following major governmental funds:

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

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

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

**THE NATOMAS BASIN CONSERVANCY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The Permanent 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) charges to customers or applicants for goods, services, or privileges provided (e.g. mitigation fees), 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenue.

**Cash and Investments**

The Conservancy records investments at fair value, which is based on quoted market prices. The Conservancy participates in the City of Sacramento investment pool over which the City Treasurer has regulatory oversight. The City Treasurer pools cash with other City funds and invests 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.

Cash held by fiscal agent in the Administration Fund represents the payroll cash account deposited with a bank, which is fully insured.

Investments with fiscal agent in the Supplemental Land Fund and Endowment Fund is managed by Wells Fargo Bank. At December 31, 2004, the Conservancy's investments consist of the following:

Money market mutual funds	\$ 893,857
Fixed income securities	
Government obligations	1,244,650
Other fixed income securities	249,566
Equity securities	<u>4,312,288</u>
Total	<u>\$ 6,700,361</u>

Investments are classified as to custodial credit risk by categories and summarized as follows: Category 1 includes investments that are insured or registered or for which securities are held by the Conservancy or its agent in the Conservancy's name. At December 31, 2004, investments in fixed income and equity securities of \$5,806,504 are classified as Category 1 investments. All money market mutual funds investments are uncategorized.

**Capital Assets**

The Conservancy capitalizes all land, land improvements and equipment, furniture and fixtures expenditures in excess of \$5,000.

Capital asset acquisitions are recorded at cost. Contributions are recorded at the estimated fair value on the date of contribution.

**THE NATOMAS BASIN CONSERVANCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Capital Assets (Continued)**

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

Land improvements and buildings	15 years
Furniture and equipment	5 years

**Permanent Fund**

In accordance with the City of Sacramento Implementation Agreement for the Natomas Basin Habitat Conservation Plan, the Conservancy is required to segregate all endowment fees. The Endowment Fund is accounted for in a permanent fund. Interest earnings will be used to meet long-term miscellaneous management and maintenance needs relating to Conservancy lands.

**Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

**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.

**NOTE 3 - EXPLANATION OF DIFFERENCES BETWEEN THE BALANCE SHEET AND THE STATEMENT OF NET ASSETS**

<b>Fund balances</b>	<b>\$10,564,505</b>
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Capital assets used in Conservancy activities are not financial resources and therefore are not reported in the governmental funds.

Capital assets	\$ 29,189,608	
Less: accumulated depreciation	<u>(390,731)</u>	28,798,877

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

Accrued compensated absences	<u>(10,334)</u>	
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<b>Net assets</b>	<b><u>\$39,353,048</u></b>
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**THE NATOMAS BASIN CONSERVANCY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE 4 - EXPLANATION OF DIFFERENCES BETWEEN STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES AND THE STATEMENT  
OF ACTIVITIES**

**Net change in fund balances** \$ 2,033,667

Governmental funds report capital outlay 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	\$ 804,759	
Depreciation expense	<u>(174,847)</u>	
		629,912

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

Land contributions in lieu of mitigation fess	3,052,241	
Compensated absences	<u>(121)</u>	

**Change in net assets** \$ 5,715,699

**NOTE 5 - CAPITAL ASSETS**

A summary of changes in capital assets for the year ended December 31, 2004, is as follows:

	December 31, 2003	Additions	(Deletions)	December 31, 2004
<b>Capital assets not being depreciated:</b>				
Land	\$ 23,052,840	\$ 3,074,457	\$ -	\$ 26,127,297
Land improvements in progress	6,509	94,519	-	101,028
	<u>23,059,349</u>	<u>3,168,976</u>	<u>-</u>	<u>26,228,325</u>
<b>Capital assets being depreciated:</b>				
Land improvements	2,168,539	645,259	-	2,813,799
Buildings	104,720	37,301	-	142,021
Office equipment	-	5,464	-	5,464
	<u>2,273,259</u>	<u>688,024</u>	<u>-</u>	<u>2,961,283</u>
<b>Accumulated depreciation</b>				
Accum. depreciation, land improvements	(212,393)	(166,077)	-	(378,471)
Accum. depreciation, buildings	(3,491)	(8,224)	-	(11,715)
Accum. depreciation, equipment	-	(546)	-	(546)
	<u>(215,884)</u>	<u>(174,847)</u>	<u>-</u>	<u>(390,731)</u>
<b>Total capital assets, net</b>	<u>\$ 25,116,724</u>	<u>\$ 3,682,153</u>	<u>\$ -</u>	<u>\$ 28,798,877</u>

**THE NATOMAS BASIN CONSERVANCY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE 6 - INTERFUND LOANS**

The mitigation fee program of the NBHCP is structured to allow transfers of funds between the Land Acquisition, Restoration and Enhancement and Administration Funds based on any surpluses or deficits that might exist in those funds. The Land Acquisition Fund purchased land aggressively during 2002 to take advantage of existing opportunities. The land purchases were financed in part by loans from the Administration and Restoration and Enhancement Funds and in part by drawing on a line of credit the Conservancy has with the City of Sacramento, such loans which have subsequently been retired. \$1.429 million in loans remain outstanding at December 31, 2004, between the Conservancy's Land Acquisition and Administration Funds. It is anticipated that the interfund loans will be paid back through future mitigation fee revenue.

**NOTE 7 - RELATED PARTY TRANSACTIONS**

During the year ended December 31, 2004, the Conservancy paid \$13,380 to the City of Sacramento for fiscal services.

**NOTE 8 - DEFICIT FUND BALANCE**

The Land Acquisition capital projects fund had a deficit fund balance at December 31, 2002 of \$4,059,745. The deficit arose from an aggressive land acquisition program that required the fund to borrow money to purchase mitigation acreage during 2002. During 2003 and 2004 the deficit was reduced to \$1,010,532. It is expected the deficit will be recovered upon receipt of future mitigation fee revenue.

The Restoration and Enhancement special revenue fund had a deficit fund balance at December 31, 2004 of \$20,841 which is expected to be recovered from future mitigation fee revenue.

**NOTE 9 - RESTATEMENT**

Since 2001, the Conservancy has included the Supplemental Land Fund as part of the permanently restricted Endowment Fund. As the fees received by the Supplemental Land Fund are not permanently restricted, and the fund's purpose is initially for land acquisition rather than income production, the Supplemental Land Fund is now shown as a separate capital projects fund rather than a part of the Endowment permanent fund. As a result, beginning fund balances/net assets of the Endowment Fund have been reduced and the Supplemental Land Fund have been increased by \$716,746.

**ADDITIONAL FINANCIAL INFORMATION**

**THE NATOMAS BASIN CONSERVANCY  
SCHEDULE OF LAND ADDITIONS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Tuft Ranch</u>	<u>Rosa</u>	<u>Bianchi</u>	<u>Total</u>
Purchase price	\$ 2,963,000	\$ -	\$ -	\$ 2,963,000
Title insurance	2,807	-	-	2,807
Escrow fees	2,634	-	-	2,634
Document, recording and other fees	1,660	-	-	1,660
Commission	82,140	-	-	82,140
Accounting and legal	13,678	3,381	5,157	22,216
Total	<u>\$ 3,065,919</u>	<u>\$ 3,381</u>	<u>\$ 5,157</u>	<u>\$ 3,074,457</u>

THE NATOMAS BASIN CONSERVANCY  
SCHEDULE OF MITIGATION FEES COLLECTED  
FOR THE YEAR ENDED DECEMBER 31, 2004

<u>Type of Mitigation Fee</u>	<u>General Fund</u>	<u>Special Revenue</u>	<u>Capital Project</u>		<u>Permanent</u>	<u>Total</u>
	<u>Administration</u>	<u>Restoration &amp; Enhancement</u>	<u>Supplemental Land</u>	<u>Land Acquisition</u>	<u>Endowment</u>	
Tree Replacement	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Habitat Acquisition Fee	-	-	164,314	3,517,790 (*)	-	3,682,104
Endowment Fee	-	-	-	-	860,660	860,660
Habitat Management Fee	1,413,443	326,875	-	-	-	1,740,318
Administrative Fee	141,787	-	-	-	-	141,787
<b>Total Fees Collected</b>	<b>\$ 1,555,230</b>	<b>\$ 326,875</b>	<b>\$ 164,314</b>	<b>\$ 3,517,790</b>	<b>\$ 860,660</b>	<b>\$ 6,424,869</b>

(\*) Includes land contributions received in lieu of mitigation fees of \$3,052,241.