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**THE NATOMAS BASIN
CONSERVANCY
A COMPONENT UNIT
OF THE CITY OF SACRAMENTO**

General-Purpose Financial Statements,
Independent Auditor's Report, and
Additional Information

For the Year Ended June 30, 1999

OFFICE LOCATIONS

Sacramento • Los Angeles • San Francisco Bay Area

**THE NATOMAS BASIN CONSERVANCY
A COMPONENT UNIT OF THE CITY OF SACRAMENTO
FOR THE YEAR ENDED JUNE 30, 1999**

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Board of Directors
The Natomas Basin Conservancy
Sacramento, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying general-purpose financial statements of the Natomas Basin Conservancy (Conservancy), a component unit of the City of Sacramento, as of June 30, 1999. These general-purpose financial statements are the responsibility of the Conservancy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. 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 opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Natomas Basin Conservancy as of June 30, 1999, and the results of its operations and the cash flows of its nonexpendable trust fund for the year then ended in conformity with generally accepted accounting principles.

The required supplementary information listed in the table of contents is not a required part of the general-purpose financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that the Conservancy is or will become year 2000 compliant, that the Conservancy's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Conservancy does business are or will become year 2000 compliant.

Our audits were conducted for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The accompanying additional financial information is presented for purposes of additional analysis and is not a required part of the general-purpose financial statements. This additional financial information has been subjected to the auditing procedures applied in the audits of the general-purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general-purpose financial statements taken as a whole.

Macias, Meiri & Company LLP

Certified Public Accountants

Sacramento, California
September 3, 1999

THE NATOMAS BASIN CONSERVANCY
A COMPONENT UNIT OF THE CITY OF SACRAMENTO
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUP
JUNE 30, 1999

	Governmental Fund Types			Fiduciary	Account Group	Total (Memorandum Only)
	General Fund	Special Revenue	Capital Projects	Nonexpendable Trust	General Fixed Assets	
	Administration	Restoration & Enhancement	Land Acquisition	Endowment		
ASSETS						
Cash and investments held by City	\$ 346,488	--	--	\$ 207,620	--	\$ 554,108
Cash held by fiscal agent	15,083	--	--	--	--	15,083
Receivables						
Interest	--	--	--	--	--	--
Due from other funds	662,620	\$ 406,276	--	--	--	1,068,896
Prepaid items	5,812	--	--	--	--	5,812
Fixed Assets	--	--	--	--	\$ 4,833,376	4,833,376
Total assets	<u>\$ 1,030,003</u>	<u>\$ 406,276</u>	<u>\$ --</u>	<u>\$ 207,620</u>	<u>\$ 4,833,376</u>	<u>\$ 6,477,275</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable and accrued expenses	\$ 7,737	--	--	--	--	\$ 7,737
Due to other funds	--	--	\$ 1,068,896	--	--	1,068,896
Total liabilities	<u>7,737</u>	<u>--</u>	<u>1,068,896</u>	<u>--</u>	<u>--</u>	<u>1,076,633</u>
Equity and other credits						
Investment in general fixed assets	--	--	--	--	\$ 4,833,376	4,833,376
Fund balances:						
Reserved for encumbrances	6,163	--	--	--	--	6,163
Reserved for endowment	--	--	--	\$ 199,377	--	199,377
Unreserved:						
Undesignated	1,016,103	\$ 406,276	(1,068,896)	8,243	--	361,726
Total fund balances	<u>1,022,266</u>	<u>406,276</u>	<u>(1,068,896)</u>	<u>207,620</u>	<u>4,833,376</u>	<u>5,400,642</u>
Total liabilities and fund balances	<u>\$ 1,030,003</u>	<u>\$ 406,276</u>	<u>\$ --</u>	<u>\$ 207,620</u>	<u>\$ 4,833,376</u>	<u>\$ 6,477,275</u>

The notes are an integral part of these general-purpose financial statements.

THE NATOMAS BASIN CONSERVANCY
A COMPONENT UNIT OF THE CITY OF SACRAMENTO
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 1999

	<u>Governmental Fund Types</u>			<u>Total (Memorandum Only)</u>
	<u>General Fund</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
	<u>Administration</u>	<u>Restoration & Enhancement</u>	<u>Land Acquisition</u>	
Revenues:				
Mitigation Fees	\$ 1,038,853	\$ 393,505	\$ 3,615,005	\$ 5,047,363
Investment income	43,123	16,271	149,475	208,869
Total revenues	<u>1,081,976</u>	<u>409,776</u>	<u>3,764,480</u>	<u>5,256,232</u>
Expenditures:				
Current:				
Administration				
Personnel	34,833	--	--	34,833
Miscellaneous office	5,188	--	--	5,188
Board expense	4,757	--	--	4,757
Legal services	4,501	--	--	4,501
Insurance	2,710	--	--	2,710
Property tax	4,464	--	--	4,464
Consultant	3,257	--	--	3,257
Demolition	--	3,500	--	3,500
Total current expenditures	<u>59,710</u>	<u>3,500</u>	<u>--</u>	<u>63,210</u>
Capital outlay	--	--	4,833,376	4,833,376
Total expenditures	<u>59,710</u>	<u>3,500</u>	<u>4,833,376</u>	<u>4,896,586</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,022,266</u>	<u>406,276</u>	<u>(1,068,896)</u>	<u>359,646</u>
Fund balances, beginning of year	--	--	--	--
Fund balances, end of year	<u>\$ 1,022,266</u>	<u>\$ 406,276</u>	<u>\$ (1,068,896)</u>	<u>\$ 359,646</u>

The notes are an integral part of these general-purpose financial statements.

THE NATOMAS BASIN CONSERVANCY
A COMPONENT UNIT OF THE CITY OF SACRAMENTO
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE
NONEXPENDABLE TRUST FUND
FOR THE YEAR ENDED JUNE 30, 1999

	Endowment Fund
Operating revenues	
Mitigation fees	\$ 199,377
Investment income	8,243
Total operating revenues	207,620
Operating expenses	--
Operating income	207,620
Net income	207,620
Fund balance, beginning of year	--
Fund balance, end of year	\$ 207,620

The notes are an integral part of these general-purpose financial statements.

THE NATOMAS BASIN CONSERVANCY
A COMPONENT UNIT OF THE CITY OF SACRAMENTO
STATEMENT OF CASH FLOWS
NONEXPENDABLE TRUST FUND
FOR THE YEAR ENDED JUNE 30, 1999

	<u>Endowment Fund</u>
Cash flows from operating activities:	
Operating income	\$ 207,620
Adjustment to reconcile operating income to net cash provided by operating activities:	
Interest income	(8,243)
Net cash provided by operating activities	<u>199,377</u>
Cash flows from investing activities:	
Interest received	8,243
Net cash provided by investing activities	<u>8,243</u>
Net increase in cash	207,620
Cash, beginning of year	<u>—</u>
Cash, end of year	<u><u>\$ 207,620</u></u>

The notes are an integral part of these general-purpose financial statements.

**THE NATOMAS BASIN CONSERVANCY
A COMPONENT UNIT OF THE CITY OF SACRAMENTO
NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999**

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 living 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 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 is the only agency implementing the NBHCP and appointed all members of the Conservancy's Board of Directors. In accordance with Government Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*, the City of Sacramento has financial accountability for the Conservancy and the Conservancy therefore is a component unit of the City of Sacramento for financial reporting purposes.

Funding

The Conservancy is primarily funded from Mitigation Fees established by City of Sacramento ordinance. The Mitigation Fees include components for land acquisition, management, endowment and administration. The fees are to be adjusted as is 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 NATOMAS BASIN CONSERVANCY
A COMPONENT UNIT OF THE CITY OF SACRAMENTO
NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 1999

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - Fund Accounting

The accounts of the Conservancy are organized on the basis of funds and account group, each of which is considered a separate accounting entity. The Conservancy has created several types of funds and a number of discrete funds within each fund type. Each fund is accounted for by a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures/expenses. The individual funds account for the resources allocated to them for the purpose of carrying on specific activities in accordance with laws, regulations or other restrictions.

The funds are grouped into two fund types and four generic funds described below:

Governmental fund types - These are the funds are used to account for all financial resources except those required to be accounted for in another fund.

General fund: this fund is established to account for resources devoted to administration of the activities of the Conservancy.

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.

Capital Projects Fund: this fund is established to account for major capital expenditures of the Conservancy, primarily the acquisition of mitigation land.

Fiduciary fund type - This fund is established to account for assets held by the Conservancy as a trustee. The nonexpendable trust fund is used to account for the endowment component of the mitigation fee. The investment income from the endowment fund is available to meet long tem miscellaneous management and maintenance needs relating to Conservancy lands.

Account group - In addition to the fund types, the Conservancy also maintains a General Fixed Asset Account Group. This is not a fund but rather an account group that is used to account for fixed assets acquired for the general purposes of the Conservancy.

**THE NATOMAS BASIN CONSERVANCY
A COMPONENT UNIT OF THE CITY OF SACRAMENTO
NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 1999**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation - Fund Accounting (Continued)

The total column in the combined balance sheet is noted as “memorandum only” because it does not represent consolidated financial information and is presented only to facilitate financial analysis. The column does not present information that reflects financial position, results of operations or cash flows in accordance with generally accepted accounting principles.

Basis of Accounting

All governmental funds are accounted for using the current financial resources measurement focus and are maintained on the modified accrual basis of accounting. Operating statements of these funds present increases (i.e. revenues and other financing sources) and decreases (i.e. expenditures and other financing uses) as changes in fund balances. Under the modified accrual basis of accounting revenues are recognized in the accounting period that they become measurable and available. Expenditures are recognized in the accounting period in which the related fund liability is incurred, if measurable.

The nonexpendable trust fund is accounted for on the flow of economic resources measurement focus and uses the accrual basis of accounting. Under this measurement focus, all assets and liabilities associated with the operation of this fund are included on the balance sheet. Operating statements present increases (i.e. revenues) and decreases (i.e. expenses) as changes in net total assets. Revenues for this fund are recognized in the period earned and expenses are recognized in the period incurred.

**THE NATOMAS BASIN CONSERVANCY
A COMPONENT UNIT OF THE CITY OF SACRAMENTO
NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 1999**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation - Fund Accounting (Continued)

Cash

The Conservancy participates in the City of Sacramento investment pool. 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. Investments are reported at fair value in accordance with Governmental Accounting Standards Board Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." The fair value of investments in the pool is quoted market price. The fair value of the Conservancy's position in the pool is the same as the value of its pool shares.

Cash held by fiscal agent represents the payroll cash account deposited with a bank, which is entirely insured.

For purposes of the Statement of Cash Flows, the Conservancy considers its pooled investment in the City of Sacramento investment pool and cash held by fiscal agent as cash and cash equivalents because they are essentially demand deposit accounts.

Fixed Assets

The Conservancy capitalizes equipment, furniture and fixtures expenditures in excess of \$5,000. Fixed Asset acquisitions are recorded at cost. Contributions are recorded at the estimated fair value on the date of contribution. Depreciation is not recorded in the General Fixed Assets Account Group.

Endowment Fund

In accordance with the City of Sacramento Implementation Agreement for the Natomas Basin Habitat Conservation Plan, the Conservancy is required to reserve all Endowment fees collected in a separate dedicated account. Interest earnings will be used to meet long term miscellaneous management and maintenance needs relating to Conservancy lands.

Fund Equity

Reservations of fund balance represent those portions of fund equity not available for appropriation or legally segregated for a specific future use.

**THE NATOMAS BASIN CONSERVANCY
A COMPONENT UNIT OF THE CITY OF SACRAMENTO
NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 1999**

NOTE 3 - GENERAL FIXED ASSETS

A summary of changes in general fixed assets for the year ended June 30, 1999, is as follows:

	July 1, <u>1998</u>	<u>Additions</u>	June 30, <u>1999</u>
Land	\$ --	\$4,833,376	\$4,833,376
Total	<u>\$ --</u>	<u>\$4,833,376</u>	<u>\$4,833,376</u>

NOTE 4 - FUND BALANCE DEFICIT

The fund balance deficit in the Land Acquisition fund has been funded by temporary loans from other Conservancy funds and is expected to be funded through future collection of mitigation fees.

NOTE 5 - CONTINGENCIES

Certain environmental groups have joined to file lawsuits in the Superior Court of the County of Sacramento and in United States District Court challenging, under the California Endangered Species Act and the Federal Endangered Species Act, the adequacy and the manner of implementation of the Natomas Basin Habitat Conservation Plan. The lawsuits seek to halt further development in the Natomas Basin until the alleged defects in the NBHCP are remedied. The Conservancy is not named in the lawsuits but the outcome could affect its ability to collect Mitigation Fees to support its operations.

Representatives of the California Department of Fish and Game (DFG) and the U. S. Fish and Wildlife Service (USFWS) established a number of conditions that need to be satisfied so that development may continue to proceed in the Natomas Basin. The Conservancy is working with the DFG and USFWS staff to resolve the issues and there is no indication that the agencies will impose suspension of development based on the current status of these discussions.

The Conservancy believes that development will continue to occur in the Natomas Basin. However there are no assurances that DFG or USFWS will not impose additional conditions or requirements with respect to the implementation of the NBHCP.

NOTE 6 - RELATED PARTY TRANSACTIONS

In July 1999, the Conservancy entered into a fiscal services agreement with the City of Sacramento. Under the terms of the agreement, the City will provide bookkeeping, accounting and investment services to the Conservancy. The total amount of the contract is \$12,000 for services to be rendered through June 30, 2000.

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

**THE NATOMAS BASIN CONSERVANCY
A COMPONENT UNIT OF THE CITY OF SACRAMENTO
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 1999**

YEAR 2000 ISSUE (Unaudited)

The Year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the Conservancy's operations as early as fiscal year 1999.

The Conservancy has completed an inventory of computer systems and other electronic equipment that may be affected by the year 2000 issue and that are necessary to conducting Conservancy operations.

The Conservancy uses the City of Sacramento Advantage Financial Accounting System software for its financial reporting. The City of Sacramento is responsible for remediating this system and is solely responsible for any costs associated with this project. The City has tested and validated the Advantage Financial Accounting System Software. The Conservancy uses an external service organization for its payroll system. The external service organization is responsible for remediating this system.

Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management does not guarantee that the Conservancy is or will be Year 2000 ready, that the Conservancy's remediation efforts will be successful in whole or in part, or that parties with whom the Conservancy does business will be Year 2000 ready.

ADDITIONAL FINANCIAL INFORMATION

**THE NATOMAS BASIN CONSERVANCY
A COMPONENT UNIT OF THE CITY OF SACRAMENTO
SCHEDULE OF LAND ACQUISITION EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 1999**

Land	\$ 4,759,525
Survey and environmental assessment	57,716
Taxes	7,430
Title insurance	4,234
Escrow fees	3,509
Document, recording and other fees	962
Total land acquisition expenditures	<u>\$ 4,833,376</u>

**THE NATOMAS BASIN CONSERVANCY
A COMPONENT UNIT OF THE CITY OF SACRAMENTO
SCHEDULE OF MITIGATION FEES COLLECTED
FOR THE YEAR ENDED JUNE 30, 1999**

	Governmental Fund Types			Fiduciary Fund Type	Total
	General Fund	Special Revenue	Capital Project	Nonexpendable Trust	
	Administration	Restoration & Enhancement	Land Acquisition	Endowment	
Mitigation fees:					
Habitat acquisition			\$ 3,615,005		\$ 3,615,005
Habitat management	\$ 936,131	\$ 393,505			1,329,636
Endowment				\$ 199,377	199,377
Administrative	102,722				102,722
Total	<u>\$ 1,038,853</u>	<u>\$ 393,505</u>	<u>\$ 3,615,005</u>	<u>\$ 199,377</u>	<u>\$ 5,246,740</u>