

**THE NATOMAS BASIN  
CONSERVANCY**

**FINANCIAL STATEMENTS  
WITH INDEPENDENT AUDITOR'S  
REPORT**

**YEAR ENDED DECEMBER 31, 2010**

# THE NATOMAS BASIN CONSERVANCY

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## **FINANCIAL SECTION**



## 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 (the Conservancy), as of and for the year ended December 31, 2010, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2010, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2011, 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 8 and the budgetary comparison information on pages 23 through 25 are not a required part of the basic financial statements but are 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.

To the Board of Directors  
The Natomas Basin Conservancy  
Page Two

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. 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.

*Gilbert Associates, Inc.*

**GILBERT ASSOCIATES, INC.**  
**Sacramento, California**

**March 18, 2011**

# THE NATOMAS BASIN CONSERVANCY

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2010

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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, 2010. We encourage readers to consider the information presented here in conjunction with the Conservancy's financial statements, which begin on page 9.

### **FINANCIAL HIGHLIGHTS**

- The net assets of the Conservancy at the close of the most recent fiscal year were \$60,463,626, an increase of \$83,581 from December 31, 2009.
- Of the Conservancy's \$60,463,626 in net assets, \$34,710,477 is invested in capital assets and an additional \$8,218,183 is permanently restricted (principal only) to provide income for the future operation of the Conservancy. Unrestricted net assets total \$13,476,586, which includes Supplemental Land Fund assets of \$1,873,290. The Supplemental Land Fund (also known as the Supplemental Endowment Fund) is not a permanent fund but does have conditions on its use.
- The Conservancy's cash balance, which includes cash and investments, at December 31, 2010 was \$25,759,495, representing an increase of \$373,020 from December 31, 2009.
- The Conservancy had general revenues of \$663,497 and program revenues of \$2,074,288. Program expenditures were \$2,654,204 and capital outlays were \$26,778.
- 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**

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) supplementary schedules. The Conservancy-wide and fund financial statements are presented in a combined format on pages 9 and 12. Items in the adjustment column are discussed in notes 4 and 5 to the financial statements.

As the Conservancy's Board of Directors is appointed by governmental agencies, the Conservancy follows Governmental Accounting Standards Board (GASB). The Conservancy has only governmental-type funds and all are major.

# THE NATOMAS BASIN CONSERVANCY

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2010

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### **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 contractual requirements. The Conservancy has six 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 difference (adjustments) between the governmental funds and governmental activities. These adjustments are discussed in further detail in notes 4 and 5 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 13 through 22 of this report.

# THE NATOMAS BASIN CONSERVANCY

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2010

### CONSERVANCY-WIDE FINANCIAL ANALYSIS

The Natomas Basin Conservancy  
Summary of Net Assets  
Conservancy-wide Activities  
As of December 31, 2010 and 2009

	<u>December 31, 2010</u>	<u>December 31, 2009</u>	<u>Increase/Decrease</u>
Current and other assets	\$ 26,027,962	\$ 25,600,374	\$ 427,588
Capital assets	<u>34,710,477</u>	<u>34,983,508</u>	<u>(273,031)</u>
Total assets	<u>60,738,439</u>	<u>60,583,882</u>	<u>154,557</u>
Current liabilities	241,545	177,743	63,802
Other liabilities	<u>33,268</u>	<u>26,094</u>	<u>7,174</u>
Total liabilities	<u>274,813</u>	<u>203,837</u>	<u>70,976</u>
Net assets:			
Invested in capital assets	34,710,477	34,983,508	(273,031)
Restricted for giant garter snakes	204,808	214,350	(9,542)
Restricted for restoration & enhancement	385,187	375,510	9,677
Restricted for Brookfield property	772,084	744,000	28,084
Restricted for endowment – permanently	8,218,183	8,175,449	42,734
Restricted for endowment – temporarily	2,696,301	1,416,403	1,279,898
Unrestricted	<u>13,476,586</u>	<u>14,846,335</u>	<u>(1,369,749)</u>
Total net assets	<u>\$ 60,463,626</u>	<u>\$ 60,380,045</u>	<u>\$ 83,581</u>

Net assets represent the difference between the Conservancy's resources and its obligations. At December 31, 2010, approximately 57% of the Conservancy's net assets were 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

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2010

The Natomas Basin Conservancy  
Changes in Net Assets  
Conservancy-wide Activities  
As of December 31, 2010 and 2009

	<u>December 31, 2010</u>	<u>December 31, 2009</u>	<u>Increase/Decrease</u>
<b>Revenues</b>			
Program revenues:			
Mitigation fees	\$ 118,203	\$ 778,701	\$ (660,498)
Rent revenue	556,505	526,400	30,105
Land Management	61,612	70,594	(8,982)
Investment income	1,337,968	1,897,090	(559,122)
General revenues:			
Mitigation fees contributed to			
Endowment Fund	42,734	159,493	(116,759)
Investment income	457,418	616,663	(159,245)
Gain on land sale	-	696,611	(696,611)
Supplemental mitigation	-	744,000	(744,000)
Other	163,345	169,003	(5,658)
Total revenues	<u>2,737,785</u>	<u>5,658,555</u>	<u>(2,920,770)</u>
<b>Expenses</b>			
Conservancy operations	2,654,204	3,057,482	(403,278)
Increase in net assets	<u>83,581</u>	<u>2,601,073</u>	<u>(2,517,492)</u>
<b>Net Assets, beginning of period</b>	<u>60,380,045</u>	<u>57,778,972</u>	<u>(2,601,073)</u>
<b>Net Assets, end of period</b>	<u>\$ 60,463,626</u>	<u>\$ 60,380,045</u>	<u>\$ 83,581</u>

The Conservancy received \$160,937 in mitigation fees during 2010. Of that amount, \$42,734 was contributed to the Endowment Fund. During 2010, mitigation fees were collected for 5.07 acres. In comparison, mitigation fees were collected for 24.60 acres in 2009. The Natomas Basin Habitat Conservation Plan (NBHCP) mitigation fee per acre increased in 2010 to \$44,050 per disturbed acre (\$26,550 with land dedication) and in 2009 was \$38,133 per disturbed acre (\$20,633 with land dedication).

There were no land acquisitions in 2010.

Investment income decreased \$718,367 in 2010 due to market fluctuations. Rent revenue increased due to a second cash rent payment from the 2009 rice crop, which was marketed in 2010. Rice is the dominant farm crop produced on Conservancy land.

Acreage owned by the Conservancy is 4,142 acres. All land purchases and land dedications are recorded at their purchase price. Land assets currently booked are \$32,270,247. However, if the Conservancy's total land assets were booked at the value estimated in the NBHCP Finance Model (or estimated current value), they would be \$124,260,000. 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.

# **THE NATOMAS BASIN CONSERVANCY**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2010**

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### **CONSERVANCY BUDGET ANALYSIS**

The Conservancy presented an annual 2010 budget to its Board of Directors in December 2009, which was approved by the Board. The budget-to-actual schedule for the year is shown on page 23. This table reflects the Administration Fund only.

### **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 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 fund balances total \$25,786,417, of which \$8,218,183 is the Endowment Fund (principal only). The Conservancy's major source of revenue is from mitigation fees established by City of Sacramento ordinance. The Conservancy's typical major expenditures are for the acquisition and management of habitat land, including property taxes, water, and biological monitoring. 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, 2010, the Conservancy's investment in capital assets was \$34,710,477. Capital assets are stated at cost, net of accumulated depreciation. This investment in capital assets includes land and land improvements.

Capital asset purchases during the current fiscal year include \$26,778 for improvements to Conservancy fixed assets, office equipment and other machinery. Additional information on the Conservancy's capital assets can be found in note 6 on page 21 of this report.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The combined impact of the soft real estate economy and a building moratorium due to federal government flood risk determinations have had significant impacts on the Conservancy's budget. Without at least 100-year flood protection designation by the federal government, urban development in the Natomas Basin has stopped, with only very minor exception. With this moratorium, the need to mitigate for NBCHP-covered species impacts has slowed to a virtual halt.

# **THE NATOMAS BASIN CONSERVANCY**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2010**

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Sacramento Area Flood Control Agency (SAFCA) has embarked on a construction project, known as the Natomas Levee Improvement Project (NLIP), intended to provide 100-year flood protection in the Natomas Basin. Mitigation for impacts on species covered in the NBHCP is required for this work. The Conservancy has entered into agreements with SAFCA for this mitigation and related work. These efforts are expected to generate modest revenue for the Conservancy.

The Conservancy's Board of Directors approved a budget for 2011, which projects 58 acres of mitigation. The 2011 budget assumes mitigation revenue for one or more public works projects anticipated in the Natomas Basin this year. Such projects are not impacted by the above-mentioned moratorium. These projects include installation of a large natural gas pipeline, a sewer treatment plant and two freeway interchanges.

At present, the Conservancy is projecting that NBHCP and Metro Air Park Habitat Conservation Plan (MAPHCP) mitigation fee activity will resume in 2013. However, this projection largely depends on the achievement of a 100-year flood protection designation for the Natomas Basin by the federal government.

### **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 ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET DECEMBER 31, 2010

	<u>Administration</u>	<u>Restoration &amp; Enhancement</u>	<u>SAFCA NLIP</u>	<u>Supplemental Land and Contingency</u>	<u>Land Acquisition</u>
<b>ASSETS:</b>					
Current Assets:					
Cash and investments held by City of Sacramento	\$ 1,831,705	\$ 220,734		\$ 1,358	\$ 4,050,793
Cash and investments held by fiscal agent	2,314,843	160,898	\$ 817,995	1,871,924	3,574,840
Receivables:					
Account	142,329				
Interest	36,653	3,555	4,924	8	69,994
Prepaid items	10,925				
Due from other funds	50,835				
Non-Current Assets:					
Restricted cash and investments held by fiscal agent					
Land					
Capital assets, net					
Total Assets	<u>\$ 4,387,290</u>	<u>\$ 385,187</u>	<u>\$ 822,919</u>	<u>\$ 1,873,290</u>	<u>\$ 7,695,627</u>
<b>LIABILITIES:</b>					
Current Liabilities:					
Accounts payable	\$ 240,545				
Conditional deposits	1,000				
Due to other funds			\$ 50,835		
Non-Current Liabilities:					
Compensated absences					
Total Liabilities	<u>241,545</u>	<u>385,187</u>	<u>50,835</u>	<u>1,873,290</u>	<u>7,695,627</u>
<b>FUND BALANCE AND NET ASSETS:</b>					
Fund Balances:					
Reserved					
Reserved for encumbrances	733,512				
Reserved for prepaid items	10,925				
Reserved for giant garter snakes	204,808				
Reserved for endowment - temporarily					
Reserved for endowment - permanently					
Unreserved	3,196,500	\$ 385,187	772,084	\$ 1,873,290	\$ 7,695,627
Total Fund Balances	<u>4,145,745</u>	<u>385,187</u>	<u>772,084</u>	<u>1,873,290</u>	<u>7,695,627</u>
Total Liabilities and Fund Balances	<u>\$ 4,387,290</u>	<u>\$ 385,187</u>	<u>\$ 822,919</u>	<u>\$ 1,873,290</u>	<u>\$ 7,695,627</u>
Net Assets:					
Invested in capital assets					
Restricted for giant garter snakes					
Restricted for restoration & enhancement					
Restricted for Brookfield property					
Restricted for endowment - temporarily					
Restricted for endowment - permanently					
Unrestricted					
Total net assets					

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

# THE NATOMAS BASIN CONSERVANCY

## STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET (CONTINUED) DECEMBER 31, 2010

<u>Endowment</u>	<u>Total</u>	<u>Adjustments Note(4)</u>	<u>Statement of Net Assets</u>	
\$ 14,124	\$ 6,118,714		\$ 6,118,714	<b>ASSETS:</b>
	8,740,500		8,740,500	Current Assets:
	142,329		142,329	Cash and investments held by City of Sacramento
79	115,213		115,213	Cash and investments held by fiscal agent
	10,925		10,925	Receivables:
	50,835	\$ (50,835)		Account
				Interest
				Prepaid items
				Due from other funds
10,900,281	10,900,281		10,900,281	Non-Current Assets:
		32,270,247	32,270,247	Restricted cash and investments held by fiscal agent
		2,440,230	2,440,230	Land
				Capital assets, net
\$ 10,914,484	\$ 26,078,797	34,659,642	60,738,439	Total Assets
	\$ 240,545		240,545	<b>LIABILITIES:</b>
	1,000		1,000	Current Liabilities:
	50,835	(50,835)		Accounts payable
				Conditional deposits
				Due to other funds
		33,268	33,268	Non-Current Liabilities:
		(17,567)	274,813	Compensated absences
	292,380	(17,567)	274,813	Total Liabilities
				<b>FUND BALANCE AND NET ASSETS:</b>
	733,512	(733,512)		Fund Balances:
	10,925	(10,925)		Reserved
	204,808	(204,808)		Reserved for encumbrances
\$ 2,696,301	2,696,301	(2,696,301)		Reserved for prepaid items
8,218,183	8,218,183	(8,218,183)		Reserved for giant garter snakes
	13,922,688	(13,922,688)		Reserved for endowment - temporarily
	25,786,417	(25,786,417)		Reserved for endowment - permanently
10,914,484	25,786,417	(25,786,417)		Unreserved
				Total Fund Balances
\$ 10,914,484	\$ 26,078,797			Total Liabilities and Fund Balances
		34,710,477	34,710,477	Net Assets:
		204,808	204,808	Invested in capital assets
		385,187	385,187	Restricted for giant garter snakes
		772,084	772,084	Restricted for restoration & enhancement
		2,696,301	2,696,301	Restricted for Brookfield property
		8,218,183	8,218,183	Restricted for endowment - temporarily
		13,476,586	13,476,586	Restricted for endowment - permanently
		\$ 60,463,626	\$ 60,463,626	Unrestricted
				Total net assets

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 FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Administration</u>	<u>Restoration &amp; Enhancement</u>	<u>SAFCA NLIP</u>	<u>Supplemental Land and Contingency</u>	<u>Land Acquisition</u>
<b>REVENUES:</b>					
Program revenues:					
Charges for services:					
Mitigation fees	\$ 75,623	\$ 2,457		\$ 4,153	\$ 35,970
Rent revenue	556,505				
Land management	44,665		\$ 16,947		
Operating grants and contributions:					
Investment income					
Total program revenues	<u>676,793</u>	<u>2,457</u>	<u>16,947</u>	<u>4,153</u>	<u>35,970</u>
General revenues:					
Endowment contributions - mitigation fees					
Investment income (loss)	71,784	7,220	14,386	223,905	140,123
Other income	163,345				
Total general revenues	<u>235,129</u>	<u>7,220</u>	<u>14,386</u>	<u>223,905</u>	<u>140,123</u>
Total revenues	<u>911,922</u>	<u>9,677</u>	<u>31,333</u>	<u>228,058</u>	<u>176,093</u>
<b>EXPENDITURES:</b>					
Land mitigation:					
Personnel services	358,356		8,997		
Materials and services	1,867,712		44,100	9,986	
Depreciation					
Loss on equipment disposal					
Capital outlay	26,778				
Total expenditures	<u>2,252,846</u>	<u>          </u>	<u>53,097</u>	<u>9,986</u>	<u>          </u>
Changes in fund balances/net assets	(1,340,924)	9,677	(21,764)	218,072	176,093
Fund balances/net assets, beginning of period	<u>5,486,669</u>	<u>375,510</u>	<u>793,848</u>	<u>1,655,218</u>	<u>7,519,534</u>
Fund balances/net assets, end of period	<u>\$ 4,145,745</u>	<u>\$ 385,187</u>	<u>\$ 772,084</u>	<u>\$ 1,873,290</u>	<u>\$ 7,695,627</u>

# THE NATOMAS BASIN CONSERVANCY

## STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2010

<u>Endowment</u>	<u>Total</u>	<u>Adjustments Note(5)</u>	<u>Statement of Activities</u>	
				<b>REVENUES:</b>
				Program revenues:
	\$ 118,203		\$ 118,203	Charges for services:
	556,505		556,505	Mitigation fees
	61,612		61,612	Rent revenue
				Land management
				Operating grants and contributions:
				Investment income
\$ 1,337,968	1,337,968	_____	1,337,968	Total program revenues
<u>1,337,968</u>	<u>2,074,288</u>	<u>_____</u>	<u>2,074,288</u>	General revenues:
42,734	42,734		42,734	Endowment contributions - mitigation fees
	457,418		457,418	Investment income (loss)
	163,345		163,345	
<u>42,734</u>	<u>663,497</u>	<u>_____</u>	<u>663,497</u>	Total general revenues
<u>1,380,702</u>	<u>2,737,785</u>	<u>_____</u>	<u>2,737,785</u>	Total revenues
				<b>EXPENDITURES:</b>
				Land mitigation:
	367,353	\$ 7,174	374,527	Personnel services
58,070	1,979,868		1,979,868	Materials and services
		299,187	299,187	Depreciation
		622	622	Loss on land disposal
	26,778	(26,778)	_____	Capital outlay
<u>58,070</u>	<u>2,373,999</u>	<u>280,205</u>	<u>2,654,204</u>	Total expenditures
1,322,632	363,786	(280,205)	83,581	Changes in fund balances/net assets
<u>9,591,852</u>	<u>25,422,631</u>	<u>34,957,414</u>	<u>60,380,045</u>	Fund balances/net assets, beginning of period
<u>\$ 10,914,484</u>	<u>\$ 25,786,417</u>	<u>\$ 34,677,209</u>	<u>\$ 60,463,626</u>	Fund balances/net assets, end of period

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

# THE NATOMAS BASIN CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2010

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### 1. ORGANIZATION

The Natomas Basin Conservancy (the Conservancy) is a California non-profit 501(c)(3) public benefit corporation formed in 1994. The Conservancy is responsible for collecting and managing mitigation fees required by the Natomas Basin Habitat Conservation Plan (the NBHCP), using the fees to establish mitigation lands, and 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, County of Sacramento and County of Sutter. 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 ensure compliance with the terms of the NBHCP.

The Conservancy's Board of Directors is comprised of representatives of each of the two land-use agencies which have obtained incidental take permits under the NBHCP, the City of Sacramento and County of Sutter. Each participating local government appoints five members to the Conservancy's Board of Directors.

#### **Funding**

The Conservancy is primarily funded from mitigation fees established by the Conservancy and approved by local government ordinance. The mitigation fees include components for land acquisition, restoration and enhancement, endowment, supplemental endowment, and administration. The fees are to be adjusted each year as necessary to implement the NBHCP. As the Conservancy acquires land, other funding sources include agricultural leasing 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.

### 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 FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2010

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### **Conservancy-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 fund types 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 are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized on governmental fund financial statements.

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 Sacramento Area Flood Control Agency (SAFCA). The Conservancy presents these funds as the Restoration and Enhancement Fund, and the SAFCA NLIP Fund.

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

# THE NATOMAS BASIN CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2010

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Amounts reported as program revenues include; 1) mitigation fees and farm rent, 2) contributions and 3) interest income in the endowment fund. Internally dedicated resources are reported as general revenues rather than as program revenue. The NBHCP addresses the timing related to the use of restricted and certain unrestricted resources.

### **Permanent Fund**

In accordance with the Implementation Agreement for the NBHCP, 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 operations and maintenance needs of the Conservancy at such time as mitigation fee income and farm rent income are no longer adequate.

### **Capital Assets**

The Conservancy capitalizes all land, land improvements, furniture and fixtures, and equipment purchases with costs in excess of \$2,500 and a useful life of one year or more.

Capital asset acquisitions are recorded at cost. Contributions are recorded at the estimated fair value on the date of contribution. Non-monetary land trades are valued at the historical cost of the land relinquished.

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

Land improvements	15 years
Furniture and equipment	5 years

### **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.

# THE NATOMAS BASIN CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2010

### 3. CASH AND INVESTMENTS

Cash and investments as of December 31, 2010, are classified in the accompanying financial statements as follows:

Cash and investments held by City of Sacramento	\$ 6,118,714
Cash and investments held by fiscal agent	8,740,500
Restricted cash and investments held by fiscal agent	<u>10,900,281</u>
Total cash and investments	<u>\$ 25,759,495</u>

Cash and investments as of December 31, 2010, consist of the following:

Deposits with financial institutions	\$ 101,385
Cash and investments in external investment pool	6,118,714
Cash held by fiscal agent	147,928
Investments held by fiscal agent	<u>19,391,468</u>
Total cash and investments	<u>\$ 25,759,495</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 Land and Contingency Funds contains the following provisions relating to credit risk, interest rate risk, concentration of credit risk, and foreign currency risk:

No more than 5% shall be invested in any one common stock or debt instrument, and 20% in any diversified mutual fund and 25% in any broad-based index mutual fund. No more than 15% shall be invested in a hedge fund. Obligations of the U.S. government agencies are exempted from this allocation. Equity holdings shall be readily marketable securities traded on the major stock exchanges, including NASDAQ. International equity investments of similar quality and marketability will be permitted. Fixed income investments shall be readily marketable securities, including debt instruments of the U.S. Government and its agencies, corporations, and foreign denominated securities, so that the target average portfolio quality is investment grade. High-yield bond mutual funds may also be used when deemed appropriate provided the average portfolio quality remains investment grade or higher. Hedge fund or hedge-like funds may be used to minimize market risk and create a more stable stream of investment returns.

The Conservancy investment policy for the investments held by fiscal agent in the Administration, Restoration and Enhancement, Land Acquisition, and the SAFCA NLIP Funds contains the following provisions relating to credit risk, interest rate risk, concentration of credit risk, and foreign currency risk:

Allowable securities from approved issuers include 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, auction rate securities, federal agency securities, corporate notes and bonds, and mortgage-backed securities.

# THE NATOMAS BASIN CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2010

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An acceptable approved issuer is the United States Government or its agencies, a financial institution or corporation with outstanding debt obligations rated at least AA or Aa or better by either Standard & Poors or Moody's, respectively, or short term securities rated A1 and P1 or better by either Standard & Poors or Moody's, respectively, at the time of purchase.

An investment with an approved issuer shall not exceed 2% of the total assets of the approved issuer measured at the most recent quarterly reporting period prior to making the investment. No more than 20% of the total investments made by the Conservancy should be invested in securities of any one approved issuer. An exception to the 20% limitation is permissible when the total amount invested in an approved issuer does not exceed \$1 million. No limit will be applied to securities issued or guaranteed by the United States Government or any of its agencies.

No more than 30% of the Conservancy's total investments will be managed by one independent investment manager (Manager). An independent investment manager can be a bank, investment brokerage firm, mutual fund, or independent money manager. There are no such restrictions on independent investment consultants. The total investments placed with one Manager may not exceed 5% of the total funds managed by that Manager as measured at the most recent quarterly reporting period prior to making the investment.

Average maturity of investments may range from one (1) day to six (6) months, depending on the individual portfolio by each manager, with final maturity not to exceed eighteen (18) months. No portion of Conservancy funds will be invested in instruments issued outside of the United States.

The Conservancy has adopted the City of Sacramento's investment policy for all fund investments held by the City of Sacramento. The required disclosure information regarding categorization of investments and other deposit and investment risk disclosures can be found in the City of Sacramento's comprehensive annual financial report and may be obtained by contacting the City of Sacramento Department of Finance, Accounting Division, 915 I Street, Sacramento, CA 95814.

### Cash in City of Sacramento Pool

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 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. The City of Sacramento investment pool A had no derivatives at December 31, 2010.

# THE NATOMAS BASIN CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2010

### Investment Summary

At December 31, 2010, the Conservancy's investments consist of the following:

Equity mutual funds	\$ 12,766,746
External investment pool	6,118,714
Fixed income securities	
Government obligations	2,194,133
Corporate bonds	3,905,589
Municipal bonds	525,000
Total	\$ 25,510,182

### Disclosures Relating to Interest Rate Risk

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

Information about the sensitivity of the fair values of the Conservancy's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Conservancy's investments by maturity:

	<b>Maturity</b>					<b><u>Total</u></b>
	<b><u>Under 1 Year</u></b>	<b><u>5-10 Years</u></b>	<b><u>10-15 Years</u></b>	<b><u>15-20 Years</u></b>	<b><u>Over 20 Years</u></b>	
Equity mutual funds	\$ 12,766,746					\$ 12,766,746
External investment pool	6,118,714					6,118,714
Government obligations	942,550	\$ 1,251,583				2,194,133
Corporate bonds	2,767,344	1,138,245				3,905,589
Municipal bonds					\$ 525,000	525,000
Total investments	\$ 22,595,354	\$ 2,389,828	\$	\$	\$ 525,000	\$ 25,510,182

# THE NATOMAS BASIN CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2010

### Disclosures Relating to Credit Risk

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

	<b>Rating as of End of Year</b>	
City of Sacramento investment pool	Not rated	\$ 6,118,714
Equity mutual funds	Not rated	12,766,746
Government obligations	AAA	2,194,133
Corporate bonds	AAA	1,127,724
Corporate bonds	AA	1,408,386
Corporate bonds	AA-	925,280
Corporate bonds	AA+	444,199
Municipal bonds	A-1+	250,000
Municipal bonds	Not rated	<u>275,000</u>
Total		<u>\$ 25,510,182</u>

### Concentration of Credit Risk

There were no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represents 5% or more of the total Conservancy investments. The Conservancy has no investments in any one issuer that represents 5% or more of total investments by reporting unit (primary government, governmental activities, major fund, nonmajor funds in the aggregate, etc.) at December 31, 2010.

### 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 investments of \$6,118,714 in the City of Sacramento investment pool are supported by the value of the pool's underlying investments. The Conservancy's equity mutual funds of \$12,766,746 are registered in the Conservancy's name, and \$6,772,650 of cash equivalents and investments held by fiscal agents are uninsured and not registered in the name of the Conservancy. The Conservancy maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Conservancy has not experienced any losses in such accounts. The Conservancy believes it is not exposed to any significant credit risk on its cash balances.

# THE NATOMAS BASIN CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2010

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

**Fund balances** \$ 25,786,417

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

Capital assets	\$ 36,614,938	
Less: accumulated depreciation	<u>(1,904,461)</u>	
		34,710,477

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

Accrued compensated absences	<u>(33,268)</u>
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**Net assets** \$ 60,463,626

### 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** \$ 363,786

Governmental funds report capital outlays as expenditures. In the statement of activities however, the cost of capital assets is allocated over their estimated useful lives as depreciation expense.

Capital outlay	26,778
Depreciation expense	(299,187)

The net effect of equipment sales is a decrease in net assets. (622)

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.

Compensated absences	<u>(7,174)</u>
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**Change in net assets** \$ 83,581

# THE NATOMAS BASIN CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2010

### 6. CAPITAL ASSETS

A summary of changes in capital assets for the year ended December 31, 2010, is as follows:

	<u>1/1/10</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/10</u>
<b>Capital assets not being depreciated:</b>				
Land	\$ 32,270,247			\$ 32,270,247
<b>Capital assets being depreciated:</b>				
Land improvements	4,256,872	\$ 11,497		4,268,369
Office and other equipment	64,152	15,281	\$ (3,111)	76,322
	4,321,024	26,778	(3,111)	4,344,691
<b>Accumulated depreciation:</b>				
Accum. depreciation, land improvements	(1,582,772)	(283,502)		(1,866,274)
Accum. depreciation, office equipment	(24,991)	(15,685)	2,489	(38,187)
	(1,607,763)	(299,187)	2,489	(1,904,461)
Total capital assets, net	\$ 34,983,508	\$ (272,409)	\$ (622)	\$ 34,710,477

### 7. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2010, the Conservancy paid \$11,474 to the City of Sacramento for investment services.

### 8. OPERATING LEASE

The Conservancy leases office space in Sacramento under a lease expiring August 31, 2013. Total future minimum operating lease payments are presented as follows:

<u>Year Ending December 31,</u>	
2011	\$ 67,617
2012	69,142
2013	46,773
	\$ 183,532

Rent expense for the year ended December 31, 2010, was \$50,179.

### 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. There was no outstanding principal balance at December 31, 2010.

# THE NATOMAS BASIN CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2010

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### 10. 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, boiler and machinery, fiduciary liability, directors' and officers' liability, employment practices liability, umbrella coverage, workers' compensation, and employee dishonesty. 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 three years.

### 11. 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 one year 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, 2010, was \$36,965.

### 12. NATOMAS CENTRAL MUTUAL WATER COMPANY STOCK

The Conservancy holds 3,407 shares of Natomas Central Mutual Water Company (NCMWC) stock or 11% of NCMWC's outstanding shares (31,706). 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 in this stock has costs associated with rights for delivery of water service for which the Conservancy pays NCMWC upon receipt of invoice. In the event the Conservancy wishes to cancel its shares and thereby cancel obligation for future assessments, water tolls, and services, the Conservancy must apply for cancellation, obtain NCMWC's board approval, and pay a cancellation fee of \$2,650 per share. At December 31, 2009, the most recent information available, the value of the NCMWC stock held was \$16.91 per share or \$57,612. 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, 2010

	Budget Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Mitigation fees	\$ 205,227	\$ 236,652	\$ 75,623	\$ (161,029)
Rent revenue	518,790	518,790	556,505	37,715
Land management			44,665	44,665
Investment income (loss)	84,175	86,472	71,784	(14,688)
Other income	<u>141,444</u>	<u>112,153</u>	<u>163,345</u>	<u>51,192</u>
Total Revenues	<u>949,636</u>	<u>954,067</u>	<u>911,922</u>	<u>(42,145)</u>
<b>EXPENDITURES</b>				
Conservancy operations:				
Personnel services	470,819	470,819	358,356	112,463
Materials and services	2,461,993	2,461,993	1,867,712	594,281
Capital outlay			<u>26,778</u>	<u>(26,778)</u>
Total Expenditures	<u>2,932,812</u>	<u>2,932,812</u>	<u>2,252,846</u>	<u>679,966</u>
Excess of Expenditures Over Revenues	<u>\$ (1,983,176)</u>	<u>\$ (1,978,745)</u>	<u>\$ (1,340,924)</u>	<u>\$ 637,821</u>

**THE NATOMAS BASIN CONSERVANCY**  
**BUDGETARY COMPARISON SCHEDULE -**  
**RESTORATION AND ENHANCEMENT SPECIAL REVENUE FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

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	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Mitigation fees	\$ 23,680	\$ 26,680	\$ 2,457	\$ (24,223)
Investment income (loss)	<u>8,417</u>	<u>8,647</u>	<u>7,220</u>	<u>(1,427)</u>
Total Revenues	<u>32,097</u>	<u>35,327</u>	<u>9,677</u>	<u>(25,650)</u>
<b>EXPENDITURES</b>				
Total Expenditures	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Excess of Revenues Over Expenditures	<u>\$ 32,097</u>	<u>\$ 35,327</u>	<u>\$ 9,677</u>	<u>\$ (25,650)</u>

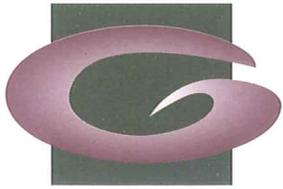
# THE NATOMAS BASIN CONSERVANCY

## BUDGETARY COMPARISON SCHEDULE - SAFCA NLIP SPECIAL REVENUE FUND FOR THE YEAR ENDED DECEMBER 31, 2010

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	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Land management			\$ 16,947	\$ 16,947
Investment income (loss)			14,386	14,386
Other income	<u>\$ 70,594</u>	<u>\$ 70,594</u>		<u>(70,594)</u>
Total Revenues	<u>70,594</u>	<u>70,594</u>	<u>31,333</u>	<u>(39,261)</u>
<b>EXPENDITURES</b>				
Land mitigation:				
Personnel services	8,997	8,997	8,997	
Materials and services	<u>61,597</u>	<u>61,597</u>	<u>44,100</u>	<u>17,497</u>
Total Expenditures	<u>70,594</u>	<u>70,594</u>	<u>53,097</u>	<u>17,497</u>
Excess of Expenditures Over Revenues	<u>\$</u>	<u>\$</u>	<u>\$ (21,764)</u>	<u>\$ (21,764)</u>

## **ADDITIONAL INFORMATION**



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

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

We have audited the financial statements of the Natomas Basin Conservancy (the Conservancy) as of and for the year ended December 31, 2010, and have issued our report thereon dated March 18, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Conservancy's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Conservancy's internal control over financial reporting.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Conservancy's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Conservancy's financial statements are free of 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 determination of financial statement amounts. 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 matters of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, Audit Committee, and management of the Conservancy and is not intended to be and should not be used by anyone other than these specified parties.



**GILBERT ASSOCIATES, INC.**  
**Sacramento, California**

**March 18, 2011**

**NATOMAS BASIN CONSERVANCY**  
**SCHEDULE OF MITIGATION FEES COLLECTED**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

<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>	
Habitat Acquisition Fee				\$ 35,970		\$ 35,970
Endowment Fee			\$ 4,153		\$ 42,734	46,887
Habitat Management Fee	\$ 73,925	\$ 2,457				76,382
Administrative Fee	<u>1,698</u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>1,698</u>
Total Fees Collected	<u>\$ 75,623</u>	<u>\$ 2,457</u>	<u>\$ 4,153</u>	<u>\$ 35,970</u>	<u>\$ 42,734</u>	<u>\$ 160,937</u>