

**AGENDA FOR MEETING OF BOARD OF DIRECTORS
OF
SAN BERNARDINO VALLEY CONSERVATION TRUST,**
a California Nonprofit Public Benefit Corporation

Wednesday, January 18, 2023 – 2:00 P.M.

Location—1630 West Redlands Boulevard, Suite A, Redlands, California

Any visitor wishing to join the meeting remotely can join via Zoom:

Call in (669) 900-6833, Meeting ID: 850 4741 7782

To join the Zoom Meeting: <https://us06web.zoom.us/j/85047417782>

Note: Copies of staff reports and other documents relating to the items on this agenda are on file at the San Bernardino Valley Water Conservation District office and are available for public review during regular District business hours. New information relating to agenda topics listed, received, or generated by the District after the posting of this agenda, but before the meeting, will be made available upon request. The San Bernardino Valley Conservation Trust intends to follow California Open Meeting laws and the Americans with Disabilities Act (ADA) in all respects. If you need special assistance with respect to the agenda or other written materials forwarded to the members of the Board for consideration at the Board meeting, or if as an attendee or a participant at this meeting you will need special assistance, the District will attempt to accommodate you in every reasonable manner. Please contact Athena Monge at (909) 793-2503 at least 48 hours prior to the meeting to inform her of your particular needs and to determine if accommodation is feasible. Please advise us at that time if you will need accommodations to attend or participate in meetings on a regular basis.

CALL TO ORDER

ROLL CALL

1. PUBLIC PARTICIPATION

Members of the public may address the Board of Directors on any item that is within the jurisdiction of the Board; however, no action may be taken on any item not appearing on the agenda unless the action is otherwise authorized by Subdivision (b) Section 54954.2 of the Government Code.

2. APPROVAL OF MINUTES FROM OCTOBER 19, 2022.....p. 3

Presenter: Milan Mitrovich

Recommendation: Review and approve minutes from October 19, 2022, as presented.

3. CONFIRMATION REGARDING DESIGNATION OF BOARD OF DIRECTORS

Presenter: Milan Mitrovich

Recommendation: Verify confirmation was received from the District and Valley District in regard to the re-designation of David Raley and T. Milford Harrison to a subsequent three-year term of office.

4. REVIEW DRAFT AUDIT REPORT AND CONSIDER APPROVAL.....p. 8

Presenter: Terry Shea, RAMS

Action: Approve FY 2021/2022 audit report as presented.

5. PFM INVESTMENT ALLOCATION MODELING AND INVESTMENT POLICY UPDATE.....p. 20

Presenter: Matthew Smith/PFM Asset Management

Recommendation: Approve investment allocation recommendation and updates to Investment Policy.

6. FINANCIAL STATUS UPDATE.....p. 32

Presenter: Angie Quiroga

Recommendation: Review and approve quarterly financial report.

7. CALIFORNIA DEPARTMENT OF FISH AND WILDLIFE ENDANGERED SPECIES CONSERVATION AND RECOVERY GRANT PROGRAM APPLICATION

Presenter: Milan Mitrovich

Recommendation: Receive notification of intent to apply for grant

8. COMMUNITY MITIGATION UPDATES

Presenter: Milan Mitrovich

Recommendation: Receive update on Community Mitigation projects

9. DR HORTON TRESPASS UPDATE

Presenter: Betsy Miller

Recommendation: Receive update on DR Horton trespass remediation.

10. ADJOURN MEETING

The next regular scheduled Board of Directors Meeting will be on Wednesday, April 19, 2023 at 2:00 p.m., at 1630 W. Redlands Blvd., Redlands, CA.

**MINUTES FOR MEETING OF BOARD OF DIRECTORS
OF
SAN BERNARDINO VALLEY CONSERVATION TRUST,
a California Nonprofit Public Benefit Corporation**

Wednesday, October 19, 2022 – 2:00 pm

CALL TO ORDER –2:04 p.m. (Meeting began with information items, until quorum reached)

ROLL CALL

David E. Raley, SBV Water Conservation District (District)
John Longville, SBV Water Conservation District (Arrival, 2:14 pm)
T. Milford Harrison, SBV Municipal Water District
Jim Earsom, IE Resource Conservation District (Via Zoom Arrival, 2:12 pm))

Betsy Miller, SBV Water Conservation District
Angie Quiroga, SBV Water Conservation District
Milan Mitrovich, SBV Water Conservation District
David Cosgrove, SBV Water Conservation District
Bob Stewart, SBV Water Conservation District
Matt Smith, PFM Asset Management

1. PUBLIC PARTICIPATION -None
2. APPROVAL OF MINUTES FROM JULY 20, 2022

Action: Motion was made by Vice President Longville and seconded by Director Harrison to approve the meeting minutes from July 20, 2022. The motion carried 3-0-1 with all members present voting in the affirmative.

President Raley: Yes
Vice President Longville: Yes
Director Harrison: Yes
Director Earsom: Expressed Concurrence, but Recorded As Absent

3. DESIGNATION OF BOARD OF DIRECTORS

Action: Motion was made by Vice President Longville and seconded by President Raley to re-designate David Raley and T. Milford Harrison to a subsequent three-year term of office subject to confirmation from the District and SBV Municipal Water District, respectively. The motion carried 3-0-1 with all members present voting in the affirmative.

President Raley: Yes
Vice President Longville: Yes
Director Harrison: Yes
Director Earsom: Expressed Concurrence, but Recorded As Absent

4. APPOINTMENT OF OFFICERS

Appointment of Executive Director/Secretary held for Item 5 of agenda.

Action: Motion was made by Director Harrison and seconded by Vice President Longville to re-appoint David Raley as President and John Longville as Vice President for another term. The motion carried 3-0-1 with all members present voting in the affirmative.

President Raley: Yes

Vice President Longville: Yes

Director Harrison: Yes

Director Earsom: Expressed Concurrence, but Recorded As Absent

5. DESIGNATE NEW EXECUTIVE OFFICER/SECRETARY

Action: Motion was made by Vice President Longville and seconded by President Raley to appoint Milan Mitrovich as the new Executive Officer/Secretary of the Trust. The motion carried 3-0-1 with all members present voting in the affirmative.

President Raley: Yes

Vice President Longville: Yes

Director Harrison: Yes

Director Earsom: Expressed Concurrence, but Recorded As Absent

6. PFM ASSET MANAGEMENT PRESENTATION

This informational item was taken out of order due to not having a quorum at start of meeting.

Matt Smith, CFA, Managing Consultant with PFM Asset Management provided a market overview and discussed performance of investments specific to the Trust's portfolio. He stated we are seeing a dismal start to the year after a strong 2020 and 2021. Inflation is what is driving the negative performance this year in the equity and fixed income markets. There is significant concern to the federal reserve and investors, both domestically and globally, as inflation continues to stay high. The labor market remains strong. If unemployment picks up, then we expect inflation to follow suit. Consumer Sentiment Index has been coming down most of the year and shows the consumer is in a wait and see position to see if inflation will come down materially or if inflation will stay high for a longer period. The Federal Reserve utilizes two main tools to fight inflation. They are the Federal Funds Rate and the Assets of the Federal Reserve. By raising rates, they can tighten the balance sheet. Mr. Smith reviewed US Treasury yields and equities. He stated it is a good time to buy. He reviewed the market indices PFM focuses on which are the Russell 3000 Index in Domestic Equities, MSCI AC World ex USA in International Equities, Bloomberg U.S. Aggregate in Fixed Income and the FTSE NAREIT Equity REIT Index and Bloomberg Commodity Index Total Return in Alternatives. Generally, when we see equities going down, we can rely on fixed income to keep us afloat. Unfortunately, with this imperfect storm we are experiencing so far this year with the Federal Reserve rapidly raising rates to try and keep inflation in check, that has not been the case.

President Raley inquired as to the Trust's portfolio allocation. Mr. Smith confirmed it is still a 70% equity/30% fixed income allocation with some room within the Trust's Investment Policy to be slightly out of that range. He provided a slide showing Trust's allocation through September 30, 2022. He stated he and Betsy Miller have discussed and intend to have PFM re-run the Asset Allocation Model towards the end of the year to determine if the 70/30 split is still the recommended allocation going forward based on potential changes in cashflows. Mr. Smith reviewed the Trust's performance through September 30th with an ending balance of roughly \$2.75 million stating it is down 6.25% for the quarter below the -5.81% benchmark so PFM has slightly underperformed. Year-to-date the portfolio is down 23.14% below the -22.05 benchmark. Since PFM took management of the portfolio in June 2018, an overall positive return of 3.75% has been earned above the 3.49% benchmark. International equities have been the leader in negative annual returns. It is a bleak year-to-date but with some exposure to commodities, which are up about 5% for the quarter and 10% since being added to the portfolio about a year ago, we were able to offset some losses.

Mr. Smith finished his presentation by discussing some recent PFM Investment Committee decisions made on behalf of the Trust's portfolio for the 3rd quarter which took place in August. Prior to that, however, a rather big decision was made in May in which we took on about a 9% cash position. This decision was in light of what we thought to be further room to fall in the equity market. So, we reduced your allocation to both domestic and international stocks as shown in a previous slide. Since then, we have decreased that cash position to about 2 ½% because we believe inflation has peaked and so we do want to be there when the market recovers. We are waiting on a little more data that would tell that story though before we reinvest that remaining 2 ½% of cash.

President Raley inquired what effect inflation has on PFM's decision in reference to cash when inflation is at 8%. Mr. Smith responded that when inflation is at 8%, relatively, cash is going to be down 8%. However, when domestic equities are down 18% for the year and international equities are down nearly 29%, we would take that -8% relative to -29% in a portfolio. Unfortunately, in this market, there is not enough conviction to go all in to commodities which is the only investment showing some positive returns. It is really the concept of de-risking your portfolio so when the future does look a little bit brighter, we can use that cash to try and gain on the upside as we recover. This item was received and filed.

7. FINANCIAL STATUS UPDATE

Angie Quiroga provided the financial status update for the first quarter directing the Board to package pages 13 and 14. She noted revenue to date is only from investment income recognizing both negative realized and unrealized losses due to volatility in the market and high inflation. Expenses are minimal for the first quarter primarily just bank fees. Accounts receivable remains unchanged. Liability to the District increased \$77,105 for expenses from July through September bringing total liability to approximately \$2.2 million. This liability will be reduced by \$30,331 upon receipt of reimbursed state permitting fees. Two additional deposits of \$1,500 are expected before releasing the total liability of \$18,500 to the NHCPC since they have received their non-status determination. Mitigation deposit balance is \$182,968. Betsy Miller added that she and Mrs. Quiroga have been reviewing the liability expenses to the District. Some items have been completed and can be paid back to the District. However, in discussion with our investment manager PFM Asset Management and the auditors, they have advised that due to current unrealized investment losses, now is not a good time to move funds. We have worked with the auditors to develop an appropriate reporting mechanism to record the processes that have been

completed and can be paid back but to hold the funds at this time until our investment manager recommends otherwise. This item was received and filed.

8. COMMUNITY MITIGATION UPDATE

Milan Mitrovich stated we are currently focusing on the mitigation needs for the San Bernardino County Transportation Authority tied to the State Route 210 Mixed Flow Lane Addition project. Ongoing communication between SBCTA, their environmental consultant VCS and CDFW is being had regarding the ability of the Trust to hold a conservation easement and long-term endowment for management of 4.2 acres of District-owned and managed lands set aside for this project's mitigation needs. A flow chart of the progression-to-date and remaining steps was provided. Most recently a long-term management plan was completed and also a property analysis record to understand the cost of managing these 4.2 acres in perpetuity. These items have been provided to CDFW for their review and approval. We are working with VCS and SBCTA to meet their deadline by December 13th in terms of approval by CDFW so we can ultimately record the conservation easement and deposit the endowment with the Trust.

Mr. Mitrovich stated we are also working on an Elder Creek Channel Improvement Project in support of San Bernardino County Flood Control District. We are looking at setting aside 1.05 acres of mitigation land also owned and managed by the District for this community mitigation project. The Trust would hold and manage the conservation easement and the funds tied to the long-term management plan of this land. We are working on the long-term management plan and property analysis record for this project as well. This item was received and filed.

9. DR HORTON TRESPASS UPDATE

David Cosgrove stated, as the District's legal counsel, he emailed the DR Horton representatives. A tentative settlement agreement was previously made between the District and DR Horton on the illegal trespassing. DR Horton then communicated that they had pause with respect to the negotiated settlement. District counsel sent them an email in July to follow-up and expressed in terms of speed and cost of resolution, this agreement was probably their best option. As of today, we have not heard back. USFWS, who is overseeing this has communicated with the District and asked for the current states. District counsel sent another email to DR Horton, approximately a week ago, notifying them that USFWS wants resolution. If they don't want the former agreement, it is time we will have to respond to USFWS and refer to their enforcement. We have not heard back from that email either. As it stands, the District will probably have to respond to USFWS that we do not have a successful resolution. The District predicts USFWS will impose on DR Horton resolution at a significantly higher cost. Discussion ensued. This item was received and filed.

10. ADJOURN MEETING – 2:42 pm.

Action: A motion was made by Vice President Longville and seconded by Director Harrison to adjourn the meeting. The next Board of Director's meeting will be held on Wednesday, January 18, 2023, at 2:00 pm at 1630 W. Redlands Blvd., Redlands, CA or via teleconference and Zoom. The motion carried 3-0-1 with Vice President Longville noted absent from the vote.

President Raley: Yes

Vice President Longville: Yes

Director Harrison: Yes

Director Earsom: Expressed Concurrence, but Recorded As Absent

Milan Mitrovich
Executive Officer/Secretary

San Bernardino Valley Conservation Trust

**Financial Statements and
Independent Auditor's Report**

Year ended June 30, 2022

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1
Statement of Financial Position	3
Statement of Activities	4
Statement of Cash Flows	5
Notes to Financial Statements	6

Independent Auditor's Report

To the Board of Directors
San Bernardino Valley Conservation Trust
Redlands, California

Opinion

We have audited the financial statements of San Bernardino Valley Conservation Trust (a nonprofit organization) (the Trust), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Trust as of June 30, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Trust and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Trust's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Trust's ability to continue as a going concern for a reasonable period of time.

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

San Bernardino, California
January XX, 2023

San Bernardino Valley Conservation Trust
Statement of Financial Position
June 30, 2022

Final Draft
Subject to Change

Assets

Current Assets:

Cash and cash equivalents	\$	913,989
Investments		2,945,392
Accounts receivable		<u>7,930,623</u>
Total current assets		<u>11,790,004</u>
Total assets	\$	<u><u>11,790,004</u></u>

Liabilities

Current Liabilities:

Due to San Bernardino Valley Water Conservation District	\$	2,119,186
Unearned revenue		<u>8,145,574</u>
Total current liabilities		<u>10,264,760</u>
Total liabilities		<u>10,264,760</u>

Net assets (deficit)

Without donor restrictions		(329,213)
With donor restrictions		<u>1,854,457</u>
Total net assets		<u>1,525,244</u>
Total liabilities and net assets	\$	<u><u>11,790,004</u></u>

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

San Bernardino Valley Conservation Trust
Statement of Activities
For the year ended June 30, 2022

Final Draft
Subject to Change

	Without donor restrictions	With donor restrictions	Total
Revenues			
Contributions	\$ 542,321	\$ -	\$ 542,321
Realized gain on investments	107,345	190,836	298,181
Unrealized gain on investments	(300,303)	(533,871)	(834,174)
Interest and dividends, net	16,743	29,765	46,508
	<u>366,106</u>	<u>(313,270)</u>	<u>52,836</u>
Expenses			
Wash Plan	352,771	359,960	712,731
Insurance	1,351	-	1,351
Bank fees	3,500	-	3,500
Other expenses	5,506	-	5,506
	<u>363,128</u>	<u>359,960</u>	<u>723,088</u>
Total change in net assets	2,978	(673,230)	(670,252)
Net assets (deficit)			
Beginning of year, as restated	<u>(332,191)</u>	<u>2,527,687</u>	<u>2,195,496</u>
End of year	<u>\$ (329,213)</u>	<u>\$ 1,854,457</u>	<u>\$ 1,525,244</u>

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

San Bernardino Valley Conservation Trust
Statement of Cash Flows
For the year ended June 30, 2022

Final Draft
Subject to Change

Cash flows from operating activities	
Cash received from contributions	\$ 556,473
Cash paid to suppliers for goods and services	(723,088)
Interest and dividends received, net of investment fees	<u>46,508</u>
Net cash used by operating activities	<u>(120,107)</u>
Cash flows from investing activities	
Proceeds from sale of investments	1,347,128
Purchase of investments	<u>(1,390,000)</u>
Net cash used by investing activities	<u>(42,872)</u>
Cash flows from financing activities	
Loan from San Bernardino Valley Water Conservation District	<u>177,636</u>
Net cash provided by financing activities	<u>177,636</u>
Net increase	14,657
Cash and cash equivalents, beginning of year	<u>899,332</u>
Cash and cash equivalents, end of year	<u><u>\$ 913,989</u></u>
Reconciliation of change in net assets to net cash used by operating activities	
Change in net assets	\$ (670,252)
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Net realized gain on investments	(298,181)
Net unrealized gain on investments	834,174
(Increase) decrease in assets:	
Accounts receivable	58,250
Increase (decrease) in liabilities:	
Unearned revenue	<u>(44,098)</u>
Net cash used by operating activities	<u><u>\$ (120,107)</u></u>

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

Note 1: Nature of Activities and Significant Accounting Policies

Nature of Activities

San Bernardino Valley Conservation Trust (the Trust) is a nonprofit 501(c)(3) charitable trust. The purpose of the Trust is the direct protection or stewardship of land, water, and natural resources, including, but not limited to agricultural lands, wildlife habitat, wetlands endangered species habitat, open space areas, and outdoor recreational areas. The Trust's revenue is derived from membership contributions, grant funds, and other revenue related to its core mission.

Basis of Accounting

The Trust's policy is to prepare its financial statements on the accrual basis of accounting. Accordingly, contributions and other revenues are recognized when earned, and expenses are recognized when incurred.

Basis of Presentation

Under generally accepted accounting principles, the Trust is required to report information regarding its financial position and activities according to two classes of net assets, net assets without donor restrictions and net assets with donor restrictions.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Trust considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Marketable securities are valued at quoted market prices which represent the net asset values of shares held by the Trust at the end of the year. Unrealized gains and losses are included in the change in net assets. Investment income and gains that have donor-imposed restrictions that are met in the reporting period in which they are recognized, are recorded as an increase to unrestricted net assets.

Financial Instruments

The carrying amount of all financial instruments approximates fair value. The carrying amounts for cash and cash equivalents, investments, accounts receivable, and accounts payable approximate fair value because of the short maturity of these instruments.

Note 1: Nature of Activities and Significant Accounting Policies, (continued)

Accounts Receivable

Accounts receivable is stated at the amount management expects to collect from balances outstanding at year-end. Based on management's assessment of the credit history with entities having outstanding balances and current relationships with them, it has been estimated that the realization losses on outstanding balances at year-end will be immaterial.

Contributions

All contributions are considered to be available for the general programs of the Trust unless specifically restricted by the donor. The Trust reports gifts of cash as restricted support if they are received with donor stipulations that limit the use of the donation. When a donor restriction expires, that is, when a stipulated time restriction ends and/or the purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

The Trust contributions are payments into either an endowment for the Habitat Conservation Plan management or issuance costs for completion of the Habitat Conservation Plan. The funds contributed to the endowment are restricted by agreement with other parties.

Income Tax Status

The Trust is exempt from federal income taxes as a not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code. A comparable exemption has been granted by the State of California. From time to time, the Trust has allowed advertising to support the publication of certain documents. When revenue for such advertising exceeds related costs, then the Trust will be subject to income taxes on unrelated business income. During the current reporting period, there was no net taxable unrelated business income.

The Trust's Forms 990, *Return of Organization Exempt from Income Tax*, for the years ending June 30, 2019, 2020, and 2021, is subject to examination by the IRS, generally for three years from the date of filing.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

San Bernardino Valley Conservation Trust
Notes to Financial Statements
For the year ended June 30, 2022

Final Draft
Subject to Change

Note 1: Nature of Activities and Significant Accounting Policies, (continued)

Restricted and Unrestricted Revenue

Contributions received are recorded as increases in net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor restrictions.

Subsequent Events

Management has evaluated subsequent events through **January XX**, 2023, the date the financial statements were available to be issued and has determined that there are no transactions that will have a significant impact on the Trust.

Note 2: Concentration of Credit Risk

The Trust maintains cash balances at one local financial institution. The standard insurance amount under the Federal Deposit Insurance Corporation (FDIC) is \$250,000 per depositor, per insured bank, for each account ownership category. These balances may at times exceed the insured limits.

Note 3: Investments

Investments at June 30, 2022 consisted of the following:

Mutual funds	<u>\$ 2,945,392</u>
Total investments	<u><u>\$ 2,945,392</u></u>

Investment gain (loss) for the year ended June 30, 2022 consisted of the following:

Interest and dividends	\$ 57,416
Investment fees	<u>(10,908)</u>
Interest and dividends, net	46,508
Unrealized gain	(834,174)
Realized gain	<u>298,181</u>
Total investment gain (loss), net	<u><u>\$ (489,485)</u></u>

Note 4: Fair Value Measurements

Generally accepted accounting principles define fair value, establish a framework for measuring fair value, and establish a fair value hierarchy that prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Trust has the ability to access.
- Level 2 inputs are inputs (other than quoted prices included within level 1) that are observable for the asset or liability, either directly or indirectly.
- Level 3 are unobservable inputs for the asset or liability and rely on management’s own assumptions about the assumptions that market participants would use in pricing the asset or liability. The unobservable inputs should be developed based on the best information available in the circumstances and may include the Trust’s own data.

The following tables present the Trust’s fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2022.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	<u>\$ 2,945,392</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,945,392</u>
Total investments	<u><u>\$ 2,945,392</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,945,392</u></u>

Note 5: Related Parties

The Trust shares common Executive Director/CEO and other office personnel with following entity:

San Bernardino Valley Water Conservation District (the District)

The entity shares common expenses which are reimbursed as needed from the related party. In addition, the District is currently making other payments on behalf of the Trust for the Wash Plan expenses. These payables were classified as amounts due to San Bernardino Valley Water Conservation District as shown in the statement of financial position. Net assets with donor restrictions were not used to cover Wash Plan expenses. As of June 30, 2022, the payable to (due to) the District is \$2,119,186.

San Bernardino Valley Conservation Trust
Notes to Financial Statements
For the year ended June 30, 2022

Final Draft
Subject to Change

Note 6: Unearned Revenue

Unearned revenue at June 30, 2022 consisted of the following:

Land and habitat	\$ 7,843,563
Deposit - Mitigation projects	301,511
Deposit - Sponsorship	<u>500</u>
 Total	 <u><u>\$ 8,145,574</u></u>

Note 7: Liquidity and Availability of Resources

The Trust has \$1,974,330 of financial assets available within one year of the statement of financial position date (resources without restrictions) for general expenditure consisting of the following:

Cash and cash equivalents	\$ 913,989
Investments	<u>1,060,341</u>
 Total	 <u><u>\$ 1,974,330</u></u>

The Trust has financial assets that are subject to donor or other contractual restrictions that make them unavailable for general expenditures within one year of the statement of financial position date. The Trust has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, as part of its liquidity management, the Trust invests cash in excess of daily requirements in various investments, which it could draw upon in the event of an unanticipated liquidity need.

Note 8: Prior Period Adjustment

A prior period adjustment was made to correct for wash plan expenses in prior years that should have been allocated to expenses with donor restrictions. The prior period adjustment is as follows:

Without donor restrictions	
Beginning of year	\$ (486,087)
Adjustment	153,896
Beginning of year, as restated	<u><u>\$ (332,191)</u></u>
With donor restrictions	
Beginning of year	\$ 2,681,583
Adjustment	(153,896)
Beginning of year, as restated	<u><u>\$ 2,527,687</u></u>

INVESTMENT POLICY STATEMENT

FOR

WASH PLAN
HABITAT CONSERVATION PLAN
ENDOWMENT FUND

~~March 9, 2016~~ January 18, 2023

TABLE OF CONTENTS

SECTION	PAGE
Purpose	1
Investment Authority	1
Statement of Investment Objectives.....	2
Investment Guidelines	2
Time Horizon	
Liquidity and Diversification	
Asset Allocation	
Rebalancing Philosophy	
Risk Tolerance	
Performance Expectations	
Selection of Investment Managers	4
Guidelines for Portfolio Holdings	5
Direct Investments by Advisor	
Limitations on Managers' Portfolios	
Portfolio Risk Hedging	
Prohibited Portfolio Investments	
Safekeeping	
Control Procedures.....	7
Review of Investment Objectives	
Review of Investment Performance	
Voting of Proxies	
Adoption of Investment Policy Statement.....	9

The San Bernardino Valley Water Conservation District has established an Endowment, known as the Wash Plan Habitat Conservation Plan (HCP) Endowment Fund (the "Fund"). This Fund provides funding for the designated beneficiaries for whom the Fund was established. The Fund consists of required contributions from the entities participating in the Wash Plan and covered by the HCP. Because of the distributed governance of this effort the Board of Directors of the San Bernardino Valley Water Conservation District and the San Bernardino Valley Conservation Trust hereby adopt this Investment Policy Statement ("Policy Statement") for the following purposes.

Purpose

The main investment objective of the Fund is to minimize risk of principal loss and maintain the ability of the portfolio to meet current and long-term spending policies, net of inflation. Long-term growth of the assets in excess of inflation is secondary.

The purpose of this Policy Statement is to achieve the following:

1. Document investment objectives, performance expectations and investment guidelines for Fund assets managed by the investment advisor.
2. Establish an appropriate investment strategy for managing the Fund assets, including an investment time horizon, risk tolerance ranges and asset allocation to provide sufficient diversification and overall return over the long-term time horizon of the Fund.
3. Establish investment guidelines to control overall risk and liquidity.
4. Establish periodic performance reporting requirements to monitor investment results and confirm that the investment policy is being followed.
5. Comply with fiduciary, prudence, due diligence and legal requirements for Fund assets.

Investment Authority

The Board will have authority to implement the investment policy and guidelines in the best interest and to best satisfy the purpose of the Fund. In implementing this Policy Statement, the Board has delegated certain functions to an investment advisor ("Advisor") to assist the Board in the investment process and to maintain compliance with this Policy Statement. The Advisor may assist the Board in establishing investment policy objectives and guidelines and may also select investments with discretion to purchase, sell, or hold specific securities, such as Exchange Traded Funds, that will be used to meet the Fund's investment objectives. The Advisor will 1) adjust asset allocation for the Fund subject to the guidelines and limitations set forth in this Policy Statement; 2) select investment managers ("Managers") and strategies consistent with its role as a fiduciary for the Fund; 3) monitor and review investment managers; measuring and evaluating performance; and 4) execute other tasks as deemed appropriate in its role as Advisor for Fund assets. The investment vehicles allowed may include mutual funds, commingled trusts, separate accounts, limited partnerships and other investment

vehicles deemed to be appropriate by the Advisor. The Advisor shall never take possession of securities, cash or other assets of the Fund, all of which shall be held by the custodian. The Advisor must be registered with the Securities and Exchange Commission.

Statement of Investment Objectives

The investment objectives of the Fund are as follows:

1. To invest assets of the Fund in a manner consistent with the following fiduciary standards: (a) all transactions undertaken must be for the sole interest of Fund beneficiaries, and (b) assets are to be diversified in order to minimize the impact of large losses from individual investments.
2. To provide for funding anticipated withdrawals on a continuing basis for spending policy needs and reasonable expenses for the operation of the Fund.
3. To enhance the value of Fund assets in real terms over the long-term through asset appreciation and income generation, while maintaining a reasonable investment risk profile.
4. To minimize principal fluctuations, subject to performance expectations over the long-term Time Horizon (as defined below).
5. To achieve a long-term return commensurate with contemporary economic conditions equal to or exceeding the investment objective set forth in this Policy Statement under the section labeled "Performance Expectations".

Investment Guidelines

Within this section of the Policy Statement, several terms will be used to articulate various investment concepts. The descriptions are meant to be general and may share investments otherwise considered to be in the same asset class. They are:

"Growth Assets" - a collection of investments and/or asset classes whose primary risk and return characteristics are focused on capital appreciation. Examples of such investments or asset classes are: domestic and international equities or equity funds, private or leveraged equity, certain real estate investments, and hedge funds focused on equity risk mitigation or equity-like returns.

"Income Assets" - a collection of investments and/or asset classes whose primary risk and return characteristics are focused on income generation. Examples of such investments or asset classes are: fixed income securities, guaranteed investment contracts, certain real estate investments, and hedge funds focused on interest rate risk mitigation or income investment-like returns.

"Real Return Assets" - a collection of investments and/or asset classes whose primary risk and return characteristics are focused on real returns after inflation. Investments within the Real Return category can include inflation protected securities, commodities, certain real estate investments and hedge funds.

Time Horizon

The Fund's investment objectives are based on a long-term investment horizon ("Time Horizon") of five years or longer. Interim fluctuations should be viewed with appropriate perspective. The Board has adopted a long-term investment horizon such that the risks and duration of investment losses are carefully weighed against the long-term potential for appreciation of assets.

Liquidity and Diversification

In general, the Fund may hold some cash, cash equivalent, and/or money market funds for near-term Fund spending needs and expenses (the "Fund Distributions"). Remaining assets will be invested in longer-term investments and shall be diversified with the intent to minimize the risk of long-term investment losses.

Asset Allocation

The Board believes that to achieve the greatest likelihood of meeting the Fund's investment objectives and the best balance between risk and return for optimal diversification, assets will be invested in a 70% Growth / 30% Income portfolio (70/30) in accordance with the targets for each asset class as follows. A 70/30 portfolio is expected to achieve an average total annual rate of return that is equal to or greater than the Fund's target rate of return over the long-term, as described in the section titled "Performance Expectations".

<u>Asset Classes</u>	<u>Asset Weightings</u>	
	<u>Range</u>	<u>Target</u>
Growth Assets		
Domestic Equity	26% -66%	46%
International Equity	4% -44%	24%
Other	0% -20%	0%
Income Assets		
Fixed Income	10% -50%	30%
Other	0% -20%	0%
Real Return Assets	0% -20%	0%
Cash Equivalents	0% -20%	0%

The Advisor and each Manager will be evaluated against their peers on the performance of the total funds under their direct management.

Rebalancing Philosophy

The asset allocation range established by this Policy Statement represents a long-term perspective. As such, rapid unanticipated market shifts or changes in economic conditions may cause the asset mix to fall outside Policy Statement ranges. When allocations breach the specified ranges, the Advisor will rebalance the assets within the specified ranges. The Advisor may also rebalance based on market conditions.

Should additional assets be contributed to the Fund, the Advisor will have discretion to invest the additional assets within the allocation ranges defined under the section labeled "Asset Allocation." The timing and increments of investment (i.e. dollar-cost-averaging) will be determined by the Advisor, in consultation with the Executive Officer of the Trust.

Risk Tolerance

Subject to investment objectives and performance expectations, the Fund will be managed in a style that seeks to minimize principal fluctuations over the established Time Horizon.

Performance Expectations

Over the long-term, five years or longer, the performance objective for the Fund will be to achieve an average total annual rate of return that is equal to or greater than the Fund's desired rate of return 6.5%, a combination of expected spending (4%) and inflation (~2.5%). Additionally, it is expected that the annual rate of return on Fund assets will be commensurate with the then prevailing investment environment. Measurement of this return expectation will be judged by reviewing returns in the context of industry standard benchmarks, peer universe comparisons for individual Fund investments and blended benchmark comparisons for the Fund in its entirety.

Selection of Investment Managers

The Advisor shall prudently select appropriate Managers to invest the assets of the Fund. Managers must meet the following criteria:

- Each Manager must provide historical quarterly performance data compliant with Global Investment Performance Standards (GIPS), Securities & Exchange Commission ("SEC"), Financial Industry Regulatory Agency ("FINRA") or industry recognized standards, as appropriate.
- Each Manager must provide detailed information on the history of the firm, key personnel, support personnel, key clients, and fee schedule (including most-favored-nation clauses). This information can be a copy of a recent Request for Proposal ("RFP") or other questionnaire completed by the Manager or regulatory disclosure.
- Each Manager must clearly articulate the investment strategy that will be followed and document that the strategy has been successfully adhered to over time.
- Where other than common funds such as mutual funds or commingled trusts are utilized, each Manager must confirm receipt, understanding and adherence to this Policy Statement and any

investment specific policies by signing a consent form provided to each Manager prior to investment of Fund assets.

Guidelines for Portfolio Holdings

Direct Investments by Advisor

Every effort shall be made, to the extent practical, prudent and appropriate, to select investments that have investment objectives and policies that are consistent with this Policy Statement (as outlined in the following sub-sections of the "Guidelines for Portfolio Holdings"). However, given the nature of the investments, it is recognized that there may be deviations between this Policy Statement and the objectives of these investments.

Limitations on Managers' Portfolios

EQUITIES

No more than the greater of 5% or weighting in the relevant index (Russell 3000 Index for U.S. issues and MSCI ACWI ex-U.S. for non-U.S. issues) of the total equity portfolio valued at market may be invested in the common equity of any one corporation; ownership of the shares of one company shall not exceed 5% of those outstanding; and not more than 40% of equity valued at market may be held in any one sector, as defined by the Global Industry Classification Standard (GICS).

Domestic Equities: Other than the above constraints, there are no quantitative guidelines as to issues, industry or individual security diversification. However, prudent diversification standards should be developed and maintained by the Manager.

International Equities: The overall non-U.S. equity allocation should include a diverse global mix that is comprised of the equity of companies from multiple countries, regions and sectors.

Other Growth: [These assets have growth characteristics but are not invested in broadly diversified equities. Examples of Other Growth assets include, but are not limited to, some forms of publicly traded real estate \(REIT\) with growth characteristics, convertible bonds, or other publicly traded assets that exhibit growth characteristics.](#)

FIXED INCOME

Fixed income securities of any one issuer shall not exceed 5% of the total bond portfolio at time of purchase. The 5% limitation does not apply to issues of the U.S. Treasury or other Federal Agencies. The overall rating of the fixed income assets as calculated by the Advisor shall be investment grade, based on the rating of one Nationally Recognized Statistical Rating Organization ("NRSRO").

Other Income: [These assets have income characteristics but are not invested in broadly diversified fixed income. Examples of Other Income assets include, but are not limited to, preferred equities, or other publicly traded assets that exhibit income characteristics.](#)

OTHER ASSETS (ALTERNATIVES_ ASSETS)

Alternatives may consist of non-traditional asset classes such as hedge funds, private equity, real estate and commodities, when deemed appropriate. The total allocation to this category may not exceed 30% of the overall portfolio.

Hedge Funds: Primary objective shall be to enhance the risk-return profile of the overall portfolio. This can be accomplished by using a combination of hedge fund strategies that may enhance returns at a reasonable level of risk or reduce volatility while providing a reasonable level of return. These asset classes may differ from traditional public market asset classes due to the use of certain strategies including short-selling, leverage, and derivatives. Hedge funds may also invest across asset classes. The use of direct hedge funds and fund-of-hedge funds are allowed. For purposes of asset allocation targets and limitations, single-strategy hedge funds will be categorized under the specific asset class of the fund. For example, a long/short U.S. equity fund will be categorized as "Other" in the Growth Assets category while a long/short credit fund will be categorized as "Other" in the Income Assets category. Multi-strategy hedge funds that cannot be easily categorized under one asset class will be included in "Other" under either the Growth Assets or Income Assets category depending on the risk-return profile of the strategy.

Private Equity: Private equity is less liquid than publicly traded equity securities and can provide returns that are greater than what is available in publicly traded markets. The private equity portfolio may include investments in a variety of commingled/partnership and direct investment vehicles including, but not limited to, venture capital, buyout, turnaround, mezzanine, distressed security, and special situation funds. The private equity portfolio is recognized to be long-term in nature and highly illiquid. Due to their higher risk, private equity investments are expected to provide higher returns than publicly traded equity securities. For purposes of asset allocation targets and limitations, these funds will be categorized as "Other" under the Growth Assets category.

Real Estate: Consists of publicly traded Real Estate Investment Trust ("REIT") securities and/or non-publicly traded private real estate and shall be diversified across a broad array of property types and geographic locations. Investments of this type are designed to provide a stable level of income combined with potential for price appreciation, particularly in periods of unexpected inflation. For private real estate, the illiquid, long-term nature should be considered. For purposes of asset allocation targets and limitations, publicly traded REITs will be categorized as "Other" under the Growth Assets category. Depending on the investment characteristics of a private real estate fund, the fund will be categorized as "Other" under either the Income Assets category, for example, a core real estate fund, or under the Growth Assets category, for example, an opportunistic real estate fund where capital gains are expected to make up a significant portion of the total return.

REAL RETURN ASSETS

Inflation Hedge: Shall consist of pooled vehicles holding among other assets: Treasury Inflation

Protected Securities ("TIPS"), commodities or commodity contracts, index-linked derivative contracts, certain real estate or real property funds and the equity of companies in businesses thought to hedge inflation. Inflation hedge assets will be reported in the Real Return Assets category.

CASH EQUIVALENTS

Cash equivalents shall be held in funds complying with Rule 2(a)-7 of the Investment Company Act of 1940.

Portfolio Risk Hedging

Portfolio investments designed to hedge various risks including volatility risk, interest rate risk, etc. are allowed to the extent that the investments are not used for the sole purpose of leveraging Fund assets. One example of a hedge vehicle is an exchange traded fund ("ETF") which takes short positions.

Prohibited Investments

Except for purchase within authorized investments, securities having the following characteristics are not authorized and shall not be purchased: letter stock and other unregistered securities, direct commodities or commodity contracts, or private placements (with the exception of Rule 144A securities). Further, derivatives, options, or futures for the sole purpose of direct portfolio leveraging are prohibited. Direct ownership of real estate, natural resource properties such as oil, gas or timber and the purchase of collectibles is also prohibited.

Safekeeping

All assets of the Fund shall be held by a custodian approved by the Board for safekeeping of Fund assets. The custodian shall produce statements on a monthly basis, listing the name and value of all assets held, and the dates and nature of all transactions in accordance with the terms in the Custodial Agreement. Investments of the Fund not held as liquidity or investment reserves shall, at all times, be invested in interest-bearing accounts. Investments and portfolio securities may not be loaned.

Control Procedures

Review of Investment Objectives

The Advisor shall review annually and report to the Board the appropriateness of this Policy Statement for achieving the Fund's stated objectives. It is not expected that this Policy Statement will change frequently.

Review of Investment Performance

The Advisor shall report on a quarterly basis to the Board to review the investment performance of the

Fund. In addition, the Advisor will be responsible for keeping the Board advised of any material change in investment strategy, Managers, and other pertinent information potentially affecting performance of the Fund.

The Advisor shall compare the investment results on a quarterly basis to appropriate peer universe benchmarks, as well as market indices in both equity and fixed income markets. Examples of benchmarks and indexes that will be used include the Russell 3000 Index for broad U.S. equity strategies; S&P 500 Index for large cap U.S. equities, Russell 2000 Index for small cap U.S. equities, MSCI ACWI ex-U.S. Index for broad based non-U.S. equity strategies; MSCI Europe, Australasia, and Far East (EAFE) Index for developed markets international equities, ~~Barelays Capital~~[Bloomberg U.S. Aggregate Bond Index](#) for fixed income securities, and the U.S. 91 Day T-bill for cash equivalents. The Russell 3000 Index will be used to benchmark the U.S. equities portfolio; the MSCI ACWI ex-U.S. Index will be used to benchmark the non-U.S. equities portfolio; the ~~Barelays Bloomberg~~ U.S. Aggregate Bond Index will be used to benchmark the fixed income portfolio. The categories "Other" will be benchmarked against appropriate indices depending on the specific characteristics of the strategies and funds used.

Voting of Proxies

The Board recognizes that proxies are a significant and valuable tool in corporate governance. The voting rights of individual stocks held in separate accounts or collective, common, or pooled funds will be exercised by the investment managers in accordance with their own proxy voting policies. The voting rights of funds will be exercised by the Advisor.

Adoption of Investment Policy Statement

Any changes and exceptions to this Policy Statement will be made in writing and adopted by the Boards. Once adopted, changes and exceptions will be delivered to each Manager, as appropriate, by the Advisor.

Approved by the San Bernardino Valley Conservation Trust Board:

Member

Member

Member

Date

Approved by the San Bernardino Valley Water Conservation District Board:

Member

Member

Member

Member

Member

Date

San Bernardino Valley Conservation Trust

Unaudited Financial Status as of December 31, 2022

Cash Status-California Credit Union		As of 07/1/22	As of 12/31/22
	7/1/2022 Beginning Balance	913,989.15	
Revenue:	7/18-9/29/22 NHCPD Donation deposits		16,500.00
	10/5/2022 Independent Donation		1,000.00
	10/12-11/9/22 NHCPD Donation deposits		1,500.00
Total Revenue:			19,000.00
Expenses:	9/30/2022 SBVWCD-Earned Mitigation Credits thru 09/30/22		(18,585.70)
	11/16/2022 NCHPC Reimbursement of Donation deposits-Ck #141		(18,500.00)
	12/31/2022 SBVWCD-Earned Mitigation Credits thru 12/31/22		(9,418.81)
Total Expenses:			(46,504.51)
		ENDING BALANCE	886,484.64
Investments-US Bank		As of 07/1/22	As of 09/30/22
	7/1/2022 Beginning Balance	2,945,391.54	
Revenue:	9/30/2022 Accrued Income, Interest, Dividends (Jul-Sept)		14,912.16
	9/30/2022 Unrealized Gain/Loss (Jul-Sept)		(192,065.78)
	9/30/2022 Realized Gain/Loss (Jul-Sept)		(7,479.32)
	12/31/2022 Accrued Income, Interest, Dividends (Oct-Dec)		40,630.35
	12/31/2022 Unrealized Gain/Loss (Oct-Dec)		146,544.31
	12/31/2022 Realized Gain/Loss (Oct-Dec)		7,833.38
Total Revenue:			10,375.10
Expenses:	7/27/2022 US Bank Administrative Trust Fees		(875.00)
	9/14/2022 PFM Advisory & Management Fees(May-Jul)		(2,278.38)
	10/26/2022 US Bank Administrative Trust Fees		(875.00)
	12/31/2022 PFM Advisory & Management Fees(Aug-Oct)		(2,161.87)
Total Expenses:			(6,190.25)
		ENDING BALANCE	2,949,576.39
Accounts Receivable			
	Cemex/Robertson's-Wash Plan MOU		7,843,563.00
		BALANCE	7,843,563.00
Liabilities			
	Balance at 06/30/22	2,119,186.13	
	Jul-Sept 2022	82,491.79	
	Oct-Dec 2022	135,831.98	
	Due to SBVWCD-Wash Plan (includes \$44,887.08 State Permitting fees)		2,337,509.90
	Due to SBVWCD-Earned Mitigation Credits		-
	Unearned Mitigation Credit Balance (see back)		186,446.82
		BALANCE	2,523,956.72

San Bernardino Valley Conservation Trust

Mitigation Agreement Balances as of December 31, 2022

Deposit Agreements	Date	Project	Deposits	Staff Time Expenses	Biologist Fees	Legal Fees	Mitigation Credit Balance
1. S-P Deerfield	2/28/2018	Blossom Trails	\$ 36,763.59	\$ 32,875.76	\$ 3,131.20	\$ 1,650.00	\$ (893.37)
2. Highland-Fifth Orange Partners	10/17/2018	Woodbridge	\$ 10,000.00	\$ 4,808.27	\$ -	\$ 400.00	\$ 4,791.73
3. SB County Transportation Authority	3/17/2020	SR 210 Lane Addition	\$ 435,255.03	\$ 65,160.19	\$ 154,892.29	\$ 32,654.09	\$ 182,548.46
Total			\$ 482,018.62	\$ 102,844.22	\$ 158,023.49	\$ 34,704.09	\$ 186,446.82
		Reimbursement Due to SBVWCD		\$ -			