Santa Clara Valley Open Space Authority

Annual Financial Audit Report

June 30, 2019

Chavan & Associates, LLP
Certified Public Accounts
1475 Saratoga Ave, Suite 180
San Jose, CA 95129

Santa Clara Valley Open Space Authority
Santa Clara County

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Santa Clara Valley Open Space Authority
San Jose, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Santa Clara Valley Open Space Authority (the Authority), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Authority's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements 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 Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of June 30, 2019, and the respective changes

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in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of pension contributions – pension plans, and schedule of proportionate share of net pension liability, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2019 on our consideration of the Authority'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

C & A LLP

November 16, 2019
San Jose, California

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Management's Discussion and Analysis

INTRODUCTION

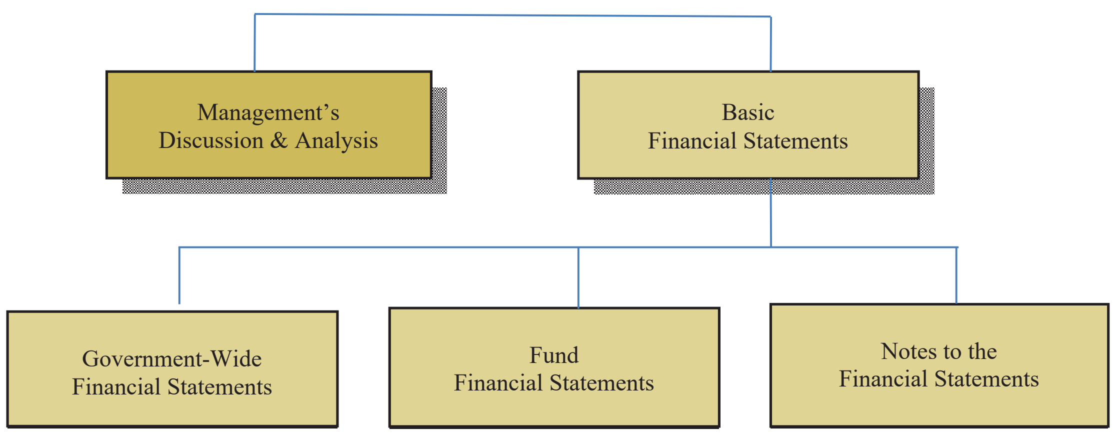
The Management's Discussion and Analysis (MD&A) is a required section of the Authority's annual financial report, as shown in the overview below. The purpose of the MD&A is to present a discussion and analysis of the Authority's financial performance during the fiscal year that ended on June 30, 2019. This report will (1) focus on significant financial issues, (2) provide an overview of the Authority's financial activity, (3) identify changes in the Authority's financial position, (4) identify any individual fund issues or concerns, and (5) provide descriptions of significant asset and debt activity.

This information, presented in conjunction with the annual Basic Financial Statements, is intended to provide a comprehensive understanding of the Authority's operations and financial standing.

USING THE ANNUAL REPORT

The Statement of Net Position and Statement of Activities comprise the government-wide financial statements and provide information about the activities of the whole Authority, presenting both an aggregate view of the Authority's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The basic financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Required Components of the Annual Financial Report



The view of the Authority as a whole looks at all financial transactions and asks the question, "How did we do financially during the fiscal year 2018 - 2019?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting practices used by most private-sector companies. This basis of accounting takes into account all of the current year revenues and expenses regardless of when cash is received or paid.

These two statements report the Authority's net position and changes in net position. This change in net position is important because it tells the reader that, for the Authority as a whole, the financial position of the Authority has improved or diminished. The causes of this change may be the result of many factors, some financial, and some not. Non-financial factors include changing laws in California restricting revenue growth, facility conditions and other factors.

In the Statement of Net Position and the Statement of Activities, the Authority reports governmental activities. Governmental activities are the activities where the Authority's programs and services are reported. The Authority does not have any business type activities.

FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year ended June 30, 2019 were as follows:

- Total net position increased by $6,713,277, from 2018 to 2019 as revenues of $14,296,192 were close to twice expenses of $7,582,915. Total grants and assessments decreased by 7% from prior year, mostly because of one-time intergovernmental grants received in the prior year totaling $1,936,542.

- Capital assets, net of accumulated depreciation, increased by $1,600,210 mostly due to land purchases of $1,716,123.

- Current liabilities decreased by $2,630,369 mainly due to the reclassification of the 20% program funding liability from current to long-term as of June 30, 2019.

- Total deferred outflows of resources decreased by $233,728 due to changes in assumptions and proportionate shares related to pensions. Deferred inflows of resources decreased by $841,924 due to a decrease in unavailable resources from grant prepayments.

REPORTING THE AUTHORITY'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The analysis of the Authority's fund financial statements begins with the Balance Sheet. Fund financial reports provide detailed information about the Authority's major funds. The Authority uses one operating fund, the General Fund, to account for a multitude of financial transactions.

Governmental Funds

The General Fund is a governmental fund type and is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Authority's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

THE AUTHORITY AS A WHOLE

Recall that the Statement of Net Position provides the perspective of the Authority as a whole. Table 1 provides a summary of the Authority's net position as of June 30, 2019 as compared to June 30, 2018:

Table 1 - Summary of Statement of Net Position

Description	2019	2018	Change	Percentage Change
Assets				
Current Assets	$ 49,157,681	$ 45,068,585	$ 4,089,096	9.07%
Capital Assets - Net	80,499,212	78,899,002	1,600,210	2.03%
Total Assets	$ 129,656,893	$ 123,967,587	$ 5,689,306	4.59%
Deferred Outflows	$ 858,252	$ 1,091,980	$ (233,728)	-21.40%
Liabilities				
Current Liabilities	$ 167,975	$ 2,798,344	$ (2,630,369)	-94.00%
Noncurrent Liabilities	3,070,971	856,377	2,214,594	258.60%
Total Liabilities	$ 3,238,946	$ 3,654,721	$ (415,775)	-11.38%
Deferred Inflows	$ 542,269	$ 1,384,193	$ (841,924)	-60.82%
Net Position				
Net Investment in Capital Assets	$ 80,499,212	$ 78,899,002	$ 1,600,210	2.03%
Unrestricted	46,234,718	41,121,651	5,113,067	12.43%
Total Net Position	$ 126,733,930	$ 120,020,653	$ 6,713,277	5.59%

Total net position increased by $6,713,277 as noted in the financial highlights section. The impact of an increase to net position was apparent as total assets increased by $5,689,306 and total liabilities decreased by $415,775. The net investment in capital assets increased by $1,600,210 mostly because of land purchases paid for by capital contributions.

Table 2 shows the changes in net position for fiscal year 2019 as compared to 2018.

Table 2 - Summary of Changes in Net Position

Description	2019	2018	Change	Percentage Change
Revenues				
Program revenues:				
Operating grants and contributions	$ 5,850	$ 13,527	$ (7,677)	-56.75%
Capital grants and contributions	996,008	2,044,893	(1,048,885)	-51.29%
General revenues:				
District 1 Assessments	4,312,892	4,296,354	16,538	0.38%
Measure Q Assessments	7,930,968	7,899,012	31,956	0.40%
20% funding program	(169,276)	(207,449)	38,173	-22.55%
Investment income	910,327	525,303	385,024	73.30%
Other revenues	309,423	839,970	(530,547)	-63.16%
Total Revenues	14,296,192	15,411,610	(1,115,418)	-7.24%
Program Expenses				
Administration	2,682,101	2,304,055	378,046	16.41%
Community engagement	943,424	787,331	156,093	19.83%
Planning	1,803,840	1,489,504	314,336	21.10%
Land management	1,677,630	1,478,519	199,111	13.47%
Depreciation	475,920	443,881	32,039	7.22%
Total Expenses	7,582,915	6,503,290	1,079,625	16.60%
Change in Net Position	6,713,277	8,908,320	(2,195,043)	24.64%
Beginning Net Position	120,020,653	111,259,922	8,760,731	7.87%
Prior Period Adjustment	-	(147,589)	147,589	100.00%
Ending Net Position	$ 126,733,930	$ 120,020,653	$ 6,713,277	5.59%

Other revenues decreased because the Authority sold land for a gain of $1,124,189 in the prior year which was offset by a loss of $623,545 for the distribution of the permanent endowment to VTA. Most of the Authority's revenue is derived from benefit assessments which are handled by the County of Santa Clara.

THE AUTHORITY'S FUND BALANCE

Table 3 provides an analysis of the Authority's fund balances and the total change in fund balances from the prior year.

Table 3 - Summary of Fund Balance

Description	2019	2018	Change	Percentage Change
Assessment District 1	$ 11,514,510	$ 8,580,000	$ 2,934,510	34.20%
Capital Reserve Fund	17,299,061	17,115,136	183,925	1.07%
Measure Q Fund	19,631,460	15,179,286	4,452,174	29.33%
Grant Fund	29,429	29,429	-	0.00%
Total Fund Balance	$ 48,474,460	$ 40,903,851	$ 7,570,609	18.51%

GENERAL FUND BUDGETING HIGHLIGHTS

The Authority's budget is prepared according to California law and in the modified accrual basis of accounting.

Changes from the Authority's General Fund 2018/2019 original budget to the final budget are detailed in the Required Supplementary Information Section along with a comparison to actual activity for the year ended. The final budgeted revenue was $4,594,335. The final budgeted expenditures and other uses of funds were $4,539,642.

CAPITAL ASSETS

Table 4 shows June 30, 2019 capital asset balances as compared to June 30, 2018.

Table 4 - Summary of Capital Assets Net of Depreciation

Description	2019	2018	Change	Percentage Change
Land	73,264,466	$ 71,548,343	$ 1,716,123	2.40%
Construction in progress	344,681	740,405	(395,724)	-53.45%
Land improvements	3,172,693	2,648,008	524,685	19.81%
Buildings	5,511,750	5,433,915	77,835	1.41%
Furniture and fixtures	179,446	58,172	121,274	208.47%
Vehicles	572,553	540,617	31,936	5.91%
Accumulated depreciation	(2,546,377)	(2,070,458)	(475,919)	-22.99%
Total Capital Assets - Net	$ 80,499,212	$ 78,899,002	$ 1,600,210	2.03%

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Board of Directors adopted the Authority's budget for fiscal year 2020 on June 13, 2019. This budget assumes an increase of $73,852 in assessment income from fiscal year 2019 to fiscal year 2020. The budget assumes the acquisition of $6.83 million of new land and $2.04 million of other capital spending. Operating expenditures are budgeted at $6.84 million. The budget also includes $100,000 in election expenses. If all revenues and expenditures occur as budgeted, the Authority's cash position would decrease by $6.58 million in fiscal year 2020.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, investors and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have any questions regarding this report or need additional financial information, contact the General Manager, Santa Clara Valley Open Space Authority, 33 Las Colinas Lane, San Jose, CA 95119.

Basic Financial Statements

Santa Clara Valley Open Space Authority

Statement of Net Position

June 30, 2019

		Governmental Activities
Assets		
Current assets:		
Cash and investments	$	25,360,710
Restricted cash and investments		23,372,508
Interest receivable		248,473
Accounts receivable		167,691
Other current assets		8,299
Total current assets		49,157,681
Noncurrent assets:		
Non-depreciable capital assets		73,609,146
Capital assets, net of depreciation		6,890,066
Total noncurrent assets		80,499,212
Total Assets	$	129,656,893
Deferred Outflows of Resources		
Pension adjustments	$	858,252
Liabilities		
Current liabilities:		
Accounts payable	$	67,256
Payroll and other liabilities		100,719
Total current liabilities		167,975
Noncurrent liabilities:		
Net Pension Liability		625,437
Funding program liability		2,201,981
Compensated absences		243,553
Total noncurrent liabilities		3,070,971
Total Liabilities	$	3,238,946
Deferred Inflows of Resources		
Pension adjustments	$	27,023
Deferred and unavailable resources		515,246
Total Deferred Inflows of Resources	$	542,269
Net Position		
Net Investment in capital assets	$	80,499,212
Unrestricted		46,234,718
Total Net Position	$	126,733,930

The notes to the financial statements are an integral part of this statement.

Santa Clara Valley Open Space Authority
Statement of Activities
For the Fiscal Year Ended June 30, 2019

	Expenses	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Governmental activities:				
Administration	$ 2,682,101	$ -	$ -	$ (2,682,101)
Community Engagement	943,424	5,850	-	(937,574)
Planning	1,803,840	-	900,000	(903,840)
Land Management	1,677,630	-	96,008	(1,581,622)
Depreciation	475,920	-	-	(475,920)
Total governmental activities	$ 7,582,915	$ 5,850	$ 996,008	(6,581,057)
General revenues:				
District 1 Assessments				4,312,892
Measure Q Assessments				7,930,968
Investment income				910,327
Other revenues				309,523
Special items:				
Gain (loss) on disposal of capital assets				(100)
20% funding program				(169,276)
Total general revenues and special items				13,294,334
Change in net position				6,713,277
Net position beginning				120,020,653
Net position ending				$ 126,733,930

The notes to the financial statements are an integral part of this statement.

Santa Clara Valley Open Space Authority
Balance Sheet
Governmental Funds
June 30, 2019

	Assessment District 1 Fund	Capital Reserve Fund	Measure Q Fund	Grant Fund	Total Governmental Funds
ASSETS					
Cash and investments	$ 7,977,630	$ 17,383,080	$ -	$ -	$ 25,360,710
Restricted cash and investments	-	-	23,372,508	-	23,372,508
Interest receivable	39,014	96,338	113,121	-	248,473
Accounts receivable	167,691	-	-	-	167,691
Due from other funds	3,993,850	-	-	544,675	4,538,525
Other current assets	8,299	-	-	-	8,299
Total Assets	$ 12,186,484	$ 17,479,418	$ 23,485,629	$ 544,675	$ 53,696,206
LIABILITIES					
Accounts payable	$ 67,256	$ -	$ -	$ -	$ 67,256
Payroll and other liabilities	60,043	-	40,676	-	100,719
Due to other funds	544,675	180,357	3,813,493	-	4,538,525
Total Liabilities	671,974	180,357	3,854,169	-	4,706,500
DEFERRED INFLOWS OF RESOURCES					
Deferred and unavailable resources	-	-	-	515,246	515,246
FUND BALANCES					
Nonspendable for prepaid items	230	-	-	-	230
Restricted for:					
Measure Q Projects	-	-	19,631,460	-	19,631,460
Grant Projects	-	-	-	29,429	29,429
Assigned for 20% funding program	2,201,981	-	-	-	2,201,981
Assigned for capital projects	-	17,299,061	-	-	17,299,061
Unassigned	9,312,299	-	-	-	9,312,299
Total Fund Balances	11,514,510	17,299,061	19,631,460	29,429	48,474,460
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 12,186,484	$ 17,479,418	$ 23,485,629	$ 544,675	$ 53,696,206

The notes to the financial statements are an integral part of this statement.

Santa Clara Valley Open Space Authority

Reconciliation of the Governmental Funds

Balance Sheet to the Statement of Net Position

June 30, 2019

Total fund balance - governmental funds		$ 48,474,460
Amounts reported in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Capital assets at cost	83,045,589	
Accumulated depreciation	(2,546,377)	80,499,212
The differences between assumptions, estimates and actual results in pension plans are not included in the plan's actuarial study until the next fiscal year and are reported as deferred inflows or outflows of resources in the statement of net position.		831,229
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term (noncurrent) liabilities at year-end consists of:		
Net pension liability	625,437	
Funding program liability	2,201,981	
Compensated absences	243,553	(3,070,971)
Total net position - governmental activities		$ 126,733,930

The notes to the financial statements are an integral part of this statement.

Santa Clara Valley Open Space Authority
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2019

	Assessment District 1 Fund	Capital Reserve Fund	Measure Q Fund	Grant Fund	Total Governmental Funds
Revenues:					
Assessments	$ 4,312,892	$ -	$ 7,930,968	$ -	$ 12,243,860
Investment income	161,434	364,282	384,611	-	910,327
Donations	5,850	-	-	-	5,850
Intergovernmental grants	-	-	-	996,008	996,008
Other revenues	114,159	-	195,364	-	309,523
Total revenues	4,594,335	364,282	8,510,943	996,008	14,465,568
Expenditures:					
Current:					
Administration	2,076,860	6,193	479,636	344	2,563,033
Community Engagement	714,360	-	193,114	323	907,797
Planning	300,946	33,008	1,372,509	37,536	1,743,999
Land Management	374,347	-	1,252,012	9,174	1,635,533
Capital outlay	226,017	141,156	761,498	948,631	2,077,302
Total expenditures	3,692,530	180,357	4,058,769	996,008	8,927,664
Net change in fund balances	901,805	183,925	4,452,174	-	5,537,904
Fund balances beginning	8,580,000	17,115,136	15,179,286	29,429	40,903,851
Prior period adjustment	2,032,705	-	-	-	2,032,705
Fund balances beginning, adjusted	10,612,705	17,115,136	15,179,286	29,429	42,936,556
Fund balances ending	$ 11,514,510	$ 17,299,061	$ 19,631,460	$ 29,429	$ 48,474,460

The notes to the financial statements are an integral part of this statement.

Santa Clara Valley Open Space Authority
Reconciliation of the Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balance
to the Statement of Activities
For the Fiscal Year Ended June 30, 2019

Total net change in fund balance - governmental funds			$ 5,537,904
Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.			
Additions to capital assets	$	2,076,229	
Depreciation expense		(475,920)	1,600,309
In governmental funds, actual contributions to pension plans are reported as expenditures in the year incurred. However, in the government-wide statement of activities, only the current year pension expense as noted in the plan's valuation reports is reported as an expense, as adjusted for deferred inflows and outflows of resources.			(214,354)
Governmental funds report revenue on the cash received for the sale land and other capital assets. However, in the statement of activities the difference between the net book value and any cash received is reported as a gain or a loss.			(100)
Long-term liabilities are not recorded in the governmental funds but are required to be included in the government wide financial statements under the accrual basis of accounting. During the year, the Authority's obligation from its 20% funding program was reported as a special item.			(169,276)
In the Statement of Activities, compensated absences are measured by the amount earned during the year. In governmental funds, however, expenditures for those items are measured by the amount of financial resources used (essentially the amounts paid). This year, vacation earned exceeded the amounts used.			(41,206)
Change in net position of governmental activities			$ 6,713,277

The notes to the financial statements are an integral part of this statement.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. General

The Santa Clara Valley Open Space Authority (the Authority) was created on February 1, 1993 under California Public Resources Code, Section 35100. The purpose of the Authority is to acquire land through fee title and conservation easement for the preservation of open space, creation of a greenbelt, and to encourage agricultural activities, in an effort to counter the continuing and serious conversion of lands to urban uses. The priorities for such acquisitions were set through a public process that included input from members of the public, the Authority's Citizens' Advisory Committee and the cities and county within the Authority's jurisdiction, and culminated in the creation of the Authority's 5-Year Plan.

B. Reporting Entity

The governing board consists of seven officials who, together, constitute the Board of Directors. The Authority's combined financial statements include the accounts of all its operations. The Authority evaluated whether any other entity should be included in these financial statements. The basic, but not the only, criterion for including a governmental department, agency, institution, commission, public authority, or other governmental organization in a governmental unit's reporting entity for general purpose financial reports is the ability of the governmental unit's elected officials to exercise oversight responsibility over such agencies. Oversight responsibility implies that one governmental unit is dependent on another and that the dependent unit should be reported as part of the other. Oversight responsibility is derived from the governmental unit's power and includes, but is not limited to:

- Financial interdependency
- Selection of governing authority
- Designation of management
- Ability to significantly influence operations
- Accountability for fiscal matters

Accordingly, for the year ended June 30, 2019, the Authority does not have any component units and is not a component unit of any other reporting entity.

C. Accounting Principles

The accounting policies of the Authority conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

D. Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the activities of the Authority. The Statement of Net Position reports all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the activities of the Authority. The Statement of Net Position reports all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

The government-wide statements are prepared using the economic resources measurement focus. This approach differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government wide statements and the statements for the governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Authority's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The Authority does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Authority, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Authority.

Fund Financial Statements:

Fund financial statements report detailed information about the Authority. The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets, deferred outflows, current liabilities and deferred inflows are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balance for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

E. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting.

Revenues - Exchange and Non-exchange Transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Authority, "available" means collectible within the current period or within 60 days after year-end.

Non-exchange transactions, in which the Authority receives value ***without*** directly giving equal value in return, include assessment, grants, and donations. Under the accrual basis, revenue from assessments are recognized in the fiscal year of the assessment. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the Authority must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the Authority on a reimbursement basis. Donations are generally recognized in the year received unless donor imposed restrictions exist. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred Outflows/Deferred Inflows:

A deferred outflow of resources is defined as a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses/expenditure) until then. A deferred inflow of resources is defined as an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenues) until that time.

When applicable, unamortized portions of the gain and loss on refunding debt are reported as deferred inflows and deferred outflows of resources, respectively. Deferred outflows and inflows of resources are reported for the changes related to benefit plans. In addition, when an asset is recorded in governmental fund financial statements but the revenue is not available, a deferred inflow of resources is reported until such time as the revenue becomes available.

Unearned Revenue:

Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred inflows from unearned revenue. In the governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have been recorded as deferred inflows from unearned revenue.

Expenses/Expenditures:

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds. When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

F. Fund Accounting

The accounts of the Authority are organized into five funds with a separate set of self-balancing accounts that comprise of the Authority's assets, deferred outflows, liabilities, deferred inflows, fund balance, revenues, and expenditures.

Major funds are defined as funds that have either assets, liabilities, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. The General Fund (Assessment District 1) is always a major fund. The Authority may also select other funds it believes should be presented as major funds.

The Authority reported all of its funds as major governmental funds in the accompanying financial statements:

Assessment District No. 1 Fund **-** The Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in another fund when necessary.

Capital Reserve Fund **-** The Authority's long term reserve.

Measure Q Fund **-** The Authority's fund for tracking Measure Q parcel tax revenues, and expenditures for related projects.

Grant Fund **-** The Authority's fund used to account for grant revenues and expenditures.

G. Budgets and Budgetary Accounting

The Authority follows specific procedures in establishing the budgetary data reflected in the financial statements. The Authority's General Manager prepares and submits an operating and capital budget to the Board of Directors no later than June of each year. The basis used to prepare the budget does not differ substantially from the modified accrual basis of accounting.

The adopted budget becomes operative on July 1. The Board of Directors must approve all supplemental appropriations to the budget and transfers between major accounts. The Authority's annual budget is presented as a balanced budget (inflows and reserves equal outflows and reserves) adopted for Assessment District No. 1 at the detailed expenditure-type level.

The Authority presents a comparison of the annual budget to actual results for Assessment District No. 1 and Measure Q at the functional expenditure-type major object level for financial reporting purposes. The budgeted expenditure amounts represent the adopted budget. The budgeted revenue amounts represent the adopted budget as originally approved.

H. Assets, Liabilities, and Equity

1. Cash and Cash Equivalents

Cash and cash equivalents include all cash and temporary investments with original maturities of three months or less from the date of acquisition.

2. Investments and Investment Policy

The Authority has adopted an investment policy that permits investments in any instrument permitted under the California Government Code Section 53648.

Changes in fair value that occur during a fiscal year are recognized as unrealized gains or losses and reported for that fiscal year. Investment income comprises interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

Investments are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income. This statement changed the definition of fair value and is effective for periods beginning after June 15, 2015.

The following is a summary of the definition of fair value:

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. In determining this amount, three valuation techniques are available:

- Market approach - This approach uses prices generated for identical or similar assets or liabilities. The most common example is an investment in a public security traded in an active exchange such as the NYSE.
- Cost approach - This technique determines the amount required to replace the current asset. This approach may be ideal for valuing donations of capital assets or historical treasures.
- Income approach - This approach converts future amounts (such as cash flows) into a current discounted amount.

  Each of these valuation techniques requires inputs to calculate a fair value. Observable inputs have been maximized in fair value measures, and unobservable inputs have been minimized.

3. Prepaid Expenditures

The Authority has the option of reporting expenditures in governmental funds for prepaid items either when purchased or during the benefiting period. The Authority has chosen to report the expenditure during the benefiting period.

4. Capital Assets

Capital assets are recorded in the government-wide financial statements. Included in capital assets are land, building, building improvements, equipment, vehicles and furniture and fixtures.

The Authority has set the capitalization threshold for reporting capital assets at $5,000. Donated assets are recorded at estimated fair market value at the date of donation. Capital outlay is recorded as expenditures in governmental funds and as assets in the government-wide financial statements to the extent the Authority's capitalization threshold is met.

All capital assets, except land and construction in progress, are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Land improvements	3 - 50
Buildings	30
Furniture and Equipment	3 - 5
Vehicles	5

5. Compensated Absences

The Authority's personnel policies provide for paid vacation and sick leave (employee benefits) to its employees. Liabilities for vacation leave are recorded when granted up to a maximum of 240 hours. Employees having attained five years of employment are paid one-third of accrued sick leave, up to a 15-day maximum, upon retirement. Changes in compensated absences for the fiscal year ended June 30, 2019 were as follows:

Beginning balance	$ 202,346
Additions	122,145
Retirements	(80,938)
Ending Balance	$ 243,553

6. Long-Term Debt/Noncurrent Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position.

7. Interfund Transactions

Interfund transactions are reflected as loans, services provided, reimbursements, or transfers. Interfund loans are reported as either "due from/due to other funds."

Services provided, deemed to be at-market or near-market rates, are treated as revenues and expenditures. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its cost as a reimbursement. All other interfund transactions are treated as transfers. All interfund activity is eliminated in the government-wide financial statements.

8. Fund Balance Classifications

In accordance with Government Accounting Standards Board 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the Authority classifies governmental fund balances as follows:

- *Nonspendable* fund balance includes amounts that cannot be spent either because they are not in spendable form or because of legal or contractual constraints.

- *Restricted* fund balance includes amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

- *Committed* fund balances includes amounts constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end. Committed fund balances are imposed by the Authority's board of directors.

- *Assigned* fund balance includes amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the General Manager.

- *Unassigned* fund balance includes positive amounts within the general fund which have not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The Authority uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the Authority would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

9. <u>Net Position</u>

Net position represents the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. In addition, deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also are included in the net investment in capital assets component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors, laws or regulations of other governments. The Authority applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Unrestricted net position reflect amounts that are not subject to any donor-imposed restrictions. This class also includes restricted contributions whose donor-imposed restrictions were met during the fiscal year. A deficit unrestricted net position may result when significant cash balances restricted for capital projects exist. Once the projects are completed, the restriction on these assets are released and converted to capital assets.

10. <u>Benefit Assessment</u>

The Authority utilizes the services of the Santa Clara County Tax Collector's Office to bill and collect the benefit assessment levied by the Authority each year on the property tax bills under the County Teeter Plan. Property tax bills are due on December 10th and April 10th each fiscal year. Therefore, the Authority receives two special assessment revenue payments, at the end of January and June, each year.

11. Pensions

    For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Agency's California Public Employees' Retirement System (CalPERS) plan (the Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

12. Accounting Estimates

    The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

I. Implemented New Accounting Pronouncements

GASB Statement No. 83, *Certain Asset Retirement Obligations*

This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. As of June 30, 2019, this Statement did not have an impact on the Authority's financial statements.

GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*

This Statement addresses additional information to be disclosed in the notes to the financial statements regarding debt, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. As of June 30, 2019, this Statement did not have an impact on the Authority's financial statements.

J. Upcoming Accounting and Reporting Changes

GASB Statement No. 84, *Fiduciary Activities*

The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2018. Earlier application is encouraged. The Authority doesn't believe this statement will have a significant impact on the Authority's financial statements.

GASB issued Statement No. 87, *Leases*

The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2019. Earlier application is encouraged. The Authority is in the process of determining the impact this Statement will have on the financial statements.

GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of the Construction Period*

This Statement addresses interest costs incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2019. Earlier application is encouraged. The Authority doesn't believe this statement will have a significant impact on the Authority's financial statements.

GASB Statement No. 90, *Majority Equity Interests - an Amendment of GASB Statements No. 14 and No. 61*

The objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. This Statement also requires that a component unit in which a government has 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2018. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis. The Authority doesn't believe this statement will have a significant impact on the Authority's financial statements.

GASB Statement No. 91, *Conduit Debt Obligations*

The objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement also clarifies the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitment and voluntary commitments extended by issuers and arrangements associated with the debt obligations; and improving required note disclosures. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2020. Earlier application is encouraged. The Authority doesn't believe this statement will have a significant impact on the Authority's financial statements**.**

NOTE 2 - CASH AND INVESTMENTS

Summary of Cash and Investments

The following summarizes cash and investments as of June 30, 2019:

Cash and Investments	Available for Operations	Restricted	Total
Cash Deposits:			
Cash in banks	$ 306,478	$ -	$ 306,478
Petty Cash	842	-	842
Total Cash Deposits	307,320	-	307,320
Investments:			
Santa Clara County Pool	25,053,390	23,372,508	48,425,898
Total Investments	25,053,390	23,372,508	48,425,898
Total Cash and Investments	$ 25,360,710	$ 23,372,508	$ 48,733,218

Cash in Banks

Cash balances in banks are insured up to $250,000 per insured bank by the Federal Deposit Insurance Corporation ("FDIC"). The Authority's accounts are held with various banks. As of June 30, 2019, the Authority's bank balances of $672,089 exceeded FDIC coverage by $421,457. However, this balance was fully collateralized per Government Code. The differences between the bank balances and the carrying amount are due to reconciling items such as deposits in transit and outstanding checks.

Fair Value Measurements

GASB 72 established a hierarchy of inputs to the valuation techniques above. This hierarchy has three levels:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 inputs are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable
- Level 3 inputs are unobservable inputs, such as a property valuation or an appraisal.

Investments in the County Treasury Investment Pool are not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at $1.00 net asset value per share

Cash in Santa Clara County Treasury

Santa Clara County is a fiscal agent of the Authority. The fair value of the Authority's investment in the county pool is reported at amounts based on the Authority's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of the portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis. Santa Clara County investment pool funds were available for withdrawal on demand and had an average weighted maturity of 436 days.

All cash and investments are stated at fair value. Pooled investment earnings are allocated monthly based on the average cash and investment balances of the various funds of the County.

Policies and Practices

The Authority's Investment Policy and the California Government Code allow the Authority to invest in the following, provided the credit ratings of the issuers are acceptable to the Authority and approved percentages and maturities are not exceeded.

The table below also identifies certain provisions of the California Government Code or the Authority's Investment Policy where it is more restrictive:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
Medium Term Notes	5 years	30%	No Limit
Money Market and Mutual Funds	N/A	20%	10%
U.S. Treasury Obligations	5 years	No Limit	No Limit
Local Agency Bonds, Notes, Warrants	5 years	No Limit	No Limit
Registered State Bonds, Notes, Warrants	5 years	No Limit	No Limit
U.S. Agency Securities	5 years	No Limit	No Limit
Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	No Limit
County Pooled Investment Funds	N/A	No Limit	No Limit
Joint Power Authority Pools	N/A	No Limit	No Limit
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	No Limit
Repurchase Agreements	1 year	No Limit	No Limit
Reverse Repurchase Agreements	92 days	20%	No Limit
Local Agency Investment Fund (LAIF)	N/A	No Limit	No Limit

Risk Disclosures

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are described below:

a) 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 value to the changes in market interest rates. The Authority manages its exposure to interest rate risk by investing in the Santa Clara County investment pool which had a fair value of approximately $8.6 billion.

b) Credit Risk

Credit risk is the risk of loss due to the failure of the security issuer. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investment with the County's investment pool is governed by the County's general investment policy. The County's investments in 2018-19 included U.S. government securities or obligations explicitly guaranteed by the U.S. government that are not considered to have credit risk exposure.

c) Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a policy for custodial credit risk for deposits. However, the California Government code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits.

d) Concentration of Credit Risk

The Authority was not exposed to concentration of credit risk because it had no investments in any one issuer that exceeded 5% of its total investment portfolio.

NOTE 3 - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2019, is shown below:

Capital Assets	Balance July 01, 2018	Additions	Deletions/ Adjustments	Balance June 30, 2019
Non-depreciable:				
Land	$ 71,548,343	$ 1,716,223	(100)	$ 73,264,466
Construction in Progress	740,405	177,218	(572,943)	344,680
Total Non-Depreciable	72,288,748	1,893,441	(573,043)	73,609,146
Depreciable:				
Land improvements	2,648,008	524,685	-	3,172,693
Buildings	5,433,915	77,835	-	5,511,750
Furniture and fixtures	58,172	121,275		179,447
Vehicles	540,617	31,936	-	572,553
Less Accumulated Depreciation for:	(2,070,458)	(475,919)	-	(2,546,377)
Total Depreciable - Net	6,610,254	279,812	-	6,890,066
Total Capital Assets - Net	$ 78,899,002	$ 2,173,253	$ (573,043)	$ 80,499,212

NOTE 4 - INTERFUND TRANSACTIONS

Interfund transactions are reported as loans, services provided reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental funds are netted as part of the reconciliation to the government-wide financial statements.

Interfund Receivables/Payables (Due From/Due To)

Interfund receivables and payables consisted of the following as of June 30, 2019:

Fund	Due From	Due to
Assessment District 1 Fund	$ 3,993,850	$ 544,675
Capital Reserve Fund	-	180,357
Measure Q Fund	-	3,813,493
Grant Fund	544,675	-
Totals	$ 4,538,525	$ 4,538,525

Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended. For the fiscal year ended June 30, 2019, the Authority did not have any interfund transfers.

NOTE 5 - FUNDING PROGRAM LIABILITY

The 20% Funding Program was established to assist participating jurisdictions with their own urban open space programs. The Five-Year Plan defines participating jurisdictions to consist of the cities of

County not within the Midpeninsula Regional Open Space Authority's boundaries. The program is funded with 20% of the Authority's capital fund expenditures; the primary objective of which is for the acquisition of open space in urban areas. Recognizing that opportunities for land acquisition is limited or unavailable within urban areas, funds may be used for environmental restoration and/or site development projects that provide or enhance open space. As of June 30, 2019, the Authority reclassified the 30% funding program liability from current to long-term in the government-wide statements and increased beginning fund balance by $2,457,705 and assigned fund balance by $2,201,981 in the Assessment District 1 Fund. The liability and assigned fund balance as of June 30, 2019 was as follows:

Government Agency	Balance June 30, 2018	Additions	Project Completion Distributions	Balance June 30, 2019
City of Campbell	$ 35,689	$ 6,423	$ -	$ 42,112
City of Milpitas	181,782	9,241	-	191,023
City of Morgan Hill	33,255	3,017	-	36,272
City of San Jose	1,426,244	126,820	-	1,553,064
City of Santa Clara	453,784	15,428	(425,000)	44,212
Santa Clara County	326,951	8,347	-	335,298
Total	$ 2,457,705	$ 169,276	$ (425,000)	$ 2,201,981

NOTE 6 - JOINT VENTURES (JOINT POWERS AGREEMENTS)

The Authority 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 Authority is a member of the Special Authority Risk Management Authority (SDRMA). During the fiscal year ended June 30, 2019, the Authority had up to $100 million per occurrence for workers compensation and $5 million for employer's liability coverage, subject to the terms, conditions and exclusions as provided in the Memorandum of Coverage from SDRMA.

The Authority has purchased additional insurance with a private insurance carrier to cover potential loss from various identified risks including loss related to torts, theft of, damage to and destruction of assets; errors and omissions, and natural disasters. Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the Authority's insurance coverage during the current year. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

Litigation

The Authority may be exposed to various claims and litigation during the normal course of business. However, management believes there were no matters that would have a material adverse effect on the Authority’s financial position or results of operations as of June 30, 2019.

NOTE 8 - DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plans

Plan Description - The Authority provides benefits to eligible employees through cost-sharing multiple employer defined benefit pension plans (the Plan(s)) administered by the California Public Employees’

Retirement System (CalPERS). Members of the Plan include all permanent employees working full-time. Benefit provisions under the Plans are established by State statute and Authority resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided - CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 55 with statutorily reduced benefits. All members are eligible for non-industrial disability benefits after 10 years of service. The death benefit is the Optional Settlement 2W Death Benefit. The cost of living adjustments for the Plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at June 30, 2019, are summarized as follows:

	Miscellaneous	
	Tier 1	PEPRA
Benefit formula	2.5% @ 55	2% @ 62
Benefit vesting schedule	5 Years	5 Years
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	55	62
Monthly benefits as a % of eligible compensation	2.0% to 2.5%	2.00%
Required employee contribution rates	6.902%	6.250%
Required employer contribution rates	8.892%	6.842%

Contributions - Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Authority is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2019, the contributions recognized as part of pension expense for the Plan were as follows:

	Miscellaneous
Contributions - employer	$ 331,657
Contributions - employee	98,456
Total	$ 430,113

Participants

The following summarizes the participants included in the plan for the fiscal year ended June 30, 2019:

	Miscellaneous
Active	28
Transferred	7
Separated	11
Retired	6
Total	52

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2019, the Authority reported net pension liabilities for its proportionate shares of the net pension liability totaling $625,437.

The Authority's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2018, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 using standard update procedures. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The Authority's proportionate share of the net pension liability for the Plan as of June 30, 2018 and 2019 was as follows:

	Miscellaneous	**Safety**	**Total**
Proportion - June 30, 2018	0.01659%	0.00000%	0.00659%
Proportion - June 30, 2019	0.01660%	0.00000%	0.00649%
Change - Increase/(Decrease)	0.00000%	0.00000%	-0.00010%

For the year ended June 30, 2019, the Authority recognized pension expense of $425,546.

At June 30, 2019, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Changes of Assumptions	$ 71,302	$ 17,475
Differences between Expected and Actual Experience	23,997	8,166
Differences between Projected and Actual Investment Earnings	3,092	-
Differences between Employer's Contributions and Proportionate Share of Contributions	238,011	-
Change in Employer's Proportion	190,194	1,382
Pension Contributions Made Subsequent to Measurement Date	331,657	-
Total	$ 858,252	$ 27,023

The Authority reported $331,657 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending June 30, 2020.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ending June 30:	Deferred Outflows/ (Inflows) of Resources
2020	$ 278,427
2021	191,465
2022	35,306
2023	(5,625)
2024	-
Thereafter	-
Total	$ 499,573

Actuarial Assumptions - The total pension liabilities in the June 30, 2017 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Payroll Growth	2.75%
Projected Salary Increase	(1)
Investment Rate of Return	7.15% (2)
Mortality	(3)

(1) Varies by age and service
(2) Net of pension plan investment expenses, including inflation
(3) Derived using CalPERS' membership data for all funds

Discount Rate - The discount rate used to measure the total pension liability was 7.15 percent for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

Asset Class (a)	Assumed Asset Allocation	Real Return Years 1 - 10 (b)	Real Return Years 11+ (c)
Global Equity	50.00%	4.80%	5.98%
Fixed Income	28.00%	1.00%	2.62%
Inflation Sensitive	0.00%	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Estate	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%
Total	100.00%		

(a) In the System's CAFR, Fixed Income is included in Global Debt Securities; Liquidity Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.
(b) An expected inflation of 2.0% used for this period.
(c) An expected inflation of 2.92% used for this period.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount

Rate – The following presents the Authority's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

		Miscellaneous
1% Decrease		6.15%
Net Pension Liability	$	1,271,145
Current		7.15%
Net Pension Liability	$	625,437
1% Increase		8.15%
Net Pension Liability	$	92,415

Pension Plan Fiduciary Net Position - Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

REQUIRED SUPPLEMENTARY INFORMATION

Santa Clara Valley Open Space Authority

Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual (GAAP)
General Fund - Assessment District 1
For the Fiscal Year Ended June 30, 2019

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual (GAAP Basis)	Positive - (Negative)
Revenues:				
Assessments	$ 4,321,488	$ 4,321,488	$ 4,312,892	$ (8,596)
Investment income	40,000	40,000	161,434	121,434
Donations	-	-	5,850	5,850
Other revenues	439,200	439,200	114,159	(325,041)
Total revenues	4,800,688	4,800,688	4,594,335	(206,353)
Expenditures:				
Current:				
Administration	2,555,707	2,555,707	2,076,860	478,847
Community Engagement	787,114	787,114	714,360	72,754
Planning	391,244	391,244	300,946	90,298
Land management	555,577	555,577	374,347	181,230
Capital outlay	250,000	250,000	226,017	23,983
Total expenditures	4,539,642	4,539,642	3,692,530	847,112
Excess (deficiency) of revenues over (under) expenditures	261,046	261,046	901,805	640,759
Other financing sources (uses):				
Sale of land	-	-	-	-
20% funding program	(150,000)	(150,000)	-	150,000
Total other financing sources (uses)	(150,000)	(150,000)	-	150,000
Net change in fund balance	111,046	111,046	901,805	790,759
Fund balance beginning	8,580,000	8,580,000	8,580,000	-
Prior period adjustment	2,032,705	2,032,705	2,032,705	-
Fund balance beginning - adjusted	10,612,705	10,612,705	10,612,705	-
Fund balance ending	$ 10,723,751	$ 10,723,751	$ 11,514,510	$ 790,759

The Authority employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The budgets are revised during the year by the Board of Directors to provide for revised priorities. Expenditures cannot legally exceed appropriations by major object code. The originally adopted and final revised budgets for the General Fund are presented as Required Supplementary Information. The basis of budgeting is the same as GAAP.

Santa Clara Valley Open Space Authority

Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual (GAAP)
Measure Q Parcel Tax Fund
For the Fiscal Year Ended June 30, 2019

	Budgeted Amounts			Variance with
	Original	Final	Actual (GAAP Basis)	Final Budget Positive - (Negative)
Revenues:				
Assessments	$ 7,987,181	$ 7,987,181	$ 7,930,968	$ (56,213)
Investment income	80,000	80,000	384,611	304,611
Other revenues	80,000	80,000	195,364	115,364
Total revenues	8,147,181	8,147,181	8,510,943	363,762
Expenditures:				
Current:				
Administration	784,910	784,910	479,636	305,274
Community Engagement	539,395	516,182	193,114	323,068
Planning	2,653,720	2,676,933	1,372,509	1,304,424
Land management	1,307,966	1,307,966	1,252,012	55,954
Capital outlay	3,195,000	3,195,000	761,498	2,433,502
Total expenditures	8,480,991	8,480,991	4,058,769	4,422,222
Net change in fund balance	(333,810)	(333,810)	4,452,174	4,785,984
Fund balance beginning	15,179,286	15,179,286	15,179,286	-
Fund balance ending	$ 14,845,476	$ 14,845,476	$ 19,631,460	$ 4,785,984

The Authority employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The budgets are revised during the year by the Board of Directors to provide for revised priorities. Expenditures cannot legally exceed appropriations by major object code. The originally adopted and final revised budgets for major special revenue funds are presented as Required Supplementary Information. The basis of budgeting is the same as GAAP.

Santa Clara Valley Open Space Authority

Schedule of Contributions - Pension Plans

For the Fiscal Year Ended June 30, 2019

Miscellaneous Plan

Fiscal Year Ended	2019	2018	2017	2016	2015
Contractually Required Contributions	$ 331,657	$ 301,654	$ 319,350	$ 308,227	$ 192,716
Contributions in Relation to Contractually Required Contributions	331,657	301,654	319,350	308,227	192,716
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	**$ 2,978,896**	**$ 2,554,352**	**$ 2,468,440**	**$ 2,442,660**	**$ 2,143,596**
Contributions as a % of Covered Payroll	**11.13%**	**11.81%**	**12.94%**	**12.62%**	**8.99%**

Notes to Schedule:

Valuation Date: June 30, 2017

Assumptions Used:
- Entry Age Method used for Actuarial Cost Method
- Level Percentage of Payroll and Direct Rate Smoothing
- 3.8 Years Remaining Amortization Period
- Inflation Assumed at 2.5%
- Investment Rate of Returns set at 7.15%
- CalPERS mortality table based on CalPERS' experience and include 15 years of projected ongoing mortality improvement using 90 percent of Scale MP 2016 published by the Society of Actuaries.

Fiscal year 2015 was the first year of implementation, therefore only five years are shown.

The CalPERS discount rate was increased from 7.5% to 7.65% in fiscal year 2016 and then decreased from 7.65% to 7.15% in fiscal year 2018.

The CalPERS mortality assumptions was adjusted in fiscal year 2019.

Santa Clara Valley Open Space Authority

Schedule of Proportionate Share of Net Pension Liability

For the Fiscal Year Ended June 30, 2019

Miscellaneous Plan Fiscal Year Ended	**2019**	**2018**	**2017**	**2016**	**2015**
Proportion of Net Pension Liability (Safety and Misc)	0.00649%	0.00659%	0.00577%	0.01315%	0.00557%
Proportion of Net Pension Liability (Misc Plan Only)	0.01660%	0.01659%	0.01438%	0.01975%	0.01403%
Proportionate Share of Net Pension Liability	$ 625,437	$ 654,031	$ 499,473	$ 541,769	$ 346,849
Covered Payroll	$ 2,554,352	$ 2,468,440	$ 2,442,660	$ 2,143,596	$ 1,459,746
Proportionate Share of NPL as a % of Covered Employee Payroll	**24.49%**	**26.50%**	**20.45%**	**25.27%**	**23.76%**
Plan's Fiduciary Net Position as a % of the TPL	**86.90%**	**83.53%**	**83.61%**	**86.39%**	**81.15%**

Fiscal year 2015 was the first year of implementation, therefore only five years are shown.

The CalPERS discount rate was increased from 7.5% to 7.65% in fiscal year 2016 and then decreased from 7.65% to 7.15% in fiscal year 2018.

The CalPERS mortality assumptions was adjusted in fiscal year 2019.

OTHER INDEPENDENT AUDITOR'S REPORTS

CHAVAN & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS

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

Board of Directors
Santa Clara Valley Open Space Authority
San Jose, California

We have audited, 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, the financial statements of the Authority as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 16, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion

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on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

C & A LLP

November 16, 2019
San Jose, California

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