

Santa Clara County Open Space Authority

Annual Financial Audit Report

June 30, 2015



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Santa Clara County Open Space Authority
Santa Clara County

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FINANCIAL
SECTION



INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Santa Clara County Open Space Authority (the Authority), as of and for the year ended June 30, 2015, 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, 2015, and the respective changes 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 – CalPERS, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Santa Clara County Open Space Authority's basic financial statements as a whole. The supplementary information listed in the table of contents is presented for purpose of additional analysis and is not a required part of the financial statements. These schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedure, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The combining and individual nonmajor fund financial statements and other schedules listed in the supplementary section of the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and other schedules listed in the supplementary section of the table of contents are fairly stated, in all material respects, in relation to the basic financial statements as a whole.



New Accounting Principles

As discussed in Notes 1 and 7 to the financial statements, the Authority adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective June 30, 2015 and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2015 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 UP

November 24, 2015
San Jose, California

Management's Discussion and Analysis

Santa Clara County Open Space Authority

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015

INTRODUCTION

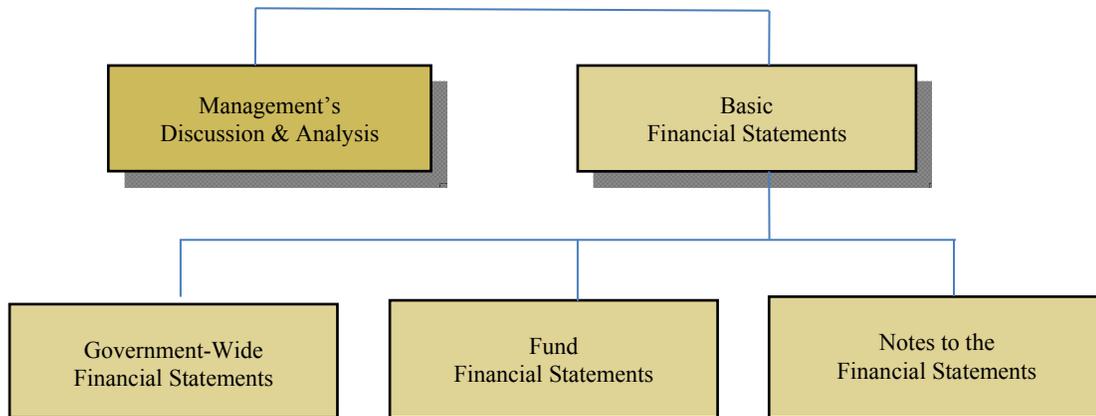
The Management's Discussion and Analysis (MD&A) is a required section of the Authority's annual financial report, as shown in the overview below. The purpose of the MD&A is to present a discussion and analysis of the Authority's financial performance during the fiscal year that ended on June 30, 2015. 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 2014 - 2015?" 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,

Santa Clara County Open Space Authority

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015

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, 2015 were as follows:

- Total net position decreased by \$1,321,450, which included a decrease in unrestricted net position of \$6,656,099, due to costs incurred from land acquisitions and the implementation of GASB 68.
- Capital assets, net of accumulated depreciation, increased by \$5,371,172 due to land acquisitions and other capital purchases.
- Current liabilities decreased by \$162,823 because of the timing of payroll and payroll accruals at the end of the year.
- Revenue increased by \$646,902 because of increases in grants from 2014 to 2015.
- Total operating expenses increased by \$1,444,476 because administration and program expenses were higher during the year.

REPORTING THE AUTHORITY'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The analysis of the Authority's fund financial statements begins on page 11. 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.

Santa Clara County Open Space Authority

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015

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, 2015 as compared to June 30, 2014:

Table 1 - Summary of Statement of Net Position				
	2015	2014	Change	Percentage Change
Assets				
Current Assets	\$ 29,195,886	\$ 34,299,910	\$ (5,104,024)	-14.88%
Capital Assets - Net	61,611,357	56,240,185	5,371,172	9.55%
Total Assets	\$ 90,807,243	\$ 90,540,095	\$ 267,148	0.30%
Deferred Outflows				
Deferred Outflows	\$ 192,716	\$ -	\$ 192,716	100.00%
Liabilities				
Current Liabilities	\$ 2,733,728	\$ 2,896,551	\$ (162,823)	-5.62%
Noncurrent Liabilities	483,091	114,754	368,337	320.98%
Total Liabilities	\$ 3,216,819	\$ 3,011,305	\$ 205,514	6.82%
Deferred Inflows				
Deferred Inflows	\$ 1,575,800	\$ -	\$ 1,575,800	100.00%
Net Position				
Net Investment in Capital Assets	\$ 61,611,357	\$ 56,240,185	\$ 5,371,172	9.55%
Restricted	706,353	742,876	(36,523)	-4.92%
Unrestricted	23,889,630	30,545,729	(6,656,099)	-21.79%
Total Net Position	\$ 86,207,340	\$ 87,528,790	\$ (1,321,450)	-1.51%

Total net position decreased by \$1,321,450. Total assets increased by \$267,148 and total liabilities increased by \$205,514. Net investment in capital assets increased by \$5,371,172 as a result of additions to capital assets from land purchases and construction in progress.

Santa Clara County Open Space Authority

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015

Table 2 shows the changes in net position for fiscal year 2015 as compared to 2014.

Table 2 - Summary of Changes in Net Position				
	2015	2014	Change	Percentage Change
Revenues				
Program revenues:				
Operating grants and contributions	\$ 147,259	\$ -	\$ 147,259	100.00%
Capital grants and contributions	441,000	-	441,000	100.00%
General revenues:				
Assessments	4,185,314	4,205,669	(20,355)	-0.48%
20% funding program	(27,391)	(128,219)	100,828	78.64%
Investment income	140,731	141,117	(386)	-0.27%
Other revenues	139,906	161,350	(21,444)	-13.29%
Total Revenues	5,026,819	4,379,917	646,902	14.77%
Program Expenses				
Administration	3,031,131	2,311,585	719,546	31.13%
Public affairs	916,670	367,019	549,651	149.76%
Planning	674,512	464,281	210,231	45.28%
Land management	1,261,856	1,304,266	(42,410)	-3.25%
Depreciation	129,622	122,164	7,458	6.10%
Total Expenses	6,013,791	4,569,315	1,444,476	31.61%
Change in Net Position	(986,972)	(189,398)	(797,574)	-421.11%
Beginning Net Position	87,528,790	87,716,855	(188,065)	-0.21%
Prior Period Adjustment	(334,478)	1,333	(335,811)	-25192.12%
Ending Net Position	\$ 86,207,340	\$ 87,528,790	\$ (1,321,450)	-1.51%

General revenues increased because the Authority received more grants in 2015 than it had in 2014. Most of the Authority's revenue is derived from benefit assessments which are handled by the County of Santa Clara. Investment earnings declined due to the impact of lower interest rates.

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				
	2015	2014	Change	Percentage Change
Assessment District 1	\$ 5,729,626	\$ 4,517,365	\$ 1,212,261	27%
Capital Reserve Fund	18,626,179	26,143,118	(7,516,939)	-29%
Endowment Fund	706,353	742,876	(36,523)	-5%
Total Fund Balance	\$ 25,062,158	\$ 31,403,359	\$ (6,341,201)	-20%

Santa Clara County Open Space Authority

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015

GENERAL FUND BUDGETING HIGHLIGHTS

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

During the course of the 2014-15 fiscal year, the Authority did not revise its General Fund budget. The final budgeted revenue and other financing sources estimate was \$5,745,465. The final budgeted expenditures estimate was \$5,105,584.

CAPITAL ASSETS

Table 4 shows June 30, 2015 capital asset balances as compared to June 30, 2014.

Table 4 - Summary of Capital Assets Net of Depreciation				
	2015	2014	Change	Percentage Change
Land	\$ 59,740,031	\$ 55,235,543	\$ 4,504,488	8.16%
Construction in progress	65,351	65,351	-	0.00%
Land improvements	2,182,455	1,286,419	896,036	69.65%
Furniture and fixtures	112,022	114,643	(2,621)	-2.29%
Vehicles	446,597	346,327	100,270	28.95%
Accumulated depreciation	(935,099)	(808,098)	(127,001)	15.72%
Total Capital Assets - Net	\$ 61,611,357	\$ 56,240,185	\$ 5,371,172	9.55%

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Board of Directors adopted the Authority's budget for fiscal year 2016 on June 11, 2015. This budget assumes an increase of \$4.02 million in assessment income from fiscal year 2015 to fiscal year 2016, largely due to additional assessment income collected from Measure Q. The budget assumes the acquisition of \$3.69 million of new land and \$2.07 million of other capital spending. Operating expenditures are budgeted at \$4.76 million. If all revenues and expenditures occur as budgeted, the Authority's cash position would decrease by \$2.72 million in fiscal year 2016.

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 County Open Space Authority, 6980 Santa Teresa Blvd., Ste., 100, San Jose, California 95119.

Basic Financial Statements

Santa Clara County Open Space Authority

Statement of Net Position

June 30, 2015

	Governmental Activities
Assets	
Current assets:	
Cash and investments	\$ 28,263,218
Restricted cash and investments	725,481
Interest receivable	38,009
Accounts receivable	18,897
Other current assets	150,281
Total current assets	<u>29,195,886</u>
Noncurrent assets:	
Non-depreciable capital assets	59,805,382
Capital assets, net of depreciation	1,805,975
Total noncurrent assets	<u>61,611,357</u>
Total Assets	<u>\$ 90,807,243</u>
Deferred Outflows of Resources	
Pension contributions and adjustments	<u>\$ 192,716</u>
Liabilities	
Current liabilities:	
Accounts payable	\$ 122,210
Payroll and other liabilities	90,160
Funding program liability	2,521,358
Total current liabilities	<u>2,733,728</u>
Noncurrent liabilities:	
Net Pension Liability	346,849
Compensated absences	136,242
Total noncurrent liabilities	<u>483,091</u>
Total Liabilities	<u>\$ 3,216,819</u>
Deferred Inflows of Resources	
Difference between projected and actual pension earnings	\$ 175,800
Unearned revenue	1,400,000
Total Deferred Inflows of Resources	<u>\$ 1,575,800</u>
Net Position	
Net Investment in capital assets	\$ 61,611,357
Restricted for endowment	706,353
Unrestricted	23,889,630
Total Net Position	<u>\$ 86,207,340</u>

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

Santa Clara County Open Space Authority

Statement of Activities

For the Fiscal Year Ended June 30, 2015

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental activities:				
Administration	\$ 3,031,131	\$ -	\$ -	\$ (3,031,131)
Public affairs	916,670	147,259	-	(769,411)
Planning	674,512	-	-	(674,512)
Land management	1,261,856	-	441,000	(820,856)
Depreciation	129,622	-	-	(129,622)
Total governmental activities	<u>\$ 6,013,791</u>	<u>\$ 147,259</u>	<u>\$ 441,000</u>	<u>(5,425,532)</u>
General revenues:				
Assessments				4,185,314
Investment income				140,731
Donations				8,483
Other revenues				131,423
Special item: 20% funding program				<u>(27,391)</u>
Total general revenues and special items				<u>4,438,560</u>
Change in net position				(986,972)
Net position beginning				87,528,790
Prior period adjustment				<u>(334,478)</u>
Net position beginning as adjusted				<u>87,194,312</u>
Net position ending				<u><u>\$ 86,207,340</u></u>

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

Santa Clara County Open Space Authority

Balance Sheet

Governmental Funds

June 30, 2015

	Assessment District 1 Fund	Capital Reserve Fund	Endowment Fund	Total Governmental Funds
ASSETS				
Cash and investments	\$ 8,087,104	\$ 20,176,114	\$ -	\$ 28,263,218
Restricted cash and investments	-	-	725,481	725,481
Interest receivable	9,011	28,998	-	38,009
Accounts receivable	18,897	-	-	18,897
Due from other funds	3,376,461	1,778,400	-	5,154,861
Other current assets	150,281	-	-	150,281
Total Assets	<u>\$ 11,641,754</u>	<u>\$ 21,983,512</u>	<u>\$ 725,481</u>	<u>\$ 34,350,747</u>
LIABILITIES				
Accounts payable	\$ 122,210	\$ -	\$ -	\$ 122,210
Payroll and other liabilities	90,160	-	-	90,160
Due to other funds	1,778,400	3,357,333	19,128	5,154,861
Funding program liability	2,521,358	-	-	2,521,358
Total Liabilities	<u>4,512,128</u>	<u>3,357,333</u>	<u>19,128</u>	<u>7,888,589</u>
DEFERRED INFLOWS OF RESOURCES				
Unearned revenue	1,400,000	-	-	1,400,000
FUND BALANCES				
Nonspendable for prepaid items	133,600	-	-	133,600
Restricted for endowment	-	-	706,353	706,353
Assigned for capital projects	-	18,626,179	-	18,626,179
Unassigned	5,596,026	-	-	5,596,026
Total Fund Balances	<u>5,729,626</u>	<u>18,626,179</u>	<u>706,353</u>	<u>25,062,158</u>
Total Liabilities and Fund Balances	<u>\$ 11,641,754</u>	<u>\$ 21,983,512</u>	<u>\$ 725,481</u>	<u>\$ 34,350,747</u>

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

Santa Clara County Open Space Authority

Reconciliation of the Governmental Funds
Balance Sheet to the Statement of Net Position
June 30, 2015

Total fund balance - governmental funds \$ 25,062,158

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	\$ 62,546,456	
Accumulated depreciation	<u>(935,099)</u>	61,611,357

The difference between projected and actual earnings from pension plan assets is not included in the plan's actuarial study until the next fiscal year and are reported as deferred inflows of resources in the statement of net position. (175,800)

Amounts due from other governments will not be collected soon enough to pay current period expenditures and are reported as deferred outflows of resources in governmental funds. 192,716

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	\$ 346,849	
Compensated absences	<u>136,242</u>	<u>(483,091)</u>

Total net position - governmental activities \$ 86,207,340

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

Santa Clara County Open Space Authority
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2015

	Assessment District 1 Fund	Capital Reserve Fund	Endowment Fund	Total Governmental Funds
Revenues:				
Assessments	\$ 4,185,314	\$ -	\$ -	\$ 4,185,314
Investment income	25,587	110,788	4,356	140,731
Donations	8,483	-	-	8,483
Other revenues	572,425	147,258	-	719,683
Total revenues	4,791,809	258,046	4,356	5,054,211
Expenditures:				
Current:				
Administration	1,883,591	1,128,402	-	3,011,993
Public affairs	564,373	353,008	-	917,381
Planning	509,316	165,196	-	674,512
Land management	1,189,771	32,690	40,879	1,263,340
Capital outlay	62,630	7,216,565	-	7,279,195
Total expenditures	4,209,681	8,895,861	40,879	13,146,421
Excess (deficiency) of revenues over (under) expenditures	582,128	(8,637,815)	(36,523)	(8,092,210)
Other financing sources (uses):				
Transfers in	657,524	-	-	657,524
Transfers out	-	(657,524)	-	(657,524)
Sale of land	-	1,778,400	-	1,778,400
20% funding program	(27,391)	-	-	(27,391)
Total other financing sources (uses)	630,133	1,120,876	-	1,751,009
Net change in fund balances	1,212,261	(7,516,939)	(36,523)	(6,341,201)
Fund balances beginning	4,517,365	26,143,118	742,876	31,403,359
Fund balances ending	\$ 5,729,626	\$ 18,626,179	\$ 706,353	\$ 25,062,158

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

Santa Clara County 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, 2015

Total net change in fund balance - governmental funds \$ (6,341,201)

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	\$	7,279,194	
Depreciation expense		<u>(129,622)</u>	7,149,572

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. 4,545

Governmental funds report revenue on the cash received for the sale land and other capital assets. However, in the statement of activities only amount received above the assets net book value is reported as revenue. The Authority reported revenue from the sale of land in the governmental funds of: (1,778,400)

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. (21,488)

Change in net position of governmental activities \$ (986,972)

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

Santa Clara County Open Space Authority

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. General

The Santa Clara County 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 Five-Year Plan.

B. Reporting Entity

The governing authority 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, 2015, 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.

Santa Clara County Open Space Authority

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

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.

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For the Fiscal Year Ended June 30, 2015

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 a consumption of net assets by the government that is applicable to a future reporting period, such as prepaid items and deferred charges.

A deferred inflow of resources is an acquisition of net assets by the government that is applicable to a future reporting period, such as unearned revenue and advance collections.

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 three 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.

Santa Clara County Open Space Authority

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

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.

Endowment Fund - The Authority's holding fund for the Valley Transportation Authority (VTA). The earnings from endowment funds are used to care for mitigation properties.

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 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.

Santa Clara County Open Space Authority

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

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 of the Assessment District No. 1 Fund 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:

<u>Assets</u>	<u>Years</u>
Land improvements	3 - 50
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 termination of employment. Changes in compensated absences for the fiscal year ended June 30, 2015 were as follows:

Beginning Balance	\$ 114,754
Additions	21,488
Retirements	-
Ending Balance	<u>\$ 136,242</u>

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. The Authority did not have any long-term debt outstanding as of June 30, 2015.

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

Santa Clara County Open Space Authority

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

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. Net Position

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.

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Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

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. Benefit Assessment

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. 68 – Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27, issued June 2012. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of GASB Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. This Statement establishes a definition of a pension plan that reflects the primary activities associated with the pension arrangement – determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. This Statement has been implemented as of June 30, 2015 resulting in a prior period adjustment. See Note 7 for information related to the financial statement impact of this statement.

GASB Statement No. 69 – In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposal of Government Operations*. This Statement establishes accounting and

Santa Clara County Open Space Authority

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

financial reporting standards related to government combinations and disposal of government operations. As used in this Statement, *combinations* include a variety of transactions referred to as mergers, acquisitions, and transfers of operations. There was no financial statement effect related to this Statement.

GASB Statement No. 70 – In April 2013, GASB issued Statement No 70, *Accounting and Financial Reporting for Non-exchange Financial Guarantees*. Some governments extend financial guarantees for the obligations of another government, a not-for-profit entity, or private entity without directly receiving equal or approximately equal value in exchange (a non-exchange transaction). The Authority does not participate in non-exchange financial guarantees. Therefore, this Statement had no financial statement effect.

GASB Statement No. 71 – In November 2013, GASB issued Statement No 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, an amendment of GASB Statement No. 68. The objective of this Statement is to address an issue regarding application of the transition provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of GASB Statement No. 68 and have been implemented as of June 30, 2015. See Note 7 for information related to the financial statement impact of this statement.

J. Upcoming Accounting and Reporting Changes

GASB Statement No. 72 – In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *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. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015 (fiscal year ending June 30, 2016). The Authority is in the process of determining the impact this statement will have on the financial statements, but does not anticipate a material impact on its financial statements.

GASB Statement No. 73 – *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. The provisions in GASB Statement No. 73 are effective for fiscal years beginning after June 15, 2015, except those provisions that address employers and governmental non-employer contributing entities for pensions that are not within the scope of GASB Statement No. 68, which are effective for fiscal years beginning after June 15, 2016. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all post-employment benefits with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

Santa Clara County Open Space Authority

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For the Fiscal Year Ended June 30, 2015

This Statement also clarifies the application of certain provisions of GASB Statements No. 67 and No. 68 on the following issues:

- Information that is required to be presented as notes to the 10-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported.
- Accounting and financial reporting for separately financed specific liabilities of individual employers and non-employer contributing entities for defined benefit pensions.
- Timing of employer recognition of revenue for the support of non-employer contributing entities *not* in a special funding situation.

The Authority is in the process of determining the impact this statement will have on the financial statements, but does not anticipate a material impact on its financial statements.

GASB Statement No. 74 – Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans. The provisions in GASB Statement No. 74 are effective for fiscal years beginning after June 15, 2016. The objective of this Statement is to improve the usefulness of information about post-employment benefits other than pensions (other post-employment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement replaces GASB Statements No. 43, *Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, GASB Statements No. 43 and No. 50, *Pension Disclosures*. The scope of this Statement includes OPEB plans – defined benefit and defined contribution, administered through trusts that meet the following criteria:

- Contributions from employers and non-employer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, non-employer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

Management anticipates that this statement will not have a direct impact on the Authority's financial statements.

GASB Statement No. 75 – Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions. The provisions in GASB Statement No. 75 are effective for fiscal years beginning after June 15, 2017. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for post-employment benefits other than pensions (other post-employment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement replaces the requirements of GASB Statements No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. GASB

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Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

Statement No. 74, *Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a non-employer entity provides financial support for OPEB of employees of another entity.

In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria:

- Contributions from employers and non-employer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, non-employer contributing entities, the OPEB plan administrator, and the plan members.

The Authority is in the process of determining the impact this statement will have on the financial statements.

GASB Statement No. 76 – *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The provisions in GASB Statement No. 76 are effective for reporting periods beginning after June 15, 2015. This Statement supersedes GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, and should be applied retroactively. Its objective is to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (GAAP). The GAAP hierarchy consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. Management anticipates that this statement will not have a material impact on the Authority's financial statements.

GASB Statement No. 77 – *Tax Abatement Disclosures*. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. This Statement requires

Santa Clara County Open Space Authority

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients.
- The gross dollar amount of taxes abated during the period.
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

Management anticipates that this statement will not have a material 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, 2015:

Cash and Investments	Cash and Cash Equivalents Available		
	for Operations	Restricted	Total
Cash Deposits:			
Cash in banks	\$ 323,969	\$ -	\$ 323,969
Money market accounts	-	362,082	362,082
Petty Cash	1,149	-	1,149
Total Cash Deposits	325,118	362,082	687,200
Investments:			
California Local Agency Investment Fund	-	363,399	363,399
Santa Clara County Pool	27,938,100	-	27,938,100
Total Investments	27,938,100	363,399	28,301,499
Total Cash and Cash Equivalents	\$ 28,263,218	\$ 725,481	\$ 28,988,699

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, 2015, the Authority's bank balances exceeded FDIC coverage by \$296,001.

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 239 days.

Santa Clara County Open Space Authority

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

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.

California Local Agency Investment Fund

The Authority is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The Authority reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. At June 30, 2015 these investments had an average maturity date of less than one year.

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

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

Santa Clara County Open Space Authority

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

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 and LAIF, which had fair values of approximately \$5.69 billion and \$69.6 billion, respectively as of June 30, 2015.

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 2014-15 included U.S. government securities or obligations explicitly guaranteed by the U.S. government that are not considered to have credit risk exposure. The County's two other investment types, LAIF and money market mutual funds, are not rated.

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, 2015, is shown below:

Description	Balance July 01, 2014	Additions	Deletions	Balance June 30, 2015
Non-depreciable Capital Assets:				
Land	\$ 55,235,543	\$ 6,309,021	\$(1,804,533)	\$ 59,740,031
Construction in progress	65,351	-	-	65,351
Total non-depreciable capital assets	<u>55,300,894</u>	<u>6,309,021</u>	<u>(1,804,533)</u>	<u>59,805,382</u>
Depreciable Capital Assets:				
Land improvements	1,286,419	896,036	-	2,182,455
Furniture and fixtures	114,643	-	(2,621)	112,022
Vehicles	346,327	100,270	-	446,597
Less: accumulated depreciation	(808,098)	(129,622)	2,621	(935,099)
Total depreciable capital assets - net	<u>939,291</u>	<u>866,684</u>	<u>-</u>	<u>1,805,975</u>
Total capital assets - net	<u>\$ 56,240,185</u>	<u>\$ 7,175,705</u>	<u>\$(1,804,533)</u>	<u>\$ 61,611,357</u>

Santa Clara County Open Space Authority

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

NOTE 4 - 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 Campbell, Milpitas, Morgan Hill, San Jose, Santa Clara, and the unincorporated areas of Santa Clara 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.

The liability as of June 30, 2015 was as follows:

<u>Government Agency</u>	<u>Balance June 30, 2014</u>	<u>Additions</u>	<u>Project Completion Distributions</u>	<u>Balance June 30, 2015</u>
City of Campbell	\$ 22,795	\$ 1,041	\$ -	\$ 23,836
City of Milpitas	163,852	1,397	-	165,249
City of Morgan Hill	27,237	466	-	27,703
City of San Jose	1,547,010	20,625	-	1,567,635
City of Santa Clara	422,953	2,493	-	425,446
Santa Clara County	310,120	1,369	-	311,489
Total	<u>\$ 2,493,967</u>	<u>\$ 27,391</u>	<u>\$ -</u>	<u>\$ 2,521,358</u>

NOTE 5 - 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 District Risk Management Authority (SDRMA). During the fiscal year ended June 30, 2015, 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 6 - 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, 2015.

Santa Clara County Open Space Authority

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

Facilities Leases

The Authority's facilities are leased under an operating lease. In 2008, the Authority moved and entered into a long-term (5-year) lease for new facilities commencing in June of 2008 and expiring May 31, 2013. On February 28, 2013 the agreement was modified to extend until May 31, 2016. Rent expense for the year ended June 30, 2015 amounted to \$92,958. As of June 30, 2015, the future minimum rental payments required under the Authority's 5-year operating lease were \$106,812 for the fiscal year ended June 30, 2016.

On November 24, 2013, the Authority leased office space under an operating lease for the land management office. The current lease runs from October 1, 2013 through September 30, 2016. Rent expense for the year ended June 30, 2015 was \$62,400. As of June 30, 2015, the future minimum rental payments required under the Authority's operating lease were as follows:

<u>Fiscal Year Ended June 30,</u>	<u>Amount</u>
2016	\$ 62,400
2017	15,600
Total minimum lease payments	<u>\$ 78,000</u>

NOTE 7 – DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plans

Plan Description - All qualified permanent and probationary employees are eligible to participate in the Authority's Miscellaneous Employee Pension Plan (the Plan), a cost-sharing multiple employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan are established by State statute and Authority resolution. CalPERS issues publicly available reports that include a full description of the pension plan 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 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for the Plan are applied as specified by the Public Employees' Retirement Law.

Santa Clara County Open Space Authority

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

The Plans' provisions and benefits in effect at June 30, 2015, are summarized as follows:

	<u>Tier 1</u>	<u>Tier 2</u>	<u>PEPRA</u>
Hire date	Before June 27, 2011	After June 27, 2011; Before January 1, 2013	On or after January 1, 2013
Benefit formula	2% @ 55	2% @ 60	2% @ 62
Benefit vesting schedule	5 Years	5 Years	5 Years
Benefit payments	Monthly for Life	Monthly for Life	Monthly for Life
Retirement age	55	60	62
Monthly benefits as a % of eligible compensation	2.0% to 2.5%	2.00%	2.00%
Required employee contribution rates	8.00%	7.00%	6.25%
Required employer contribution rates	10.28%	8.00%	6.25%

Employees Covered - At June 30, 2015, the following employees were covered by the benefit terms for each Plan:

	<u>Miscellaneous</u>
Inactive employees receiving benefits	3
Inactive employees entitled to not receiving benefits	10
Active members	16
Total	29

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 both Plans 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 Local Government is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2015, the contributions recognized as part of pension expense for each Plan were as follows:

	<u>Miscellaneous</u>
Contributions - employer	\$ 45,887
Contributions - employee	99,771

During the fiscal year, the employees contributed 8.45% of the total required employee contribution, leaving the District's total contribution at 91.55% for 2015. Total contributions made by employer on behalf of the employee for the fiscal year ended June 30, 2015 was \$115,517.

Santa Clara County Open Space Authority

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

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

As of June 30, 2015, the Authority reported net pension liabilities for its proportionate shares of the net pension liability of the Plan as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous	\$ 346,849

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, 2014, 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, 2013 rolled forward to June 30, 2014 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, 2013 and 2014 was as follows:

	Miscellaneous
Proportion - June 30, 2013	0.01446%
Proportion - June 30, 2014	0.01403%
Change	-0.00043%

For the year ended June 30, 2015, the Authority recognized pension expense of \$4,545. At June 30, 2015, 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
Pension contributions subsequent to measurement date	\$ 192,716	\$ -
Net differences between projected and actual earnings on plan investments	-	175,800
Total	\$ 192,716	\$ 175,800

The Authority reported \$192,716 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 ended June 30, 2016.

Santa Clara County Open Space Authority

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

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 Ended June 30	Recognized to Pension Expense
2016	\$ (50,297)
2017	(50,297)
2018	(46,066)
2019	(29,140)
Total	\$ (175,800)

Actuarial Assumptions - The total pension liabilities in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous
Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.50%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	3.3% - 14.2% (1)
Investment Rate of Return	7.5% (2)
Mortality	(3)

- (1) Depending on age, service and type of employment
- (2) Net of pension plan investment expenses, including inflation
- (3) Derived using CalPERS' membership data for all funds

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website.

Discount Rate - The discount rate used to measure the total pension liability was 7.50 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 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative

Santa Clara County Open Space Authority

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

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. These rates of return are net of administrative expenses.

<u>Asset Class</u>	New	<u>Real Return Years 1 - 10 (a)</u>	<u>Real Return Years 11+ (b)</u>
	<u>Strategic Allocation</u>		
Global Equity	47.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	12.00%	6.83%	6.95%
Real Estate	11.00%	4.50%	5.13%
Infrastructure and Forestland	3.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
Total	<u>100.00%</u>		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

Santa Clara County Open Space Authority

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

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 each Plan, calculated using the discount rate for each 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:

	<u>Miscellaneous</u>
1% Decrease	6.50%
Net Pension Liability	\$ 617,978
Current Discount Rate	7.50%
Net Pension Liability	\$ 346,849
1% Increase	8.50%
Net Pension Liability	\$ 121,838

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

NOTE 8 - SUBSEQUENT EVENTS

Management has reviewed subsequent events and transactions that occurred after the date of the financial statements through the date the financial statements were issued. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles.

REQUIRED
SUPPLEMENTARY
INFORMATION

Santa Clara County 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, 2015

	<u>Budgeted Amounts</u>		Actual (GAAP Basis)	Variance with Final Budget Positive - (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Assessments	\$ 4,216,965	\$ 4,216,965	\$ 4,185,314	\$ (31,651)
Investment income	130,000	130,000	25,587	(104,413)
Donations	500	500	8,483	7,983
Other revenues	1,398,000	1,398,000	572,425	(825,575)
Total revenues	<u>5,745,465</u>	<u>5,745,465</u>	<u>4,791,809</u>	<u>(953,656)</u>
Expenditures:				
Current:				
Administration	4,295,854	4,295,854	1,883,591	2,412,263
Public affairs	154,200	154,200	564,373	(410,173)
Planning	113,450	113,450	509,316	(395,866)
Land management	412,080	412,080	1,189,771	(777,691)
Capital outlay	130,000	130,000	62,630	67,370
Total expenditures	<u>5,105,584</u>	<u>5,105,584</u>	<u>4,209,681</u>	<u>895,903</u>
Excess (deficiency) of revenues over (under) expenditures	<u>639,881</u>	<u>639,881</u>	<u>582,128</u>	<u>(57,753)</u>
Other financing sources (uses):				
Transfers in	-	-	657,524	657,524
20% funding program	(26,000)	(26,000)	(27,391)	(1,391)
Total other financing sources (uses)	<u>(26,000)</u>	<u>(26,000)</u>	<u>630,133</u>	<u>656,133</u>
Net change in fund balance	613,881	613,881	1,212,261	598,380
Fund balance beginning	<u>4,517,365</u>	<u>4,517,365</u>	<u>4,517,365</u>	<u>-</u>
Fund balance ending	<u>\$ 5,131,246</u>	<u>\$ 5,131,246</u>	<u>\$ 5,729,626</u>	<u>\$ 598,380</u>

Santa Clara County Open Space Authority
 Schedule of CalPERS Pension Plan Contributors
 For the Fiscal Year Ended June 30, 2015

	2015
Contractually Required Contributions (Actuarially Determined)	\$ 145,375
Contributions in Relation to Actuarially Determined Contributions	145,375
Contribution Deficiency (Excess)	\$ -
 Covered Employee Payroll	 1,367,086
 Contributions as a Percentage of Covered Payroll	 10.63%

Notes to Schedule:

Valuation Date: June 30, 2013
 Assumptions Used: Entry Age Method used for Actuarial Cost Method
 Level Percentage of Payroll (Closed) Used Amortization Method
 3.8 Years Remaining Amortization Period
 CalPERS mortality table using 20 years of membership data for all funds

** Fiscal year 2015 was the first year of implementation, therefore only one year is shown

Santa Clara County Open Space Authority
 Schedule of CalPERS Pension Plan Contributors
 For the Fiscal Year Ended June 30, 2015

	2015
District's Proportion of Net Pension Liability	0.00557%
District's Proportionate Share of Net Pension Liability	\$ 346,849
District's Covered Employee Payroll	\$ 1,367,086
District's Proportionate Share of NPL as a % of Covered Employee Payroll	25.37%
Plan Fiduciary's Net Position as a % of the TPL	83.03%

** Fiscal year 2015 was the first year of implementation, therefore only one year is shown

OTHER INDEPENDENT
AUDITOR'S REPORTS



**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 County 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, 2015, 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 24, 2015.

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 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 24, 2015
San Jose, California