

**SANTA CLARA COUNTY
OPEN SPACE AUTHORITY**

ANNUAL FINANCIAL REPORT

JUNE 30, 2012

SANTA CLARA COUNTY OPEN SPACE AUTHORITY

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying basic financial statements of the governmental activities and each major fund of the Santa Clara County Open Space Authority (the Authority) as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Authority as of June 30, 2012, and the results of its operations for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and budgetary comparison information 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.

Palo Alto, California
November 28, 2012

SANTA CLARA COUNTY OPEN SPACE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

The Authority's Management's Discussion and Analysis (MD&A) is designed to (a) assist the reader on focusing on significant financial issues, (b) provide an overview of the Authority's financial activity, (c) identify changes in the Authority's financial position (its ability to address challenges in subsequent years), and (d) identify individual fund issues or concerns.

Since the MD&A is designed to focus on the current year's activities, resulting changes and current known facts, please read it in conjunction with the Authority's basic financial statements.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts: Management's Discussion and Analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Authority.

The first two statements are government-wide financial statements that provide both short-term and long-term information about the Authority's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the Authority, reporting the Authority's operation in more detail than the government-wide statements.

The fund financial statements are composed of:

- Governmental fund statements which tell how basic services were financed in the short term, as well as what remains for future spending.

The Statement of Net Assets and Statement of Activities

The Statement of Net Assets and Statement of Activities report information about the Authority as a whole and about its activities. These statements include all assets and liabilities of the Authority using the accrual basis of accounting, which is similar to the accounting used by private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Authority's net assets as well as changes to those net assets. Net assets are the difference between assets and liabilities, which is one way to measure the Authority's financial health, or financial position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating. To assess the overall health of the Authority, additional non-financial factors including the condition of the Authority's buildings and other facilities are considered.

SANTA CLARA COUNTY OPEN SPACE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

REPORTING THE AUTHORITY'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The fund financial statements provide more detailed information about the Authority's most significant funds; not the Authority as a whole. Funds are accounting devices for the Authority to use to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by law and covenants.
- The Authority establishes other funds to control and manage money for particular purposes or to show that certain revenues have been properly used.

Governmental Funds

The Authority's basic services are reported in governmental funds, which generally focus on how money flows into and out of those funds and the balances left at year end that are available for spending. These funds are 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 fund information, which helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Authority's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental fund statements that explains the relationship (or differences) between them.

FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE

The following table summarizes the Authority's net assets as of June 30, 2012:

Table 1
Governmental Activities Net Assets

	<u>2012</u>	<u>2011</u>	<u>Change</u>
Current and other assets	\$ 37,306,928	\$ 38,184,138	\$ (877,210)
Capital assets, net of the accumulated depreciation	52,354,947	51,773,920	581,027
Total Assets	<u>89,661,875</u>	<u>89,958,058</u>	<u>(296,183)</u>
Other Liabilities	2,566,614	4,358,169	(1,791,555)
Long-term debt outstanding	64,555	39,489	25,066
Total liabilities	<u>2,631,169</u>	<u>4,397,658</u>	<u>(1,766,489)</u>
Net assets:			
Invested in capital assets, net of related debt	52,354,947	51,773,920	581,027
Restricted	794,272	868,159	(73,887)
Unrestricted	33,881,487	32,918,321	963,166
Total net assets	<u>\$ 87,030,706</u>	<u>\$ 85,560,400</u>	<u>\$ 1,470,306</u>

SANTA CLARA COUNTY OPEN SPACE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

The Authority's net assets were \$87,030,706 for the fiscal year ended June 30, 2012. Of this amount, \$33,881,487 was unrestricted. Restricted net assets are reported separately to show legal constraints from debt, Board covenants and enabling legislation that limit the Board's ability to use those net assets for day-to-day operations. A separate Board designated reserve established with funds received in conclusion of litigation during fiscal 2009/2010 may be used as of and when the Authority's Board determines appropriate.

The following table summarizes the Authority's change in net assets for the year ended June 30, 2012:

Table 2
Changes in Net Assets

	<u>2012</u>	<u>2011</u>	<u>Change</u>
Revenues			
General revenues:			
Property taxes	\$ 4,150,932	\$ 4,147,657	\$ 3,275
20% Funding program	(323,384)	(261,999)	(61,385)
Other revenue	14,547	13,742	805
Use of money and property	278,997	259,053	19,944
Total revenues	<u>4,121,092</u>	<u>4,158,453</u>	<u>(37,361)</u>
Program Expenses			
Administration	1,608,299	1,517,982	90,317
Program	66,914	13,101	53,813
Land management	975,573	780,519	195,054
Total expenses	<u>2,650,786</u>	<u>2,311,602</u>	<u>339,184</u>
Change in Net Assets	<u>\$ 1,470,306</u>	<u>\$ 1,846,851</u>	<u>\$ (376,545)</u>

Government Activities

For the 2012 fiscal year, the total Authority revenues were \$4,121,092 and the total Authority expenses were \$2,650,786. The difference of \$1,470,306 is the increase in net assets bringing the total net assets to \$87,030,706 as of June 30, 2012. The main source of revenue for the Authority is an assessment.

SANTA CLARA COUNTY OPEN SPACE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

Capital Assets

At June 30, 2012, the Authority had \$52,354,947 in a broad range of capital assets, including land, buildings and furniture and equipment. The Authority uses \$5,000 as its capitalization threshold.

Table 3
Capital Assets at Year End

	<u>2012</u>	<u>2011</u>
Land	\$ 51,606,473	\$ 51,122,313
Construction in progress	142,293	142,293
Land improvements	888,255	743,351
Furniture and fixtures	64,180	50,523
Vehicles	248,136	259,754
Accumulated depreciation	(594,390)	(544,314)
Net capital assets	<u>\$ 52,354,947</u>	<u>\$ 51,773,920</u>

Contracting 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.

SANTA CLARA COUNTY OPEN SPACE AUTHORITY

STATEMENT OF NET ASSETS JUNE 30, 2012

ASSETS

Cash and investments	\$ 36,395,424
Restricted cash and investments	836,545
Interest receivable	54,380
Other accounts receivables	5,100
Prepaid items	15,479
Non-depreciable capital assets	51,748,766
Depreciable capital assets, net	606,181
Total Assets	<u>89,661,875</u>

LIABILITIES

Accounts payable	65,348
Funding program liability	2,501,266
Compensated absences	64,555
Total Liabilities	<u>2,631,169</u>

NET ASSETS

Invested in capital assets, net of related debt	52,354,947
Restricted	794,272
Unrestricted	33,881,487
Total Net Assets	<u>\$ 87,030,706</u>

See accompanying notes to financial statements.

SANTA CLARA COUNTY OPEN SPACE AUTHORITY

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

Governmental activities:

Program expenses:

Administration	\$ 1,608,299
Program	66,914
Land management	975,573
Total Governmental Activities	<u>2,650,786</u>

General revenues:

Assessments	4,150,932
20% Funding program	(323,384)
Donations	3,644
Other revenues	10,903
Investment income	278,997
Subtotal, General Revenues	<u>4,121,092</u>

Change in net assets

Net assets, beginning of period	85,560,400
Net assets, ending of period	<u>\$ 87,030,706</u>

See accompanying notes to financial statements.

SANTA CLARA COUNTY OPEN SPACE AUTHORITY

GOVERNMENTAL FUNDS – BALANCE SHEET

JUNE 30, 2012

	Assessment District 1 Fund	Capital Reserve Fund	Endowment Fund	Total Government Funds
ASSETS				
Cash and investments	\$ 6,879,787	\$ 29,515,637	\$ -	\$ 36,395,424
Restricted cash and investments	-	-	836,545	836,545
Interest receivable	8,348	46,032	-	54,380
Accounts receivable	5,100	-	-	5,100
Due from other funds	42,273	-	-	42,273
Prepaid items	15,479	-	-	15,479
Total Assets	\$ 6,950,987	\$ 29,561,669	\$ 836,545	\$ 37,349,201
LIABILITIES				
Accounts payable	\$ 65,348	\$ -	\$ -	\$ 65,348
Due to other funds	-	-	42,273	42,273
Funding program liability	2,501,266	-	-	2,501,266
Total Liabilities	2,566,614	-	42,273	2,608,887
FUND BALANCES				
Nonspendable for prepaid items	15,479	-	-	15,479
Restricted for endowment	-	-	794,272	794,272
Assigned	-	29,561,669	-	29,561,669
Unassigned	4,368,894	-	-	4,368,894
Total Fund Balances	4,384,373	29,561,669	794,272	34,740,314
Total Liabilities and Fund Balances	\$ 6,950,987	\$ 29,561,669	\$ 836,545	\$ 37,349,201

See accompanying notes to financial statements.

SANTA CLARA COUNTY OPEN SPACE AUTHORITY

**RECONCILIATION OF THE GOVERNMENTAL FUNDS – BALANCE SHEET
TO THE GOVERNMENTAL ACTIVITIES - STATEMENT OF NET ASSETS
JUNE 30, 2012**

Total Fund Balance - Governmental Funds	\$ 34,740,314
Amounts reported for Governmental Activities in the Statement of Net Assets are different from those reported in the Governmental Funds above because of the following:	
CAPITAL ASSETS	
Capital Assets used in Governmental Activities are not current assets of financial resources and therefore are not reported in the Governmental Funds.	52,354,947
LONG TERM LIABILITIES	
The liabilities below are not due and payable in the current period and therefore are not reported in the Governmental Funds:	
Non-current portion of compensated absences	<u>(64,555)</u>
Total Net Assets - Governmental Activities	<u>\$ 87,030,706</u>

See accompanying notes to financial statements.

SANTA CLARA COUNTY OPEN SPACE AUTHORITY

**GOVERNMENTAL FUNDS – STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2012**

	Assessment District 1	Capital Reserve Fund	Endowment Fund	Total Governmental Funds
REVENUES				
Assessments	\$ 4,150,932	\$ -	\$ -	\$ 4,150,932
Investment income	55,680	207,166	16,151	278,997
Donations	3,644	-	-	3,644
Other revenues	10,903	-	-	10,903
Total Revenues	4,221,159	207,166	16,151	4,444,476
EXPENDITURES				
Administration	1,535,048	-	-	1,535,048
Program	64,473	-	-	64,473
Land management	934,582	-	-	934,582
Capital outlay	672,644	-	-	672,644
Total Expenditures	3,206,747	-	-	3,206,747
Excess of revenues over expenditures	1,014,412	207,166	16,151	1,237,729
Other Financing Sources (Uses):				
20% Funding program	(323,384)	-	-	(323,384)
Transfers In	90,038	-	-	90,038
Transfers Out	-	-	(90,038)	(90,038)
Total other financing sources (uses)	(233,346)	-	(90,038)	(323,384)
NET CHANGE IN FUND BALANCES	781,066	207,166	(73,887)	914,345
Fund Balance - Beginning	3,603,307	29,354,503	868,159	33,825,969
Fund Balance - Ending	\$ 4,384,373	\$ 29,561,669	\$ 794,272	\$ 34,740,314

See accompanying notes to financial statements.

SANTA CLARA COUNTY OPEN SPACE AUTHORITY

**RECONCILIATION OF THE NET CHANGES IN FUND BALANCES – TOTAL
GOVERNMENTAL FUNDS TO THE CHANGE IN NET ASSETS
OF GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

Net Change in Fund Balance of Governmental Funds	\$	914,345
Amount Reported for Governmental Activities in the Statement of Activities are Different Because:		
CAPITAL ASSETS TRANSACTIONS		
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expenses.		
The capital outlay expenditures are therefore added back to the fund balance.		676,308
Depreciation expense is deducted from the fund balance.		(95,281)
ACCRUAL OF NON-CURRENT ITEMS		
The amount below included in the Statement of Activities do not provide (or require) the use of current financial resources and therefore are not reported as revenue or expenditures in the governmental fund (net change):		
Long-term compensated absences		<u>(25,066)</u>
Change in net assets of governmental activities	\$	<u><u>1,470,306</u></u>

See accompanying notes to financial statements.

SANTA CLARA COUNTY OPEN SPACE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

Basis of Accounting – Measurement Focus

The *basic financial statements* of the Authority are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

Financial reporting is based upon all GASB pronouncements, as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principles Board (APB), or any Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless they contradict or conflict with GASB pronouncements.

Government-wide Financial Statements - These statements are presented on an *economic resources* measurement focus and the accrual basis of accounting. Accordingly, all of the Authority's assets and liabilities, including capital assets, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. The types of transactions reported as program revenues for the Authority are the special assessments levied upon the parcels within the Authority's boundaries. Investment income and other items not properly included among program revenues are reported instead as general revenues.

SANTA CLARA COUNTY OPEN SPACE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Governmental Fund Financial Statements

These statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds. Incorporated into these statements is a schedule to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the Government-wide Financial Statements. The Authority has presented its Assessment District No. 1, Reserve Fund and Endowment Fund as its major funds because they meet the qualifications of GASB Statement No. 34.

Governmental funds are accounted for on a spending or *current financial resources* measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under modified accrual basis of accounting, revenues are recognized in the accounting period in which they become measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual are recognized if these revenues will be collected generally within 60 days after year-end.

The primary sources susceptible to accrual for the Authority are special assessments, interest earnings, investment revenue and operating and capital grant revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. However, exceptions to this rule include principal and interest on debt, which are recognized when due. *Program revenues* include charges for services, which are mainly from property management fees. Other items not properly included among program revenues are reported instead as *general revenues*.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, and then unrestricted resources as they are needed.

The Authority reports the following major governmental funds:

Assessment District No. 1 Fund - is 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.

Reserve Fund - is the Authority's long term reserve.

Endowment Fund - is the Authority's holding fund for mitigation land management endowments contributed to the Authority. The earnings from endowment funds are used to care for mitigation properties.

SANTA CLARA COUNTY OPEN SPACE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Governmental Fund Balance

In the fund financial statements, governmental funds report fund equity as follows:

Nonspendable Fund Balance - Amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted Fund Balance - Amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Assigned Fund Balance - Amounts intended to be used by the government for specific purposes but that do not meet the criteria to be classified as restricted or committed.

Unassigned Fund Balance - The residual classification for the government's general fund that includes all amounts not contained in the other classifications.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in the Authority net assets during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Substantially all of the Authority's cash is invested in interest bearing accounts. The Authority considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

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.

Special Assessments

The Authority utilizes the services of the Santa Clara County Tax Collector's Office to bill and collect the special assessments 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.

SANTA CLARA COUNTY OPEN SPACE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Prepaid Expenses

Certain payments to vendors reflect costs or deposits applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

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. Depreciation expense for the year ended June 30, 2012 was \$95,281. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

- Land improvements 3-50 years
- Furniture and Equipment 3-5 years
- Vehicles 5 years

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.

Net Assets

The financial statements utilize a net assets presentation. Net assets are categorized as follows:

Net Investment in Capital Assets - This component of net assets consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt outstanding against the acquisition, construction or improvement of those assets.

Restricted Net Assets - This component of net assets consists of limitations placed on net assets used through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets - This component of net assets consists of net assets that do not meet the definition of *net investment in capital assets* or *restricted*.

Budgets and Budgetary Data

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.

SANTA CLARA COUNTY OPEN SPACE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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.

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.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform to the presentation of the current year financial statements.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments as of June 30th are classified in the accompanying basic financial statements as follows:

Cash and investments	\$ 36,395,424
Restricted cash and investments	836,545
Total cash and investments	<u>\$ 37,231,969</u>

The Authority's investments' maturity and credit rating are as follows:

	Total Fair Value	1 Year or less	1-3 Years	Rating at 6/30/2012
Cash in bank	\$ 162,443	\$ 162,443	\$ -	Not Rated
County Treasury and State Pool	36,543,591	36,543,591	-	Not Rated
U.S. Corporate Bonds	106,452	-	106,452	A
U.S. Corporate Bonds	106,239	-	106,239	A-
U.S. Corporate Bonds	103,378	103,378	-	A+
Certificate of Deposit	104,599	-	104,599	Not Rated
Money Market	105,267	105,267	-	AAA
Total cash investments	<u>\$ 37,231,969</u>	<u>\$ 36,914,679</u>	<u>\$ 317,290</u>	

SANTA CLARA COUNTY OPEN SPACE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Authorized Deposits and Investments

Under provisions of the Authority's Investment Policy, and in accordance with Section 53601 of the California Government Code, the Authority may invest in certain types of investments as listed below:

General Authorizations

Limitations as they relate to interest rate risk and concentration of credit risk are indicated in the schedules below:

<u>Authorized Investment Type</u>	<u>Maximum Remaining Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

Custodial Credit

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the Authority's Investment Policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: 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% of the total amount deposited by the public agencies. The Authority had no deposits account that was not federally insured and therefore was not exposed to deposit custodial credit risk.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Authority's Investment Policy contain legal and policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in

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marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as SCCTCP).

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The longer the maturity an investment has the greater its fair value has sensitivity to changes in market interest rates. The Authority's investment policy follows the California Government Code as it relates to limits on investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization; however, the Santa Clara County treasury and the State investment pools were not rated as of June 30, 2012.

Concentration of Credit Risk

The Authority's Investment Policy contains various limitations on the amounts that can be invested in any one governmental agency or non-governmental issuer as stipulated by the California Government Code. The Authority's deposit portfolio with governmental agencies with the Santa Clara County Treasurer's Pool (Pool), is 98.3% of the Authority's total depository and investment portfolio. There were no investments in any one non-governmental issuer that represent 5% or more of the Authority's total investments.

The Authority has contracted with the Santa Clara County Treasurer's Office to pool its available cash with that of the Pool. The Pool is used essentially as a demand deposit account by governmental entities that participate in the Santa Clara County Treasurer's Pool. The Authority defines cash and cash equivalents as cash and cash equivalents held within the Pool. The Santa Clara County Treasurer's Office makes all investment decisions for the Pool.

Interest income and realized gains and losses arising from such pooled cash and cash equivalents is apportioned to each participating fund balance on the relationship of the individual fund's average daily cash balances to the aggregate pooled cash and cash equivalents. The Authority's share of pooled cash and cash equivalents is stated at a modified fair-value by the County of Santa Clara.

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NOTE 3 – CAPITAL ASSETS

Changes in capital assets for the year were as follows:

	<u>Balance June 30, 2011</u>	<u>Additions & Transfers</u>	<u>Adjustments & Deletions</u>	<u>Balance June 30, 2012</u>
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 51,122,313	\$ 484,160	\$ -	\$ 51,606,473
Construction in progress	142,293	-	-	142,293
Total nondepreciable capital assets	<u>51,264,606</u>	<u>484,160</u>	<u>-</u>	<u>51,748,766</u>
Depreciable assets				
Land improvements	743,350	144,904	-	888,254
Furniture and fixtures	50,523	13,657	-	64,180
Vehicles	<u>259,755</u>	<u>33,587</u>	<u>45,205</u>	<u>248,137</u>
Total capital assets being depreciated	<u>1,053,628</u>	<u>192,148</u>	<u>45,205</u>	<u>1,200,571</u>
Less: accumulated depreciation	<u>(544,314)</u>	<u>(95,281)</u>	<u>45,205</u>	<u>(594,390)</u>
Net depreciable assets	<u>509,314</u>	<u>96,867</u>	<u>-</u>	<u>606,181</u>
Capital assets, net	<u><u>\$ 51,773,920</u></u>	<u><u>\$ 581,027</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 52,354,947</u></u>

NOTE 4 - COMPENSATED ABSENCES

The Authority's policy is to permit employees to accumulate earned vacation. The liability for vested vacation and sick leave is recorded as an expense when earned. Upon termination or retirement, employees are entitled to receive compensation at their current base salary for all unused vacation. At June 30, 2012, the total balance of unused vacation time was \$64,555.

Changes in compensated absences for the year were as follows:

	<u>Balance 6/30/2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 6/30/2012</u>	<u>Due Within One Year</u>
Compensated absences	<u>\$ 39,489</u>	<u>\$ 25,066</u>	<u>\$ -</u>	<u>\$ 64,555</u>	<u>\$ -</u>

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NOTE 5 – FUNDING PROGRAM LIABILITY

The 20% funding program was established to assist participating jurisdictions with their own 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, 2012 is as follows:

Government Agency	Ending Balance 6/30/2011	Additions	Project Completion Distributions	Ending Balance 6/30/2012
City of Campbell	\$ 81,629	\$ 11,965	\$ 81,629	\$ 11,965
City of Milpitas	133,663	15,846	-	149,509
City of Morgan Hill	17,087	5,174	-	22,261
City of San Jose	3,124,295	241,891	2,039,579	1,326,607
City of Santa Clara	366,274	29,751	-	396,025
Santa Clara County	576,143	18,757	-	594,900
Total	\$ 4,299,091	\$ 323,384	\$ 2,121,208	\$ 2,501,267

NOTE 6 - DEFINED BENEFIT PENSION BALANCE

Plan Description

The Authority's defined benefit pension plan, the California Public Employees Retirement System, provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. The California Public Employees' Retirement System (CalPERS), is a cost sharing multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements is established by State statutes within the Public Employees' Retirement Law. The Authority selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance (other local methods). CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95811.

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Funding Policy

The contribution rate for plan members in the CalPERS 2.0% at 55 Risk Pool Retirement Plan is 7% of their annual covered compensation. The Authority makes these contributions required of Authority employees on their behalf and for their account. The Authority does not participate in Social Security (OASDI) for those employees who participate in CalPERS. The Authority is also required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year June 30, 2012 was 9.929%. The contribution requirements of the plan members are established by state statute and the employer contribution rate is established and may be amended by CalPERS.

Annual Pension Cost

For fiscal year June 30, 2012, the Authority's annual pension cost of \$165,222 was equal to the Authority's required and actual contributions. The required contribution for the fiscal year June 30, 2012 was determined as part of the June 30, 2010 actuarial valuation using entry age normal actuarial cost method with contributions determined as a percent of pay. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service ranging from 3.55% to 14.45% depending on age, service and type of employment; (c) 3.25% overall payroll growth; and (d) an inflation rate of 3.0%. The remaining amortization period at June 30, 2010, was 20 years for miscellaneous as of the valuation date.

Three-Year Trend Information for the Authority:

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contribution</u>	<u>Net Pension Obligation</u>
6/30/2012	\$ 123,183	100%	\$ -
6/30/2011	123,260	100%	-
6/30/2010	138,361	100%	-

NOTE 7 – RISK MANAGEMENT

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). As of June 30, 2012, the Authority participated in the workers compensation program of the SDRMA as follows:

Workers compensation coverage and employer's liability 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.

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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 8 - COMMITMENTS

Facilities Lease

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 30, 2013. Rent expense for the year ended June 30, 2012 amounted to \$96,991. Future minimum rental payments required under the Authority's 5-year operating lease as of June 30 is summarized below:

<u>Fiscal Year</u>	<u>Amount</u>
2013	<u>\$ 103,256</u>

In 2001 the Authority leased office space under an operating lease for the land management office. The current lease runs from October 2010 through September 2013. Rent expense for the year ended June 30, 2012 was \$34,800. Future minimum rental payments required under the Authority's operating lease in excess of one year as of June 30, 2012 are summarized below:

<u>Fiscal Year</u>	<u>Amount</u>
2013	\$ 34,800
2014	8,700
Total	<u>\$ 43,500</u>

REQUIRED SUPPLEMENTARY INFORMATION

SANTA CLARA COUNTY OPEN SPACE AUTHORITY

**GENERAL FUND – ASSESSMENT DISTRICT 1
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Actual	Variance- Favorable (Unfavorable)
	Original	Final		
REVENUES				
Assessments	\$ 4,193,472	\$ 4,193,472	\$ 4,150,932	\$ (42,540)
Investment income	50,000	50,000	55,680	5,680
Donations	-	-	3,644	3,644
Other revenues	-	-	10,903	10,903
Total Revenues	4,243,472	4,243,472	4,221,159	(22,313)
EXPENDITURES				
Administration	1,770,254	1,902,589	1,535,048	367,541
Program	40,630	56,430	64,473	(8,043)
Land management	1,063,979	1,067,666	934,582	133,084
Capital outlay	476,000	476,000	672,644	(196,644)
Total Expenditures	3,350,863	3,502,685	3,206,747	295,938
Excess (deficit) of revenues over (under) expenditures	892,609	740,787	1,014,412	273,625
Other Financing Sources (Uses):				
20% Funding program	(413,547)	(413,547)	(323,384)	90,163
Transfers In	-	-	90,038	90,038
Total other financing sources (uses)	(413,547)	(413,547)	(233,346)	180,201
NET CHANGE IN FUND BALANCES	479,062	327,240	781,066	453,826
Fund Balance - Beginning	3,603,307	3,603,307	3,603,307	-
Fund Balance - Ending	\$ 4,082,369	\$ 3,930,547	\$ 4,384,373	\$ 453,826