Santa Clara Valley Open Space Authority

Measure Q Parcel Tax
Audit Report

June 30, 2019

Chavan & Associates, LLP
Certified Public Accountants
1475 Saratoga Ave, Suite 180
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Santa Clara Valley Open Space Authority
Santa Clara County

Measure Q Parcel Tax

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FINANCIAL SECTION

CHAVAN & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying fund financial statements of the Measure Q Parcel Tax (Measure Q) of the Santa Clara Valley Open Space Authority (the Authority), as of and for the year ended June 30, 2019, and the related notes to the financial statements, 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 Measure Q, as of June 30, 2019, 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.

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Other Matters

Measure Q Fund Financial Statements

As discussed in Note 1, the financial statements present only Measure Q and do not purport to, and do not, present fairly the financial position of the Santa Clara Valley Open Space Authority, as of June 30, 2019, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2019 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

C & A LLP

November 16, 2019
San Jose, California

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Basic Financial Statements

Santa Clara Valley Open Space Authority
Measure Q Parcel Tax
Balance Sheet
June 30, 2019

ASSETS		
Restricted cash and investments	$	23,372,508
Interest receivable		113,121
Total Assets	$	23,485,629
LIABILITIES		
Payroll and other liabilities	$	40,676
Due to Assessment District One Fund		3,813,493
Total Liabilities		3,854,169
FUND BALANCES		
Restricted for Measure Q Projects		19,631,460
Total Liabilities and Fund Balances	$	23,485,629

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

Santa Clara Valley Open Space Authority
Measure Q Parcel Tax

Statement of Revenues, Expenditures and Changes in Fund Balance
For the Fiscal Year Ended June 30, 2019

REVENUES	
Assessments	$ 7,930,968
Investment income	384,611
Other revenues	195,364
Total revenues	8,510,943
EXPENDITURES	
Capital Outlay	674,962
Planning Program	1,005,854
Field Operations and Maintenance Program	1,252,012
Community Engagement Program	132,601
Measure Q Urban Open Space Grant Program	509,502
Measure Q Expenditure Oversight Committee Costs	7,931
Administrative Costs	396,598
SCC Assessor's Fee (1%)	79,309
Total expenditures	4,058,769
Net change in fund balances	4,452,174
Fund balances beginning	15,179,286
Fund balances ending	$ 19,631,460

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

NOTE 1 - GENERAL BACKROUND AND ORGRANIZATIONAL INFORMATION

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

The Measure Q parcel tax was approved in the November 4, 2014 election for voters in the Santa Clara Valley Open Space Authority, Santa Clara County, California. Pursuant to Public Resources Code section 35172 and Government Code sections 50075, et seq. and 53724, Measure Q authorizes the Santa Clara Valley Open Space Authority to levy a tax of $24 per parcel annually for 15 years. The tax was designed to produce an estimated $7,883,760 per year in additional revenue for the Santa Clara Valley Open Space Authority. The parcel tax commenced on July 1, 2015 and expires on June 30, 2030. The parcel tax shall not be levied on any property that is legally exempt from paying ad valorem property taxes in any tax year.

State law requires the Authority to state the specific purposes for which the tax proceeds will be used and only spend the proceeds of the tax for these purposes. The stated purposes of the tax proposed by Measure Q are to: (1) protect open space, redwood forests, wildlife habitat, scenic hillsides and agricultural land; (2) protect land around creeks, rivers and streams to prevent pollution and improve local water quality; (3) open, improve and maintain parks, open space and trails; and (4) provide urban open space, parks and environmental educational programs.

The Authority is required by law to provide additional accountability measures for the proceeds. These measures include: (1) depositing the proceeds into a fund that is separate and apart from other Authority funds; and (2) providing an annual written report to the Board detailing the amount of funds collected and expended and the status of any project authorized to be funded from the tax proceeds. The Board has established an independent advisory committee of citizens to review the expenditures authorized by Measure Q.

In April 2015, the Authority's Governing Board adopted the Measure Q Expenditure Oversight Committee bylaws, and, in December 2015, appointed seven members to the Committee. The purpose of the committee is to review Measure Q expenditures on an annual basis to ensure they conform to the Expenditure Plan and review the annual audit and report prepared by an independent auditor and submit the Committee’s recommendations and oversight report to the Open Space Authority Board.

The Committee does not oversee any other Authority financial information nor do they set policy or provide input or direction on projects, budgets, work plans or financial matters pertaining to other Authority funds. All actions, including decisions about selecting projects for funding, will be made by the Board in public meetings in compliance with the Brown Act.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The governing board consists of seven officials who, together, constitute the Board of Directors. The Measure Q fund financial statements include the accounts of all Measure Q Parcel Tax operations. The financial statements presented are for the Measure Q Parcel Tax fund and are not intended to be a complete presentation of the Authority's financial position on operations.

B. 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).

C. Basis of Presentation

Fund financial statements report detailed information about Measure Q. 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.

D. Basis of Accounting

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

Revenues - Exchange and Non-Exchange Transactions:

Under the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. “Available” means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Authority, “available” means collectible within the current period or within 60 days after year-end.

Non-exchange transactions, in which the Authority receives value ***without*** directly giving equal value in return, include assessment, grants, and donations. Under the modified 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 of Resources:

A deferred outflows 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 inflows of resources is an acquisition of net assets by the government that is applicable to a future reporting period, such as unavailable 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 modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred and 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.

E. Fund Accounting

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

F. 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 Measure Q at the functional expenditure-type major object level for financial reporting purposes.

G. Assets, Liabilities, and Equity

1. Cash and Cash Equivalents

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

2. Investments and Investment Policy

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

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

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

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

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

- Market approach - This approach uses prices generated for identical or similar assets or liabilities. The most common example is an investment in a public security traded in an active exchange such as the NYSE.

- Cost approach - This technique determines the amount required to replace the current asset. This approach may be ideal for valuing donations of capital assets or historical treasures.

- Income approach - This approach converts future amounts (such as cash flows) into a current discounted amount.

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

3. Prepaid Expenditures

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

4. 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.

5. Parcel Tax

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

6. 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.

NOTE 3 - CASH AND INVESTMENTS

Summary of Cash and Investments

As of June 30, 2019, all of the $23,372,508 in Measure Q cash and investments was deposited in the Santa Clara County investment pool.

Fair Value Measurements

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

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

The Authority has the following recurring fair value measurements as of June 30, 2019:

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

Cash in Santa Clara County Treasury

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

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

NOTE 4 - DUE TO ASSESSMENT DISTRICT ONE FUND

During the year, expenditures were incurred in the Assessment District 1 fund (the Authority's General Operating Fund) that were a part of Measure Q, resulting in an interfund liability in the Measure Q Parcel Tax fund of $3,813,493.

NOTE 5 - 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, 2019, the Authority had up to $100 million per occurrence for workers compensation and $5 million for employer's liability coverage, subject to the terms, conditions and exclusions as provided in the Memorandum of Coverage from SDRMA.

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

NOTE 6 - COMMITMENTS AND CONTINGENCIES

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

REQUIRED SUPPLEMENTARY INFORMATION

Santa Clara Valley Open Space Authority
Measure Q Parcel Tax Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance

Budget to Actual (GAAP)

For the Fiscal Year Ended June 30, 2019

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual (GAAP Basis)	Positive - (Negative)
Revenues:				
Assessments	$ 7,987,181	$ 7,987,181	$ 7,930,968	$ (56,213)
Investment income	80,000	80,000	384,611	304,611
Other revenues	80,000	80,000	195,364	115,364
Total revenues	8,147,181	8,147,181	8,510,943	363,762
Expenditures:				
Capital Outlay	3,195,000	3,195,000	674,962	2,520,038
Planning Program	2,153,720	2,153,720	1,005,854	1,147,866
Field Operations and Maintenance Program	1,307,966	1,307,966	1,252,012	55,954
Community Engagement Program	539,395	516,182	132,601	383,581
Measure Q Urban Open Space Grant Program	500,000	523,213	509,502	13,711
Measure Q Expenditure Oversight Committee Costs	7,987	7,987	7,931	56
Administrative Costs	697,051	697,051	396,598	300,453
SCC Assessor’s Fee (1%)	79,872	79,872	79,309	563
Total expenditures	8,480,991	8,480,991	4,058,769	4,422,222
Net change in fund balance	(333,810)	(333,810)	4,452,174	4,785,984
Fund balance beginning	15,179,286	15,179,286	15,179,286	-
Fund balance ending	$ 14,845,476	$ 14,845,476	$ 19,631,460	$ 4,785,984

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 Valley Open Space Authority
San Jose, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Measure Q Parcel Tax (Measure Q) of the Santa Clara Valley Open Space Authority (the Authority) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Measure Q's basic financial statements, and have issued our report thereon dated November 16, 2019.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority'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 Measure Q 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

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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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

C & A LLP

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