Midpeninsula Regional Open Space District

FINANCING AUTHORITY MEETING

R-15-170
Meeting 15-32
December 16, 2015

AGENDA ITEM 1

AGENDA ITEM

Acceptance of the Controller's Annual Financial Report of the Midpeninsula Regional Open Space District Financing Authority

CONTROLLER'S RECOMMENDATION

Accept the Annual Financial Report of the Midpeninsula Regional Open Space District Financing Authority (Financing Authority).

DISCUSSION

In May 1996, the District and Santa Clara County established the Financing Authority with the purpose of providing financing assistance to the District to fund the acquisition of land to preserve and use as open space and to finance public capital improvements. Accordingly, the District and the Financing Authority are accounted as one blended unit for financial statement purposes. On June 25, 2015, the District's independent auditors, Chavan & Associates, LLP., issued its report on the District's financial statements for the fiscal year ending March 31, 2015 (Attachment 1).

Through March 2015, the District has sold six series of Financing Authority bonds, with a total par value of $199.6 million. A summary of the six financings is shown in Table 1 below. Excluding the 2007 Bonds, which raised no new money and only refinanced existing Financing Authority bonds, the District has issued $140.5 million (net) of Financing Authority bonds, funding $77 million of new land acquisitions and repaying $60 million of prior public and private debt, which had been issued at higher interest rates and for shorter maturities.

Table 1: District Financings

Issuance	Par Amount	TIC*	Purpose
1996 Bonds	$29.9 M	6.25%	$11M Land + pay-off 1988 Notes
1999-1 Bonds	$29.7 M	5.26%	$21M Land + pay-off 1992 Notes
1999-2 Bonds	$28.4 M	5.93%	$15M Land + pay-off 1990 Notes
2004 Bonds	$31.9 M	4.99%	$10M Land + pay-off 1993 COPs
2007 Bonds	$59.2 M	4.57%	Pay-off 1996 & 1999-2 Notes
2011 Bonds	$20.5 M	5.60%	Purchase $20M of Land

* TIC = Total Interest Cost, including all costs of issuance

In January 2015, the District advance refunded all of the outstanding 2004 Revenue Bonds, $29,986,962 by issuing $28,578,500 of 2015 Refunding Promissory Notes. This transaction resulted in a net present value savings of $7.3 million.

Two Financing Authority bond issues remained outstanding on March 31, 2015, with a total outstanding balance of $70.32 million. This represented 52% of the District's total outstanding debt balance. The average total interest cost of these outstanding Financing Authority bonds was 4.87%. A summary of the activity on the Financing Authority bonds in fiscal 2015 is shown below. During the 2015 fiscal year, $31.25 million of principal was refunded or repaid, $4.92 million of interest was paid, and all accretion was eliminated. Accretion arises from the portion of debt sold as capital appreciation bonds (CABs). The remaining Financing Authority bonds include no CABs.

Table 2:
FY2014-15 Financing Authority Activity
($ millions)

	Balance March 2014	Principal Paid/Refunded	Accretion	Balance March 2015	Interest Paid FY2014-15
2004 Bonds	$30.57	$30.45	-$0.12	$0	$1.34
2007 Bonds	$50.66	$0.73	$0.00	$49.94	$2.49
2011 Bonds	$20.46	$0.07	$0.00	$20.38	$1.08
	$101.69	$31.25	-$0.12	$70.32	$4.92

It is currently anticipated that the District will refund the 2007 Bonds, in their entirety, between June and September 2016, from the proceeds of an issuance of District promissory notes. Depending on the movement of interest rates between now and then, present value savings of $4 to $6 million are anticipated.

FISCAL IMPACT

There are no unbudgeted fiscal impacts associated with the recommended action.

BOARD COMMITTEE REVIEW

Board Committee review is not required for this agenda item.

PUBLIC NOTICE

Notice was provided pursuant to the Brown Act. No additional notice is necessary.

CEQA COMPLIANCE

No compliance is required as this action is not a project under the California Environmental Quality Act.

NEXT STEPS

None.

Attachment
1. District's Financial Statements for the Fiscal Year ended March 31, 2015.

Prepared by:
Michael Foster, Controller

MIDPENINSULA REGIONAL OPEN SPACE DISTRICT

ANNUAL FINANCIAL AUDIT REPORT

MARCH 31, 2015

CHAVAN & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS
1475 SARATOGA AVE., SUITE 180
SAN JOSE, CA 95129

TITLE **PAGE**

Midpeninsula Regional Open Space District
Santa Clara County

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Midpeninsula Regional Open Space District
Los Altos, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Midpeninsula Regional Open Space District (the District), as of and for the year ended March 31, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The District'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 control 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 District'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 District'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 District, as of March 31, 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.

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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 and other postemployment benefit information on pages 3 through 8, 37, and 38 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 June 25, 2015 on our consideration of the District'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 District's internal control over financial reporting and compliance.

C & A LLP

June 25, 2015
San Jose, California

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Management's Discussion and Analysis

Basic Financial Statements

Midpeninsula Regional Open Space District

Statement of Net Position

March 31, 2015

		Governmental Activities
Assets		
Current assets:		
Cash and investments	$	35,562,081
Accounts Receivable:		
Deposits		1,093,909
Interest		43,323
Due from other governments:		
Taxes receivable		9,218,572
Due from grantor government		31,708
Other current assets		30,723
Total current assets		45,980,316
Noncurrent assets:		
Net OPEB asset		863,176
Notes receivable		169,368
Unamortized issuance costs		1,074,740
Non-depreciable capital assets		393,941,289
Capital assets, net of depreciation		17,535,536
Total noncurrent assets		413,584,109
Total Assets	$	459,564,425
Deferred Outflows of Resources		
Deferred loss on early retirement of long-term debt	$	2,623,220
Liabilities		
Current liabilities:		
Accounts payable	$	1,623,917
Deposits payable		118,266
Payroll and other liabilities		805,972
Accrued interest		414,000
Total current liabilities		2,962,155
Noncurrent liabilities:		
Due within one year		4,350,491
Due after one year		133,749,935
Total noncurrent liabilities		138,100,426
Total Liabilities	$	141,062,581
Net Position		
Net Investment in Capital Assets	$	278,611,038
Restricted for:		
Debt service		-
Hawthorne maintenance		1,702,556
OPEB		863,176
Total restricted		2,565,732
Unrestricted		39,948,294
Total Net Position	$	321,125,064

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

Midpeninsula Regional Open Space District

Statement of Activities

For the Fiscal Year Ended March 31, 2015

	Expenses	Program Revenues: Charges for Services	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Governmental activities:				
Land preservation	$ 19,477,519	$ 1,436,680	$ 952,925	$ (17,087,914)
Interest	7,202,178	-	-	(7,202,178)
Depreciation	1,231,881	-	-	(1,231,881)
Total governmental activities	$ 27,911,578	$ 1,436,680	$ 952,925	(25,521,973)
General revenues:				
Property taxes				35,081,540
Investment earnings				201,813
Other revenues				284,525
Special items - loss on disposal of capital assets				(68,306)
Total general revenues and special items				35,499,572
Change in net position				9,977,599
Net position beginning				311,147,465
Net position ending				$ 321,125,064

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

Midpeninsula Regional Open Space District

Balance Sheet
Governmental Funds
March 31, 2015

	General Fund	Debt Service Fund	Total Governmental Funds
ASSETS			
Cash and investments	$ 35,562,081	$ -	$ 35,562,081
Receivables:			
Deposits	1,093,909	-	1,093,909
Interest	43,323	-	43,323
Due from other governments:			
Taxes receivable	9,218,572	-	9,218,572
Due from grantor government	31,708	-	31,708
Other current assets	30,723	-	30,723
Notes receivable	169,368	-	169,368
Total Assets	$ 46,149,684	$ -	$ 46,149,684
LIABILITIES			
Liabilities:			
Accounts payable	$ 1,623,917	$ -	$ 1,623,917
Deposits payable	118,266	-	118,266
Payroll and other liabilities	805,972	-	805,972
Total Liabilities	2,548,155	-	2,548,155
DEFERRED INFLOWS OF RESOURCES			
Unearned revenue	169,368	-	169,368
FUND BALANCE			
Restricted for:			
Hawthorne maintenance	1,702,556	-	1,702,556
Assigned for:			
Economic contingencies	5,000,000	-	5,000,000
Unassigned	36,729,605	-	36,729,605
Total Fund Balance	43,432,161	-	43,432,161
Total Liabilities and Fund Balance	$ 46,149,684	$ -	$ 46,149,684

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

Midpeninsula Regional Open Space District
Reconciliation of the Governmental Funds
Balance Sheet to the Statement of Net Position
March 31, 2015

Total fund balance - governmental funds		$ 43,432,161
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	$ 424,235,416	
Accumulated depreciation	(12,758,591)	411,476,825
Principal on notes receivables are recorded as unearned revenue in the funds, which upon collection is a current financial resource. In the government-wide financial statements, repayment of the principal amount does not generate revenue in the statement of activities; therefore unearned revenue is not recorded.		169,368
Net OPEB assets are not available to pay for current period expenditures and, therefore, are not recognized in the governmental funds statements.		863,176
Interest payable on long-term debt does not require the use of current financial resources and, therefore, is not reported in the governmental funds.		(414,000)
Issuance costs, discounts and premiums related to bond issues are recorded as other financing sources and uses in the fund financial statements but are recorded as assets or liabilities and amortized over the life of the bond in the statement of net position:		(5,898,397)
Deferred loss on early retirement of long-term debt is recorded in the Statement of Net Position as a deferred outflow of resources and amortized on a straight line basis over the original life of the defeased bond.		2,623,220
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consists of:		
Revenue bonds	$ 70,320,000	
Promissory notes	59,270,610	
Compensated absences	1,536,679	(131,127,289)
Total net position - governmental activities		$ 321,125,064

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

Midpeninsula Regional Open Space District

Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended March 31, 2015

	General Fund	Debt Service Fund	Total Governmental Funds
Revenues:			
Property taxes	$ 35,081,540	$ -	$ 35,081,540
Grant income	952,925	-	952,925
Property management	1,436,680	-	1,436,680
Investment earnings	174,654	40,956	215,610
Other revenues	241,335	-	241,335
Total revenues	37,887,134	40,956	37,928,090
Expenditures:			
Current:			
Salaries and employee benefits	13,629,502	-	13,629,502
Services and supplies	4,642,351	-	4,642,351
Capital outlay	8,445,355	-	8,445,355
Debt service:			
Principal	-	3,145,096	3,145,096
Interest	-	5,748,505	5,748,505
Total expenditures	26,717,208	8,893,601	35,610,809
Excess (deficiency) of revenues over (under) expenditures	11,169,926	(8,852,645)	2,317,281
Other financing sources (uses):			
Proceeds from the issuance of refunding notes	28,325,491	-	28,325,491
Advance refunding of revenue bonds	(28,325,491)	(1,661,471)	(29,986,962)
Transfers in	-	8,893,601	8,893,601
Transfers out	(8,893,601)	-	(8,893,601)
Total other financing sources (uses)	(8,893,601)	7,232,130	(1,661,471)
Net changes in fund balance	2,276,325	(1,620,515)	655,810
Fund balance beginning	41,155,836	1,620,515	42,776,351
Fund balance ending	$ 43,432,161	$ -	$ 43,432,161

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

Midpeninsula Regional Open Space District

Reconciliation of the Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balance
to the Statement of Activities
For the Fiscal Year Ended March 31, 2015

Total net change in fund balance - governmental funds		$ 655,810
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.		
Expenditures capitalized as capital assets	$ 7,906,213	
Depreciation expense	(1,231,881)	6,674,332
Governmental funds do not report loss on disposal of capital assets. However, in the government-wide statement of activities and changes in net position, the cost to dispose of capital assets, net any proceeds, is accounted for as a special item.		(120,448)
Repayment of notes receivable is reported as revenue in the Governmental funds because financial resources were received and available during the fiscal year. In the statement of net position, the payment reduces the principal balance of notes receivable and does not generate revenue in the statement of activities.		(13,797)
Accreted interest on capital appreciation bonds is not recorded in the governmental funds but is required to be recorded under the accrual basis of accounting in the government wide financial statements.		(1,121,982)
The governmental funds report debt proceeds as an other financing source, while repayment of debt principal is reported as an expenditure. Interest is recognized as an expenditure in the governmental funds when it is due. The net effect of these differences in the treatment of long-term debt and related items is as follows:		
Proceeds from the issuance of refunding notes	(28,578,500)	
Advance refunding of revenue bonds	29,986,962	
Repayment of bond principal	$ 1,495,000	
Repayment of promissory notes princpal	1,650,096	4,553,558
Deferred loss on early retirement of long-term debt is amortized over the life of the debt in the statement of activities. Amortization expense is not reported in the governmental funds.		(339,194)
Prepaid issuance costs, discounts and premiums related to bond issues are recorded as other financing sources and uses in the fund financial statements but are recorded as assets or liabilities and amortized over the life of the bond in the statement of net position:		
Amortization of issuance costs and premiums - net		95,332
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.		(272,766)
In the Statement of Activities, the net postemployment benefit asset is the amount by which the contributions toward the OPEB plan were more than the annual required contribution as actuarially determined. The net postemployment benefit is not recorded in the governmental fund statements. The change in the net OPEB was recorded in the Statement of Activities in the amount of:		(140,749)
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.		7,503
Change in net position of governmental activities		$ 9,977,599

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. General

The Midpeninsula Regional Open Space District (the District) was formed in 1972 to acquire and preserve public open space land in northern and western portions of Santa Clara County. In June 1976, the southern and eastern portions of San Mateo County were annexed to the District. The District annexed a small portion of the northern tip of Santa Cruz County in 1992. In September 2004, the District completed the Coastside Protection Program, which extended the District boundaries to the Pacific Ocean in San Mateo County, from the southern borders of Pacifica to the San Mateo/Santa Cruz County line.

B. Accounting Principles

The accounting policies of the District 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. Reporting Entity

As required by generally accepted accounting principles, these basic financial statements present the Midpeninsula Regional Open Space District and its component unit. The component unit discussed in the following paragraph is included in the District's reporting entity because of the significance of their operational or financial relationships with the District.

Blended Component Unit. The District and the County of Santa Clara entered into a joint exercise of powers agreement dated May 1, 1996, creating the Midpeninsula Regional Open Space District Financing Authority (the Authority), pursuant to the California Government Code. The District is financially accountable for the Authority, as it appoints a voting majority of the governing board; is able to impose its will in the Authority; and the Authority provides specific financial benefits to, and imposes specific financial burdens on, the District. The Authority was formed for the sole purpose of providing financing assistance to the District to fund the acquisition of land to preserve and use as open space. As such, the Authority is an integral part of the District, and accordingly, all of the Authority's activity is blended within the accompanying debt service fund.

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 District. 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 the 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 District'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 District 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 District, 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 District.

Fund Financial Statements:

Fund financial statements report detailed information about the District. 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 District, "available" means collectible within the current period or within 90 days after year-end.

Non-exchange transactions, in which the District receives value ***without*** directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. 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 District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. 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, for example; 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, for example; 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 and claims and judgments, 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 District's policy to use restricted resources first, then unrestricted resources as they are needed.

F. Fund Accounting

The accounts of the District are organized into two funds with a separate set of self-balancing accounts that comprise of the District'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 is always a major fund. The District may also select other funds it believes should be presented as major funds.

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

General Fund. The General Fund is the general operating fund of the District. It is used to account for all financial resources. The major revenue sources for this fund are property taxes, grant revenues and interest income. Expenditures are made for land preservation and other operating expenditures.

Debt Service Fund. The Debt Service Fund is used to account for accumulation of resources for, and the payment of long-term debt principal, interest and related costs. Resources are provided by General Fund transfers and interest income on unspent funds.

G. Budgets and Budgetary Accounting

The District's Board of Directors adopts an annual operating budget for the District as a whole, which includes both its General and Debt Service Funds on or before March 31, for the ensuing fiscal year. The Board of Directors may amend the budget by resolution during the fiscal year. The legal level of control, the level at which expenditures may not legally exceed the budget, is at the category level.

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. Prepaid Expenditures

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

3. Capital Assets

Capital assets, which include land, buildings and improvements, furniture, equipment, and construction in progress, are reported in the government-wide financial statements. Such assets are valued at historical cost or estimated historical cost unless obtained by annexation or donation, in which case they are recorded at estimated market value at the date of receipt. The District utilizes a capitalization threshold of $10,000.

Projects under construction are recorded at cost as construction in progress and transferred to the appropriate asset account when substantially complete. Costs of major improvements and rehabilitation of buildings are capitalized. Repair and maintenance costs are charged to expense when incurred. Equipment disposed of, or no longer required for its existing use, is removed from the records at actual or estimated historical cost, net of accumulated depreciation.

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

Assets	Years
Buildings and improvements	10 - 30
Infrastructure	30 - 40
Equipment	5 - 20
Vehicles	10 - 20

4. Compensated Absences

In accordance with the District's memorandum of understanding with various employee groups, employees accrue fifteen days of vacation during the first nine years of service, twenty days between service years 10 and fourteen, twenty-one days between service years fifteen and nineteen, twenty-three days between service years twenty and twenty-four, and twenty-five days after twenty-five years of service. An employee may accumulate vacation time earned to a maximum of two times the amount of his/her annual vacation accrual.

Full-time employees accrue twelve days of sick leave: annually from the date of employment. An employee may accumulate sick leave time earned on an unlimited basis. Upon resignation, separation from service, or retirement from District employment, workers in good standing with ten or more years of District employment shall receive a cash payment of the equivalent cash value of accrued sick leave as follows:

Years of Employment	Percentage of equivalent cash value of accrued sick leave
15-20	20%
16-20	25%
21 or more	30%

An employee hired before August 9, 2006, who retires from the District shall receive a cash payment of the percentage of equivalent cash value or accrued sick leave based on years of employment as described above, and apply the remainder of the equivalent cash value toward his/her cost of retiree medical plan premiums and/or other qualified medical expenses. Upon retirement, the amount qualified and designated for retiree medical costs shall be deposited in the Retiree Health Savings (RHS) plan, set up by the District. The cost for maintaining the retiree's RHS account and the annual fee for the reimbursement process of qualified medical expenses will be paid for by the retiree.

An employee hired on or after August 9, 2006, who retires from the District may elect to receive only a cash payment of the percentage of equivalent cash value of accrued sick leave based on years of employment as described above.

In all cases the equivalent cash value of accrued sick leave will be based on current rate of pay as of the date of separation from District employment.

The District accrues for all salary-related items in the government-wide statements for which they are liable to make a payment directly and incrementally associated with payments made for compensated absences on termination.

5. Long-Term/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.

6. Debt Discount and Issuance Costs

Debt discounts, premiums, and prepaid issuance costs are capitalized as an offset to long-term debt and amortized using the straight line method over the life of the related debt. Issuance costs for the District's tax-exempt commercial paper short-term borrowings are expensed as incurred.

7. Fund Balance Classifications

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

- *Nonspendable* fund balance includes amounts that cannot be spent either because it is 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 that are 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 District’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 has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The District 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 District would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

8. 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 District or through external restrictions imposed by creditors, grantors, laws or regulations of other governments. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

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

9. Property Taxes

The District receives property tax revenue from Santa Clara and San Mateo Counties (the Counties). The Counties are responsible for assessing, collecting and distributing property taxes in accordance with state law. Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The counties apportion secured property tax revenue in accordance with the alternate method of distribution prescribed by Section 4705 of the California *Revenue and Taxation Code*. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll - approximately October 1 of each year. Taxes are levied annually on July 1st, and one-half are due by November 1st and one-half by February 1st. Taxes are delinquent after December 10th and April 10th, respectively. Supplemental property taxes are levied on a pro-rata basis when changes in assessed valuation occur due to the completion of construction or sales transactions. Liens on real property are established on January 15th for the ensuing fiscal year.

On March 31, 1993, the Board of Supervisors adopted the "Teeter" method of property tax allocation. This method allocates property taxes based on the total property tax billed. At year-end, the County advances cash to each taxing jurisdiction equal to its current year delinquent taxes. Once the delinquent taxes are collected, the revenue from penalties and interest remains with the County and is used to pay the interest cost of borrowing the cash used for the advances.

10. 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 reported amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

I. Upcoming Accounting and Reporting Changes

Summary of Statement No. 67 - Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25 (Issued 06/12). This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures,* as they relate to pension plans that are administered through 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 also details the note disclosure requirements for defined contribution pension plans administered through trusts that meet the identified criteria. This Statement is effective for financial statements for fiscal years beginning after June 15, 2013. Earlier application is encouraged. There will be no impact on the Entity's financial statements from the implementation of this standard.

Summary of Statement No. 68 - Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27 (Issued 06/12). 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 Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* as well as the requirements of 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 is effective for fiscal years beginning after June 15, 2014 (fiscal year ended March 31, 2016). Earlier application is encouraged. The determination of the impact on the Entity's financial statements from the implementation of this standard is pending as of the issuance date of this report.

Statement No. 69 – In January, 2013, GASB issued Statement No. 69, *Government Combinations and Disposal of Government Operations.* This Statement establishes accounting and financial reporting standards related to government combinations and disposal of government operations. As used in this Statement, *combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The District believes there will be no financial statement effect related to this Statement.

Statement No. 70 – In April, 2013, GASB issued Statement No 70, *Accounting and Financial Reporting for Nonexchange 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 nonexchange transaction). The District does not participate in nonexchange transactions and this Statement will have no financial statement effect.

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 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 nonemployer 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 Statement 68. The District is in the process of determining the impact this statement will have on the financial statements.

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

NOTE 2 - CASH AND INVESTMENTS

Summary of Cash and Investments

The following summarizes deposits as of March 31, 2015:

Cash and Investments	Cash and Cash Equivalents Available for Operations	Restricted	Total	Investment Rating	Maturities
Cash Deposits:					
Cash in Banks	$ 77,447	$ 1,693,990	$ 1,771,437	N/A	N/A
Petty Cash	1,500	-	1,500	N/A	N/A
Total Cash Deposits	78,947	1,693,990	1,772,937		
Investments:					
California Local Agency Investment Fund	7,843,853	-	7,843,853	Not Rated	< 1yr
Santa Clara County Pool	25,945,291	-	25,945,291	Not Rated	< 1yr
Total Investments	33,789,144	-	33,789,144		
Total Cash and Investments	$ 33,868,091	$ 1,693,990	$ 35,562,081		

Cash in Banks

Cash balances in banks are insured up to $250,000 per insured bank by the Federal Deposit Insurance Corporation ("FDIC"). The District's accounts are held with various banks. As of March 31, 2015, the District's bank balances exceeded FDIC coverage by $1,505,165.

Cash in Santa Clara County Treasury

Santa Clara County is a fiscal agent of the District. The fair value of the District's investment in the county pool is reported at amounts based on the District'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 costs basis. Santa Clara County investment pool funds were available for withdrawal on demand and had an average maturity date of less than one year.

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 District 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 District 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 March 31, 2015, these investments had an average maturity date of less than one year.

Investments Authorized by Debt Agreements

The District must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are used if the District fails to meet its obligations under these debt issues.

Restricted for Debt Service

During the year the District had money held by Bank of New York as trustee, pledged to the payment or security of its outstanding bond issues. All transactions associated with debt serve were administered by the Bank.

Cash Restricted for Hawthorne Property Maintenance

On November 10, 2011, the District received the gift of the 79 acre Hawthorne property, in Portola Valley, California, and an endowment of $2,018,445 to manage the property in perpetuity. The cash balance restricted for this purpose at March 31, 2015 was $1,690,779.

Policies and Practices

The District's Investment Policy and the California Government Code allow the District to invest in the following, provided the credit ratings of the issuers are acceptable to the District and approved percentages and maturities are not exceeded. The table below also identifies certain provisions of the California Government Code or the District'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
Federal Agency Securities	5 years	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	$40 million per account	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 fair value to the changes in market interest rates. The District manages its exposure to interest rate risk by investing in the Santa Clara County investment pool and LAIF, which had fair values of approximately $5.6 billion and $62.5 billion, respectively as of March 31, 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 2013-14 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 District's deposits may not be returned to it. The District 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 District 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 – RENTAL INCOME

The District rents certain land and structures to other entities under operating leases with terms generally on a month-to-month basis. Rental income of $1,122,266 was received during the year ended March 31, 2015.

NOTE 4 – NOTES RECEIVABLE

On December 17, 1997, the District sold the title to and possession of a 50-year fee determinable estate 10-acre parcel near the Skyline Ridge Open Space Preserve. The District financed the purchase in the amount of $288,800 over 25 years at a rate of 10% per annum. Monthly principal and interest payments of $2,634 are due on the 1st of each month and late if not paid by the 10th, with the final payment scheduled December 1, 2022. The outstanding balance at March 31, 2015 was $169,368.

NOTE 5 - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended March 31, 2015, is shown below:

Description	Balance March 31, 2014	Additions	Deletions	Transfers/ Adjustments	Balance March 31, 2015
Non-depreciable Capital Assets:					
Land and land improvements	$ 383,509,165	$ 5,219,301	$ -	$ 1,962,230	$ 390,690,696
Construction in progress	4,709,807	1,031,671	(59,246)	(2,431,639)	3,250,593
Total non-depreciable capital assets	388,218,972	6,250,972	(59,246)	(469,409)	393,941,289
Depreciable Capital Assets:					
Structure and Improvements	14,899,885	341,906	-	77,926	15,319,717
Infrastructure	8,640,137	684,628	-	391,483	9,716,248
Equipment	1,724,511	144,953	(25,960)	-	1,843,504
Vehicles	3,145,161	483,754	(214,257)	-	3,414,658
Total depreciable capital assets	28,409,694	1,655,241	(240,217)	469,409	30,294,127
Less accumulated depreciation for:					
Structure and improvements	7,698,023	433,437	-	-	8,131,460
Infrastructure	1,628,456	387,377	-	-	2,015,833
Equipment	840,087	114,979	(22,059)	-	933,007
Vehicles	1,539,159	296,088	(156,956)	-	1,678,291
Total accumulated depreciation	11,705,725	1,231,881	(179,015)	-	12,758,591
Total depreciable capital assets - net	16,703,969	423,360	(61,202)	469,409	17,535,536
Total capital assets - net	$ 404,922,941	$ 6,674,332	$ (120,448)	$ -	$ 411,476,825

NOTE 6 – LONG-TERM DEBT

The following is a summary of the changes in long-term debt for the year ended March 31, 2015:

Long-term Obligations	Balance April 01, 2014	Additions	Deductions	Balance March 31, 2015	Due Within One Year
Promissory Notes:					
Current Interest	$ 18,891,204	$23,630,000	$ 1,650,096	$ 40,871,108	$ 1,226,382
Capital Appreciation	15,474,708	-	-	15,474,708	-
Accreted interest	1,918,995	1,005,799	-	2,924,794	-
Unamortized Bond Premium	2,011,284	4,948,500	67,391	6,892,393	67,391
Subtotal Promissory Notes	38,296,191	29,584,299	1,717,487	66,163,003	1,293,773
Revenue Bonds:					
Current Interest	99,395,000	-	29,075,000	70,320,000	2,730,000
Capital Appreciation	1,340,010	-	1,340,010	-	-
Accreted interest	950,769	116,183	1,066,952	-	-
Unamortized Bond Premium	176,926	-	96,182	80,744	96,182
Subtotal Revenue Bonds	101,862,705	116,183	31,578,144	70,400,744	2,826,182
Compensated Absences	1,263,913	272,766	-	1,536,679	230,536
Total Long-term Obligations	$ 141,422,809	$29,973,248	$ 33,295,631	$ 138,100,426	$ 4,350,491

Promissory Notes

Daloia Land Purchase Contract Promissory Note

During the fiscal year ending 2003 the District entered into a land purchase contract promissory note in the amount of $240,000. The promissory note bears interest at a fixed rate of 6.25% and matures October 10, 2017. At March 31, 2015, the outstanding balance of the Daloia Land Contract note was $61,109.

Hunt Living Trust Promissory Note

On April 1, 2003, the District entered into a $1,500,000 promissory note with the Hunt Living Trust as part of a lease and management agreement. The note is due in full on April 1, 2023 and bears interest at 5.5% semi-annually through April 1, 2013 and 5.0% per annum until the maturity, or prior redemption, of the note. At March 31, 2015, the outstanding balance on the note was $1,500,000.

2005 Refunding Promissory Note

On June 30, 2005, the District issued $4,630,000 of 2005 Refunding Promissory Notes for the purpose of refunding all of its outstanding 1995 Promissory Notes. The 2005 notes bear interest rates from 3.25% to 5.00%. Principal and interest rates are due semi-annually on March 1 and September 1. At March 31, 2015, there was no outstanding balance.

2010 Bergman Note

On Nov 30, 2010, the District issued a promissory note with Principal of $850,000 and interest of 4% to finance the purchase of land. Interest is due on a quarterly basis beginning February 28, 2011 and mature on November 30, 2015. The principal is due in full at maturity. At March 31, 2015, the outstanding balance was $850,000.

2012 Refunding Promissory Notes

On January 19, 2012, the District advance refunded $34,652,643 in 1999 lease revenue bonds by issuing $31,264,707 in promissory notes. The 2012 notes bear interest rates ranging from 2.00% to 6.04%. The notes are a blend of current interest and capital appreciation notes maturing through 2042. The net proceeds of $33,295,663 (after payment of $278,683 in underwriting fees, insurance, and other issuance costs and a premium of $2,309,638) were used to purchase U.S government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1999 Series bonds. As a result, the 1999 Series bonds are considered to be defeased and the liability for those bonds has been removed from the long-term debt in the financial statements. At March 31, 2015, the outstanding balance of the notes, including accreted interest of $2,924,794, was $33,229,501.

2015 Refunding Promissory Notes

On January 22, 2015, the District advance refunded $29,986,962 in 2004 Revenue Bonds by issuing $28,578,500 in promissory notes. The 2015 notes bear interest rates ranging from 2.00% to 5.00%. The notes are current interest notes maturing through 2035. The net proceeds of $28,325,491 (after payment of $253,009 in underwriting fees, insurance, and other issuance costs and a premium of $4,948,500) were used to purchase U.S government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2004 Revenue Bonds. As a result, the 2004 Revenue Bonds are considered to be defeased and the liability for those bonds has been removed from the long-term debt in the financial statements. At March 31, 2015, the outstanding balance of the notes was $23,630,000.

Revenue Bonds

2004 Revenue Bonds

On January 20, 2004, the Authority on behalf of the District, issued $31,900,010 of 2004 Revenue Bonds for the purpose of acquiring land to preserve and use as open space, repay a portion of a 1995 Promissory Note, purchase a reserve fund surety policy, and pay bond issue costs. The bonds consist of Current Interest and Capital Appreciation Bonds. The Current Interest Bonds bear interest at 2.0% to 5.4% and are due semi-annually on March 1 and September 1. The Capital Appreciation Bonds accrete interest at 5.2% to 5.53% and compound semi-annually on March 1 and September 1. Principal payments on the Current Interest Bonds are due annually September 1. Principal payments on the Capital Appreciation Bonds are payable at maturity beginning March, 2020. The outstanding balance of these bonds was refunded in January of 2015.

2007 Series A Revenue Refunding Bonds and Series B-T Taxable Revenue Refunding Bonds

On December 15, 2006 the District issued six series of promissory notes (2007 District Notes) for the purpose of refunding its 1996 Project Lease, 1996 Promissory Notes, 1999 Project Lease, and 1999 Promissory Notes. On December 15, 2006 the Authority, on behalf of the District, issued $52,415,000 of 2007 Series A Revenue Refunding Bonds and $6,785,000 of 2007 Series B-T Taxable Revenue Refunding Bonds for the purpose of defeasing the aggregate purchase price of the 2007 District Notes. The Series A bonds bear interest from 4.0% to 5.0% and Series B-T bonds bear interest at 5.15%. Interest for both series A and B-T are due semiannually on March 1 and September 1. Principal payments for the Series A bonds began September, 2012 and are due annually, thereafter.

Principal payments for the Series B-T bonds are due annually on September 1. At March 31, 2015 the outstanding balance of the 2007 Series A Bonds is $49,935,000. There is no remaining balance on the 2007 Series B-T Bonds.

2011 Revenue Bonds

On May 19, 2011, the Authority, on behalf of the District, issued $20,500,000 of 2011 Revenue Bonds for the purpose of acquiring land to preserve and use as open space and pay bond issue and related costs. The Bonds are not general obligations. Each year, the District will appropriate revenues-mainly limited properly tax collections that Santa Clara County and San Mateo County allocate to the District – to pay its obligations under a Lease Agreement for use and occupancy of District land in addition to other District debt and lease obligations unrelated to this financing. The Current Interest Bonds bear interest at 2.0% to 6.0% and are due semi-annually on March 1 and September 1. Principal payments on the Current Interest Bonds are due annually September 1. At March 31, 2015, the outstanding balance of these bonds was $20,455,000.

The following schedule summarizes the District's outstanding Promissory Notes and Revenue Bonds as of March 31, 2015:

Long Term Debt	Original Issue	Outstanding April 01, 2014	Additions	Retirements	Outstanding March 31, 2015
Promissory Notes:					
Daloia Note	$ 240,000	$ 81,205	$ -	$ 20,096	$ 61,109
Hunt Note	1,500,000	1,500,000	-	-	1,500,000
2005 Refunding Note	4,630,000	1,210,000	-	1,210,000	-
Bergman Note	850,000	850,000	-	-	850,000
2012 Refunding Note	15,790,000	15,249,999	-	420,000	14,829,999
2012 Refunding Note	15,474,707	15,474,708	-	-	15,474,708
2015 Refunding Note	23,630,000	-	23,630,000	-	23,630,000
Subtotal Promissory Notes	62,114,707	34,365,912	23,630,000	1,650,096	56,345,816
Revenue Bonds:					
2004 Revenue Bonds	30,560,000	28,275,000	-	28,275,000	-
2004 Revenue Bonds	1,340,010	1,340,010	-	1,340,010	-
2007 Series A Refunding	52,415,000	50,665,000	-	730,000	49,935,000
2011 Lease Revenue	20,500,000	20,455,000	-	70,000	20,385,000
Subtotal Revenue Bonds	104,815,010	100,735,010	-	30,415,010	70,320,000
Accreted Interest:					
2012 Refunding Note		1,918,995	1,005,799	-	2,924,794
2004 Revenue Bonds		950,769	116,183	1,066,952	-
Subtotal Accreted Interest		2,869,764	1,121,982	1,066,952	2,924,794
Unamortized Bond Premium		2,188,210	4,948,500	163,573	6,973,137
Total Long Term Debt	$ 166,929,717	$ 140,158,896	$ 29,700,482	$ 33,295,631	$ 136,563,747

Promissory Notes future debt service requirements as of March 31, 2015 were as follows:

Year Ending March 31,	Principal	Remaining Accretion	Interest	Total
2016	$ 1,631,382	$ -	$ 2,030,237	$ 3,661,619
2017	1,062,750	-	1,856,021	2,918,771
2018	1,131,977	-	1,816,666	2,948,643
2019	1,200,000	-	1,765,775	2,965,775
2020	1,285,000	-	1,707,675	2,992,675
2021-2025	9,215,000	-	7,551,100	16,766,100
2026-2030	18,147,418	-	4,570,000	22,717,418
2031-2035	14,781,048	10,811,786	927,250	26,520,084
2036-2040	6,022,461	16,660,661	-	22,683,122
2041-2042	1,868,780	17,998,052	-	19,866,832
Total Debt Service	$ 56,345,816	$ 45,470,499	$ 22,224,724	$ 124,041,039

Revenue Bonds future debt service requirements as of March 31, 2015 were as follows*:*

Year Ending March 31,	Principal	Interest	Total
2016	$ 2,730,000	$ 3,491,125	$ 6,221,125
2017	3,355,000	3,351,150	6,706,150
2018	3,555,000	3,186,100	6,741,100
2019	3,765,000	3,005,500	6,770,500
2020	3,490,000	2,826,100	6,316,100
2021-2025	22,045,000	11,107,356	33,152,356
2026-2030	16,230,000	5,703,013	21,933,013
2031-2035	4,555,000	4,114,744	8,669,744
2036-2040	-	3,038,625	3,038,625
2041-2042	10,595,000	911,588	11,506,588
Total Debt Service	$ 70,320,000	$ 40,735,301	$ 111,055,301

Amortization of the deferred loss on early retirement of long-term debt for the fiscal year ended March 31, 2015 was as follows:

Beginning Balance, at April 1, 2014	$ 2,962,414
Net Change	(339,194)
Ending Balance, at March 31, 2015	$ 2,623,220

NOTE 7 - EMPLOYEE RETIREMENT SYSTEMS

Pension Plan

All permanent District employees are eligible to participate in the pension plan offered by California Public Employees Retirement System (CALPERS) an agent multiple employer defined benefit pension plan with acts as a common investment and administrative agent for its participating member employers. CALPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. The District's employees participate in the Miscellaneous (non safety) Employee Plan. Benefit provisions under the

Plan are established by State statute and District resolution. Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CALPERS; the District must contribute these amounts.

The pension plans' provisions and benefits in effect at March 31, 2015, are summarized as follows:

Benefit vesting schedule	5 years service
Benefit payments	Monthly for life
Retirement age	55
Monthly benefits, as a % of annual salary	2.0-2.5%
Required employee contribution rates	7.89%
Required employer contribution rates	15.70%

CALPERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the District's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this method is the level amount the District must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the actuarial accrued liability. The District does not have a net pension obligation since it pays these actuarially required contributions bi-weekly.

CALPERS uses the market related value method of valuing the Plan's assets. An investment rate of return of 7.50% is assumed, including inflation at 2.75%. Annual salary increases are assumed to vary by duration of service. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized as a level percentage of payroll on a closed basis over twenty years. Investment gains and losses are accumulated as they are realized and ten percent of the net balance is amortized annually.

As required by State law, effective July l, 2005, the District's Miscellaneous Plan was terminated, and the employees in the plan were required by CALPERS to join new State-wide pools. One of the conditions of entry to these pools was that the District true-up any unfunded liabilities in the former Plans, either by paying cash or by increasing its future contribution rates through a Side Fund offered by CALPERS. The District satisfied its Miscellaneous Plan's unfunded liability of $2,510,958 by agreeing to contribute that amount to the Side Fund through an addition to its normal contribution rates over the next 21 years. In 2013, the District made a one-time payment of $2,510,958 to eliminate the liability. The required contributions representing annual pension cost, for the last three fiscal years was as follows:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
3/31/2015	$ 1,343,244	100%	$ -
3/31/2014	1,461,069	100%	-
3/31/2013	4,298,913	100%	-

The latest available actuarial values of the above State-wide pools (which differs from market value) and funding progress were set forth as follows. The information presented below relates to the State-wide pools as a whole, of which the District is one of the participating employers:

Valuation Date	Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
6/30/2012	2,254,622,362	1,837,489,422	417,132,490	81.50%	339,228,272	122.97%

Audited annual financial statements are available from CALPERS at PO Box 942709, Sacramento, CA 94229-2709.

Other Postemployment Benefits (OPEB)

Plan Description

The District joined the California Employers' Retiree Benefit Trust (CERBT), an agent multiple-employer plan administered by CALPERS, consisting of an aggregation of single-employer plans. The District Board authorized a deposit of $1,900,000 in CERBT on June 5, 2008, to begin funding its OPEB liability. By Board resolution and through agreements with its labor unit, the District provides certain health care benefits for retired employees (spouse and dependents are not included) under third-party insurance plans. A summary of eligibility and retiree contribution requirements are shown below:

Eligibility	Service or disability retirement from the District Age 50 and 5 years of service Continue participation in Public Employees Medical and Hospital Care Act (PEMHCA)
Retiree Medical Benefit	District pays retiree premiums up to: $350 per month effective 1/1/2009 Must be at least equal to statutory PEMHCA minimum ($115 in 2013, $119 in 2014)
PEMHCA Administrative Fee	District pays CalPERS administrative fees (0.33% of premiums for 2013/14)
Surviving Spouse Continuation	Retiree benefit continues to surviving spouse if retiree elects survivor annuity under CalPERS retirement plan
Other OPEB	None

Funding Policy

In accordance with the District's budget, the Annual Required Contribution (ARC) is to be funded throughout the year as a percentage of payroll. Concurrent with implementing Statement No. 45, the District’s Board of Directors passed a resolution to participate in CERBT, an irrevocable trust established to fund OPEB. CERBT is managed by an appointed board not under the control of the

District. This Trust is not considered a component unit by the District and has been excluded from these financial statements. Separately issued financial statements for CERBT may be obtained from CALPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost is calculated based on the ARC, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

Annual required contribution	$	261,000
Interest on net OPEB asset		(60,000)
Adjustment to annual required contribution		97,000
Annual OPEB cost (expense)		298,000
Contributions made		(157,251)
Decrease in net OPEB asset		140,749
Net OPEB obligation (asset) - beginning		(1,003,925)
Net OPEB obligation (asset) - ending	$	(863,176)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2015 was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual Cost Contributed	Net OPEB Obligation/ (Asset)
March 31, 2013	$ 237,000	0%	$ (1,097,306)
March 31, 2014	265,000	65%	(1,003,925)
March 31, 2015	298,000	53%	(863,176)

Funded Status and Funding Progress

The most recent actuarial valuation date was June 30, 2013. The following summarizes the funded status of the plan as of March 31, 2015:

Actuarial accrued liability (AAL)	$ 2,555,000
Value of plan assets	2,469,473
Unfunded actuarial accrued liability (UAAL)	$ 85,527
Funded ratio (actuarial value of plan assets/AAL)	97%
Projected covered payroll (active Plan members)	$ 8,506,000
UAAL as a percentage of covered payroll	1%

Actuarial Methods and Assumptions

The ARC was determined as part of a June 30, 2013 actuarial valuation using the entry age normal actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions included (a) 6.25% to 7.25% investment rate of return, (b) 3.25% projected annual salary increase, and (c) health inflation increases of 0% for 1 year, 1.5% for the next 5 years, and 3% thereafter. The actuarial methods and assumptions used include techniques that smooth the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Actuarial calculations reflect a long-term perspective and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to revision at least biannually as results are compared to past expectations and new estimates are made about the future. The District's OPEB unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll using a 30 year open amortization period.

NOTE 8 - JOINT VENTURES (JOINT POWERS AGREEMENTS)

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. Prior to July 1, 2002, the District managed and financed these risks by purchasing commercial insurance. On July 1, 2002, the District joined the California Joint Powers Insurance Authority (CAL JPIA). CAL JPIA is composed of 119 California public entities and is organized under a joint powers agreement pursuant to California Government Code Section 6500 et seq. The purpose of CAL JPIA is to arrange and administer programs for the pooling of self-insurance losses, to purchase excess insurance or reinsurance, and to arrange for group-purchased insurance for property and other coverages. CAL JPIA's pool began covering claims of its members in 1978. Each member government has an elected official as its representative on the Board of Directors. The Board operates through a nine member Executive Committee.

During the past three fiscal years, none of the programs of protection have had settlements or judgments that exceeded pooled or insured coverage. There have been no significant reductions in pooled or insured liability coverage from coverage in the prior year.

Self-Insurance Programs of the CAL JPIA

General and Automobile Liability

Each government member pays a primary deposit to cover estimated losses for a fiscal year (claims year). General liability (GL) coverage includes bodily injury, personal injury, or property damage to a third party resulting from a member activity. The GL program also provides automobile liability coverage. Six months after the close of a fiscal year, outstanding claims are valued. A retrospective deposit computation is then made for each open claims year. Costs are spread to members as follows: the first $30,000 to $750,000 are pooled based on member's share of costs under $30,000; costs in excess of $750,000 are shared by the members based upon each individual member's payroll. Costs of covered claims above $5,000,000 are currently paid by reinsurance. The protection for each member is $50,000,000 per occurrence, up to $50,000,000.

Worker's Compensation

The District also participates in the Worker's Compensation program administered by CAL JPIA. Pool deposits and retrospective adjustments are valued in a manner similar to the General Liability pool. The District is charged for the first $50,000 of each claim. Costs from $50,000 to $100,000 per claim are pooled based on the member's losses under its retention level. Costs between $100,000 and $2,000,000 per claim are pooled based on payroll. Costs from $2,000,000 to $5,000,000 are paid by excess insurance purchased by CAL JPIA. The excess insurance provides coverage to statutory limits.

Purchased Insurance

Environmental Insurance

The District participates in the Pollution and Remediation Legal Liability Program, which is available through CAL JPIA. The policy provides coverage for both first and third party damages, including sudden and gradual pollution at or from property, streets, sanitary sewer trunk lines and storm drain outfalls owned by the District. Coverage is on a claims-made basis. There is a $50,000 deductible. CAL JPIA has a limit of $50,000,000 for the 3-year period from July 1, 2008 through July 1, 2011. Each member of CAL JPIA has a $10,000,000 aggregate limit during the 3-year policy term.

Property Insurance

The District participates in the All-Risk property program of CAL JPIA which includes all-risk coverage for real and personal property (such as buildings, office furniture, equipment, vehicles, etc). This insurance is underwritten by several insurance companies. Property is currently insured according to a schedule of covered property submitted by the District to CAL JPIA. The All-Risk deductible is $5,000 per occurrence; $1,000 for non-emergency vehicles. Premiums for the coverage are paid annually and are not subject to retroactive adjustments.

Boiler & Machinery Insurance

The District participates in the optional coverage for boiler and machinery, which is purchased separately under the property program. Coverage is for physical damage for sudden and accidental breakdown of boilers and machinery, and electrical injury. There is a $5,000 per accident or occurrence deductible.

Crime Insurance

The District participates in the crime program of CAL JPIA in the amount of $1,000,000 per claim, with a $2,500 per occurrence deductible. Insurance provides coverage for employee dishonesty, failure to faithfully perform duties, forgery, counterfeiting, theft, robbery, burglary, and computer fraud. Premiums are paid annually and are not subject to retroactive adjustments.

Special Event Tenant User Liability Insurance

The District participates in the special events program of CAL JPIA which provides liability insurance when District promises are used for special events. The insurance premium is paid by the tenant user to the District according to a schedule. The District then pays the insurance arranged through CAL JPIA. There is no deductible and the District is added as additional insured. Liability limits are purchased in $1 million per occurrence increments. Special Event Tenant User Liability Insurance. The District participates in the special events program of CAL JPIA which provides liability insurance when District promises are used for special events. The insurance premium is paid by the tenant user to the District according to a schedule. The District then pays the insurance arranged through CAL JPIA. There is no deductible and the District is added as additional insured. Liability limits are purchased in $1 million per occurrence increments.

Vendors/Contractors Program

General liability coverage is provided to vendors/contractors who otherwise could not contract with the District as they could not meet the minimum insurance requirement: $1 million per occurrence, $1 million in aggregate.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Litigation

The District 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 District's financial position or results of operations as of March 31, 2015.

NOTE 10 – 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

Midpeninsula Regional Open Space District

Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual (GAAP)
General Fund
For the Fiscal Year Ended March 31, 2015

	Budgeted Amounts			Variance with
	Original	Final	Actual (GAAP Basis)	Final Budget Positive - (Negative)
Revenues:				
Property taxes	$ 33,556,000	$ 33,556,000	$ 35,081,540	$ 1,525,540
Grant income	1,624,000	1,624,000	952,925	(671,075)
Property management	1,108,948	1,108,948	1,436,680	327,732
Investment earnings	265,000	265,000	174,654	(90,346)
Land Donation	1,500,000	1,500,000	-	(1,500,000)
Other revenues	513,500	513,500	241,335	(272,165)
Total revenues	38,567,448	38,567,448	37,887,134	(680,314)
Expenditures:				
Current				
Salaries and employee benefits	14,755,318	14,755,318	13,629,502	1,125,816
Services and supplies	5,775,152	5,875,152	4,642,351	1,232,801
Capital outlay	14,516,200	14,416,200	8,445,355	5,970,845
Total expenditures	35,046,670	35,046,670	26,717,208	8,329,462
Excess (deficiency) of revenues over (under) expenditures	3,520,778	3,520,778	11,169,926	7,649,148
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfers out	(8,893,601)	(8,893,601)	(8,893,601)	-
Total other financing sources (uses)	(8,893,601)	(8,893,601)	(8,893,601)	-
Net change in fund balance	(5,372,823)	(5,372,823)	2,276,325	7,649,148
Fund balance beginning	41,155,836	41,155,836	41,155,836	-
Fund balance ending	$ 35,783,013	$ 35,783,013	$ 43,432,161	$ 7,649,148

Midpeninsula Regional Open Space District

Schedule of Funding Progress – Other Postemployment Benefits
For the Fiscal Year Ended March 31, 2015

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a/c))
3/31/2010	$1,894,000	$1,500,000	$ (394,000)	126.27%	$5,772,000	-6.83%
6/30/2011	2,058,000	1,844,000	(214,000)	111.61%	7,331,000	-2.92%
6/30/2013	2,035,000	2,555,000	520,000	79.65%	8,043,000	6.47%

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
Midpeninsula Regional Open Space District
Los Altos, 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 District as of and for the year ended March 31, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated June 25, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District'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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 District'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

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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

June 25, 2015
San Jose, California

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